

Annual General Meeting Vattenfall AB 2012

2012-04-25

Meeting speech by Chairman of the Board Lars G Nordström

Thank you for the opportunity to speak, Mr. Chairman.

Allow me to start with a description of the Board's work during 2011.

The Board's duties largely comply with the Swedish Companies Act and the Board's Rules of Procedure. The Board's primary tasks, apart from appointing a President, Vice President and signatories, are to:

- Determine Vattenfall's strategy
- Ensure that the company has effective management as well as monitor and review the company management's organisation and administration
- Ensure that the company has good internal controls and keeps itself informed about the internal control systems and how they work
- Review the company's financial situation on an ongoing basis
- Ensure that the company's organisation, regards accounting and asset management, includes sufficient internal controls
- Continuously review how the President is fulfilling his responsibilities for ongoing management

In addition, the Board must also approve major investments, acquisitions and divestments, as well as establish central policies and instructions. The Board also makes decisions regarding agreements with the President, Vice President and other senior executives in the company.

According to the board's formal Rules of Procedure, eight to twelve regular board meetings are to be held each year. In addition to the regular meetings, the Board can be convened as needed. The Board met a total of 19 times in 2011.

In order to perform their duties efficiently, the Board has established an Auditing Committee from among its members, a Remuneration Committee and, new this year, a Security and Risk Committee, which was formed at the constitutional board meeting on 27 April 2011. The committees are responsible for preparing board resolutions within their respective fields. During 2011, the Remuneration Committee held 14 meetings, the Auditing Committee held 8 meetings and the new Security and Risk Committee held 3 meetings.

In addition to the issues in the Board's regular Rules of Procedure, the Board also handled and resolved the following issues in 2011:

- Divestment of operations outside of the major markets
- The consequences of the political decision to shutdown nuclear power operations in Germany
- Issues in connection with implementing a new strategic direction, organisation and business direction for the entire Group and updating the Group's management system
- The decision-making process and the preparation of board items

- Proposing, implementing and following-up on the guidelines for compensation and terms regarding senior executives

I would like to end this review of the Board's work by saying a few words about these last few points: Vattenfall must follow the government's guidelines and have a healthy compensation culture. However, as a new chairman, I can confirm that there have been deviations. In order to ensure that the guidelines are followed, Vattenfall has taken a number of measures to correct these deviations within the framework of current legislation and collective agreements.

This has been done in order to ensure that the government's guidelines are being followed:

- Compensation and employment terms that are in violation of the guidelines have been renegotiated to the extent current legislation and collective agreements allow
- Processes for compensation and employment terms have been centralised
- Common policies for wage-setting procedures have been developed
- Common policies for benefits have been created
- The decision-making process for employment terms and compensation for senior executives and upper management has been strengthened
- The roles and responsibilities of the Board, the Remuneration Committee and the company management have been clarified

Individual renegotiations for pensions and termination clauses as well as severance pay for upper management in Germany are still to be completed. These changes shall be made within the framework of current legislation and collective agreements.

The deviations in question are due to either older agreements that were reached prior to 2009, modifications to work duties, or compensation packages that were customised to the conditions and legislation in other countries.

Based on the decision by the Board, with the help of external partners, a survey was conducted regarding compensation and employment terms for 16 senior executives and 228 upper level managers at Vattenfall. No deviations were noted in terms of the 16 senior executives. None of them have variable compensation. 14 of them are within the scope of what is considered a normal, market wage. One of them is somewhat over. One of them is somewhat under. Variable compensation occurs in other areas, for example in the trading operations. There, they follow market practice, and compensation levels in that industry are not a wage benchmark for other sectors.

The results of the survey were published in a press release and at a press conference on 23 September 2011.

The government's guidelines that compensation must not become a standard wage benchmark for other sectors, but be characterised rather by moderation, shall apply to the entire organisation.

Now that I have reported on the Board's work during the fiscal year, I would like to provide some personal reflection in terms of the company's significance, its growth and its relation with the world at large.

Vattenfall is one of Sweden's most important companies. If you read the international business magazine Fortune, you will find only three Swedish companies on their list of the world's 500 largest companies: Volvo at number 237, Vattenfall at number 322 and Ericsson at number 339.

Regardless of how Fortune magazine has calculated these standings, I think that it is entirely appropriate that Vattenfall is compared with the other two companies in key respects - both by outside parties and by those of us who work in the company.

The demands by all of Vattenfall's stakeholders shall be met in the same way as these other companies meet the demands of their stakeholders.

And we shall apply equally high ambitions in all aspects of our business. For example:

- Public Confidence
- Efficiency
- Customer satisfaction
- Results
- Strategy and
- Belief in the future

Allow me to expand on the concept of efficiency:

All successful companies - regardless of which industry - are characterised by high levels of efficiency in terms of daily production. Accuracy, orderliness and keeping track of the details. A satisfaction that things are working well. What is called "operational excellence" in the corporate world. It involves measuring and evaluating. It involves creating a culture that strives for constant improvement.

This is the philosophy that should characterise Vattenfall. The organisation must be permeated by the desire for constant improvement. The fact that the management has used their strength to build a new organisation that will follow this work model is a positive sign. It is also a positive sign that the new organisation has also created a strong cost control system and has delivered savings in line with, or even faster than, the plan that the Board adopted.

For many years, Vattenfall has generated a significant surplus for its owners, the Swedish state. It is a significant contributor towards everything that is financed jointly by the state treasury. It is important to remember this. But the state also receives monies from Vattenfall in many other ways. In addition to dividends, we also pay energy taxes. We pay corporate taxes. We create thousands of jobs, thousands of taxpayers, very often in sparsely populated areas.

Maintaining high profitability is very important. It is needed to allow us to continue contributing to our owner's finances. But it is also important to allow use to finance our extensive investments. Our efforts to fulfil our mission to become a company that is leading the way in developing environmentally sustainable energy production require investment. We can only achieve this if we can maintain our profitability.

Our corporate directives emphasise our mission to provide a level of profitability so that we can become a leading company in the transition toward renewable energy. So that we can achieve this. I will come back to this.

Allow me to expand on the issue of customer satisfaction, which is also supposed to be at the same level as other Fortune 500 companies:

Satisfied customers are, or should be, especially important for all companies. Vattenfall has seen an upward trend in terms of customer satisfaction in Sweden since 1989 according to measurements by the Swedish Quality Index, as is the case in our entire industry. Yet, we must admit that our industry is at a somewhat lower level than other industries.

There are many Vattenfall customers, like most electricity customers in Sweden, who are upset with the price of electricity. This is a reasonable position - all customers would like lower prices on the goods/services they buy. The opinion that electricity prices are too high is also reinforced by certain politicians, and with the media gladly concurring.

Let me just say that in Sweden taxes and fees are levied on both the production of electricity and the consumption of electricity. A large part of a customer's electricity bill therefore consists of taxes and fees decided on by the Swedish parliament. Ever since the electricity market was deregulated in 1996, the level of taxation has almost tripled and the state rakes in approximately SEK 40 billion annually from the electricity sector. Together with the cost of trading emission rights, almost half of a customer's electricity costs are the result of political decisions.

Politicians have used taxes to reduce energy consumption and to contribute to the state's finances. Now, politicians naturally have the full right to do this - but when many of them simultaneously proclaim that they are worried about the high price of electricity, a gentle reminder may be in order: since the electricity market was deregulated in 1996, the level of taxes has almost tripled.

Political decision-making is very important for the energy sector, not just in terms of taxes. It also involves the political policies regarding energy. It is often said that companies want clear-cut game rules for their business over the long term. This is a good thing, of course. However, the reality is different. This is what we have to adjust to.

I am of the opinion that if companies are to be successful - regardless of the industry - they must be able to handle change quickly and with flexibility. This is not so easy because we must match political decisions with investment decisions that run over several decades.

One single political decision can upset the calculations for an investment. Or simply cancel the permits that are required to operate the business.

A clear example is Germany's energy policy in the past year. Germany made the decision to close their oldest nuclear power plants and work toward full decommissioning of the German nuclear power industry by 2022. A complete 180 reversal. Barely one year earlier, in autumn 2010, the same Bundestag decided to extend the life of the country's nuclear power plants by 8 and 14 years respectively.

In conjunction with this decision, German nuclear power operators lost a large part of their assets. Vattenfall had to discontinue its operations in the Krümmel and Brunsbüttel plants. A loss for which we are expecting compensation.

Another example is the electricity market reforms in Great Britain. Vattenfall's presence in the UK largely depends on how British politicians decide to formulate their Electricity Market reform. Vattenfall is currently a relatively small electricity producer in the UK, but we have plans to build offshore wind power facilities in the English Channel. Whether it can become a firm business plan, which can result in an investment decision, is entirely dependent on the structure of the future electricity market and the support system that is connected to it.

A third example involves the potential for capturing and storing carbon dioxide, CCS. In the countries where we looked for opportunities, primarily Germany and Denmark, there is little political will to find suitable locations and approve the permits for storing carbon dioxide. The future of CCS technology does not just depend on the price of fossil-based carbon dioxide emissions increasing: it also depends on politicians changing position on the issue of permits.

The world at large is uncertain. But we see a future with electricity and heat production with low emissions. For our part, it involves wind power, bio power, hydro power, wave power, gas power, coal power with CCS and nuclear power. We are preparing for the future by gradually transitioning our investment portfolio from production involving fossil CO₂ emissions to production with a low level of carbon dioxide emissions. In terms of our 2012 investments, 33 percent of the investments are in combined electricity and heat production technology with low CO₂ emissions. This is due to a large degree from old investment decisions and the need to reinvest in existing facilities. In 2016, the same figure will be 66 percent. Within the next 5-year period, Vattenfall is planning to invest SEK 38 billion in wind power.

The door to nuclear power is now closed in Germany. But in Sweden, lawmakers have decided that existing reactors will be replaced with new ones. In light of this, Vattenfall is expanding its work in terms of preparing the conditions for replacing existing nuclear power reactors.

What we now know about the legal conditions for replacing a nuclear power plant means that in a scenario where there are no disrupting complications, it can take at least 10 years from beginning the process until a finished reactor can replace the existing one. For Vattenfall, who is the principle owner of the Swedish reactors, decision-making can be summarised as follows: more analysis is needed to generate better information for making decisions, but this may be delayed until such decision information is actually available.

Sweden may need an option for replacing existing nuclear power plants: Between 2025 and 2035, we estimate that roughly 20 TWh of nuclear power generation from the older reactors will be phased out. This is a significant portion of the electricity generation that is independent of weather and wind, and without replacement power or long-term planning, the phase-out may cause price turbulence and unrest on the electricity market.

Regardless of these circumstances, as a company we must maintain our flexibility. Therefore, we must investigate this possibility so that we have data available in order to make a decision.

A precondition for running nuclear operations, regardless of whether they are existing or any new reactors, is that we must earn trust in terms of how the business is run and we must fulfil all strict environmental and safety requirements.

As you are familiar with, Vattenfall's nuclear power generation suffered a setback last summer. On 11 May 2011, there was a limited fire in the reactor containment in Ringhals 2. The fire had no effect on reactor safety but it spread soot. The clean-up work has taken longer than estimated, and it was not until recently that we were able to put Ringhals 2 back in operation. What happened at Ringhals 2 is unacceptable. Vattenfall has learned lessons from this. Ringhals has learned lessons from this. There has been a new management team on site at Ringhals since last autumn, and we are confident that they will ensure that they will improve the reliability of the reactors at Ringhals. The fire at Ringhals 2 has cost Vattenfall much, both in terms of money and trust.

Ringhals 2 is an example of how our own activity, or inactivity, affected the results by which we will be judged. But as I indicated earlier, it is often events in the world around us that determine the conditions for running our business and the results we deliver.

Vattenfall's task is to navigate among these conditions in the way instructed by our owners. We are guided by our corporate directives: it is part of the owner's prerogative. The company's task is to follow these directives, and possibly even provide a description of their consequences, but not to question them. If this has been the case, it is unacceptable. Naturally, the company will operate based on the conditions that are provided - and will be evaluated based on them. It is not acceptable that the company is judged based on conditions that have not been provided - or worse, based on conditions that one wishes could have been provided - something that I sometimes seem to notice in the debate about our industry and about Vattenfall.

But it is also natural that Vattenfall is a company that many people have an opinion on. That is because Vattenfall is a large and important Swedish company. Let's not forget that a significant portion of our business is based on Swedish industrial development and Swedish engineering expertise. We are owned by the state and we should be proud of what the company has achieved over time: Vattenfall electrified Sweden by building hydroelectric stations and the electrical grid in Sweden. Vattenfall has been a leader in the expansion of nuclear power and wind power in Sweden. And in the past 15 years, Vattenfall has doubled both sales and profits many times over and has become one of Europe's leading energy companies.

But it won't stop there. We also have high hopes about what the company will achieve in the future: Vattenfall will be a part of the expansion of low-emission energy production in Sweden and Europe. Vattenfall will be at the fore when Europe's politicians decide to reduce fossil carbon dioxide emissions by adding biomass fuel to coal-fired plants and using CCS. And Vattenfall will be a part of developing and offering solutions for our customers, who are the foundation of our business.

I envision a future where Vattenfall will strengthen its base in Sweden and the Nordic region, maintain and expand key, important European positions - size is and will be significant - as we gradually modify our production profile over time, resulting in lower and lower carbon dioxide emissions.

Vattenfall is one of Sweden's most important companies - whether you measure by sales, profits or number of employees. Vattenfall operates in an industry where we have to meet the demands of our stakeholders in order to earn their trust. My vision is that the company is on the right track to earn increasing trust, and we will work hard to continue on that path.

Thank you for the opportunity to speak.