

**Honoured owner representatives, ladies and gentlemen,**

We are constantly reminded that we live in an interconnected world. The recent events in Japan represent a tragedy of epic proportions. The dreadful consequences that the earthquakes, tsunami and subsequent nuclear accident have had on the Japanese people have also impacted the price of oil and other fossil fuels. The price of electricity has thereby been driven up, affecting our entire economy.

It is still too early to say anything about the accident's long-term consequences for the future of nuclear power. But I can say that the German government ordered the closure of 7 older reactors, commissioned prior to 1980, as a response to the events in Japan, and introduced a moratorium on extending operating licences for a number of German reactors, including Vattenfall's. Clearly, this will have consequences for the energy supply in Germany – one effect will be the increased use of fossil fuels, which will result in higher prices on the market and higher levels of carbon dioxide emissions.

This is a very real illustration of the complexity of the energy supply and the importance of ensuring long-term energy security with a stable energy mix, which is also consistent with expectations for improved sustainability and continued competitiveness.

Shortly after I stepped in as CEO last year, Vattenfall's owner gave the company new articles of association: Vattenfall "is to generate a market rate of return by [...] operating a commercial energy business that enables the company to be among the leaders in developing environmentally sustainable energy production." The new assignment also clarifies – as I mentioned at the last shareholders' meeting – that Vattenfall is a Swedish company operating on a European market.

My first task as CEO was to review Vattenfall's strategy for adapting to this new assignment. Last September we presented a new strategic direction which, in brief, entails:

- 1) Greater focus on profitability and value creation
- 2) Focus on three core markets: Sweden, Germany and the Netherlands
- 3) Continued focus on our three main products: electricity, heat and gas
- 4) Reduced CO<sub>2</sub> exposure

The first point – focusing on profitability and value creation – consists of three principal parts: efficiency measures, investments and organisational change.

- First of all, we have launched an efficiency improvement programme that will reduce our annual costs by 6 billion kronor by the close of 2013 at the latest
- Second, our investment programme has been reduced by 18 per cent to 165 billion kronor for the 2011-2015 period. This warrants a short digression:

Although our investment programme is being reduced in overall terms, the proportion of investments in carbon-free power and heat production will rise by 20 per cent. Under the previous plan, we planned to invest 100 billion kronor in fossil-based production. Under the new plan, we have reduced our fossil investments by 36 billion kronor – a change that will become increasingly evident over the investment period through 2015, when a full 70 per cent of investments in power and heat production will go towards carbon-free alternatives.

- The third part of our efforts to increase profitability and create value was our introduction of a new business-led organisational structure from 1 January 2011

The second point in our new strategic direction – focus on our three core markets: Sweden, Germany and the Netherlands – stems from the fact that these three markets account for 85-90 per cent of the group's cash flow. We also consider Great Britain to be an important growth market for offshore wind power.

The third point – focusing on electricity, natural gas and heating – means that Vattenfall will continue to be active in all parts of the value chain.

Reduced CO<sub>2</sub> exposure is the fourth point in our strategic direction, and is a result of the fact that Vattenfall's CO<sub>2</sub> emissions are too high. In total, we will reduce our annual emissions from 90 million tonnes in 2010 to 65 million tonnes in 2020. We will achieve this by increasing the co-combustion of biomass in coal-fired plants, by replacing unprofitable plants and through divestments.

The gist of the new strategic direction is that, with a stronger balance sheet, we will also be able to make the investments that are needed to place Vattenfall at the forefront of environmentally sustainable energy production.

Today a large amount of fossil fuel is used in our total electricity production which reflects our position as a European player. And in Europe we have to use both gas and coal to produce energy. We are working strategically to reduce CO<sub>2</sub> emissions, but it takes time. I have mentioned the steps we are taking to achieve this but there is no "quick fix". It is our responsibility to protect the value of the company and a "quick fix" would in my opinion be irresponsible. Everything must be planned and implemented – in a step by step approach. Therefore we have a long term goal for 2020 – to reduce emissions to 65 million tonnes.

We also took several explicit steps in 2010 towards a more sustainable energy system. We established our position as one of the world's leading companies in offshore wind power, we initiated a major biomass programme, we are working with ABB on Gotland to create Sweden's first "smart grid", we joined forces with Volvo Cars to launch a new electric car, and we started a research project along with A-House and Volvo Cars which we call "One Tonne Life". One Tonne Life is a successful, small-scale demonstration of how we can adapt our technological systems to people's everyday lives, where an average family tries to live on one tonne of carbon dioxide per person – as opposed to seven tonnes, which is currently the average annual Swedish and global emission level per person. Please feel free to drop by and visit this family in Hässelby!

Electricity prices continued to rise in Sweden during 2010, while our nuclear power plants failed to deliver as they should. Due to idle reactors, a great deal of criticism was levelled at Vattenfall this past winter. The extensive modernisation programme we introduced could, in hindsight, have been planned better. But thanks to these billion kronor investments in operational security, our plants will have greater availability in the future. I can state, for instance, that we had nearly 100 per cent availability during the first three months of 2011.

Allow me to briefly comment on the compensation issues that have caused a great deal of discussion during the past few weeks.

The high severance packages in Germany that drew notice were the consequence of old agreements that were negotiated several years ago, before the existence of our owner's guidelines for compensation for senior executives. We implement these guidelines as it is possible to do so, which means that agreements of this nature are no longer made. I'm not going to defend the old agreements, and I can assure you that they do not reflect Vattenfall's corporate culture.

We are in the process of reviewing all agreements with the 300 or so senior managers at Vattenfall, to ensure that these agreements fall within the framework of the government's guidelines. According to the guidelines, compensation shall be "reasonable, characterised by moderation, well-balanced, and promote good ethics and corporate culture." This project has the highest priority in the coming months. My goal for us is to be a competitive company but not the market leader when it comes to remuneration.

Vattenfall's 2010 operating profit rose 6.9 per cent to 29.9 billion kronor – up from 27.9 billion kronor in 2009. Net profit fell 2.0 per cent to 13.2 billion kronor, down from 13.4 billion kronor in 2009. Net sales increased 4 per cent to 213.6 billion kronor, up from 205.4 billion kronor in 2009. This means that, in terms of sales, Vattenfall ranks among the largest Swedish companies, somewhere between the largest company in terms of sales – AB Volvo, with 2010 net sales of nearly 265 billion kronor – and Ericsson, with net sales last year of over 203 billion kronor.

The Board and the CEO have proposed a distribution of 6.5 billion kronor to the shareholders. Since 2000, a total of over 50 billion kronor has been distributed to our owners, the Swedish people.

Changes relative to previous years are not strictly comparable, since sales and profit conditions have changed since 2009. For the first time, the total sales figure includes full-year sales for Nuon Energy, part of the group since 1 July 2009, which totalled 45 billion kronor last year. The sale of the German transmission company, 50Hertz Transmission, entailed a 17.9 billion kronor reduction in net sales, and the strengthening of the Swedish krona had a negative impact on sales of 16.9 billion kronor.

Profits for 2010 were negatively impacted by non-recurring costs. The sale of 50Hertz Transmission involved an impairment of 5.1 billion kronor. Vattenfall

also made a 4.3 billion kronor impairment of goodwill regarding the Business Group Benelux operations. The impairment was caused by margins that were lower than expected due to deteriorating market conditions following the global economic crisis.

In total, items affecting comparability had a negative impact of over 10 billion kronor on Vattenfall's operating profit. Excluding items affecting comparability, operating profit rose 27.7 per cent to nearly 40 billion kronor. I am pleased to say that the increase in profit is based on increased production within all types of energy and on lower costs for operation and maintenance, administration and sales.

This demonstrates once again the strength of having a portfolio that is diversified among a variety of types of energy, while operations are simultaneously conducted on several regional markets. I believe that Vattenfall should continue to invest in this breadth while continuing to hone our operations. Each part of the business must be capable of standing alone, and must be evaluated on its own merits. We consolidated the company during 2010, and initiated a divestment process which will continue through 2011. This has begun to bear fruit, but we are only at the beginning of a multi-year project.

Because it's true that continued weak demand for electricity, combined with a continued high rate of production capacity expansion in Europe, puts pressure on the margins. And this, combined with increased costs for fossil-based energy production, will negatively impact profitability. Particularly when Phase 3 of the EU's emissions trading system is implemented in 2013.

Due to the breadth of our portfolio, however, we are improving our ability to meet these challenges.

**Biomass** represents 1 per cent of Vattenfall's electricity production, compared to 3 per cent of the EU's. Biomass will be a key element in our programme to reduce

carbon dioxide emissions. This past year, for example, we invested in a biomass company to ensure biomass supply.

**Coal power** constitutes 44 per cent of Vattenfall's electricity production, compared to 28 per cent of the EU's. Coal continues to be a corner-stone of the European energy supply. Vattenfall is investing to improve efficiency, but will not build any new coal power plants without access to commercially proven CCS technology.

**Nuclear power** is a large-scale production source with low levels of CO<sub>2</sub> emission. Nuclear constitutes 25 per cent of our electricity production, compared with 28 per cent of the EU's. Our goal is to maintain our current plants and to continue to invest in security and modernisation. We do not rule out future growth, but we currently have no concrete plans in that regard.

**Natural gas** is a new element in Vattenfall's energy mix and accounts for 8 per cent of our electricity production, compared to 23 per cent of the EU's. We view natural gas as a bridge to a sustainable energy system. It does give rise to CO<sub>2</sub> emissions, but to a lesser extent than other fossil energy sources. It also provides a stable energy supply at reasonable prices.

**Hydropower** constitutes 21 per cent of Vattenfall's production portfolio, compared to 11 per cent of the EU's. Hydropower is reliable and stable, and emits almost no CO<sub>2</sub>. But it does have a significant impact on the surrounding environment, and expansion opportunities are therefore limited. Our goal to acquire hydropower plants in France remains in place. We are also continuing to invest in existing hydro plants.

**Wind power** accounts for 4 per cent of the EU's electricity production, and 1 per cent of our electricity production. Wind power is an important growth area for Vattenfall. In 2010, for instance, we opened the world's largest offshore wind farm – Thanet in Great Britain, which produces 300 MW. We also commissioned

our first land-based wind farm in Great Britain (Edinbane, 41 MW) as well as a land-based wind farm in Sweden (Stor-Rotliden, 78 MW). All in all, our installed capacity rose by over 45 per cent in 2010. Wind power has low operating costs, though it remains dependent on support schemes due to high initial investment costs.

All types of energy have advantages and disadvantages, and a secure, competitive and climate efficient energy supply depends on a mix of energy sources. Exactly what this mix will look like is ultimately a social and political issue.

Something I remained concerned about is the legitimacy of the electricity market and its trustworthiness in the Nordic region. Electricity market operators must take bold initiatives to improve knowledge transfer, transparency and dialogue with other operators and stakeholders in order to improve the status quo. This is an industry problem – but without the trust of the outside world, Vattenfall may also find it difficult to fulfil its owner's expectations. A faintly paradoxical situation has arisen, where the Nordic region is viewed from the outside as a textbook example of a healthy market – while the polar opposite applies at home.

Vattenfall will continue to focus on its core markets and core businesses, on value creation and conversion in a sustainable direction.

Vattenfall continues to be an important company. We will participate in the public debate whenever we can contribute. We will be a company that our owners – the Swedish people – can be proud of.

Thank you very much.