

Welcome to everyone in attendance today:

When I took office as CEO of Vattenfall in October 2014, I felt it was important to gain an understanding of Vattenfall's challenges and our customers' expectations of us – today and in the future. I therefore set out on a campaign to meet with various groups of customers, politicians at the national and local levels, journalists, environmental organisations, vendors – and not least – many of our some 30,000 employees. These meetings were met with great interest in Vattenfall, and I realise what a privilege it is to have this opportunity to lead one of Sweden's most important companies. It is my hope that everyone in Sweden will feel proud about Vattenfall.

Tough market situation

The energy sector has been facing tough challenges for many years now, but we cannot yet put the worst behind us with respect to soft demand, low electricity prices and thus low earnings. We – like most of our major competitors – still have some tough years ahead.

The breakthrough for fracking and shale gas in North America has changed the conditions for electricity and heat production in Europe. With the dramatic growth in supply of natural gas in North America, the US has become almost self-reliant in energy, and prices have fallen sharply. As a result, demand for hard coal has fallen in the USA, which in turn has led to a global surplus of this commodity. As a result of low prices for CO₂ emission allowances, today hard coal-fired power plants in Europe are more profitable to operate than gas-fired plants, which have lower CO₂ emissions per unit of energy. As a result, the highly modern gas-fired plants that have been commissioned in Europe in recent years are not profitable.

Moreover, there is currently a surplus of production capacity throughout Europe at the same time that renewable electricity generation continues to be added to the market, in large part as a result of political support schemes. Combined with generally low demand, this is leading to falling electricity prices.

Earnings for the year

2014 was a challenging year characterised by weak demand, a surplus of production capacity, and falling electricity prices. Demand was further dampened by warm weather, which led to lower consumption of electricity, gas and heat. We were able to partly compensate the negative earnings effect of lower production margins and lower production volumes with successful cost-cutting measures. During the last four-year period we have carried out actions which, compared with our cost base in 2010, have resulted in annual savings of SEK 13.7 billion. All in all, Vattenfall reported an underlying operating profit of SEK 24.1 billion for 2014, which is SEK 4 billion lower than in 2013.

Against the backdrop of the difficult market situation, in 2014 we recognised impairment of asset values, resulting in a total charge of SEK 23.8 billion against our reported operating profit. These impairment losses are the main reason why Vattenfall has reported a result after tax of minus SEK 8.3 billion, compared with minus SEK 13.5 billion for 2013.

For the years 2015–2016 we have set a further cost-cutting target of SEK 2.5 billion. In March 2013 we announced that the number of employees would be cut by 2,500 by year-end 2014. If we count the divestments of operations that we agreed to in 2014 and that have been carried out in 2015, the number of employees has been reduced by more than 2,500.

Financial targets

- Return on capital employed was minus 0.7%, compared with the target of 9% over a business cycle. The negative return is attributable to the impairment of our asset values. Excluding these impairment losses and other items affecting comparability, the return on capital employed was 8.2%.
- Funds from operations (FFO)/adjusted net debt) increased slightly to 20.3%, but is still just under the target interval of 22%–30%.
- The debt/equity ratio improved from 75.7% to 61.9% and is within the target interval of 50%–90%.
- Due to the negative result after tax, the Board of Directors proposes – in accordance with the dividend policy – that no dividend be paid for 2014.

A look back at 2014 – important events

When I took office as CEO, one of the Board's first decisions was to begin a sales process for Vattenfall's lignite operations in Germany. We want to focus more clearly on Vattenfall's role in the shift to renewables and at the same time take concrete steps towards reducing our CO₂ exposure. The sales process is proceeding, and we expect to be able to report more details toward the end of the year. Lignite is one of the foundations of Germany's energy supply and has gained renewed importance in connection with Germany's decision to phase out the country's nuclear power by 2022, in accordance with its Energiewende programme. This corresponds to roughly 20% of Germany's electricity supply. Recently the German government complemented Energiewende with a clear ambition to lower the country's CO₂ emissions. Proposals have been submitted which could affect the opportunity in the longer term to generate electricity using lignite as a fuel. We are monitoring this development and the consequences it may have for our operations.

Another decision that was made early in my tenure was to halt the study of new nuclear power in Sweden. While this decision was business-driven, it was also a

result to some extent of the political orientation expressed by the new government in its programme declaration. Currently Sweden does not need new nuclear power, however, we do not know what our need of base load will look like in the future. I am sure we will have reason to return to this issue in the future.

Vattenfall is a large company with a great breadth of operations. I would like to take this opportunity to highlight a few important events in 2014:

2014 was a strong year for Vattenfall in wind power, both in Germany and Sweden. In December we announced that, in partnership with the insurance and banking company Skandia, we will be investing approximately 2 billion kronor to build four new wind farms in Sweden with combined capacity of 141 MW. The wind farms are being built by Vattenfall and will subsequently be transferred to a jointly owned company during the first quarter of 2016. This marks the first time that a Swedish financial investor is directly financing the construction of new wind power, and the partnership will enable faster expansion of wind power for Vattenfall. The hopes are that we will be able to present additional, similar partnerships in the years ahead, which would make a positive contribution to the expansion of renewable energy.

Following a local referendum in Hamburg, in February we completed the sale of our majority interest of just under 75% in the electricity distribution company Stromnetz Hamburg GmbH to the City of Hamburg. Under the terms of the agreement, the City of Hamburg has an option to buy Vattenfall's majority shareholding in the district heating company Vattenfall Wärme Hamburg GmbH in 2019.

In early December the DanTysk offshore wind farm in Germany began generating electricity. The wind farm comprises 80 wind turbines, has combined capacity of 288 megawatts, and can generate 1.3 TWh of renewable electricity per year,

corresponding to the needs of 400,000 households. In July an historic milestone was passed at DanTysk when Vattenfall installed its 1,000th wind turbine.

The political environment is significant

The energy sector is steered extensively by political concerns. Especially at the EU level, new directives and guidelines are issued every year which change the market conditions. Following a period of heightened national focus, we now see a brightening with respect to both European integration of the electricity market and to trading in CO₂ emission allowances, and there seems to be support for addressing the major surplus that has arisen. Vattenfall has argued in favour of measures to be taken as early as 2017, but the point in time is now the subject of negotiations between the Council, the Commission and the Parliament, and the introduction is leaning towards later than 2017. We believe that the EU ETS needs to be made more robust and that there is therefore no reason to delay any measures until 2021. The reason why Vattenfall wants to reform the EU ETS system is that we see trading in CO₂ emission allowances as an effective tool for achieving the EU's long-term goal to lower greenhouse gas emissions.

In Sweden we need greater collaboration between politicians, industry and the public sector to find future energy solutions. With the energy commission that Minister for Energy Ibrahim Baylan has taken the initiative on, there is every opportunity for this. Vattenfall has a positive view of the commission and hopes to be able to participate and contribute to its work in the future. Long-term playing rules are needed for the industry if we are to be able to meet the tough challenges that we are facing.

Vattenfall's sustainability work

Vattenfall adopted a set of sustainability targets in 2012, entailing that we will reduce our CO₂ emissions to 65 million tonnes by 2020, achieve a faster rate of growth than the market in newly installed renewable capacity, and that we will

contribute to improved energy efficiency both internally in our own operations and externally among our customers.

In 2014 we cut our CO₂ emissions by 6.1 million tonnes compared with 2013, to 82.3 million tonnes. The decrease during the year can be credited to the sale of a number of fossil-based power plants and lower production due to warmer weather. Our target for 2020 – to reduce CO₂ emissions from 94 million tonnes per year in 1990 to 65 million tonnes in 2020 – will be achieved mainly by divesting high-emitting production facilities.

The second target – which pertains to renewable energy production – is that Vattenfall's rate of growth in newly installed renewable energy capacity will be higher than the average rate of growth for ten defined countries in Europe for the period 2014–2020. In 2014 Vattenfall installed 52 MW of new capacity and thereby increased its capacity by 3.1% compared with 2013. National statistics on growth in renewable capacity for the reference countries are not yet available. While the figure for 2014 was low, the trend should be viewed over a longer period of time. During the period up until 2020 we expect to meet our target.

The third target – which pertains to energy efficiency – resulted in Vattenfall saving 435 GWh, thus surpassing the goal of 365 GWh. Energy efficiency improvements will be achieved in part through internal energy efficiency measures and in part through Vattenfall's efforts to help its customers improve the efficiency of their energy use.

Four trends – the new energy landscape

A rapid transformation is taking place in the energy landscape, and Vattenfall sees four clear trends in the markets in which we are active.

Awareness and involvement among customers have risen further. The general population and businesses – our customers – are growing increasingly aware of their environmental impact and are investing in ways to be more energy-efficient. Many take for granted the ability to invest in – and generate – their own electricity and gain access to the electricity market.

Second, sustainable cities and infrastructure are being regarded as a given. Local communities – not only countries – are working to make their cities and infrastructures as sustainable as possible. This includes, for example, energy-efficient ways to produce and combine electricity and heat production, and enable energy-efficient transportation with low environmental impact.

Third, there is solid demand in society and among our customers for electricity produced with low CO₂ emissions through reliable and flexible means – combined with new, renewable sources of energy. The cost of generating electricity from renewable energy sources continues to decrease, and in ten years such electricity will be even more competitive compared with conventional technologies – especially in view of the parallel development of caching solutions. However, reliable, flexible and large-scale electricity generation will continue to be needed to “activate” this energy shift and serve as a back-up for renewable energy.

Finally, higher demands will be put on the electricity grid to allow us to utilise the ever-growing share of renewable, weather-dependent wind power production. For example, two-way flows that enable more flexible electricity use and an adaptation to greater digitalisation of our infrastructure will put entirely new demands on the grid. Grid companies are key enablers in the energy system.

Against the backdrop of these trends, we have overhauled our strategy. Vattenfall needs a clearer blueprint for how the company is to lead the energy shift, and we must take a more long-term approach in our planning in order to more successfully live up to the demands place upon us. As CEO it is my duty to look ahead and

promote the company's best interests over the longer perspective. In support of this we have an owner directive that is strategically and commercially spot-on. In line with this directive, we have mapped out a strategic vision for Vattenfall ten years ahead which clarifies how we will be a leader in this energy shift. This vision can be summarised in three areas of focus for Vattenfall going forward.

A customer- and business-driven organisation: Vattenfall currently works in a market characterised by record-low electricity prices, which is putting our profitability under heavy pressure. In this situation we must further lower our costs and be as efficient as possible. At the same time, we need to find new business models in order to be successful in the prevailing market situation. It is decisive that Vattenfall has a strong customer focus and customer-centric business models. Entering into partnerships with other actors is one way of enabling more investment in renewables. Moreover, this funding model is enabling pension funds and green funds, for example, to invest in long-term, profitable assets. In Sweden Vattenfall has entered into a partnership with Skandia for four wind farms.

Sustainable production: Vattenfall's production portfolio will be more sustainable and emit less carbon dioxide. In addition to the investments in Sweden I have just referred to, we are also investing heavily in wind power in other countries. At the start of the year Vattenfall was awarded a contract by the Danish government to build the Horns Rev 3 offshore wind farm – a project that will generate enough renewable electricity to meet the needs of 450,000 households. Our DanTysk (production start in 2015) and Sandbank offshore Germany's northern coast will deliver renewable electricity equivalent to the needs of 800,000 households when construction of both is completed in 2017. Together these wind farms will make a significant contribution to Europe's energy transformation.

Sustainable consumption: Vattenfall will also – even more so than today – assist its customers with various solutions to optimise their energy consumption and enable them to generate their own power. In Gotland we are working on an R&D

project focusing on smart grids, with the aim of being able to integrate a larger share of wind power. By enabling customers to be more active and giving them access to new, smart products, they can steer and adapt their consumption. We will also facilitate charging of electric vehicles – both at home and fast-charging systems along roads. By facilitating electric modes of transport we are helping to reduce CO₂ emissions from the transport sector.

For more than 100 years Vattenfall has played a decisive role in creating the Swedish society that we have today – both by building infrastructure for a modern, industrial society and by generating revenue for the state's coffers. I have no doubt that going forward Vattenfall will continue to play a key role in meeting our customers' and society's energy needs in the best way possible. It is only by listening to our customers and by being a leader in the ongoing energy transformation that Vattenfall has the conditions for continued success and to deliver a satisfactory return to the Swedish state.

I am looking forward to the opportunity – together with my dedicated colleagues – to continue developing Vattenfall as a leading company in all of the markets in which we are active.

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