

Speech at Annual General Meeting 24 April 2013

Chairman of the Board Lars G Nordström

Presentation of the Board's activities during the financial year

Thank you for giving me the floor, Mr Chairman.

Let me start by presenting the Board's activities in the last financial year.

The topics to be dealt with by the Board essentially follow from the Swedish Companies Act and the Board's Rules of Procedure. The Board's primary tasks, apart from appointing the CEO, Deputy CEO and authorised signatories, are to:

- Determine Vattenfall's strategy.
- Ensure that the company has an effective management as well as follow up and control the company's organisation and administration.
- Ensure that the company has an effective internal control and remain updated on, and evaluate, how the internal control systems works.
- Continuously assess the company's financial situation.
- Ensure that the company's organisation, as regards accounting and asset management, is supervised in a satisfactory way.
- Continuously check how the CEO is fulfilling the day-to-day management responsibility.

In addition, the Board approves major investments, acquisitions and divestments and adopts central policies and instructions. The Board furthermore approves contracts with the CEO, the Deputy CEO and other senior executives within the company.

According to the Board's Rules of Procedure, eight to twelve regular meetings are to be held every year. In addition to the regular meetings, the Board meets when necessary.

Special Board topics during the year

The Board met eleven times in 2012. Its agenda included the following topics:

- The Group's strategy and organisation.
- Financial and sustainability targets.
- The Operational Excellence programme.
- Development of risk management in the hedging and trading operations.

- Investments in wind, heat and nuclear power operations.
- The biomass project in Liberia.
- Work on analysing replacement of nuclear power in Sweden.
- Decommissioning of the German nuclear power operations.
- Analysis of action options to reduce carbon dioxide emissions.

I will develop some of these points in my presentation.

The debate around Vattenfall

Vattenfall is a company that engages, provokes, irritates and creates headlines. That may be due to some of Vattenfall's shortcomings, to which I will return. It may be due to Vattenfall itself evoking excessively high expectations from the outside world, which subsequently come to nought. Or it may be due to the fact that as a state-owned company with a broad production portfolio – everything from nuclear power to wind and coal – Vattenfall is a rewarding symbolic target for broad-based social criticism.

To judge yesterday's deeds on the basis of today's knowledge and values is common enough. It's also quite usual for a Chairman of the Board or CEO to make it easy for himself by criticising his predecessors and thus suggesting that what had at that time been shrouded in darkness and lack of clarity was now with absolute certainty judged in the correct way by the present leadership. But my starting point is rather that in a historical perspective the Board and management has worked in the best interests of Vattenfall and the owner to the best of its ability on the basis of the available information – but that the results did not always turn out as planned.

When I look back on Vattenfall's development, I can see what failed to materialise as planned, but I can also see the values that have been created. When Vattenfall began its journey from a national company on a regulated market to an international company operating on competitive markets, significant assets and good returns were created for the Swedish state as the owner.

Changed preconditions

Vattenfall has encountered greatly changed preconditions in recent years. Insights into today's energy markets have made earlier strategies and actions appear less self-evident today:

- The consolidation of the European energy sector to a few large players has stalled – and in many cases been reversed. The opportunities of achieving synergy effects and greater European integration are more limited than was believed several years ago.
- Rising electricity prices as a result of a functioning European emission trading system has not been realized. Instead we are now seeing historically low electricity prices. This also impacts the profitability of renewable energy production – alternatively, the taxpayers' burden rises (directly or via certificates) in order to set up the new facilities. We need a very long-term perspective to renew all our operations, not least Swedish nuclear power.

- The possibility of neutralising carbon dioxide emissions from coal-fired power plants by means of CCS technology (underground storage) has not lived up to expectations. This is due mainly to the fact that the legal preconditions in Germany could not be determined in a satisfactory way.

Overall developments have greatly changed the preconditions for Vattenfall's operations. Against this background, it appears clearer than ever that the acquisition of Nuon by Vattenfall in 2009 was simply too expensive.

Similar situation for many energy companies in Europe

Our competitors in Europe describe challenges in several areas:

- Conditions on the energy markets are generally described as tough, with weak demand for both electricity and gas.
- The prices for emissions allowances in the EU-ETS system are considered too low to contribute to a changeover to an energy system with lower carbon dioxide emissions.
- The growth which we have so far had from subsidised renewable energy production is seen as a cause of the lower asset values of existing conventional energy capacity. That applies particularly to Europe's gas-fired power plants.
- The reduced earning capacity of existing plants is seen as limiting the ability to invest in new energy production. Investment plans have been cut back.
- The market conditions are seen as the reason for cost-cutting programmes.

We, members of Vattenfall's Board, recognise ourselves in these descriptions. They remind us that the challenges we face are in large part shared by the whole energy market.

Carbon dioxide emissions

The prospects held out by Vattenfall of storing carbon dioxide and thus producing electricity and heat from coal-fired power plants with significantly lower carbon dioxide emissions will not be realised. New coal-fired power plants, such as Moorburg in Hamburg, certainly have lower emissions per generated unit. But the fact remains that the production of electricity and heat from these plants will lead to significant emissions for the foreseeable future. To reach Vattenfall's objective of reducing our annual carbon dioxide emissions to 65 million tonnes by 2020, divestment of assets with high carbon emissions will be required. It is a process which has also been initiated.

Liberia

Vattenfall's venture in Liberia was designed to secure a raw materials base for co-firing biomass in coal power plants. When the project had to be terminated due to a lack of commercial viability, Vattenfall suffered heavy losses. Liberia failed to become the export source we had anticipated, and we were naturally greatly disappointed. The intention had been good, but it did not work out and Vattenfall should never have gone into this project in the first place.

Cost-cutting programmes

Lower electricity prices have also put greater pressure on Vattenfall to cut its costs and prepare itself for a new reality with lower earnings per generated unit. This will unfortunately hit Vattenfall employees in Sweden, Germany, The Netherlands and our other markets. Despite lower earnings, Vattenfall will require a high level of profitability to fund its investment programme, which has certainly been pruned but remains extensive. Vattenfall presented a good financial result for 2012, which is proof of our flexibility and reorientation capability. A cost-cutting programme for SEK 6 billion was concluded in 2012 and Vattenfall is able to pay a dividend to the owner – the state – of SEK 6.8 billion. Vattenfall has greatly reduced its debt level and increased its equity capital over the last two years.

Availability

Vattenfall has suffered justified criticism in recent years for the availability of its nuclear power plants. Although a comprehensive reconstruction programme is under way, this criticism hit home due to negligence and a lack of operational excellence in some instances. These shortcomings have now been essentially rectified and Vattenfall's organisation has shown good capacity for improvement. Both electricity production and availability were at very high levels in 2012.

Vattenfall's relationships with local communities

The Board has, as you are aware, proposed that a Board committee be set up to prepare and follow up questions concerning Vattenfall's relationships with the wider society.

Just as financial risks are handled by the Board's audit committee and operative risks by its safety and risk committee, the new committee for social relationships and ethics will handle any image risks relating to our reputational capital.

I envisage that this committee will have the overview and will reflect on everything that bears upon how Vattenfall is perceived. It will offer useful help in the work of ensuring that Vattenfall acts in a way that is expected of a respected social player.

Ongoing challenges – targets to be reached

The energy sector faces ongoing challenges, and Vattenfall will have to handle the changes on the energy market as well as the expectations and requirements of our stakeholders on our company. We must continue to balance the interests of environmental sustainability, competitive strength and reliable supply, both in our day-to-day operations and in our investment decisions for the future.

Vattenfall is a large and significant energy company: it is important for many people and consequently assumes a special responsibility. The aim is that the owners – the Swedish people – shall be satisfied with what Vattenfall does, how it is done and what results are attained. Much remains to be done before Vattenfall reaches this goal. But we will not give up before we get there.

Thank you for your attention.