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- Q1 2017 Vattenfall AB Earnings Call

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Good morning and welcome to this presentation of Vattenfall’s Q1 Results 2017. As usual, this is a live webcasted meeting here in Solna, combined with a telephone conference.

In a moment, we will hear from our CEO, Magnus Hall; and our, CFO Stefan Dohler. And afterwards, it will be possible to ask questions either live here or via the telephone conference or via the Web. So, with that, Magnus, I’ll leave it over to you.

Thank you. Thank you very much for that introduction and a very good morning also from my side to everybody in this room, and, of course, also everybody on the phone and on the Internet listening in on today’s presentation of the first quarter results 2017.

And we are showing an underlying result, underlying EBIT of more or less stable result compared to last year, SEK 8.3 billion. And it’s also a result which is affected if you look further down the line by several changes under items affecting comparability that I will ask Stefan Dohler to explain a little bit later.

If you look to the underlying return on capital, that’s actually close to the owners target of 9.0% -- at 8.6%, which I think is quite positive. If you take the stable result and if you take some highlights that we have during the first quarter, I think we are moving in a good direction.

We had a very good availability in the nuclear, we had significant renewables growth, we have an increase in the customer bases of the business that we do close to customers, we have continued investments also to improve quality in the distribution networks, we’re building out charging infrastructure and we are also offering new services to our customers when it comes to their heat needs.

So, if we go to a little bit more details and look at the generation and the sales development, if we look to generation, that was quite positive. We increased from 34.5 TWh in the first quarter last year to 36.6 TWh. And we see here also from the picture a big increase in the nuclear and I’ll come back to that shortly later.

The fossil, we had good spreads in the fossil development, generation. So, we also managed to increase that but we have lower volumes in the hydro business which made that slightly negative.
But in total, an increase, but, of course, the first quarter last year, we also still had the lignite business which we have now taken out and which is not part of this, but if you just look at the underlying business, the remaining business, we have an increase.

If we look to the sales, we see a slight positive development there. Sales of electricity increased somewhat, we can also see sales of gas increasing, but the sales of heat decreased somewhat due to some divestments that we had compared to last year.

The price development, is, of course, very important for our Company, and we have also described the fact that the reason why we have had so many impairments and negative results during last years, has mainly been because electricity prices over time have been coming down.

And, of course, the first quarter last year was a very weak quarter, we can see an improvement versus that now in the first quarter of this year. And the driver behind that, you can see to the right side where you see fuels are increasing, we see both coal prices have been going up since the first quarter last year, and we can also see gas prices have gone up.

We have no help really of the CO2 prices though. They are fairly stable. And the discussion is now ongoing on the ETS and how that system will actually look. We are quite positive about that because the market stability reserve, there will be some rules around this that we believe will be positive and hopefully that will become a price driver also for the future, but we don’t see any results of that yet.

Underlying, of course, if you look to our effect, we have hedged our pricing, so we would not have this effect of increased prices. Actually, we have slightly lower prices in our own production and that can also be seen when we look at the generation result in Vattenfall is slightly lower than last year, but that has also been compensated by other increases in other business areas. So, we are moving in the right direction.

If we go and look forward, we see more or less stable pricing up to 2021 where markets are. So, we don’t have any real issues there.

Strong performance I said earlier in nuclear, and I think that’s very satisfying because we had -- as you know, we had the long stop in the Ringhals 2 reactor, which we started out by the end of December last year, and that has been running really very smoothly. And we have also been running very good in the rest of Ringhals and also had a quite good quarter also in the Forsmark operation so we have been able to increase the total production.

And that’s, of course, important for Sweden because it’s -- nuclear is a big part of the energy -- that we need for energy and, of course, also during winter months, this is especially necessary.

We also had a positive development when it comes to the regulatory changes for our operations. It’s well-known that the capacity tax for nuclear would be taken away. That was now brought forward to the -- as a proposition to the parliament which is very positive. And that would be abolished from the 1st of July, this year, half, and the next half next year.

And one thing that has been important to us is also the funding of the wastes and storage procedures, we will be able to finance that over 50 years versus 40 years, that was the previous decision.

At least, that’s now a proposal and we will also have a broader investment mandate for that fund which I think is very positive from a Vattenfall perspective and also from Sweden’s perspective because it means that we have a good base for using nuclear also for the -- for the future here.

I talked about significant growth in renewables. It’s certainly a strategic development for Vattenfall, very important to continue to grow there. Our main growth is in wind, the main part of that is offshore wind. You can see here on the picture that you have in front of you the combination of the two, wind onshore and offshore, and where we have a strong pipeline going forward. Specifically, we have been able to secure more or less projects up until the target of 2300 megawatts up to 2020/2021, exactly where this last part will come, we will see.

So, I think we are on a good way and you can also see on from the right that we are developing new projects further ahead, so to be able to make this development go further.
We also, during the quarter, commissioned two wind parks. One is the Sandbank Wind Park, which is close to 300 megawatt of Northwest coast of Germany. And then we partially started our biggest wind park onshore in Wales, actually called Pen y Cymoedd. And if you take those together, they would actually show they will be able to supply about 400,000 households with electricity, so it’s quite a significant development that we see here.

Progressing customer growth, we believe that a lot of the business going forward for us and for other -- in the energy side will be done close to customers and that’s very important to us to continue to grow in that aspect we think both from a general business perspective but it also offers new business opportunities. And we can see growth in all areas where we are, both in the customers and sales business, and Customers and Solutions is the name of that business area but also in distribution and heat. We have been able to take -- to take growth, and that’s, of course, positive.

We see that we are well rated in terms of sustainability performance. This is a specific one that we are reporting here. We will also be able to increase -- and we are also selling not only heat but also cooling, and we have done a deal with GE Healthcare in Uppsala in Sweden where we will deliver fossil-free and carbon dioxide-free neutral cooling.

We also announced earlier that we have acquired 35% of a Swedish geothermal heat pump supplier, the biggest one on the private market, 35%, and that will actually expand the offering that we have to that market, and we already today offer heat pumps based on air, but we now can do geothermal as well and that’s, of course, very good for the possibilities to grow together with the customers.

This one, electrification, we clearly believe that if you look at the climate solutions for the future, electrification has a very big role to play. And we are investigating and also engaging ourselves considerably in this part because we believe we can make a difference there.

We announced two cooperations during the first quarter, part one is that we work together with Preem to make liquid biofuels available based on hydrogen, based on renewable electricity or fossil-free electricity. And we also cooperate on the possibility to build a large scale battery factory in Sweden with a company called Northvolt. And previously, we have already announced that we are cooperating on fossil-free steel. And we think this can have clear potential for -- of course, for our business being electricity suppliers but also certainly for climate solutions, reducing CO2, which is the clear aim of Vattenfall to be part of.

New infrastructure, we are investing, this is just to show that we are investing in the distribution side. Distribution will be and is already, but will, of course, be a central part of the new system solution we see coming where our customers will become more of their own producers. Developing these networks we believe is important. We are investing quite a lot of money both in Germany and in Sweden. And specifically, we can say also in the North park of Sweden where we have problems with some outages and where we need to reinvest, and we continue to do that. You can see that also on this picture. We are investing the total of SEK 12.4 billion in the coming two years in our networks, and that’s a significant part of the investment budget that Vattenfall has.

And you can also see on this picture, we are investing in modernizing and making the grid available for more renewable electricity not only in Sweden but also in Germany, and the investments that you see on this picture are two which are important to make the system work better.

One of the solutions to the climate issue, is certainly the transportation side, where we will see a changeover from today’s carbon dioxide or fossil-based cars and trucks and busses to assist them, we believe very highly dependent or using much more electricity. And, of course, the infrastructure and the charging infrastructure basis for this is to have that available when electrical cars become available in the market is very important.

And we are expanding this. We have a charging network called InCharge, where we run and invest in our own charging stations, but also importantly, we invite others to be part of that so people can put their own charging infrastructure, they can connect to our system and they will have a payment and an administration system that really makes the possibility for this to expand, and, of course, for the consumer’s best, they will have then this available, easily available, which we believe is a very interesting part.
This will be one of the most important things for Vattenfall going forward also to be part of that. We have decided clearly that we are going to be a supplier and a partner to that, to the electrification of transports.

We have just started charging streets. We are about to invest in charging streets in Stockholm because, of course, when you park your car for the night or at work, you have to have the possibility to charge. It's not so much charging when you're traveling. It's more when you start or when you end your travel, there is where you want to charge your car. And we will be part of that.

We also in Nuon, in our Dutch operations, we have the considerable amount to charging stations that we operate. And we actually supply 15,000 customers a day with charging services in the Netherlands.

We have taken a decision to go a little bit stricter now also into developing solar -- the solar business both from a large scale perspective but also from a decentralised perspective, and those two are a little bit different in a way that decentral is, of course, when you get your customer, be it a company or a private consumer, the possibility to build their own solar production.

And there is a lot of interest in doing that and it is also very much pushed by the politicians and regulations to be able to do this more and we will do that even more but we also see the possibility for large scale solar where we already have grid developments and we have invested in a wind park in the U.K. where we already have the grid investment, we have people available to do service and everything and so we can actually take the synergies and make those investments.

Solar will be a bigger part of supply for the future. We want to be part of that, and so we are increasing our efforts to be available and operating in that market.

So, just to close off this first section, we have clearly defined now also the purpose where we are going in Vattenfall. We want to power climate smarter living. And what that really means is that we in Vattenfall, we exist to help all of our customers power their lives in ever climate smarter ways and free from fossil fuel within one generation.

That means that we always should offer climate smarter solutions and that almost everything -- I think everything that I now just briefly presented to you are in that direction to make the climate have less and less of a problem, and, of course, where the final end game is to make it fossil-free and we look to be able to supply that to our customers and have that in our own operation within one generation.

Thank you. That's the first part. Then I will leave over to Stefan Dohler to cover a little bit more detail of the figures. So, please, Stefan.

Stefan Dohler - Vattenfall - CFO

All right. Thanks, Magnus, and also good morning and warm welcome from my side. The financials to say for the quarter we just finished, you can say were rather uneventful, which could also be like seen as a positive thing in Vattenfall because we had quite some eventful reporting items while this one is not, I will say, very surprising.

Maybe two things that stick out, one that Magnus already mentioned, is the changes in the fair value for our commodity derivatives and stocks that affect the items affecting comparability, so the delta between the underlying EBIT and the reported EBIT that flows through the numbers as you can see.

And the second is a negative net development on the working capital for the quarter which is, to a very large part a normal seasonal swing that we have that will even out over time. So, this, I would say, are the things that you will see sticking out a bit, but that's very also easy to grasp and explain.

If I then go into the highlights, starting from the left, we see the underlying EBIT that already Magnus mentioned is rather stable. The reported EBIT is lower. Now, here, we compare quarter 2016 against quarter one 2017, and in that comparison you have this effect from the valuation of the
derivatives and the inventories, and the other effect was that we had a positive IAC in the first quarter of 2016, which was mainly related to a
divestment and the capital gain that we have thereof.

Then you see also that we quarter one 2016 to quarter one 2017 had a reduction also on the net debt and also on the adjusted net debt. Then on
the right-hand side, you see that for the FFO, we are rather stable, there was a one-off positive tax effect in the first quarter of 2016 which we don’t
have this year. So, if you clean that out, you would say we are rather more or less stable on the FFO.

And then on the cash flow from operating activities, we are slightly negative, that is explained, as I said, by the main effect from the net negative
working capital change that, of course, then affects also the cash, and that will feed through also for the single quarter on the net debt position.
So, in that sense, rather stable underlying performance and continued reduction of our debt levels, and you will see that when I come to the ratios.

Overview of the numbers are not so much to pick out. Again, you see -- if you look at the underlying EBIT, rather stable, and then, of course, you
see the deltas in the EBITDA and the EBIT from the quarter to quarter. That’s all basically explained by these items affecting comparability, as I said,
that one-off positive that we had last year, and now, the mainly fair value adjustment that we did in the first quarter for this year. So, that’s basically
the reasons for these deltas that you see between these two lines.

FFO, rather stable, as I said, and you see the same on the net debt. And the FFO versus adjusted net debt is improved from 19.7 to 20.9 on a
comparable basis, and this is like a 12-month rolling number, of course, not a quarterly number. Yes, so in that sense, I think we are well on the
way.

Now, Slide 16 here, explanation on the items affecting comparability, and you can see that no impairments or reversed impairments in this quarter
which we typically only do if we would have a triggering event, which we did not have.

And then basically, the fair value changes for derivatives and also inventories for the first quarter of this year. And then on the right-hand side, you
see then the first line item, the significant capital gain we had last year from the sale of our Hamburg network services business and the property
related to the network service business in Hamburg. That explains the gap between these two years when you look at the reported items rather
than the underlying.

So, now, going to the underlying, you see that it’s rather a flat development and you see not so much swings between the first quarter of last year
and the first quarter of this year. You see customer solution basically on par, slight reduction on the generation segment, which you know is over
time, realizing, of course, the lower market development over the years because of the hedge policy we have that we will -- with a time lag, see
the lower market prices feeding through into our results, and this is what you see here basically. So, that’s basically the main reason for this.

And then too quite an extent compensated from the higher production from wind having more capacity online, i.e. having then, of course, revenues
and also underlying EBIT, underlying result from that.

And, also in heat, we were quite successful in reducing costs further which then fed through into better results, so that’s more or less then giving
the overall stability and we have -- I will show that in a minute more ideas on how to improve further.

Financial targets, I think Magnus mentioned that we are moving towards the corridors that we want to be in, and I think given the positive things
we have seen happening in the last year, we are quite confident that we can also really move further in the right direction here.

This is now a bit of a different view because suddenly you see a picture from 2011 always on the left column versus where we are in the first quarter
2017 or rather than average for the 12-month to make it comparable.

So, what it tells you or should tell you, I hope it does, is that we have quite a significant, of course, reduction seen in our FFO because of the market
environment that has declined partially because of also the divestments we have done, but you see quite a significant reduction in the FFO we
had to take largely market-driven, I could say.
At the same time, the middle column, we have actually seen quite a dramatic or significant increase of our provisions mainly due to the low interest environment which leads to us taking lower discounts on the provision calculations, that means this is driving up provisions, also feeding more provisions in, for example, there is nuclear settlement that we have in Germany that also, as you know, in the last quarter of last year was leading to a significant additional provision.

So, we have actually a significant increase in our provision levels, while at the same time, and that's on the right side, we have really I would say, massively worked on really getting control on our leverage, on our ratio between the liabilities and also our income as you see.

So, if you compare that, we have only -- only you could say dropped one notch, 1% in the FFO versus the adjusted net debt, so the incoming free cash flow versus the liabilities we have to eventually pay off.

And that is mainly due to significant cost reductions, also significant reductions in the capex that we have seen in the past couple of years, not the least also divestments and the forgone dividends towards the owner which has actually helped stabilizing our financial performance in that sense.

So, on that, I would say, although you could feel quite worried when you look at the left two columns, we have I think shown as a Company to really be prudent in working on a stable financial situation for Vattenfall.

So, I wouldn't go through the details, of course, on this slide, but it's meant to be when you look at the developments that everything is stable and we have stabilized and we have made some quite significant progress last year, so let's lean back and relax, right, this is, of course, exactly the wrong thinking, so we are really pushing the organization exactly to the opposite.

Here is an example on where we want to be on the cost improvement, on the operational and quality levels. So, we really have a lot of initiatives throughout the whole organization. If we look at nuclear, really a target of aggressive cost improvements, at the same time, very high security, very high reinvestments to make a stable operation in line to what's required.

Best-in-class in basically all we do including, of course, also the staff function and the support functions, if we don't continue this and you, of course, know that on the wind side, like also Magnus mentioned, there is quite a strong competition, we need to be extremely sharp on our cost, otherwise, we cannot beat competition, and that's what we need to do. So, that would be a continued focus besides all the new stuff we do because we want to grow in new areas but always focus also on the cost competitiveness. That's a key aspect for our future work.

This is rather boring, as I have said, so no big surprise, slight lower production margins compensated by better performance in heat and wind.

Cash flow development, I mentioned that the negative cash flow here from the operating and also after the investments mainly coming from the net negative development in the working capital.

And that's basically a seasonal effect, so the main come from the swing in our net receivables from our sales business which has a swing to the downside in the winter typically, also higher CO2 inventories that we had to pay for, so that is also putting it down and then the rest was related to margin calls which also had a net negative effect on the working capital. So, that goes here, and, of course, this feeds then, of course, for the single quarter also in the net debt.

But I would say, out of this rather nothing spectacular. And that already would end my part of the presentation and I would lead over to Q&A. Karin?
Robert Pletzin - Vattenfall - Communications
Yes. We have our first question from Andrew Moulder, CreditSights.

Andrew Moulder - CreditSights - Analyst
Please, can you talk about the economics of large-scale battery production in Sweden? What sort of investment would be required on a per megawatt basis and what price could you supply power using large-scale batteries? And the final question on that theme, and what sort of megawatt capacity do you mean by large-scale?

Magnus Hall - Vattenfall - President, CEO
First of all, I think it's -- I mean we are -- it's not for us really to answer all those questions. We are only a minor investor and we really do it in order to be a partner to Northvolt. And I think, so therefore, I would propose to put those questions to Northvolt rather than to us. These details are not there yet.

Why we're doing this is, of course, that we believe that there will be need for batteries. We don't see ourselves as an investor really in a big time in this, but we want to be cooperating and push that part as much as we can.

Of course, it will also mean that if you establish a battery factory, that will also be a big consumer of electricity, and there, we see clearly also our role to make that available and also to help finding, if possible, a good site for that investment hopefully in the market where we are operating, and that would make sense to us. So, there are two things to that but the details I think we need to put directly to Northvolt.

Stefan Dohler - Vattenfall - CFO
Maybe I can complement on one part --

Karin Lepasoon - Vattenfall - SVP Communications
Yes.

Stefan Dohler - Vattenfall - CFO
-- what is large, what is not large. As an example in Germany, we are already at the moment managing third party batteries, not our own, but third party batteries in the level of above 100 megawatts in the ancillary services markets, so, for system services.

And the size of these range from 1/2 a megawatt up to a large one that is going to be 70 megawatt in one, so to say, company. So, it can quite very much vary, and in the U.K., we have this tender where we also won a part of -- for ancillary services to the TSO, which has a size of 22 megawatts. So, that's the lot sizes at the moment.

Karin Lepasoon - Vattenfall - SVP Communications
Right.
Magnus Hall - Vattenfall - President, CEO

But this -- the battery factory here is, of course, mainly for e-mobility, a big part of it, and that I think will be the main usage for it, for electrical cars.

Karin Lepasoon - Vattenfall - SVP Communications

All right. We have more questions, right?

Robert Pletzin - Vattenfall - Communications

Yes, we have. Another question from Andrew Moulder, CreditSights.

Andrew Moulder - CreditSights - Analyst

Do you have any targets for solar installed capacity and what geographics are you looking at to grow solar?

Magnus Hall - Vattenfall - President, CEO

As I said, we are looking to grow solar in two aspects, one is where we have our own operations and that would mean that either do we have the wind park or we have a power plant where we have a good grid connection, there we could do that, and we have those sites, of course, in many different places.

I think it also is related to where do you have available support for solar and can get it. And currently, we are doing it in the U.K. We see the Netherlands has a positive development. Germany I think will be more -- there will also be a possibility, and now, Germany is looking also for big multi-storey housing where they are discussing a possibility also for the people who are tenants in these buildings to be able to have a tax incentive for using solar panels on the roof. So, we see that as a positive development.

We have not set forward any targets. I mean we are looking at investments between SEK 1 billion and SEK 1.5 billion during the coming two years, so it’s not huge from that aspect but it’s a change from where we were before.

Karin Lepasoon - Vattenfall - SVP Communications

All right. We have no questions on the telephone, but we do have a couple of more I think on the Web.

Robert Pletzin - Vattenfall - Communications

We do. And the next question is from James Sparrow, BNP Paribas.

James Sparrow - BNP Paribas - Analyst

Two questions, the first one, how big do you think the electrical vehicle charging opportunity is? Could it potentially involve building new network for charging points? And the other question is, when do you think you will start consistently achieving 20% to 30% FO debt?
Magnus Hall - Vattenfall - President, CEO

If we start with the network, yes, I mean, no, we don’t see that as a totally separate network. It will have to be connected to -- it’s a network from one aspect when it comes to how you administer it and how you service it and how the payment system will look. That’s definitely also the point, where we are putting this inCharge system into operation because we believe you need something like that in order to push investment not only from us but also from others. But if you look to it from a grid perspective, no, it has to be something where the grid operators both the TSOs, of course, perhaps not so much about the DSOs, the distribution system operators, have to make sure that there is available capacity also for e-mobility.

During the coming five to 10 years, I don’t think this will be an issue in most markets but when electrical vehicles really become a standard, I think you will have also a need for reinvesting in the networks.

And it’s also -- but what’s coming also is charging -- smart charging which means that you can actually -- your car will charge when it knows it doesn’t affect the network as much as it can actually relax its load on the network if there is a problem. So, I think we will see many different developments.

Karin Lepasoon - Vattenfall - SVP Communications

And the question about the FFO?

Stefan Dohler - Vattenfall - CFO

Exactly.

Magnus Hall - Vattenfall - President, CEO

Yes.

Karin Lepasoon - Vattenfall - SVP Communications

Yes.

Stefan Dohler - Vattenfall - CFO

So, as you know, we don’t give a prognosis, so we don’t make these forecasts. I said in the Q4 or in the year-end that we are in 2017 at least seeing a slight dip because we have a significant and quite an ambitious capex program that, of course, will hit that ratio slightly.

But we are on a, I would say, very positive path and very committed to get there as soon as we can, and we hope that we’ll be stable because a much larger part of our future revenue will be more stable than in the past because of less exposure to merchant.

Karin Lepasoon - Vattenfall - SVP Communications

Good. Thank you. One more or --

Robert Pletzin - Vattenfall - Communications

Yes. We have a couple of more questions.
The next one is from Benjamin Leyre, NBIM, which should stand for Norges Bank Investment Management.

Benjamin Leyre - Norges Bank Investment Management (NBIM) - Analyst
Do you anticipate any pushback by the European antitrust regarding the German nuclear waste provision funding scheme?

Stefan Dohler - Vattenfall - CFO
We don’t expect that. Actually, the German government is comfortable that they are getting the approval and we will know pretty soon. So, we expect that to come relatively soon at least before the summer, that’s the expectation. But we are not involved in that dialog. It’s a dialog between the German government and the E.U.

Benjamin Leyre - Norges Bank Investment Management (NBIM) - Analyst
What is your ambition on customer base medium term and what kind of -- or what type of EBITDA margin evolution do you anticipate in the Customers and Solutions division?

Magnus Hall - Vattenfall - President,CEO
I mean we are currently where we are. I think that -- of course, we would always improve that, but I think that the main thing we would look at is growing the customer base and we haven’t provided a figure exactly how big we expect that to be, but you can also see from the development both last year and this year that we expect an increase.

On top of that, of course, our idea is to develop other types of businesses not only selling electricity and gas but also offering solutions when it comes to new heat solutions, charging solutions, solar panels on roofs.

So, it’s actually a development that would be an add-on not only the business that we do in pure sales of gas and electricity. So, we see that as an important development for the company but we haven’t communicated any EBITDA margins like that.
Another question, a final question from Benjamin Leyre, NBIM.

Benjamin Leyre - Norges Bank Investment Management (NBIM) - Analyst

Why did nuclear provisions go down by SEK 1 billion over the first quarter?

Stefan Dohler - Vattenfall - CFO

I don't have that immediately available. We will send that so I don't have that in the back of my mind.

Karin Lepasoon - Vattenfall - SVP Communications

Okay, no problem, we can send that later.

Stefan Dohler - Vattenfall - CFO

Rather marginal, sorry to say that. It is a very big amount of money but in the context of overall, I wouldn't have that immediately, sorry.

Robert Pletzin - Vattenfall - Communications

Another question from Andrew Moulder, CreditSights.

Andrew Moulder - CreditSights - Analyst

Are there any updates on your nuclear case in Washington, and when can we expect a decision?

Magnus Hall - Vattenfall - President,CEO

The only thing we know is that the court gave notice that they wouldn't be able to give any verdict until later, probably the fall. Previously, they communicated in the summer, but now, it's delayed, and that's the only thing we know.

Karin Lepasoon - Vattenfall - SVP Communications

Yes.

Robert Pletzin - Vattenfall - Communications

We have a number of questions from Alessandro La Scalia from BlackRock. We'll take a couple of them, then perhaps revert bilaterally.

Alessandro La Scalia - BlackRock - Analyst

The first question is, you said you had a slightly lower achieved power price in Q1 2017. Could you quantify that or give us the megawatt per hour variances for Q4 2016 or Q1 2016?
Stefan Dohler - Vattenfall - CFO

We don't provide that in that detail. You could basically see that feeding through the gross margin, as I said, the main effect comes from the fact that we have hedged our production. And that over time now, when we see the hedges sort of, say, maturing into underlying EBIT and in EBIT, that this will then more or less copy the average market price development. So, that's the reason even if the spot prices have been, as Magnus has said, slightly up, we don't benefit because we benefit from the highest spot but this is offset then by the hedges of going the other way. But that's a combination of open positions and hedge positions, so we don't provide that detail of information.

Karin Lepasoon - Vattenfall - SVP Communications

Yes.

Robert Pletzin - Vattenfall - Communications

Yes.

Karin Lepasoon - Vattenfall - SVP Communications

Go ahead.

Robert Pletzin - Vattenfall - Communications

Let's go ahead. Next question then from Alessandro La Scalia, BlackRock.

Alessandro La Scalia - BlackRock - Analyst

Can you please give us an idea of the economic impact of the abolishment of the nuclear capacity tax in 2017? And yes, let's start with that one.

Magnus Hall - Vattenfall - President, CEO

That's the full, you get half of it during half a year.

Stefan Dohler - Vattenfall - CFO

Exactly, so we have -- for this year, we have -- the full effect is SEK 2.5 billion per year. That's the benefit we will have, as Vattenfall, and since it will come into effect mid of this year, we will see half of this materializing in 2017, while then from 2018 onwards, we will have the full annual effect of SEK 2.5 billion.

Robert Pletzin - Vattenfall - Communications

The next question from BlackRock.

Alessandro La Scalia - BlackRock - Analyst

Could you please comment on your level of expected capex for 2017?
Stefan Dohler - Vattenfall - CFO
We have shared the two-year capex plan which is SEK 50 billion for 2017 and 2018, and that’s the number we would also here reconfirm.

Karin Lepasoon - Vattenfall - SVP Communications
Yes.

Robert Pletzin - Vattenfall - Communications
Okay, the next one from Blackrock.

Alessandro La Scalia - BlackRock - Analyst
Q1 FFO declined 4% year-on-year excluding lignite contribution in Q1 2016. Would you consider the decline as representative of your expectations for 2017?

Stefan Dohler - Vattenfall - CFO
No, that’s not the case because the FFO decline was related to a one-off positive FFO effect from a tax effect in 2016. So, if you clean for that tax effect, that one-off tax effect the positive we had in 2016, we are basically even for the FFO. So, therefore that’s not a decline as such.

Robert Pletzin - Vattenfall - Communications
Okay. A couple more questions, and the final one from BlackRock.

Alessandro La Scalia - BlackRock - Analyst
How much of the Q1 negative NWC swing would you plan to recover in Q2 to Q4 this year?

Stefan Dohler - Vattenfall - CFO
NWC, net working capital, sorry, I got it. So, I had mixed that.

To the -- to more than half, like 60% of that, I mean we have the CO2 effect. So, the acquisition of CO2 which will then materialize when we sell them, so when we put them into production or deliver them actually the certificates into the system. And the second effect was a seasonal swing that will be fully recovered, that’s about SEK 3.6 billion. And then there is a remaining effect on the margin calls which is SEK 3.6 billion out of the SEK 9.4 billion net working capital effect. And that, of course, margin calls is depending on commodity price development. But over time, of course, these, when they materialize, will also be then cleaned out, but these first two effects are a bit more than SEK 5 billion out of the SEK 9.4 billion is a pure seasonal effect.

Karin Lepasoon - Vattenfall - SVP Communications
All right. Before we go to the last question on the Web, I just want to ask if there is any -- are there any questions here in the room in Solna or anybody on the telephone? No? In that case, Robert, we have the last question.
Robert Pletzin - Vattenfall - Communications

We have the last question from Andrew Moulder, CreditSights.

Andrew Moulder - CreditSights - Analyst

What is your view on the recent zero bids in the German offshore auctions? Is this something you would do?

Magnus Hall - Vattenfall - President, CEO

I mean we can all say that this development, it should come sooner or later. It’s a combination, of course, of lower costs, expected cost for building a wind farm, but also very much the expectation for prices going forward. And if you don’t need a subsidy to get your calculation home, of course, you wouldn’t need then you bid zero. So, that’s what we’re seeing now.

It’s very difficult to say. And from our perspective, we’re now analyzing this, what it really means because we think it’s quite considerably different risk profiles on doing those two things. And it also, I think it means, for instance, for governments, of course, who wants this program really to develop, will this development actually make certain that you see this development?

So, I think there are a lot of questions surrounding this issue right now. We are about to analyze it and see where we stand. But we will also find out in the next auctions, of course, that are coming up later this fall.

Karin Lepasoon - Vattenfall - SVP Communications

All right. That’s the end of this presentation of Vattenfall’s Q1 results 2017. We thank everybody who participated here in Solna and on the Web and on the telephone conference. Thank you very much.

Stefan Dohler - Vattenfall - CFO

Thank you.