

A Swedish financial journalist once said that the word “challenge” should be banned or at least used with great restraint.

For it has namely become far too common in company reports to use the word challenge upon first description of the slightest setback or difficulty.

I agree.

And I do so because when describing the situation in the energy industry, the word is most fitting, and should perhaps be restricted to such a situation.

The changeover from a large-scale production-oriented business model to a small-scale, customer-centric model is having dramatic consequences for the industry and for Vattenfall –

especially as events are currently taking place with a combination with historically low prices, an energy production and energy policies that are not very predictable in certain countries, the erratic fluctuations in subsidy systems, and a level of taxes that is not only high, but the structure of which can be truly questioned.

In view of all this and more, the word “challenge” is not only fitting here – it is an understatement!

I want to extend thanks to the employees, management and my board colleagues at Vattenfall for their handling of this challenge.

Hard, engaged work has characterised the past year at all levels and in all business areas.

Thanks also to the company’s owner and its representatives for a substantive and engaged dialogue.

It is commonly said that energy policy should address three areas:

- The environment
- Industry’s competitiveness/energy prices
- Security of supply

These three areas need to be discussed and balanced against each other in one and the same process.

A Finnish minister of finance shared his reflections with me a couple years ago that in Sweden we discuss things one issue at a time, which is why we end up with incongruity.

I actually think he was right.

I think it is good that we now have an energy commission that has the opportunity to take an overall look at the situation. But quickly, please!

There is a genuine (and sometimes perceived) incongruity between and within these three areas – as I mentioned – with respect to the level of ambition.

As a result, various interests often very clearly express their own ambitions and take a position in favour of their position, and thereby against others’ ambitions.

It is within this landscape of varying positions that Vattenfall must manoeuvre, and this also characterises the work of the Board.

This is described in the Annual Report, and the company's governance structure and ways of working are described in the 12 pages referred to by the AGM chairman.

In general you could say that we work according to the mandate we have been given from the owner – just like other company boards.

We have targets for the company's profitability and for its ambition in the environmental area – which we will return to shortly.

A company's board should serve in the shareholders' interests, among other things by safeguarding shareholder value.

But from a broader perspective, a board should also work in the interests of "stakeholder" value.

In addition to the owners, the board should keep in mind customers, employees, suppliers and other interests as well as society in general and the public opinion.

How do we manoeuvre then?

Simply put, we should work according to the watchword "the company's best", "the company's best" in the short and long term – and even *this* is not so simple – and do it with a "stakeholder value" mindset and in view of the requirements posed by the Companies Act and the company's Articles of Association.

Against the backdrop of the opposing interests that I just described, it can easily be inferred – as my old physics teacher once said – that the company will be criticised from some direction and from some perspective on almost every decision we make.

I would like to give an example that does not pertain to the past year, but which I believe can be of interest right now.

We have a lignite operation in Germany, about which I can say a few things:

1. It is harshly criticised for its environmental impact and its carbon emissions, not least in Sweden, where this also has a negative impact on our image
2. The operation has poor or no profitability at all now and for a number of years ahead
3. Lignite will be an established energy source in Germany for a number of years going forward, but will be phased out

How should we act?

Drastically shutting down the operation would be economically unfeasible – and probably not possible for reasons related to security of supply.

Shutting it down faster than the general phase-out plan is financially unfavourable, among other things due to higher dismantling costs, but also due to rising impairment losses as long as we keep the operation.

In both of these alternatives, quite difficult processes and negotiations would arise with the affected local communities as well as the employees and their unions.

We think it is better that the operation be transferred to another owner, which can handle it over the longer term within the context of Germany's energy policies.

We have found an owner with whom we have – very simply stated – made the following agreement:

It is conceived that the new owner will take over a company with SEK 18 billion in diverse obligations.

In order for the takeover to be handled in a responsible manner, we have included SEK 15 billion in assets that are locked into the operations in various ways.

We have requested Vattenfall's owner, the Swedish state, to support the deal, which we believe is in the company's best interests.

It should perhaps be noted that the government/state should not approve the deal in its capacity as government, but should assess the deal in its capacity as the owner of Vattenfall.

Now back to the general reasoning:

It is the responsibility of Vattenfall's board, on all matters brought to us for consideration, to act in a way which we believe is in the company's best interests.

We do this within the framework of laws, regulations and owner directives, and within the framework of Sweden's energy policy. It is our utmost ambition to try to satisfy all stakeholders' legitimate demands that we do the right things, that we do things right, and that we do them in the right order.

That we work in an area in which there are many strong opinions about what is right and wrong is a plain fact, and nothing we apologise for. That's just how it is.

Vattenfall's CEO Magnus Hall will soon give a presentation and describe our thinking moving forward.

We on Vattenfall's board, together with the company's management and employees, are steadfast in our focus on returning the company to acceptable profitability at the same time that we aspire to be a driver in the development of a renewable energy system.

We will not offer apologies for looking after the company's best interests in our unrelenting efforts on the path forward.