Annual General Meeting Vattenfall AB 2012
2012-04-25

Meeting speech by CEO Øystein Løseth

Thank you for the opportunity to say a few words, Mr Chairman.

Shareholders, Members of Parliament, Ladies and Gentlemen,

As CEO and Group Manager, I am extremely proud to lead Vattenfall – a company which has significant presence both in Sweden and in the European energy sector.
I would like to start my speech with an overview of the Vattenfall world.

In Vattenfall's core European market, the past year has been characterised by the financial crisis. For the moment, the most acute phase has passed, even if countries such as Greece, Italy and Spain are still facing considerable challenges.

The reduced level of activity in the global economy has also slowed the pace in export-orientated economies such as Sweden and Germany. In Sweden, the government is estimating growth of only 0.4% this year.

In the short-term, it looks like we will have good capacity for electricity production in relation to usage. The recovery following the 2008 financial crisis is taking a long time. The forecast for the coming years suggests that the production capacity in our key markets will increase faster than the demand for electricity, particularly in Scandinavia.

During 2011, the development of the energy markets was affected by the German decision to phase out nuclear power, the general uncertainty in the global economy and an increase in the production of renewable energy. In Germany, the phasing out of nuclear power will be compensated for with imports from neighbouring countries. The average temperatures, good winds, high production of solar power and high availability in the French nuclear power plants have all managed to hold back the spot price development in Europe. The electricity spot price on Epex, the spot market which includes Germany and France, was EUR 51.1/MWh on average in 2011. This represents an increase of 14.8% compared with the level in 2010, when the spot price was EUR 44.5/MWh on average.

In Scandinavia, 2011 began with low levels in the reservoirs and cold, dry weather. Subsequent warm and rainy weather helped to raise the reservoir levels and the spot prices began to sink. The electricity spot price on the Scandinavian market Nord Pool was an average of EUR 47.2/MWh in 2011. This represents a reduction of 11.1% compared with the level in 2010, when the spot price was EUR 53.1/MWh on average.

The forward prices for the Scandinavian, German and Dutch markets for the rest of 2012 and 2013 indicate electricity prices at the same level as the current spot price.

Europe's financial crisis has been a gradual development, but another of 2011's most important external factors was very sudden.

On 11 March, there was a severe earthquake off the east coast of Japan resulting in a tsunami that engulfed Japan's south-east coast. All six reactors at the Fukushima nuclear power plant stopped. The earthquake and tsunami disaster caused damage on a scale that is difficult to fully comprehend. As well as causing enormous suffering for the Japanese population, the incident sent shockwaves around the world's commodity markets and reignited the discussion on the safety of nuclear power.

The EU responded immediately with a requirement for stress tests to be carried out at all of Europe's 143 reactors. These tests have been introduced to evaluate how the plants cope in the event of extreme natural disasters and how appropriate the breakdown plans in place are. These tests have also affected Vattenfall. We have had good reason to closely follow, and learn lessons from, the analyses of the events at Fukushima.

Germany's response was to immediately close its oldest nuclear power plants and order the complete decommissioning of German nuclear power by 2022. Other countries, such as France and Finland, have not changed their plans. The United Kingdom is planning a comprehensive extension of its nuclear power capability to replace old and carbon dioxide-intensive energy production facilities. In Sweden, the Parliament's decision, allowing older reactors to be replaced with new ones, remains in place.

Another external factor that I'd like to bring to your attention is Europe's increasingly old energy production facilities.

If we look beyond the high capacity for energy production in recent years in relation to demand, we can see that many power plants will in the future be phased out. By 2030, more than half of the production facilities will be in the retirement range. Almost 80% of all nuclear power plants and two thirds of coal-powered plants are expected to be phased out during this relatively short period.

There is great need for investment in new production facilities with low carbon dioxide emissions. The price for emissions in the EU Emissions Trading System is under EUR 10 per tonne. At such levels, there is very little incentive to seriously reduce our dependence on fossil fuels and move over to renewables. There is also no powerful driving force behind any change in Europe's energy system.

Against this backdrop, many European political leaders are wondering how to stimulate investments in new energy production. The outcome of these political considerations will be of significance for Vattenfall and for all other large energy companies in Europe.

Against the backdrop of these external factors, let me now move on to talking about Vattenfall's strategy.

At the shareholder's meeting a year ago, I introduced the strategy that we have specifically devised to deal with complex external factors. The starting point is that we must be capable of meeting both short-term and long-term challenges.

The aim is for Vattenfall to be one of the companies that is leading the way in terms of environmentally sustainable energy production.

The strategy which I and my colleagues have worked on over the past year can be summarised in five points:

- Greater focus on profitability and added value
- Focus on the core markets – Sweden, Germany and the Netherlands
- Focus on the three main products – electricity, heat and gas
- Reduced carbon dioxide exposure
- Growth within low CO2-emitting energy production and gas

We have four concrete objectives for the period 2010 to 2013:

- By the end of 2013, we want to have reduced our costs by SEK 6 billion per year.
- We want to have disposed of business operations outside of the key markets.
- We want to have successfully implemented a new, business-orientated organisational structure.
- We want to have revised the investment plans.

Almost seven quarters after the board established the company's strategy, I can confirm that we have come a long way in achieving our goals.

We have reduced costs: We have succeeded in streamlining our operations quicker than planned; at the end of 2011 our savings were up to 4 million per year. This is the result of hard work, primarily in the standardisation and better coordination of our procurement among other measures. In order to achieve our goal of 6 billion per year by 2013, we envisage continued efforts to coordinate our procurement, process development and international system solutions, and an increased focus on staffing costs.

We have disposed of operations: Vattenfall has disposed of operations to the value of SEK 37 billion, of which 16 billion was received in 2011, with the remaining amount received in January this year.

The selling off of business operations outside of the key markets is an important part of the strategy. The work has been successful and we have sold off larger-scale operations over the course of the year under satisfactory terms:

- Vattenfall's operations in Poland where we sold off electricity and heat production, plus distribution and sales.
- Electricity distribution and district heating operations in Finland
- Gas extraction in the Netherlands
- All operations in Belgium

Vattenfall has however decided to retain its CHP operations in Denmark. Instead of selling these plants, Vattenfall is now hastening its work to investigate the opportunities of including more biomass in the fuel mixture at the Danish plants in order to reduce the CO2 emissions.

We have introduced a new organisational structure: At the last meeting, I was able to confirm that we had introduced a new business-orientated organisational structure. However it is only this year that we can speak about the advantages that we can achieve in practice through this new structure.

Many of the cost savings that we expect, both from planned measures and those already carried out, would not have been possible if we had not left the previous organisational

model – that was divided according to international borders – behind and changed to the new model, which is organised according to function. Instead of Sweden, Germany and the Netherlands, we are now talking about Generation, Distribution and Sales & Renewables. The three sales organisations have become one and we have been able to streamline communication and marketing.

We have revised the investment plan: The investment plan for 2012-2016 amounts to SEK 147 billion – a reduction of SEK 18 billion compared with the previous five year period. Vattenfall has now decided that a long-term sustainable rate of investment is around SEK 30 billion per year. This is a reduction from the current and previous levels of around SEK 40 billion per year, but nevertheless a very ambitious investment objective.

In conjunction with this review of how we fulfil Vattenfall's strategy, I would also like to mention the importance of strengthening our financial position.

Our objective is to maintain a rating in the "Single A" category and we have succeeded in doing this. One of our strengths is that our business operations are conducted in economically and politically stable countries.

My look back on 2011 would not be complete if I did not also mention the drop in production at Ringhals 2. Naturally, this has affected profits. The cleaning and renovation work following the fire in a vacuum cleaner when the reactor was non-operational took longer than expected. However, Ringhals 2 has now been back in operation producing electricity for some weeks. Just as Lars said earlier, what happened at Ringhals 2 is not acceptable.

We are working to put in place an action plan to rectify the procedures that obviously did not work. We have a new CEO for Ringhals on-site, who is now working on these issues together with the management staff.

Let me now move on to a brief description of the company's turnover and profits for 2011.

The net turnover and profits for 2011 are lower than 2010.

Overall, the net turnover reduced by 15.2 percent or around SEK 33 billion, of which around 20 billion is the result of the German transmission operations being sold in May 2010, around 6 billion is the result of the lower average electricity prices and around 8 billion is the result of the currency exchange rates, notably the stronger Swedish krona.

Operating profit fell by 22.3% or SEK 6.7 billion. This was primarily due to the unexpected German decision to decommission their nuclear power plants and immediately close a number of older plants, amongst them Vattenfall's nuclear plants at Brunsbüttel and Krümmel. Vattenfall was forced to write-down assets and increase provisions to a total of SEK 10.5 billion. This was partly compensated for by capital gains from the sale of assets outside of the key markets to a value of SEK 4.8 billion.

The underlying operating profit for 2011, i.e. the operating profit excluding items affecting comparability and unrealised changes in the market value of energy derivatives and inventories, reduced by 16.4% or 6 billion to just over SEK 30 billion; this was primarily as

a consequence of lower production volumes, lower average electricity prices and lower gas sales.

Lower costs had a positive effect on the underlying profit with a net result of 2.6 billion. Fluctuations in exchange rates to a value of SEK 1 billion also had a negative effect.

Profit (after tax) for the year fell by 21% to SEK 10.4 billion. Return on equity amounted to 8.6% compared with the long-term aim of 15%.

Reasonable profitability in the future is necessary for Vattenfall to be able to implement the extensive investments that have already begun. Allow me to say a few more words about Vattenfall's investment plans, specifically its efforts in renewable energy production. Vattenfall is planning significant investments in the production of renewable electricity and heat.

In line with our decision to adopt a new strategic focus, the plan has been divided into two phases: a consolidation phase (2011-2013) and a growth phase (2014 onwards). The consolidation phase focuses on managing the investments that have already been decided and keeping costs down.

In the first few years, a large proportion of the investment funds will go towards completing the construction of the coal power plant in Moorburg and the gas-fired power plant Magnum in the Netherlands. The share of production with low/high CO2 emissions in the production portfolio confirms this. Following last year's decision, in 2012 low CO2 emission technologies will make up 33 percent of investments in the generation of electricity and production of heat. Nonetheless the long-term coal power strategy remains: we will run the existing coal power stations as long as the consumers need the energy produced there and the plants are financially competitive. However, we will not extend the lifespan of existing facilities, or build new coal power plants, without the option of carbon capture and storage (CCS).

In the forthcoming growth phase, that is after 2013, Vattenfall will increase in its environmentally sustainable production and profitability.

The focus will then increasingly shift towards growth, namely growth in production with low carbon dioxide emissions. The nearer we get to 2016, the greater the share of renewables in our production investments. I want to repeat the figure that Lars G Nordström spoke about before: in the 2016 investment budget,66%_of the investments in the production of electricity and heat are investments in technology with low CO2 emissions. We are primarily intending to invest in wind power.

We recognise that in the long-term we will have to deal with the new challenges facing Europe's energy system.

Along with increased investment in wind power by ourselves and other operators, there is also an increased need for regular power, namely power in the European energy system that can quickly be produced when the wind doesn't blow or the sun doesn't shine. This is where power from natural gas and water power will play an important role in the next decade.

We already have comprehensive water power production in Scandinavia. Water power can be of great use to balance out the wind power production in continental Europe and also at the sea once the transmission connections are made. We are doing what we can to streamline production and to raise awareness of the requirements that force us to waste water that is so expensive, both for the energy system, for the climate and for Vattenfall as a company. I think it would be good to find an outlet for our lengthy experience of water power, including on new markets. The French government intends to auction concessions for water power in France and Vattenfall will be involved in the bidding process through a consortium with French companies.

Vattenfall is a company with a lengthy tradition of using biofuel for the production of electricity and heat, and in recent years has taken significant steps in developing solutions for replacing coal with biofuel in coal power stations. Replacing coal with biomass is one of the most cost-efficient ways – both in the short and medium term – to reduce emissions from fossil fuels. Once the European politicians are ready to change the controls and make it profitable to replace coal with biomass in larger plants, we will be ready with technical solutions at the plants, as well as with solutions to obtain the significant quantities of sustainably produced biomass that will be required.
To finish, I'd like to say a few words about the future. When I look to the future, I have reason to be optimistic. I believe that 2012 will be a great year.

In Diemen and Hemweg in the Netherlands, Vattenfall is building two highly-efficient gas-fired combined cycle power plants to be put into operation in 2012. The power from these will be needed to balance out the expansion of wind in Europe.

We are also renovating our water power plant at Akkats near Jokkmokk; the current production unit of 150 MW is being replaced with two smaller ones at 75 MW, each with greater efficiency. The first turbine will be put into operation in 2012, the second in 2015.

In 2012, together with Stadtwerke München, we will begin construction of the DanTysk wind farm in the North Sea. The facility will achieve an annual production of just over 1.3 TWh.

The lignite power plant in Boxburg, eastern Germany, will put a further reactor into operation at the end of the year It uses the latest technology and materials to specifically reduce the emission of carbon dioxide per kilowatt hour.

Forsmark has made it through the challenges in terms of increasing power. Last winter, Forsmark set its own production record. We hope to maintain a high nuclear power capacity for the remainder of 2012.

Out in the foyer, you will see an exhibit about our customer services. This is not temporary. We work on a daily basis to enhance our customer services and ensure that the customer obtains the offer that is needed to be able to streamline and optimise energy usage.

You will see several inaugurations of new production plants and several new products for the end customers in the next few years.

We will be able to satisfy society's and customer's requirements, and simultaneously succeed in planning our investments so that we can ensure safe and competitive supplies of electricity, gas and heating. Not just so that it covers today's needs, but also that it covers the needs for tomorrow's customers and society. I am very keen to continue the work with these important issues together with Vattenfall's owners, management, employees and customers.

Thank you.