

Speech by Board Chairman Lars G Nordström

Strategic direction since 2010

Thank you for giving me the floor, Mr. Chairman.

Vattenfall's assignment – according to its articles of association – 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.

In 2010 Vattenfall set out a new strategic direction in line with the assignment entrusted to the Company by its owner. The resulting strategy is based on the following points:

- To increase efficiency and reduce costs
- To strengthen our balance sheet by reducing debt
- To increase the availability of the energy we generate
- To reduce our CO₂ exposure to 65 million tonnes by 2020
- To focus on our core markets of Sweden, Germany and The Netherlands
- To introduce a business-led organisational structure

I can now confirm that the Company has delivered on these targets.

- Savings of SEK 6 billion will already be achieved by the end of 2012, which is ahead of schedule
- Our CO₂ exposure has been reduced
- Our balance sheet has been strengthened. Our gearing has been reduced by SEK 30 billion since 2010
- Our focus on Sweden, Germany and The Netherlands has been achieved, not least by divesting our operations in Belgium, Finland and Poland
- The investment programme has been aligned with the Company's cash flow
- The availability of our generated output has improved. 2012 has not ended yet, but all the signs are that we will have very good generation results. Nuclear power generation in Forsmark and Ringhals looks to be the best for five years. We have also achieved record hydro-electric power generation.

Changing preconditions

As we approach the end of 2012, however, we can observe that the preconditions have changed in various ways. So it's necessary to update our strategy in accordance with the changing world around us.

Lower market prices

The energy industry faces significant challenges. A combination of subsidised new generation capacity, low demand in the wake of the recession and limitations in transmission capacity has led to lower electricity prices, particularly in the Nordic countries. We must be prepared to live with these preconditions at least for the next few years. On the continent, gas power plants have proved substantially less profitable because of sharply reduced gross margins.

The acquisitions made by the Company cannot now be unmade. With the information now to hand we can see that the purchase of Nuon in The Netherlands was expensive. Against this background, Vattenfall was compelled in its most recent interim accounts to write down a total book value of its gas and coal-fired power stations of SEK 8.6 billion.

At the same time as lower prices, we have a significant need for investment over the longer term. The changeover to energy generation with low CO₂ emissions requires investments in both new generation plants and new transmission capacity so that we can balance our areas of surplus and deficit.

Energiewende

The various parts of the energy systems impact each other. When preconditions change for one energy source, demand for other energy sources also changes. We see many examples of this. When Germany's politicians decided to phase out nuclear power quickly, demand rose for energy coming from wind power, but also for energy coming from coal power. Germany's dependence on coal power has been prolonged after the decision to phase out nuclear power. So Vattenfall faces a new challenge in its efforts to reach its target of lower CO₂ emissions by 2020.

As regards Germany's Energiewende (energy turning point), it is of course the privilege of politicians to determine the rules on the energy market just as in other markets. Vattenfall will be a constructive partner in Germany's efforts to seek new solutions for its energy supply.

Having said that, I also want to point out that Vattenfall is expecting reasonable compensation for closing down its nuclear power plants.

Actions arising from changed preconditions

These changed preconditions, lower market prices, lower margins, excess capacity and a new energy policy in Germany mean that Vattenfall must update its strategy. In brief, this involves the following steps:

- Cost savings and increased efficiency
- Focus on a continued strong position in the Nordic region
- Greater efforts to achieve the target for reduced CO₂ emissions
- Increased proportion of investments in renewable electricity generation

I will later spell out what we mean by each of these points.

Dialogue with the owner about new financial objectives

The purpose of today's Extraordinary General Meeting is for the owner to set Vattenfall new financial objectives. The Company has conducted a dialogue with the owner about the changed conditions that apply to the energy industry and what objectives may be reasonable for it to pursue in future. I would particularly like to thank the owner's representatives for the constructive discussions that we have had during this process. My conclusion is that the targets proposed to the meeting are both realistic and reasonable.

Sustainability targets

Vattenfall's financial targets will be set at today's meeting. In a parallel process, the Board sets sustainability targets for the Company's operations, which will influence the business just as much.

Our sustainability projects are based on the EU's 2020 targets, which stipulate 20% lower carbon dioxide emissions, 20% renewable energy production, and a 20% increase in energy efficiency. We have therefore chosen to set our sustainability targets in the same areas as the EU. One difference is that Vattenfall has already reached the EU targets for CO₂ and renewables. So our sustainability targets go beyond those of the EU.

Our objectives:

- CO₂ emissions: Our ambitious target of reducing CO₂ emissions to 65 million tonnes by 2020 remains in place.
- Renewable energy production: Vattenfall's target is to have a growth rate in renewable capacity that is higher than the growth rate of the market.

We will also be setting quantitative targets in energy efficiency, both internally and externally. Internally in order to save energy and enhance our operational excellence, and externally to help our customers become more energy-efficient.

Interdependent energy systems

All parts of the energy system affect each other. That's why Vattenfall can have an even more important role to play in Europe's energy supply in future. When we strengthen our position in the Nordic region, and if the transmission capacity between and within the Nordic and continental north European electricity markets increases, we can contribute to handling the fluctuations in German electricity output that is becoming increasingly dependent on wind and weather. Our Nordic energy stands out as an attractive alternative to gas from Russia or unconventional gas from fracking – both from an environmental angle and from the perspective that stresses the importance of security of supply.

It's important to link the energy markets with an increased capacity for energy transmission. This applies both within and between countries. We need to have more cables to assure security of supply when an ever growing part of the energy supply is intermittent, i.e. varies in availability.

Increased transmission capacity would be good for Germany. It would be good for Sweden. It would be good for customers – not least because more efficiently interlinked markets are less volatile.

The large proportion of hydro power in the Nordic countries gives Vattenfall a competitive advantage in wet years, when hydro power generates the most electricity. But we should not forget that the energy supply in Sweden and the other Nordic countries is vulnerable in dry years. A more integrated electricity market is a precondition for Swedish customers avoiding peaks in electricity prices.

It would also be good for the environment. The more integrated the electricity market, the better the preconditions for renewable energy and the lower our carbon dioxide emissions.

It would be good for Vattenfall. Indeed I would go further and say that if the necessary investments in new cable connections are not made in any other way, Vattenfall would be open to contribute to such investments from its own resources.

Saving costs and boosting efficiency

After what I have said about the importance of investments in greater transmission capacity, I will return to Vattenfall's updated strategy. The first point concerns cost savings and boosting efficiency, i.e. operational excellence.

At the AGM in April, I spoke about the approach which is to characterise Vattenfall: precision, order, and great attention to detail. Applying what the international business world calls operational excellence. It's a matter of measuring and evaluating, of creating a culture imbued with the idea of continuous improvement.

It's good to see that the management is vigorously pushing through continuous improvements. It's also encouraging that stronger cost controls have been set up and savings have been delivered ahead of the schedule decided upon by the Board.

Focus on continued strong Nordic position

The second point in the list of strategic adjustments concerns our focus on a continued strong Nordic position.

The energy industry is characterised by political risk. When this topic used to be aired in the business world, it often referred to operations in a developing country that suddenly acquired a new government after a coup, as the Company's assets could be confiscated. When we talk about political risk today, we more often mean the tendency of democratically elected politicians to change the rules.

These may concern systems for putting a price on CO₂ emissions or rules for permitting operation of a specific power plant. Vattenfall lives continuously with political risk. It can strike us at any time, such as when Germany's politicians changed course rapidly and radically on the issue of nuclear power.

It is often said that companies want clear long-term rules for their operations. That would naturally be good. But the reality is rather different. The markets in which we operate are politically controlled to a high degree. Our power plants depend on approval from public authorities. Pricing on the markets on which we sell our output is affected by politically decided subsidies, emission rights and taxes. And regulations define the payment we may accept for distributing energy to our customers. We have to try to adapt to that, even if it means substantial practical difficulties when conditions change rapidly for investments made to supply energy for several decades.

My conclusion is that we must have a presence on the markets allowing us to be a respected partner in social developments. On these markets we must act out of a well-founded understanding of changes in society.

One conclusion is that Vattenfall's position in the Nordic region must be further strengthened. To achieve this, the Company must be a reliable, safe and respected player on the Nordic market. Its position in the Nordic countries will also strengthen

by being a market leader in the development of renewable sources of energy, when the market preconditions are right. Vattenfall must also keep an eye on opportunities to develop cooperation and make supplementary investments in the Nordic countries.

Good relationships with the surrounding community are absolutely essential to a company like Vattenfall. The importance of a high level of trust between customers, owners and public opinion cannot be overstated. All companies are facing higher and higher demands for business ethics. There are therefore good reasons why Vattenfall's Board should be backed up by a forum dealing with relationships with the public at large and business ethics. This is particularly relevant in the light of events in recent years, when companies with a relatively naive approach to ethical issues ran the risk of losing business.

The Board will therefore propose to the Spring AGM that a special Board committee will be set up to prepare and follow up issues concerning Vattenfall's relationships with local communities.

Just as the financial risks are handled by the Board's Audit Committee, and operational risks by the Board's Safety and Risk Committee, this new body – the External Relations and Ethics Committee – will handle image risks relating to people's trust in us.

I visualise this Board Committee maintaining an overview and reflecting on everything that might significantly affect Vattenfall's image. It will help us greatly to know that Vattenfall is acting in ways expected of a respected member of the community.

Greater efforts to reach the target of reduced CO₂ emissions

The third point in the list of strategic updates concerns Vattenfall's need to continue its efforts to reduce its CO₂ exposure from about 94 million tonnes in 2010 to 65 million tonnes by 2020.

As I have already mentioned, there are new challenges to face. Germany's new energy policy involving the phasing out of nuclear power will prolong the country's dependence on coal power more than would otherwise have been the case. That naturally also affects Vattenfall's coal power operations in Germany.

We have so far taken steps to reduce the Company's CO₂ emissions from 94 to about 80 million tonnes by 2020. Further steps are needed to reduce them all the way down to 65 million tonnes. The Company is now analysing the alternatives proposed to ensure that this target is met on schedule by 2020.

Continued growth in renewables

The fourth and last point in the list of strategic updates concerns continued growth within renewables.

I see good scope for Vattenfall to continue growing within wind power and biomass. One obvious precondition is that conditions are favourable for profitable investments. The investment plan being prepared by the Board will allow Vattenfall to reach its

target, a growth rate in renewable energy production that exceeds the growth rate of the markets.

Conclusion

Vattenfall is one of Sweden's most important companies – irrespective of whether we look at turnover, earnings or number of employees. We operate in a sector where we have to meet the exacting demands of our stakeholders to merit their confidence. We are expected to mutually balance the interests of environmental sustainability, prices that assure competitiveness and a reliable supply.

My impression is that the Company is, to an increasing degree, managing this balancing act in a prudent way, and that structures are in place to make well-considered decisions about the future.

Thank you for your kind attention.

Speech by President and CEO Øystein Løseth

Thank you for giving me the floor, Mr. Chairman.

Market conditions: macroeconomics

Let me begin my address by taking a look at Vattenfall's business environment.

Immediately after the financial crisis burst upon us in autumn 2008, industrial production fell sharply within the EU. Today, five years after the onset of the crisis, the European market still shows every sign of low or zero growth, and in many places also falling industrial production.

In Sweden – one of several countries that have done best in the European context – the government forecasts that GNP will grow by a moderate 1.6 per cent in 2012 and by 2.7 per cent in 2013 – and the figures are now said to require revision downwards. Swedish technology companies, which include many of our large customers, reported after the third quarter that their business is continuing to slide. The drop in orders essentially affects all groups of companies. The technology companies' economic index indicates that production will continue to slump in future.

In Germany and The Netherlands, Eurostat's assessment of our other large markets is even gloomier. In Germany, forecasts show figures in the black with growth of 0.7 per cent this year and 1.7 per cent next year. The Dutch economy is shrinking by 0.7 per cent annually, and is expected to grow by only 0.9 per cent in 2013.

Market conditions: energy markets

Lower spot prices

The lower level of activity in the European economy is impacting the energy markets. Before the crisis, in summer 2008, electricity prices were on a rising trend. The EU's system for emission rights was expected to further drive up the price of electricity.

All this changed in autumn 2008. The financial crisis led to a complete trend change in energy consumption and energy prices. By the end of 2008 the price of oil had fallen by 75 percent.

Another example of how the crisis changed the energy markets is the trend in the prices of emission rights. These have fallen rapidly the last five years, and the current level is far below the target of €30 per tonne of carbon dioxide which is needed for the system to be effective and encourage investment in renewable energy capacity. Vattenfall considers that the trade in emission rights is the EU's strongest mechanism for driving the transforming the energy system. It is therefore encouraging that the EU is discussing measures for strengthening the system. Vattenfall regards a permanent reduction in the number of emission rights at the end of this trading period to be the way forward.

What we are seeing is the “new normal” on the energy markets. The market outlook for demand and electricity prices continues to be weak, which puts pressure on Vattenfall's earning power. Vattenfall has undertaken a number of measures, but is not alone in implementing savings programmes, disposing of assets and revising its

investment plans. Quite to the contrary – this is something that the whole industry is going through. RWE reported in August that 2,400 jobs would be affected by savings plans of €1 billion. E.ON has indicated that it may need to close down some power plants. It is concluding a divestment programme totalling €15 billion. Layoffs in both these companies will affect some 15 per cent of their total workforce.

Prosumers and subsidies

The world around us is changing no less than the energy landscape. One aspect of this is that we are increasingly turning to “prosumers”, namely customers who both generate and consume electricity. Large-scale solutions also present a challenge. The opportunities to recoup investments in large base power plants are worsening. There are stiffer requirements on the flexibility of the electricity grid – so that investment in these networks must also be increased.

Another aspect of the change in the energy landscape is how an increasing share of generation consists of intermittent power, namely power that varies in availability. Lars explained earlier how this requires increased transmission capacity. Another effect is that subsidised renewable energy reduces the profitability of base load power which is not subsidised. And yet this base load power is needed for the energy system to function. The legislature, official bodies and companies must grapple with the problem of solving this equation.

Q3 and write-offs

The new situation on the energy markets permeates Vattenfall’s results and balance sheet. For the first nine months of the year, Vattenfall still managed to report an underlying operating profit, which was almost at the same level as in 2011 for comparable units. Increased generation volumes compensated for the lower prices obtained.

However, market conditions have continued to worsen and the industry is under pressure due to overcapacity, low prices and low margins, particularly for electricity generated from natural gas. This has compelled us to write down the book values of goodwill and production assets in the Thermal Power BU, mainly in The Netherlands, by a total of SEK 8.6 billion.

Vattenfall’s acquisition of Dutch operator Nuon in 2009 must be judged in the light of changing conditions. The goodwill item in Nuon amounted to SEK 47 billion at the acquisition. Of that amount, SEK 7.9 billion has since been written down. Goodwill is tested for impairment each year against current accounting recommendations. If it cannot be justified by forecasts, market prices or other factors that may have an influence, then write-downs are inevitable, as we saw in the third quarter.

Vattenfall is changing

Market conditions and the landscape of the energy industry are changing fast – and Vattenfall is changing with equal speed. Let me now say a few words about the changes we are implementing in Vattenfall.

Sustainable production portfolio

Vattenfall is building up a sustainable portfolio of production and products. The Company will respond effectively to the challenging economic circumstances while at

the same time contributing to a better environment. We will both “generate a market rate of return” and be “among the leaders in developing environmentally sustainable energy production”, to use the terms of reference stated in the directive from our owner.

These tasks belong together, not least as we need a strong financial position to finance investments in renewable energy generation.

Vattenfall continues to apply an ambitious growth strategy in renewable electricity generation. At the same time, we see that the budget for new investments is restricted by the economic circumstances that apply to the entire energy industry. So we must continuously review our projects and select those offering the best preconditions. When that happens, it may be the right time for us to develop projects in partnership with other companies. It may also be appropriate to invite external financiers as part-owners in wind power investments that have already been made.

It's important to maintain benefits of scale – after all, our organisation allows us to make many large investments in renewables. We shall nurture that ability.

Having said that, I will concur with what Lars G Nordström said earlier about good growth opportunities in wind power and biomass. On the basis of its current plans, Vattenfall's target is to have a growth rate in renewable capacity that is higher than the growth rate of the market.

“Smart energy enabler”

Part of our green strategy is to go further to help our consumers to simplify their lives and act in a more ecological way. So we are working hard to improve and extend our customer offer. We like to describe ourselves as a “smart energy enabler”.

Vattenfall endeavours to enable smart energy solutions. That involves everything from package offers of heat pumps and energy, to electric cars, solutions for boosting energy efficiency in small homes and offering energy advice to our customers.

Sustainability targets

As we heard from the Chairman, Vattenfall has introduced sustainability targets in parallel with our financial targets.

It is my job to ensure that Vattenfall achieves these targets by 2020. I am convinced that we will do so.

We have set up two very clear targets – namely to reduce Vattenfall's CO₂ emissions to 65 million tonnes per year and to achieve growth that outpaces the market in renewables.

To achieve the target of growing faster, we must budget for new investment, prioritising initiatives for wind and biomass during this period.

We will also be setting up quantitative targets for our own and our customers' energy efficiency in order to create incentives to actually consume less energy. We know that this is part of the solution to the climate challenge.

In order to support the entire Group in this sustainability campaign, we have set up a special unit for sustainability issues. The sustainability targets for CO₂ emissions, for the proportion of renewable energy production and for energy efficiency determined by the Board require action.

Our target of reducing our CO₂ emissions corresponds to an emission level of 330 grams of carbon dioxide per kilowatt hour, down from 417 grams in 2011. Once we have achieved that, we are not just doing something that is good for the environment – we are also reducing the Company's financial CO₂ exposure.

Operational excellence

To reach our targets – both as regards sustainability and our key financial figures – we need to be optimally organised. This has demanded and will continue to demand changes in Vattenfall.

We carried out an extensive reorganisation of Vattenfall in 2010. A geographical structure was replaced by a functional division. The aim was to achieve synergy effects and to strengthen know-how transfers between our various markets. Now, two years down the line, I can state that the new structure has been a success – it has not least been decisive for our ability to reduce our costs quickly by SEK 6 billion.

An integrated management system has been implemented in all BDs. It is designed to support managers in controlling and monitoring the operations for which they are responsible. The system also contributes to ensuring that monitoring documentation is used. This model also helps to clarify the making of decisions and corporate governance for all employees. In this way, the system leads to tighter governance and higher quality at Vattenfall.

In autumn 2012 it was time to make certain adjustments to the organisation that we introduced in 2010, as Lars G Nordström mentioned earlier. We have taken further steps to boost efficiency in order to reach operational excellence.

A key support function has been set up to promote the transfer of know-how between Vattenfall's various operations and contribute to creating a culture where high quality is implicit in all our activities. And we will also obtain a good snapshot of developments in our corporate quality culture. Our target cards, our scorecards, which are our main tool for setting targets and monitoring employee performance, are designed to support the development of an approach to make continuous improvements part of our daily schedule.

Organisational changes

Our ongoing endeavours to find better working methods were implemented in specific organisational changes after the AGM in April. A new division was set up to meet the wish for a greater focus on nuclear power accessibility and quality in implementing large projects. The Nuclear Power BD is responsible for the operation of nuclear power and for running development projects in this sector.

Most of our ongoing development projects are in renewable energy generation. To clarify the structure of this work and avoid unnecessary overlaps, we have merged

the Renewables and Asset Development BDs to create the new Sustainable Energy Projects BD. Its brief is to make cost-effective investments in new renewable production capacity – such as new wind farms.

Savings and disposals

Vattenfall has carried out a successful efficiency programme for its business. The savings programme running to SEK 6 billion was also achieved earlier than planned, in fact as early as the end of 2012. Thanks to that, and thanks to our price hedging, we have succeeded in delivering a stable underlying result for comparable units in the first nine months of 2012.

I also note that the successful disposals that Vattenfall began during 2011 and completed in 2012 have strengthened our financial position. Disposals totalling SEK 37 billion have made it possible to reduce our gearing by SEK 30 billion compared to 2010. This has been, and continues to be, a strength amid the financial uncertainty currently prevailing.

The financial targets that the meeting will set today are realistic and in line with the situation now facing Vattenfall. Achieving these targets will be tough – but not impossible. My colleagues and I in Vattenfall are determined to do our utmost to achieve them.

New head office

At Vattenfall we aim to practice what we preach. So let me say something about the move to our new head office at Arenastaden in Solna. It was on the 1st September that we moved into the ultra-modern premises for our 2,000 plus employees in the Stockholm area. Our new head office is one of the most energy-efficient office buildings in Sweden. So the building is a fine symbol for the sustainability image we are striving to project.

Example from the field: Ormonde

As I mentioned earlier, Vattenfall has successfully carried out divestments that have contributed to a reduced level of debt, a stronger focus on our core markets and at the same time to lower CO₂ exposure.

The work of reorienting our investment profile away from fossil-based energy sources to those with low CO₂ emissions has continued.

Let me report on the latest in a series of these investments.

Earlier this autumn, I inaugurated Vattenfall's Ormonde wind farm in the Irish Sea together with colleagues and representatives of British society. Ormonde is one of the technologically most advanced wind farms in the world, presenting many new solutions. This is the first time that the world's largest wind farm, REpower 5MW, was put into commercial operation. It also has Great Britain's longest underwater power cable, 42 km in length. The whole wind farm comprises 30 turbines and has a total installed output of 150 MW. Its construction began in 2010 and the first turbines were put in place during 2011.

It was a tremendous experience to see these turbines at the inauguration from a boat at sea. It was also a moment of pride for me as CEO of Vattenfall.

Conclusion

Great Britain is among the markets offering the most favourable conditions for investments in new energy production. So Ormonde is a good example of how Vattenfall lives up to both parts of its assignment. With the wind farm at Ormonde, as well as the whole new Vattenfall, we will “generate a market rate of return”. Vattenfall is also, both with this investment and as a whole, a company that holds a place “among the leaders in developing environmentally sustainable energy production”.

It is a privilege to be involved in these vital developments and contribute to them.

Thank you for your kind attention.