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CORPORATE PARTICIPANTS

Karin Lepasoon *Vattenfall AB - SVP, Group Communications*

Magnus Hall *Vattenfall AB - CEO*

Anna Borg *Vattenfall AB - CFO*

Markus Friberg *Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU*

CONFERENCE CALL PARTICIPANTS

Andrew Moulder *CreditSights - Analyst*

Michael Charlton *Banco Santander Madrid - Analyst*

Tanja Markloff *Commerzbank - Analyst*

Charlotte Peat *Schroders - Analyst*

Jesper Stjern *Bloomberg - Analyst*

Nils Lannefors *GE - Analyst*

PRESENTATION

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Good morning, and welcome to this presentation of Vattenfall's Year-End Results 2017. As usual, this is a combined live meeting here in Solna with a webcast and a telephone conference. In a moment, we'll hear from our CEO, Magnus Hall; and our CFO, Anna Borg, and afterwards, we'll open up for questions.

With that, Magnus, I leave it over to you.

Magnus Hall - *Vattenfall AB - CEO*

Thank you, very much, Karin, and also from my side, very welcome to this morning's presentation of our full-year results in Vattenfall. The 2017, I think, is a turnaround year for Vattenfall. We can show that we are going in the right direction with a lot of renewables investments. We are closing down fossil-fired plants and we are also investing in much more renewables and we are showing a positive result for the full year.

So this is a good time to start the presentation I think, and if you look to the result for the full-year, it's underlying profit of SEK23.3 billion. Compared to last year, it's a 7% increase versus the SEK21.7 billion. The reason for the increase is mainly related to more wind. We earned money on increased investments in wind, the new deployments that we have made there and we also see it from the distribution side.

The profit for the period after tax was SEK9.6 billion and the board is proposing a dividend of SEK2 billion. We haven't paid dividend in five years. We will hear a little bit more later about that when Anna Borg is presenting.

The FFO to adjusted net debt reached 21.5% and our electricity generation increased and we had good availability in our Swedish nuclear.

I will now go to our strategic targets. We have four objectives when you look to the left on this picture, that is to make sure that we are helping the customer to become more sustainable in terms of energy use with a target to become fossil-free within one generation, both in our own production which is to the right, but also help our customers in those solutions and we are developing very many different business opportunities there. Then we have to support that by a very highly engaged organization and of course cost, a very prudent view on how we deal with our costs.



We have six targets that we are looking at and the first one is a customer target. We can see an improvement still versus others in the relation we have with our customers. We are not totally satisfied we are going in the right direction, but we can do more in that, but we see a positive development still.

The aggregated commission we have of new renewables, we have a target to increase 2.3 gigawatts, 2,300 megawatts by 2021 in renewables. We are so far on 650 megawatts and we will reach that target by -- but perhaps not exactly at 2020, maybe one year later, but we have a very good pipeline in front of us in terms of going in that direction.

The CO2 emissions, we have a target for 21 million tons in 2020. Currently we have taken decisions to reduce several steps, but we also can see some positive spreads in producing electricity, so that reduction haven't really come through quite yet. It will come through as we close more plants.

The capital employed, the new target of the government is 8% or the owner is 8%. We are reaching 7.7%. If you look at the underlying, it's a little bit better, but we're still not there. What we're very happy about is the safety target where we have managed to internally reduce it from 2.0 lost time injury, frequency 2016 to 1.5 in 2017, and this is, of course, an important development for our internal view and for our employees. We still have a way to go to the target, but we are well on our way there.

And the final part to say, the employee engagement there we set quite a big target for the move from 2016 to 2017, we reached that, our internal target was 62. We thought that was bold, we managed to reach 64, I think that's also part of showing that the Vattenfall organization is taking a real change in momentum with regard to the future and our view on the future.

That is also then combined with large investments, we have quite a heavy investment schedule as you can see, SEK46 billion we are reporting now for the coming two years with almost 50% share of growth investments. That's very important for us to change from more maintenance and investments to more growth investments, we are doing that. And if you look to the middle part, the growth CapEx is mainly related to wind power of course, and there we have our big investments if you look to the right also in Denmark, where we are now providing the Danish market with all the new renewable electricity that they are going to deploy for the coming three to four years. But we are also investing heavily in Germany, you can see that. We are also investing heavily in the other markets, the Netherlands and where we have our positions, we defend them and grow.

The business areas or the segments that we are reporting, power generation which is a combination of our power production, hydro and nuclear and also our trading operations. We have a slight reduction in profit there from SEK11.4 billion to SEK10.8 billion. It's mainly on hedging developments. We had underlying good production in terms of increasing in nuclear as I just said earlier and we also had a good hydro year with almost one terawatt hour more of production there.

If you can see to the right of this picture, you see that we have a clear cost target and a development target for nuclear, because nuclear has to become competitive. We have said that by 2021, we should have a cost of 19 ore. You can see to the left there that we have 35 in 2016 and that is of course, a big part of that is the tax that we have been paying for nuclear which is now taken away, and on top of that, we have been able to take cost reductions. And if we are going to be competitive and also reinvest in this business, we need to take our cost down, but we are well on our way.

If you look to the down right, you can see the price development where we have seen the trend shift. If that is going to continue, I think it's difficult to say. But you can see also on the grey part of that where the Swedish market currently has a lot of water in the system and there is some slow reduction on pricing, but if you look to general, the continent is driven up by very high coal prices at the moment, so there's still some pressure. Prices have improved on the continent quite significantly.

Wind, as I said earlier, where we are investing main part of our capex, there you can also see a clear improvement now in terms of the EBIT from SEK0.9 billion to SEK2.1 billion. We deployed two new wind farms, one Sandbank in the German waters and then also one land wind farm in Wales in the UK called Pen y Cymoedd, which is now the largest onshore wind farm in the U.K. actually.



We are currently constructing the Horns Rev 3, Danish big 400 megawatt offshore wind farm outside Jutland and we've just put the foundations piled in place, so it looks quite good.

We have a good pipeline, if you look to the right of this picture here, you can see what we have. We have 700 megawatts under construction. We have a good pipeline going forward. I mean they are not all decisions, but we are planning for that. We have also a good solar pipeline. We will see how that will materialize, and we also have a solar pipeline as a central solar pipeline with big projects and then a decentral where you also put solar panels at your customers. And then we also look to invest in batteries. We will see how that will develop.

The sales retail side, Customers & Solutions, a quite competitive landscape we are looking at with a lot of actors, with a lot of new actors using new technologies in terms of approaching their customers, in this world of competition we managed to grow. We have increased our contracts in that market by a significant amount in 2017. And one of the reasons is also that we acquired iSupply, which is a retail business in the U.K.

One important -- two things here which I would like to mention specifically. One is that we are looking more to sell these decentral solutions which means that we are out now offering also customers their own energy systems so to speak. And Vattenfall InHouse is one of those systems where we are now offering big housing corporations an opportunity to have somebody supply them with a heat pump, with a charging station, with solar panels, and we can take that responsibility and we have made quite a few of those contracts. And that will be a business that we will be growing in the Vattenfall business atmosphere, and I see that as a good growth possibility.

Second part of that is the e-mobility, so it's a charging infrastructure for electrical cars, and of course, we will during the coming years, see significant change in how we transport and how we use fuels for transport. And to be part of that development is very important. You can see now we are developing our charging stations, and we have also organized a separate business unit that will take care of the development for the infrastructure of charging e-vehicles. So good growth opportunities, but at the same time quite a strong competition on the retail side.

Distribution, here it's all about investments specifically in the Swedish networks. We have increased our profits because we have increased prices, but it's a necessary development because if we do not increase the investments in the Swedish networks, we will not be able to connect more renewables, we will not be able to increase the supply security, decrease the breakdowns. And there are also lots of new energy consumers in terms of datacenters that would have to be connected, so there is a lot of investment needed here.

But you can see the development in this left graph among the three to the right that we actually are, and specifically in the north where Vattenfall has a big network, we are reducing now -- this is the duration, -- on average, how long a disruption is. And we are reducing that and we have to continue to reduce that, and in order to do that, we have to invest.

And you can see also to the right, our investments are increasing and of these price increases we have now, every penny of those price increases will go back as investments, needed investments into the distribution grids.

Heat, we are one of the biggest heat suppliers in Europe. As you know we are located in Sweden. The big part is around Uppsala. We have several other operations around Stockholm. We also have in Berlin, we have in Hamburg, we have in Amsterdam, we're also looking at the possibility to grow the heat business in the U.K. And we can see this as a clear part of being the sustainable solution for the energy system for the future, really to find a solution for the heat side and Vattenfall can be a part of that.

So we have two things here which are very important. One is the CO2 roadmap that we are closing down fossil-based plants. We have a cooperation with Berlin authorities to phase out coal by 2030, and so this is a hot discussion and clearly something that we are going to pursue in order to become fossil-free within one generation.

Then we also have the opportunity again here, especially on the continent, to supply customers with solutions for their heating. Where they today use gas, we can, in a very good way change that, and they can use heat pumps based on renewable electricity that is being produced more and more.



So we grow here, we grow in terms of customers, the customer base, because of more insulation in buildings, I think the consumption per customer will go down and I think that's part of the efficiency gain that we will see, and that is necessary in order to get the sustainable solution in the end, but from a business perspective, we are investing quite heavily here and we see that as a good part of the Vattenfall business.

To the right here, you can see a graph showing the spreads which means that the pricing, if you look to the earnings that you have if you run a coal plant for instance, it's in between the coal price and the cost you have to pay for CO2 and the market price. And you can see here specifically in this picture that several of the coal plants, not the most efficient ones, Vattenfall has the efficient ones, but the less efficient ones, they don't really earn money. So there is now a lot of pressure on closing down also coal plants in the system because of higher coal prices and that the electricity prices are not giving this possibility to earn money in between, which is of course a change that we would like to see.

A coal phase-out will have to be coming. I think part of the solution to that is clearly a good high CO2 price, so we support very much the emission trading system in Europe for that to happen. But we would also like to see a clear policy from the German state on how they view the phase out of coal in Germany and as Vattenfall being a big user of that in Germany, we are part and want to be part of that discussion.

We are also taking decisions to invest in, for instance, power to heat which means that you can take renewable power, put that into the heating system as a battery and then reuse it for heating purposes. So I think we are well on our way to find a solution to become fossil-free within one generation.

Yes, I think that shows fairly well. Just to wrap up, I think that we are clearly in a position now, where we look very positively on the future. We are showing a positive result. We have good cost control in general. We are looking to quite an interesting growth investment schedule ahead of us and we have lots of different business opportunities in parts coming very close to the customer operations. And we also work with big customers and the last launch that we did a week ago now with the Swedish fossil-free steel is an example of something that Vattenfall can do together with its customers to find CO2 emission solutions.

So thank you. With that, I would like to leave the word now to Anna for the financials.

Anna Borg - Vattenfall AB - CFO

Thank you, Magnus. Good morning. 2017 was a turning point for us also financially. Our underlying EBIT was increasing SEK1.6 billion up to SEK23.3 billion. The earnings, the increased earnings are mainly coming from distribution and wind and I will come back to that in a moment.

The EBIT is going up from SEK1.3 billion in 2016 to a level of SEK18.6 for 2017, then 2016 was heavily impacted by impairments and that is not the case for 2017. Our FFO over adjusted net debt is coming in at 21.5% which is just below the requirement our owner has on us on 22%, but it is in line with the expectations for the year.

We do improve our outcome also in relation to our targets. We have a return on capital employed this year for 7.7%. The target is to be above 8%. That can be compared with the outcome of 2016 which was 0.5%. Excluding items affecting comparability, the number for this year is 9.7%.

When it comes to our dividend policy, we have a policy saying that we should give a dividend to our owner of somewhere between 40% and 70% of the year's profit after tax if we reach the 22% hurdle. Of course, there can be a discretionary dividend at any point in time, and the Vattenfall Board of Directors decided yesterday to propose a dividend discretionary for 2017 of SEK2 billion. So if that is approved by our annual general meeting later this spring, that means that it will be the first time since 2012 that we are able to give a dividend to our owner.

Even if 2017 is a turning point for us, it is critical for us not to get caught in the moment of relief, but to keep improving and make sure that we improve our competitiveness also going forward.

When market prices declined dramatically and impacted all of our industry, we have shown that we are able to make cost reductions in our existing business and still meet our high standards. Between 2010 and 2016, Vattenfall has saved SEK16 billion. That has happened in all parts of the

operations, but has especially impacted outsourcing activities that we did of our customer service in Germany. We made large savings in our procurement activities, but also in our communications and IT costs.

At the same time, we have managed to maintain a high level of growth investments in order to improve our business going forward. That is now starting to materialize also in our result. We need to continue down this route and right now, we have several ongoing initiatives. One of them you heard Magnus mentioning, the 19 ore within our nuclear operations. Another one is an initiative aiming at simplifying and downsizing our staff and support functions. We aim at a saving of SEK2 billion a year being fully in effect from 2020 and onwards. That will, for example, mean that we're going to outsource processes related to HR, finance and procurement. Cost control is and will be a natural part of our strategy also going forward.

I would like to deep dive a little bit into the development of the underlying EBIT. Here you see the changes between full-year 2016 and full-year 2017. We have slightly lower production margins which is due to the average price we get for our generation including our hedging activities. We see a positive effect of the Swedish Energy Agreement, that is mainly the nuclear tax. We see an increased result in trading and definitely an increased result in wind, which is mainly due to new capacity coming online.

In Distribution, we also see an increase in the result. It's due both to increases in gross margins and cost savings.

Our underlying operating profit, I have already commented on, but I would like to highlight one thing, and that is the slight decrease in net sales that we see. There are mainly two reasons for that. One of them is a decrease of margins in our B2C business in the Continental Europe, but at the same time we're lowering cost in that business in order to make sure we maintain our profitability levels.

The second thing I would like to highlight and the reason for this is that we have exited some unprofitable B2B contracts in the German market. The sales business is doing well from a profitability point of view.

Items affecting comparability. Here, I would like to highlight three things. The first one is a capital gain of SEK0.7 billion. That is due to sales of shares in some waste incineration plants.

Secondly, we have an unrealized fair value. Fair value is a pass-through position for external deals, they are settled. And when they are, they are transferred into our underlying EBIT. We have during 2017 contracts with a positive value that is going into our underlying EBIT and that is then corresponding to negative change in the fair value.

Lastly, we have also increased our provisions in relation to nuclear, and that is mainly because of a change of a discount rate.

Underlying EBIT per operating segment, we have the largest differences here compared to last year in wind with SEK1.3 billion. That is mainly our new capacity coming online. We also have an increase in distribution of SEK1.3 billion. That is due to increased gross margins in the Swedish market and due to decreased costs in the German market.

Finally, I would like to show the cash flow development. We see an increase in taxes in 2017 compared to 2016. The reason for that is that we had unusually low taxes in 2016. We had quite a big tax refund made then that was related to impairments we had done earlier. We also have an increased interest cost, that is due to a partial repurchase of a bond that is maturing in 2039.

Our growth investments are mainly going into renewables. And all and all, I would like to summarize that we had a good year. We're on the right way but also plenty of challenges moving ahead. Thank you.



QUESTIONS AND ANSWERS

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Thank you, Anna and Magnus. It's time for the Q&A session and we're happy to take questions both on the web and on the telephone. But we will start here in Solna and see if there are any questions here in the room. That does not appear to be the case. In that case, Markus, how about on the web?

Markus Friberg - *Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU*

Yes, indeed, we have a couple of questions. We can start with Andrew Moulder from CreditSights.

Andrew Moulder - *CreditSights - Analyst*

You show nuclear investments decreasing to SEK1 billion by 2021 from SEK2 billion in 2017. But I thought with the ending of the nuclear tax you would be investing more heavily in nuclear to increase the plant life span. How much are you investing for life extensions in Swedish nuclear?

Magnus Hall - *Vattenfall AB - CEO*

We have two projects currently going on for the lifetime extensions. The independent core cooling projects, which we have taken decision for both in Ringhals and Forsmark. And the total investment for those two is roughly between SEK2 billion and SEK2.5 billion and that's the reason why it's high now and then when we have done those investments, we expect to be on a much lower level going forward.

And it should also be remembered that Vattenfall invested heavily in the nuclear in previous years from 2010 and onwards when we were upgrading a lot of the equipment in the nuclear plant. So, they were already prepared for prolongation. The last part of the prolongation is the independent core cooling.

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Right. Thank you. We have another one?

Markus Friberg - *Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU*

Yes. From Michael Charlton, Banco Santander in Madrid.

Michael Charlton - *Banco Santander Madrid - Analyst*

What is the impact of the implementation of IFRS 9 hedges and potentially from the future implementation of IFRS 16 leases?

Anna Borg - *Vattenfall AB - CFO*

Well, our judgment is that the impact will be minor for us. So, we don't see any large consequences of that.

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

All right. Let's see. We don't have any questions from the telephone conference currently. Do we have any further questions, Markus, on the web?

Markus Friberg - *Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU*

We have a follow up from Andrew Moulder, CreditSights.

Andrew Moulder - *CreditSights - Analyst*

What measures are you taking to reduce nuclear costs down to 19 ore per kilowatt hour?

Magnus Hall - *Vattenfall AB - CEO*

We are looking at bringing the administrations for the two nuclear plants together so we will save on system cost, we will save on lots of different things that we are doing jointly. And we are also looking to outsourcing issues which are part of the bigger plan of the Vattenfall Group.

So, it's a multitude of changes that we will be able to do, but there's also a big change in the sense that we are closing two reactors which are smaller reactors. So, the remaining part would be higher capacity and we are relying on a high utilization ratio over 90% in order to reach 19 ore, so we need a combination of the cost reductions but also stable and high level of availability.

Markus Friberg - *Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU*

Good. We have a couple of more questions, so I will go on.

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Yes. Go ahead. Absolutely.

Markus Friberg - *Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU*

Another one from Michael Charlton, Banco Santander.

Michael Charlton - *Banco Santander Madrid - Analyst*

What discount rate is being used for the German nuclear liabilities?

Anna Borg - *Vattenfall AB - CFO*

I have to come back on that number specifically.

Markus Friberg - *Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU*

Yes. Okay. And then a question from Tanja Markloff, Commerzbank in Frankfurt.



Tanja Markloff - Commerzbank - Analyst

Good morning. Could you please comment on the power price development in the Nordic region versus German prices during the last weeks as we have seen the Nordic price discount increasing substantially even for power futures [CAL 19] and [CAL 20]? Would you expect the price discount to diminish, and to what extent longer term in light of the expansion of cross-border network capacities?

Magnus Hall - Vattenfall AB - CEO

First of all, we don't give any forecasts on pricing. But in general, you can say that the current situation is because we have a lot of excess hydro, water in the Swedish system which is snow, actually as snow. So, we have a pressure on prices downwards because of that.

And the tendency is generally that you look at future prices as you look at today's situation, because, of course, nobody knows the hydrologic situation in two years' time. So, it's more a psychological situation that you now also see the development in the forefront, I would say. But apart from that, I don't think I can offer any really good sort of explanations.

Anna Borg - Vattenfall AB - CFO

Can I come back on the discount rate?

Karin Lepasoon - Vattenfall AB - SVP, Group Communications

Sure.

Anna Borg - Vattenfall AB - CFO

For the nuclear provisions in Germany, we have used the discount rate 1.25% and an inflation rate of 1.5%.

Karin Lepasoon - Vattenfall AB - SVP, Group Communications

Thanks for that clarification, Anna. I think we have a question on the telephone now. Let's take that one.

Operator

The first question from the phone comes from Charlotte Peat from Schroders. Please go ahead.

Charlotte Peat - Schroders - Analyst

Hi. Good morning. I just wanted to ask a question on the 6 gigawatts of wind projects that you talked about. I'm just wondering kind of if any of those are close to final investment decision and I guess looking at 700 megawatts, how far away the investment in the 6 gigawatts is.

Magnus Hall - Vattenfall AB - CEO

That last part of the question got lost on me. But if you look to the first part, we can say that if any one of those are close to investment, yes, I mean, we have a running schedule for the pipeline being more and more ripe, so they come closer and closer to the decision point. So, of course, over time, you will see those materializing into decisions.



There's no, I mean, it's a long term pipeline up to 2025, so you will see things that are earlier are, of course, closer to development. But you should also know that we have already taken or have in the pipeline quite a big chunk of offshore wind, specifically in Denmark that we are currently -- we haven't taken all the final decisions for those, but they are established auctioned pipeline items that will be materialized. So, I think it's difficult to give a fact. You will see that and it will come up more decisions.

That last question of yours, I would like to have repeated again, please.

Charlotte Peat - *Schroders - Analyst*

No. No. I think you've answered my question. I was just wondering if you've made final investment decision on any of that 6 gigawatts, but clearly the answer is no.

Magnus Hall - *Vattenfall AB - CEO*

No. As a matter of principle, we would communicate anything that we have taken in terms of firm decisions. But it's also like just as an explanation that if we win like an auction in Denmark which we have won where we know the price, we know, then we are working and finalizing the project. But we have still not taken a final decision but I could say that those will materialize even though there are no final decisions taken because they are there for very much specified. So, there is also a gray zone in there, to be honest.

Karin Lepasoon - *Vattenfall AB - SVP, Group Communications*

Thank you. I don't think we have any further questions on the telephone. How about on the web, Markus?

Markus Friberg - *Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU*

Yes. A couple of more questions. One from Bloomberg, Jesper Stårn.

Jesper Stårn - *Bloomberg - Analyst*

Do you have any outlook for dividends in the coming years?

Magnus Hall - *Vattenfall AB - CEO*

I can -- perhaps Anna can comment on that as well, I mean, now the board has taken a position that we take a cautious view on increasing, on starting to pay a dividend. We think we show a positive result, we still have a high investment level ahead of us, and we are also not fulfilling totally all the economical KPIs.

So, over time, yes, we would like to come to the position where we pay dividends according to what the owner is asking, and their view is that 55% of the profit after tax should be a baseline for what they see. So, I don't know, it's difficult to give a timing, but we are starting on that way forward.

Anna Borg - *Vattenfall AB - CFO*

Maybe to add that we now we have a heavy investment year. We had a heavy investment year last year, this year and also next year, so we know that our FFO over adjusted net debt for 2018 will most likely be lower than it was for 2017. But then we see a picking up pace again after that.

So, again, a dividend according to normal policy takes place if we cross the hurdle rate of 22%. Before that, anything would have to be discretionary.

Markus Friberg - Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU

Yes. Nils Lannefors, GE.

Nils Lannefors - GE - Analyst

Wonders if we can comment on the U.K. expansion for the heat market.

Magnus Hall - Vattenfall AB - CEO

Not particularly, I mean, what we see in U.K. in general is that they are going to have to turn their energy system around which also means for heat. Vattenfall is one of the biggest heat operators and district heating operators in Europe. We are also supplying what we call decentral systems, which means that we are also for big housing complexes which are not there where you build district heating, you can also find other solutions. So, we have lots of different possibilities, and we would see a slow start in the U.K. most probably, but we think there are opportunities.

Markus Friberg - Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU

Yes. And then Andrew Moulder again from CreditSights.

Andrew Moulder - CreditSights - Analyst

What is your view on hybrid tenders given the revised S&P criteria?

Anna Borg - Vattenfall AB - CFO

Well, for the moment, we don't see any need to go out and seek financing. If and when we do, hybrids could be one option, but for the moment we're not looking at that.

Karin Lepasoon - Vattenfall AB - SVP, Group Communications

No further questions I take it, Markus?

Markus Friberg - Vattenfall AB - Director of Media Relations and Editorial Nordic, Corporate and EU

No.

Karin Lepasoon - Vattenfall AB - SVP, Group Communications

No. And nothing on the telephone. And nothing here in Solna. Before we close, I just want to say that we had a short disconnect on the telephone conference during the presentation. But, of course, the webcast is available on our website afterwards, so that you can all have a look at the full presentation on the web and also, of course, we have our Investor Relations team and our Media Relations team available for you at any point in time.

With that, we end this presentation of Vattenfall's Year-End Results 2017. Thank you very much for your attention.



Magnus Hall - *Vattenfall AB - CEO*

Thank you.

Anna Borg - *Vattenfall AB - CFO*

Thank you.

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