

Vattenfall (Conversation with Lars G. Nordström, Chairman of the Board of Directors, Anna Borg, President and CEO, and Mats Granryd, Incoming Chairman of the Board of Directors)

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Speakers:

- Anna Borg; Vattenfall; President and CEO
- Lars G. Nordström; Vattenfall; Chairman of the Board of Directors (Outgoing)
- Mats Granryd; Vattenfall; Chairman of the Board of Directors (Incoming)
- Karin Lepasoon; Vattenfall; SVP Group Communications

PRESENTATION

Karin Lepasoon: There were many highlights. Is there anything you wish to add as you look back on 2021?

Anna Borg: What's perhaps also worth mentioning is that, financially and with respect to results, it was an incredibly good year. And of course, to some extent, that had to do with our having some quite big one-off events. For example, we ended the litigation against the German state for compensation related to their early decommissioning of nuclear power. And we also sold our network operations in Berlin. So that produced some major non-recurring effects. But apart from that, the underlying business also did really, really well. I think that's worth mentioning. Our industry partnerships, which we saw some examples of, are really starting to get up and running. We're seeing that enquiries for power grid connections to start new businesses or to scale up existing businesses are coming in at a completely different rate than previously. And then of course there are the climate targets, which we tightened during the year to comply with the one-and-a-half-degree target of the Paris Agreement. We were also certified by the Science-Based Targets initiative, so that we have a third-party perspective that will allow us to actually get there. And then we've declared that we'd be net zero by 2040. And that's ten years earlier than our pre-2021 declared goal. So, yes, a lot of things has happened.

Karin Lepasoon: Exceptionally, in part then. What do you say, Lars? Do you have anything particular that you want to add regarding 2021?

Lars G. Nordström: Well, the fact is that there's this ritual surrounding the annual general meeting and the annual report where, rightly, we're discussing the year from the first of January to the end of December. But what happens during the year is often planned, determined, and partially implemented in the year or years leading up to those events. The issue relating to compensation from the German state is a good example of this. In that case, we worked for ten years to be compensated, and then that happened in year ten. And that gets added to the bottom-line. What I believe was particularly gratifying in 2021 was that a lot of what we've been working towards for so many years finally showed up in the income statement. So, we have reason to be happy about 2021; but we should also be pleased with the efforts made in previous years.

Karin Lepasoon: Yes, everything's connected. But as we put 2021 in the rear mirror and look towards 2022, this year started on a very turbulent note with Russia's invasion of Ukraine. How does that affect Vattenfall, Anna?

Anna Borg: Well, in several different ways. For starters, I believe it affects all of us who work here. It is a terrible situation. It evokes pretty deep feelings of both sadness and anger over what is happening.

Karin Lepasoon: At a human level...

Anna Borg: At a human level. And you also feel for all those affected. And then it has some very concrete... concrete effects on the energy market in Europe and on Vattenfall. For us, it is very much about security of supply. Ensuring that we can actually keep our electricity generation and heating operations going and providing those services to our customers. We have deeply engaged in work on business continuity plans to ensure that we're prepared for various types of scenarios and so on. And we're working on that now perhaps even harder than before. As for cyber security — even as we worked on it a lot before — we're of course seeing such incidents more frequently than before.

Karin Lepasoon: More attacks.

Anna Borg: Yes, quite.

Karin Lepasoon: How dependent on Russia is Vattenfall, would you say?

Anna Borg: No, I wouldn't say that Vattenfall is dependent on Russia. We don't have... We don't have any business in Russia. We have no customers in Russia; and we currently have no suppliers in Russia as we ended supplies of nuclear fuel, uranium, and coal. So, we're no longer getting any such supplies from Russia. We're addressing those in another way.

Karin Lepasoon: Gas, then?

Anna Borg: As for gas, we're buying that at marketplaces in Europe. And the way it works there is that there are a number of companies that import gas to Europe. Vattenfall doesn't, but many others do; and that gas ends up in the pipelines in Europe. And we're many who buy gas in these marketplaces. And in purely physical terms, you can't actually pick and choose which gas you're buying. It's like a bathtub that you fill at one end and empty at the other. You can't choose which particular drops come from where. And that means that we and everyone else get whatever current mix is prevalent in Europe. And currently that is 40 per cent gas from Russia. And now everyone is working on a political level across all countries to try to reduce this dependence as fast as possible and to lower it. Of course, we should be clear-eyed about the fact that it could just as easily be the other way around. We just saw the other day that Russia is halting its gas supplies to certain countries in Europe. So, I'd say, we've probably not seen the end of this yet.

Karin Lepasoon: No.

Anna Borg: But we have other... other things happening in the market that affect us and that are linked to this. And that is that prices have risen dramatically and have been incredibly volatile and have fluctuated a lot. And, to begin with, that's difficult for everyone. It's not great that the market looks this way. And it has triggered very large margin calls for the players who trade in these markets and that...

Karin Lepasoon: It might not be everyone who know what a "margin call" is.

Anna Borg: No. Well, it means that money is sent back and forth between parties as collateral for business transactions that are made but that is due for delivery later. And that means that a lot of money is transmitted between the various players in the energy market every day and that has created liquidity challenges for some companies. Vattenfall is in a strong financial position and has good liquidity. But we've seen some smaller companies in Europe that have actually collapsed because of this.

Karin Lepasoon: If we look at Vattenfall's investment plan and our strategy, are those affected by the war?

Anna Borg: Not directly. I mean, our strategy is fixed. Our ambition is that people should be able to live fossil-free lives within one generation. That's our business strategy, and we're working according to that. As I mentioned earlier, we are committed to the 1.5°C-target and net zero. And that's also not changing. But we might see the pace of change pick up as the demand for Europe-generated fossil-free electricity is increasing rapidly and moving ever closer. In other words, our investment plans remain fixed. We haven't changed anything. But we're looking into how we can work even faster.

Karin Lepasoon: Lars, what's your view of Vattenfall's position in the current geopolitical situation?

Lars G. Nordström: The geopolitical situation can change at a moment's notice. We've seen that before. And therefore it's of little consolation that, right now, one might believe that one is in control of one's geopolitical situation: That can change. When you look at a company's income statement, it's simply a matter of income and costs: Income should exceed costs, and then things are fine. But, of course, income and costs also very much depend on — or their development very much depend on — how risk is managed. There might be operational risks and major existential risks. Being aware of them and trying to adjust to them are extremely important, and recent developments have borne out this notion. Then, there're a lot of risks related to day-to-day operations. But that is addressed by the management team. You mentioned "margin call"? There's a fantastic film called *Margin Call*. Those who haven't seen it, should see it. That film has a chairman, brilliantly portrayed by Jeremy Irons. And he points to the old adage that the chairman doesn't need to be the smartest person in the room. That's been a consolation in some of these regards.

Anna Borg: We, naturally, are an exception. Of course, in our case our chairman is in fact the smartest person in the room.

Karin Lepasoon: Are you worried then, Lars?

Lars G. Nordström: I mean... I'm an old banker — as I always point out — and there's some truth to it in terms of the significance of the risks. You need to be able to manage risk. You shouldn't fear risk. But you need to know that they're there and do whatever you can to neutralise or mitigate or handle them. And I would say that even if we internally do manage the risks that we can control — because I would say that we do — it's still the case that something might suddenly occur in which case we need to be quick to react. There're a lot of data to suggest that when things do happen, large companies are characterised by their slow reaction times. First you record the risks and say, well then, and then you take countermeasures. And then it always turns out afterwards that that was too slow. So, if there's one thing I would be worried about, it is precisely our so-called "alertness" in such matters. But management will take care of that.

Karin Lepasoon: What about discussions at the political level, Anna, relating to the energy market? What are the discussions there? What's Vattenfall's role there?

Anna Borg: Yes, that's perhaps something for the politicians to address. But I see that, there're a lot of discussions ongoing between the areas of politics, business, and the energy industry in a way that might not always been given — where there are efforts to try to learn and seek information from each other. What outcomes do certain measures produce? Or what can we do to help stabilize the situation? I think that's positive because there really are openness and a cooperative spirit to get Europe through this. And I think that is good. And if there's one thing that we've seen in recent months, it is also that the countries in Europe have shown that they're united behind both the long-term development in Europe, still fully committed to phasing out CO₂ emissions and so on, but also united in terms of sanctions, and measures, and so on. So, I believe that's positive.

Karin Lepasoon: ... between the politicians and industry.

Anna Borg: Yes. I think so. Then there is a different issue that is relevant to all of us, and that relates to supply chains, because problems also arise there in a situation like this. There are many raw materials and supplier subcontractors in the regions affected by the current war in Ukraine or in Russia. So, we've seen rising prices for raw materials, but also sometimes a dearth of suppliers who can deliver. And the quotes we receive are, for example, only valid for very short periods. So this is an uncertainty that we all live with and that will probably stay with us for a while.

Karin Lepasoon: One question we sometimes get is about the Moorburg power plant in Germany, which we decided to close down. Will it be restarted now because of the current situation around energy supply in Germany?

Anna Borg: No, it won't. We already closed it down, so we are no longer producing in Moorburg. Also, Moorburg has not been identified as a reserve power plant with reserve capacity by the German authorities. So, we are continuing the decommissioning according to plan and it's not relevant to restart it.

Karin Lepasoon: Newer technologies, new fossil-free technologies, are they getting an even stronger boost now?

Anna Borg: Yes, what we're seeing very clearly is that demand for fossil-free electricity is increasing all the time. It did so already before the war, but even more so now. We still face challenges regarding the pace because such things as permit processes take a very long time. But it is also a challenge to obtain consensus and reach an understanding in order to be able to build more infrastructure around energy. I'd say that that's the biggest challenge. What we've seen is that after the war broke out many countries declared that they wanted to pick up the pace. And we're also seeing proposals for measures. Germany has, for example, decided that expansion of fossil-free energy production is a matter of national security and that means that land can be used to build such facilities. In Sweden, there is also a lot of work being done with government agencies and ministries on how to speed up these permit processes. That's a welcome development. There is no shortage of demand. Now, it's a matter of running fast enough to be able to keep up supply.

Karin Lepasoon: Speed is important there, too. And for 2022, Anna, what are the most important issues for Vattenfall, would you say — also given the long-term perspective that the chairman mentioned — issues that you want to highlight?

Anna Borg: I would say it's the pace. We know what to do! Our goals are clear to us. We know that we need to reduce CO₂ emissions in line with the 1.5°C-target. This covers a lot of different projects, from new construction of, for example, wind power, offshore, to rebuilding heating system facilities. And that means continuing to deliver and picking up the speed of the transition in partnership with all those we depend on for permits and other things. That's a priority. Then there are also operational activities. Making sure everything continues to run at the requisite pace. That we have the raw materials we need. And that we handle issues not only related to liquidity and supply chains but also credit risks related to our customers. We see that many of our customers are struggling with higher electricity and energy prices. And we're trying to help and give advice both on how to streamline their consumption, what types of agreements are available, but also to help with payment plans and more where needed.

Karin Lepasoon: I know that you and the management team are working hard addressing work environment issues as well, "Health and Safety" as we call it.

Anna Borg: Yes, that's true. The more intensive the energy system rebuilding and expansion, the more people we have out there working on implementation. And we'll need many more. So if there's anyone sitting out there wondering what education to pursue, that's a tip for you. We need more people. But it also means that the risks you are exposed to when you work in that type of business become very, very important. It's always been important. But it perhaps becomes even more important when you have an

influx of many new people that you make sure that you follow safety procedures and instructions. Unfortunately, we've had some accidents in the business that should not have happened, and we have to make sure that it doesn't happen.

Karin Lepasoon: Lars, you mentioned that risk awareness is important. Is there anything else you want to highlight that's important to navigate in the current, dynamic environment?

Lars G. Nordström: If you know what to do, you need to ask yourself the question: What are you waiting for? It is like everything else. There are things that we know we should do; and those things, to my mind, we should do quickly. I'm pretty relaxed with regard to concepts such as "long-term strategies." The changes that are currently taking place and the current pace of change mean that — with all due respect to long-term strategies — rapid tactical measures are crucial to address developments. And you don't necessarily have to lead change, but you have to be at the forefront. And you're at the forefront if you've instilled a culture of adapting rapidly. After all, we're an industry where heavy long-term investments have dominated the view in the past. And I think we have to start letting go of that mentality gradually. And I think that we've actually managed to do that to a decent extent.

Karin Lepasoon: But Lars, now to something completely different. Soon or a little later, you'll be saying a few words from the podium as well. But this is your last annual general meeting at Vattenfall, so here's one of those customary questions: How does it feel for you to pass the baton to Mats?

Lars G. Nordström: Well, I was asked that when I arrived today. And it feels exactly the way it always does. This is an annual general meeting. I have attended many such meetings in the past. And it's interesting and nice to sit here and chat. Passing the baton? Yes, it also feels perfectly reasonable considering what my replacement can and wants to accomplish.

Karin Lepasoon: Yes, maybe we should chat with him a little. Please welcome Mats Granryd who will be taking over as chairman of Vattenfall, effective today you might say. This afternoon. Welcome Mats!

Mats Granryd: Thank you! Thank you!

Karin Lepasoon: You have been on Vattenfall's board since 2020. Mats, what are your thoughts about your new role now that you're taking over the chairmanship?

Mats Granryd: Well, I've learned a lot here. We will not be pursuing long-term strategies. No, that's clear. But joking aside, it's a role of enormous responsibility in a fantastic company with a tremendous number of opportunities. Frankly, I can't imagine anything more important than working on facilitating fossil-free living within one generation for Sweden and for Europe. And perhaps even for the world, where Vattenfall is one of the leading players. So, it's obviously a true privilege to be part of this company.

Karin Lepasoon: Perhaps not everyone will be that familiar with your background, but you have long, solid experience from the international telecommunications industry. Both from Ericsson and from GSMA, which you still lead, and Tele2. So, how do you think that experience might be useful to Vattenfall currently?

Mats Granryd: Several things. In part, I think working with telecoms is similar. It involves highly critical infrastructure and long, complex contracts where you do have to make long-term strategy decisions. That's where we're going. And then we work on issues for several years; and things come to fruition in a way that is very similar to the complexity that we see at Vattenfall, or that I see at Vattenfall. Working in an international environment is something I've done basically my entire career. So, I'm used to it. And then perhaps that last matter regarding regulations and working with regulators and with the Swedish state and other authorities. That's something I am also very used to. Because the whole telecoms industry is as regulated as the energy industry. But then I also think about the matter of speed. I completely agree with what both Lars and Anna were saying. It is something that my industry, the telecoms industry, has — I think — handled really well. There, too, things are in constant flux, and you have to be on your toes and avoid

doing things fast but wrong at all costs, but focus on doing things fast and right. And it is an art to be able to keep two thoughts in your head at the same time.

Karin Lepasoon: We're looking forward to that too. Thank you very much Mats and Lars and Anna. That concludes this little moderated chat. Thanks so much!