

AGM address, 27 April 2015

Ladies and Gentlemen:

History is full of stories about industries and companies that have endured crises and dramatic changes without having been prepared or understood what was happening.

The American passenger rail companies competed fiercely with each other over price and service without realising that the real competition was coming from the rapid growth of air travel. The Swedish world-leading manufacturer of mechanical calculators was swept aside by the electronic revolution.

The historical analogies in this history book are many – and nearly all of them could have been titled “It didn’t turn out as they had thought”.

Right now I believe that a chapter is being written about the energy industry, focused mainly on energy sources, technology, sustainability, security of supply, energy policy, the shift from large-scale to small-scale generation, customer orientation rather than production orientation, and more.

“It didn’t turn out as they had thought.”

Moreover, the industry is now in a classic crisis created by overcapacity, weak demand, price pressure, and over-valued assets.

With respect to this situation I am pleased to say that Vattenfall has exhibited both flexibility and swiftness in its efforts to mitigate the effects of this industry-wide crisis.

Cost control, efficiency improvements, an overview of asset values, reduction of debt and greater customer focus – among other things – have characterised the Group’s work in 2014, and for this the management and employees deserve a great thanks. You will hear more about the various measures taken during the year in the CEO’s address.

Vattenfall is facing three specific problems that are the focus of great interest. I talked about them in my address to last year's AGM, and I would like to revisit them today.

- The acquisition of nuclear power operations in Germany
- The acquisition of coal power operations in Germany
- The acquisition of Nuon in the Netherlands

These three problems share at least two things in common:

1. Things didn't turn out as we had thought.
2. The current board (and management) did not create the problems.

We are here – upon request – to try to deal with them.

The “dead certain” views about what we should do are many and varied. I would even say *varying*, since they continue to change as we progress. This is how we see things.

Nuclear power in Germany

One day we were an established actor in Germany with permits, licences, safety standards and plans for continued operation. The next day we were forced to abruptly and unexpectedly shut down our operations. Just like our industry peers in Germany, we have reacted to this.

The decision, which we have not questioned per se, has caused Vattenfall financial damage. It is our duty – in the company's interest – to demand compensation for this loss in line with the same reasoning that the German part-owners of Barsebäck were awarded compensation when that plant was closed.

We are thus proceeding with this issue at the same time that we of course are complying with laws and regulations for decommissioning and future storage.

Vattenfall's lignite operations in Germany are a highly current issue.

There is no doubt that we have been influenced by the debate in Sweden, where lignite has become a burden for Vattenfall.

The debate in Germany is more contradictory. On the one side it is dominated of course by the environmental aspect and criticism of the entire lignite industry. But there are also the counter-arguments with respect to energy supply, electricity prices, the industry's competitiveness, and the labour market.

In the light of this general background, we have come to the conclusion that we are not an ideal owner of the lignite operations and are therefore studying the opportunities to change the ownership structure through a sale – of course on commercial terms. This is our first alternative. We are moving forward with this work.

Nuon

Nuon conducts operations primarily in the Netherlands that have a high technical standard, satisfied customers and a good brand.

So, what is the problem?

Well, as everyone knows, Vattenfall paid not only too much for Nuon, but way too much. In fact one can argue that the Nuon deal was not bad – it was horrible!

But what's done is done, and we are now in the process of conducting the customary measures, including cost-cutting, addressing productivity and customer satisfaction, and continuously stewarding the value in the company. This is how we are moving forward with Nuon.

Another matter that we are moving forward with is the transformation – not only to renewable energy – but also to making Vattenfall less of a company that produces energy for sale from large generation facilities, to more of a company that works much more closely with customers and helps them in various ways to buy and use energy wisely.

Vattenfall's CEO, Magnus Hall, will now address this and much more.