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PRESENTATION

Karin Lepasoon - *Vattenfall - SVP Communications*

Good morning and welcome to this presentation of Vattenfall's Q2 Results 2017.

In a moment, we will hear from our President and CEO, Mr. Magnus Hall and our CFO, Stefan Dohler. As usual, this is a live meeting here in Solna, combined with a webcast and a telephone conference.

So, without further ado, Magnus, I leave over to you.

Magnus Hall - *Vattenfall - CEO*

Thank you.

Thank you very much for that and also a very good morning from my side to you listeners in the room, but also to listeners on the web and over the telephone, when we are presenting our first year half results 2017 for Vattenfall.

And I will go straight into the business highlights. We are reporting a positive result for the first half year this year and we start with EBIT, we can see considerable improvement versus last year. And the main difference is of course that we had significant impairments during the first half year in 2016, whereas we don't have at all at the same level this year.

And if you go and look to the underlying result, that has also improved from 12 billion for the first half year last year to 13.2 billion this year. The main difference is improvements in wind. We have better results in heat. And we also have a better result in the distribution business.

We also show a healthy FFO, roughly around our target level of 22%. And if you look to the underlying return on the capital employed, we're actually above our target of 9% at the current moment running 12 months.

Vattenfall is growing. We are returning to stable results. We are also showing growth, growth in terms of customers, growth in terms of more investments into renewables, we're entering new markets and we're also on track when it comes to our purpose, when it comes to take further steps into a fossil free world within one generation.

We don't stop focusing on costs of the operations and efficiency of the operations. We will talk more about that later in the presentation where Stefan Dohler will expand on that, but that's necessarily of course, one of the things that we have to concentrate on when we go forward, not only looking at the growth possibilities.

Let's dig into a little bit of the details. If we start by the pricing situation, it has improved somewhat. If we look to the electricity price, that's the main driver for the significant negative result during the last years, whereas we now can see flattening out and even a small improvement versus last year.



The big tick up you see at the end of 2017 is very much related to the nuclear situation in France, where prices were very high at some moment in time. But if we look forward for the electricity futures, we see a slight small improvement, but more or less stability during the coming five years.

The underlying drivers of this is of course, now also the fuel complex. You can see to the right where we have coal, which is pretty strong. If you go out in the future, that's actually returning back to much lower levels. But for the moment, that's actually pushing the prices on the German market slightly. And that is also an effect that filters through to the Nordic markets.

Gas price is another important component of one of the drivers and there we see prices coming down on some oversupply situation currently in Europe, so that is rather weak. And if you take those two together, you will see fuel switching in the markets where we actually see more gas production coming on in terms of coal production, which is in itself for a CO2 reason, a good development, but it also means that things might go up and down a little bit more due to the changes that we see there.

Also, the CO2 is nothing really happening, a very slight improvement of the carbon dioxide price, so no real driver for a price development going forward.

If we look to the generation development with electricity within Vattenfall, you can see we had a positive development, of course related to running more of gas powered plants. Also, in our own plants, you can see slightly more on the fossil side, but the main difference is the nuclear, where we had a completely different availability during the first half year in this year versus last year.

And the main difference is we were running reactor number two in Ringhals from the beginning of the year versus that has been on a standstill for last year.

Hydro is at the moment, with low reservoir levels, so there we can't really take out the full volume as we would like to. And you can see that it's diminishing here, whereas the wind development where we commission more wind farms, we can also see an improvement of the production there quite significantly.

Sales development, slight increase and yes, it's mainly in that area where our volumes have been increasing, but in general fairly stable development I should say.

We are growing and one of the growth areas, that we are looking at is of course renewables. And we are concentrating on the wind side. We do have development plans when it comes to solar production, based on solar and PV, but the main part for us is wind. And you can see from this picture, you can see that we have a clear target to reach 2,300 megawatts more by 2020, 2021.

And you can also see from the middle bar of this here, that we are more or less on target to be able to reach that. And then we have significant development pipelines beyond that which means that there will be opportunities for us to continue to grow.

We commissioned a few wind parks in the first half year this year. Two wind parks in the UK, Pen y Cymoedd and Ray and also Sandbank, which is a joint venture together with Munchen Stadtwerke outside the northwest coast of Germany, where we just started up close to 300 megawatts offshore wind farm.

We have established a new business unit for solar power, just to make sure that we get that development going. That is not for the moment, a big business in Vattenfall, but it will grow. And you can see also that during the first half year, more than one third of the whole CAPEX budget that we've spent in Vattenfall was invested in different renewables.

We want to expand our geographical scope somewhat. We have since quite long been established in the UK market, which we see as a stable market where we would like to take more business into. We have invested about 3 billion pounds during the last 10 years in wind power, whereas we are now also moving in other areas.



We just acquired a retail business iSupplyEnergy in the UK, where we are growing with a roughly 120,000 customers versus the 110,000 customers which are organic growth. This is retail. This is acquisition growth and we see that as a good platform to go into the UK market where we believe we will have a good growth opportunity.

We're also already offering renewables -- because we are producing such a big amount of renewables in the UK, we will be able to offer those volumes also to customers in the UK, so the combination of those two businesses is good.

Fossil free within one generation is the purpose of Vattenfall. And we see electrification as one of the solutions for the climate issue going forward. And we can see this development now coming clearly on track, both in politics, but also in practical change.

And just to show a little bit about what's happening, something we call sector coupling, which means that you connect renewable and fossil free electricity to other areas around, which normally would use fossil based fuels.

And you can see that from transportation, we have a clear change in the e-mobility whereas we believe during the coming years, you will see much more electrical cars coming online and we want to expand in that area to be the infrastructure supplier for the e-mobility business. And we are also establishing there a new business unit for e-mobility as such.

We're also continuously doing deals for new charging points and to be able to have the infrastructure to grow for electrical cars.

Industry processes is something we think and also where Vattenfall has a tradition to work together with the industry where we believe we will be able to be a good partner and we have developed several cooperations there. Latest now was one in the cement side. Cement is one of the big CO2 emitting industries. And of course, if we could find a solution there together with them, that would be a clear benefit.

We also have then, as you can see here, other cooperations which we are developing and hope that we will be able to reduce CO2 in Sweden with as much as perhaps 30% up to 2030 or even further out in time I would say, perhaps 2040, but at least the potential is there.

And also on the heat side, where we are investing now in Germany in something called power to heat, where you will be able to take renewable and fossil free electricity into the system. You heat the system up when you have very low prices and then you could take it out as heat when prices for electricity go up, so it becomes a balancing and a type of battery operation. And we see that as an interesting development.

We also closed down production heavily based on CO2. And that's the last lignite operation that we have in Vattenfall, Klingenberg. We closed down -- and we will save roughly 600,000 tons of CO2 per annum. And we also have an investment decision in the Swedish part of our heat operation to go for biomass firing. Where we today use peat, we will go to biomaterials instead.

And just to mention, we also look at the possibility of using other gasses than natural gas for driving electricity generation, like hydrogen, for instance. That's also a new cooperation. So, we see things where we can really involve ourselves in and where we see new business opportunities and growth opportunities for the company.

The strategy is clear. The strategy targets are around leading towards sustainable consumption for our customers, also sustainable production, then around also having an empowered and engaged organization and people around us. And then also top performing operations. And we have set up six strategic targets and that's to grow with the customers.

The customer engagement we are increasing, which is called something net promoter score. It's really about how would your neighbor recommend you to take Vattenfall on. And we see a positive development in that relation. I just mentioned earlier also the growth in renewable, where we are on track more or less, to deliver what we have said in the strategic targets.

When it comes to CO2 emissions, we are also developing a roadmap for the future, where we will see how can we actually continue to reduce CO2 and I just mentioned also earlier that we do that in connection with other industries which really makes in the end, the possibility for CO2 to be reduced.

So far if you just look to the net result, we are not reaching the target for the return on capital employed. The underlying though is showing us that we have the potential to come there. But of course, we have to have a priority also on the cost side, in order to be able to deliver on that. But if you just look at underlying, we are close to the target. But if you look to the net result we are still not there.

Safety, very good development -- where safety is a very important part of a utility business, there are so many safety issues and we are very happy that we are close more or less to the target that was set for 2020, which is then a significant improvement already compared to last year.

And on employee engagement, we don't have a current measurement, but we will come back to that, but nevertheless, it's equally important to drive ourselves forward.

So, we have defined the purpose for Vattenfall. I just described it before, it's to power climate smarter living for our customers and the world around us. And we would help all our customers to power their lives in climate smarter ways and without fossil fuels within one generation.

And that's quite a significant challenge we're taking on I would say. We don't know all the answers, but we are working hard on finding ideas. And it's a very good driver for Vattenfall when we go forward and find new business opportunities and certainly there will be plenty of them and plenty of growth opportunities also.

With that, I would like to finalize this first part and I would like to invite Stefan Dohler to dig a little bit more into the details on the financial side.

Thank you.

Stefan Dohler - Vattenfall - CFO

Yes good morning also from my side, everyone.

And financials, I think continue little bit on what we had already indicated in the Q1 results, so if you look at the highlights for the first half year now, accumulated and that's to a large extent then also equivalent for the second quarter as an isolated part. Basically, the three points that are shown here in the graphs, we have increased underlying EBIT that Magnus already mentioned against the same period last year.

We show fairly stable debt levels. And we also have a stable fund from operations income, so in that sense, I would say rather stability, improved performance, underlying EBIT increased, the reported EBIT, which has always been a big gap against the underlying has come -- call it closer to the reported EBIT, because you know that we had very big one-off impacts on the impairments side in the first half of last year, which we don't have this year. And that's bringing sort of said that gap much closer.

Then FFO, pretty stable and also as Magnus mentioned, slightly above the minimum level that we see with the 22% range. Then also, maintaining focus on the operational excellence, we also had -- like this week, the last feedback from one of the major rating agencies to reaffirm their rating against us, with changing the outlook from negative to stable, which I think is also a reflection of the efforts we have put in, in stabilizing the financial situation, but mainly also the risk exposure of Vattenfall through some major developments over the last 12 months.

And then a post Q2 event item, but a significant one is very much on the bottom here, that on July 3rd, we paid 17.2 billion, so that was quite a big chunk of transaction, which brought the system a bit to its limits, mainly also for the other operators towards the German government.

And you see that here, if you look at the net debt that is going up in this picture from half 1 '16 to half 1 '17 actually from December 31st, it went up 17 billion. So, that is exactly the point that we had to reclassify provisions into a liability. That's why you see the increase in net debt, but that's then on the 3rd of July, minus 17 billion, because we paid out the money.

And you see then of course on the adjusted net debt, where this is not visible because we there have the provisions and the external debt that we actually have a decrease in net debt, which is a good development. So, this bump if you want, in the net debt, you should more or less discredit because that is just because of the timing effect of the payment for the nuclear fund in Germany.



Then as we say, we continue focus on operational excellence and on our cost side, because we know that the commodity environment is still an exposure for us and we still need to very much focus on being sharp on cost and making sure we are really delivering best in class performance. So, although we have currently, the underlying result returned above the 9% ROCE, we want also to make sure we can deliver that going forward.

So, we have taken measures to actually work with a partnership on the standardized services, mainly in finance, procurement and in HR. That means we improve the quality, improve the speed, modernize our systems, I think that's quite a strong feature, but also it means, because it's related also with an outsourcing measure, that up to 500 employees that today work within Vattenfall are affected by this.

And then we also announced an -- I would say a very thorough review of our situation for the German pumped-storage that is accounting for about 40% of the total German pumped-storage, which is a very crucial element I would say in balancing the system.

But the regulatory framework does not allow at the moment, to have this as a real profitable business, so we had to take really tough views on the restructuring needs there. And there we target to take down the FTE levels, the employer level, by up to 60%, because otherwise, we cannot really run this as a profitable segment.

And then on the German nuclear, I think it's quite a while that we had anything positive to report about that, but this is now - you could say, the point where we can say something positive about the German nuclear situation. Just mentioned already that we have now made payment of 17.2, so that hurts if you want, but on the other hand, it has a benefit that we are really de-risking a lot of the future potential cash out. On the German nuclear, we are now only responsible for the decommissioning, the deconstruction if you like and the packaging of the nuclear waste. Then we hand all this over, once it's packaged, to the German government. And then they are taking the full responsibility for anything to do with interim storage and the final storage and everything related to that. So, that risk and also the money is now sitting with the German government. So, in that sense, I would say a clear cut, which is much better for us.

Then important is that we also of course, get the fuel out of the plants, so we can start the decommissioning. In Brunsbuttel we actually managed to take the fuel completely out of the plant and that means that we can accelerate the decommissioning process and that led to also a release of provisions, so in that sense also positive contribution.

We also benefited in a relatively small amount, but still SEK1.8 billion from the ruling of the administrative court in Germany for the refunding of the nuclear fuel tax that is our part of the 20% share in the Brokdorf plant, which is of course still then operated by E.ON, but where we have a 20% stake.

And just on a note, as you know, we can't say much and don't want to say much about the arbitration proceeding that we are running in Washington against the German state, but there, we currently expect a decision earliest at the end of this year. So, that's where we currently see the process.

Liquidity, still strong, nothing specific to comment, of course you see quite a significant position here. Again, this is the Q2 position and this needs to be then corrected for the 17.2 billion that we have paid meanwhile to the German government. But even after that, you still see that we are having a quite strong situation. And also that's why we also have continued to say that any future funding needs externally are not visible this year, but at the earliest next year, depending on the investment capacity that we want to put in, mainly the wind sector.

Financial overview, I think maybe a few points just to pick out, net sales slightly down. That's mainly due to fair value effects that we see. Magnus mentioned also that not only the underlying EBIT improved but also the EBIT. That's mainly then due to a lower impact from the impairments that we had in the same period last year. Then profit for the period also up to 6 million. FFO rather stable.

Net debt, as I said, going up, but only because of this effect across the quarter. And adjusted net debt, I would say also more or less stable, with slight downward trend. Yes, so in that sense, I would say luckily, nothing spectacular, but stable and positive.

If you then look at the segments and that was also already picked up by Magnus, the main increase in result comes from the wind, the heat and the distribution business. In wind of course, with the addition of capacity, we then of course add income and profit. Heat had a good gross margin



development actually in the first half year and in distribution, the underlying operating profit also increased mainly because of price effects in Germany and Sweden.

In the other ones, you see there is more stable situation but also again, I would say in line with the expectations.

Then here the items affecting comparability, you see that the delta between what we had in the first half year of last year, it's like 10 billion delta between the underlying and the reported result has now shrunk and the main position that we see is now in the unrealized changes in the fair value. And so, that's the derivatives and also partially in the inventories.

That's again, temporary effects and I just have one more slide going a bit conceptually into what we are talking about there. The others I would say are rather minor at this point.

Then maybe just it's more like illustrative of conceptual graph of the fair value. I think for the financial community, this is nothing I need to talk about, but maybe also for the broader audience, it could be helpful to just remind what are these fair value adjustments meaning, in terms of derivatives and inventories.

Of course we need to always mark to market or at everyday when we look at it, basically price them against the current market value that these instruments are having. And these are basically flowing through our P&L or our income statement for those external transactions that are not hedge accounted, so where we cannot prove that it's an efficient hedge relationship with an underlying other position.

That's quite a substantial amount in the business we do, but it's mainly really related to our sourcing, but then the accounting work doesn't allow us to account it as a hedge, that's why it's quite significant position. Over time, these typically -- and you see that here in this illustrative graph, need to net out towards zero.

There's also one element and that's this just second bullet point, we of course, have also quite a significant part of external deals that we can label as hedges, where we can prove this hedge relationship, they are parked in the balance sheet. And both of these eventually flow into the underlying result, yes.

So, that's why you always see these swings, but this is rather a temporary effect that over time evens out. Yes, but it's just like to pick everyone up, that this is nothing that we are at all concerned, because we keep very good track of it and it's let's say a normal part of our commodity business. But just to -- since it's a significant amount, just to pick that up once, yes.

Financial targets, as we said, the -- call it the underlying ROCE looks good, but of course, eventually we also wanted to have the normal, the reported ROCE above the 9%, so even including any one-off effects. There we are still behind the plan, but hopefully we see that we can get to the -- also the reported ROCE then towards the 9% plus level.

The others we talked about, again here net debt to equity has increased, but again, the net debt is this one-off effect. So, if you deduct the 17 billion this looks already different today.

And for the dividends we are at least having a clear ambition to hopefully next year, pay a dividend.

Underlying EBIT, I think I don't need to go in -- Magnus mentioned that the increase is mainly due to these three segments where we have an increase. And then finally, the cash flow development in the first half, positive cash flow from operating activities. FFO was 15.1 billion, while then the -- after changes in working capital -- operating cash flow is 5.6.

So, we have a significant deviation from the working capital changes, mainly due to margin calls that we had to basically feed in and also then some timing effects on typical seasonal patterns. And then you see the positive cash flow, also from the divestments is more or less netted out by the maintenance and the growth investments.



If you look at the single quarter, Q2, there we had a cash flow before financing activities of plus 3 billion, so you can see that there you see the seasonal pattern basically picking up and that should continue over the year of course, we expect a positive result on that one.

That would conclude my part for now.

Karin Lepasoon - *Vattenfall - SVP Communications*

Yes. Very good. Thank you very much, Stefan.

Yes, it's time for the Q&A. So, please welcome up both Magnus and Stefan and we have quite a few participants on the web and on the telephone. And we open up for questions. We start with asking if there are any questions here in the room in Solna -- no?

In that case, how about on the webcast?

Robert Pletzin - *Vattenfall - Communications*

No questions yet.

Karin Lepasoon - *Vattenfall - SVP Communications*

No questions yet, well, how about on the telephone?

No questions on the telephone either.

So, I guess everything was crystal clear.

Stefan Dohler - *Vattenfall - CFO*

It's an unspectacular.

Karin Lepasoon - *Vattenfall - SVP Communications*

Still nothing on the telephone? And still nothing on the web?

Robert Pletzin - *Vattenfall - Communications*

Nope.

Karin Lepasoon - *Vattenfall - SVP Communications*

Nope.

Magnus Hall - *Vattenfall - CEO*

It's vacation.



Karin Lepasoon - *Vattenfall - SVP Communications*

Yes. Well, in that case, we thank everybody for listening in and participating and wish everyone a happy summer. Thank you so much.

Magnus Hall - *Vattenfall - CEO*

Thank you.

Stefan Dohler - *Vattenfall - CFO*

Thank you.

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