

Vattenfall AB's 2008 Annual General Meeting, speech by the President and Chief Executive Officer (CEO)
Stockholm, 29 April 2009

Slide: title page CEO Lars G. Josefsson

Mr. Chairman, ladies and gentlemen,

Slide: CO₂ tank

This is Vattenfall AB's fifth public Annual General Meeting, and I am pleased to welcome you today to Berns and the China Theatre, where we also held our 2006 AGM. Vattenfall is ultimately owned by the Swedish people, and an AGM that the public is welcome to is an opportunity for the Board of Directors and Management to live up to one of our core values: openness. Welcome, all of you, to today's AGM! It is a particular delight to see Ola Alterå, State Secretary of the Ministry of Enterprise, Energy and Communications and the owner's representative, at this meeting – welcome! – as well as Eva-Lena Jansson and Krister Örnfjäder from the parliament (*Riksdagen*), and any other members of the Swedish parliament whose names we did not catch when you registered. In my remarks today, I want to briefly summarize the past year and then talk about Vattenfall's future.

Slide: Sales, EBIT, return

When we sum up 2008, we can surely take pleasure in our increased sales and operating income – both set records, in fact – but, at the same time, note that the return declined.

The return on equity was 13.6%, which is less than the owner's requirement of 15% in the long run. According to the owner, the Company is to achieve this required return over the business cycle, and if we consider a longer period, we have satisfied that requirement. However, this is still a signal we must consider seriously. Of course, the financial crisis has affected demand for our main products, electricity and heat, and electricity prices on the exchange have fallen sharply since last summer. Although we have hedged part of our production, earnings were hurt by the lower prices, and in the next few years we will have to work harder for every krona of profit.

Slide: falling electricity prices

This morning, we announced the results from the first quarter of 2009. Thanks to positive currency effects and our price hedging, we posted strong operating income of 12.9 billion kronor. But the return on equity is still less than the owner's requirements, at 13.9%. This slide, which shows the decline in electricity prices in our core markets, gives a clear picture of the challenge facing us.

Another reason that our return temporarily declined is our investment programme.

Slide: Investments per year 2005–2008

It is pleasing to note that investments rose sharply in 2008, especially growth investments in new power plants, which, of course, will lay the foundation for a strong Vattenfall in the

future. But it takes many years to build new power plants, and during those years that we are “out of pocket” before the plants start generating, our return will decline.

Slide: Investment forecast 2009–2013

For the five-year period from 2009 to 2013, Vattenfall plans to invest a total of 191 billion kronor, which is 18 billion kronor more than in the five-year period from 2008 to 2012. The Nordic region and Germany will each get more than 80 billion, and 26 billion will go to Poland. The majority, 158 billion kronor, is dedicated to heat and power generation, while the remainder will go to network operations. This is a forecast, and naturally it depends on the projects that are planned still showing profitability and on financing being available on reasonable terms. Management is continuously reviewing the investment programme to ensure that it meets our stringent requirements for commercial viability and that we obtain a generation portfolio that uses a variety of fuels and reduces emissions, which is good for the environment and good for profitability.

Now I would like to review a few of the most important events during 2008 and thus far in 2009.

Slide: European map with growth objectives from the preceding AGM

At last year’s AGM, I showed this map of the markets where Vattenfall saw good opportunities for profitable growth. Since then, we have made progress in Great Britain and in the Netherlands.

Slide: wind power in the U.K.

The acquisition last autumn of AMEC Wind, Eclipse Energy, and Thanet Offshore quickly made Vattenfall one of the leading players in the British market for wind power. Britain has a first-rate support system and permission-granting processes for wind power, a smoothly functioning electricity market, and a massive need for renewable power generation. In brief, it is a market that suits Vattenfall. And that is why we were so pleased to be able to complement these acquisitions with a co-operation agreement with Scottish Power, by which we have agreed to participate jointly in bids for the next major wind power project, called “Round Three”, for which the British government will auction off rights to build wind farms offshore.

Slide: thumbs up

Without a doubt, the biggest event for Vattenfall since last year’s AGM was the bid for the Dutch company Nuon, in February 2009. Nuon is an integrated electric company with 2.5 million customers for electricity and gas and about 16 terawatt hours of generating capacity. The electricity networks are not included in the purchase, but once the deal has been approved by Nuon’s shareholders and the European Commission, which is expected by summer, then Vattenfall can welcome 8,000 employees into the Group, employees who have expertise in natural gas and power generated from renewable as well as conventional sources as well as carbon capture and storage, and not the least a customer focus that has earned Nuon very satisfied customers.

Slide: the Netherlands

Our plan for Nuon is to accelerate the investments in sustainable energy that the company has already started, and thereby help the transition of the Dutch energy system. This will be good for the environment and lay the foundation for a profitable company with low carbon-dioxide emissions. We will focus on wind power, where we together with Nuon, will become number one in offshore wind power in Europe, and also in mixing biomass fuels into the feed to existing power plants. The Netherlands is largely dependent on fossil fuels, as are most countries in Europe, so Vattenfall's and Nuon's combined expertise in carbon capture and storage will be decisive for reducing emissions in the medium term.

Slide: growth

In conjunction with acquisitions and expansion abroad, I am sometimes asked why it is important for Vattenfall to grow. Shouldn't Vattenfall, as a state-owned company, be able to stay in Sweden and oversee existing interests there? Growth is not an end in itself, but it fosters development and rejuvenation. If we strive to sell more electricity that is cleaner, we will become better than if we had only overseen what we had. Growth is also a prerequisite for making the transition of the energy system that everyone in society supports, because growth generates the resources needed for investment. Only profitable companies that grow can invest in new and cleaner production and can afford the research and development programmes that drive technology forward. Finally, expansion is also a kind of risk management, and we have seen the practical usefulness of this during the past winter. In a tough financial market, companies such as Vattenfall, with operations of sufficient size and scope, have been virtually the only companies that could finance their operations with new borrowing. Recently, we issued bonds worth about 50 billion kronor in different currencies and with different maturities, and all of the issues were oversubscribed, thanks to the market's confidence in the future of Vattenfall.

Above all, Vattenfall's growth has generated value for its shareholder, the Swedish people, and I am proud of the work our employees have done to enable such impressive appreciation in value during the past few years. The Swedish people now own a company that is among the biggest Swedish companies, regardless of industry. We also make a significant contribution to the state budget, and this year the Board of Directors has proposed a dividend of 6.9 billion kronor. Among Board members and Management, we are aware of the responsibility that rests on us in managing this value and helping it to grow even more.

Within the framework for value creation, we are also required to take the environment into account. These two goals are increasingly intertwined.

Slide Graphic renewable

According to our Articles of Association, Vattenfall shall lead the transition to a sustainable electricity supply for Sweden, in line with sound business practices. This slide shows how quickly renewable energy is growing within Vattenfall in the Nordic region. It is with pleasure that I report that we are fulfilling these requirements in our Articles. No other company generates as much renewable energy in Sweden, and Vattenfall will remain on the front line for this change. The objective set by the Board, to add 10 terawatt hours of renewable generation capacity in the Nordic region by the year 2016, is highly ambitious, and it is uncertain whether we can achieve it with the current restrictions in the market. However, this objective has been set, and we are working hard to achieve it.

Slide: Inauguration of Lillgrund, Maud Olofsson, and the King of Sweden

One example is Lillgrund, Sweden's biggest offshore wind farm, which was inaugurated last year with pomp and circumstance. We are proud of this project, and it will be followed by more.

Slide: Inauguration Schwarze Pumpe

Another tangible example of Vattenfall actually making electricity clean is the inauguration of the carbon capture and storage pilot plant at Schwarze Pumpe, Germany. It is the first of its kind in the world, and it is no exaggeration to claim that politicians, journalists, and other interested parties are making pilgrimages to our power plants to see first-hand the pioneering technology in which Vattenfall is a global leader. The other day, I heard an amusing story, the latest example of this interest from the outside world: A person taking a taxi in New York can watch, on the TV monitor in the back seat, a short feature about Vattenfall's work making coal power clean. Much of the world depends on coal, of course. The technology we are developing with our partners can be used in India and China, where new coal-fired power plants are built every week.

The European Union recently adopted a proposal for partial public financing to develop this technology, because it is so important in the fight against climate change, not only for the EU but for the whole world.

Slide: customers

Our employees are continuing their efforts to improve service and offers to customers, and these efforts are showing results. In the Nordic countries, Vattenfall's Customer Satisfaction Index rose sharply, to 69, and in Sweden we are the company winning the most customers in the market. Our most important customers in the electricity-intensive industries are continuing to work with Vattenfall. Stora Enso, Outokumpu, Norsk Hydro, Smurfit Kappa, and, not the least, our oldest customer, Vargön Alloys – all signed long-term agreements with us last year. In Germany, we succeeded in reversing a negative trend in 2008, and now the number of customers is rising steadily. I am pleased that an increasing number of customers are choosing Vattenfall – and it is important. Satisfied customers, alongside the safe operation of our plants, are the most important result for us in our efforts to earn the trust of our operating environment, and we will continue to focus on gaining even more and more satisfied customers. We are not satisfied yet!

Slide Nuclear power plant

Our nuclear power plants in Germany, Krümmel and Brunsbüttel, remain at a standstill because of inspections. It has taken much more time than we anticipated to complete all of the measures needed for us to be satisfied and for the plants to be restarted. For example, one kind of expander bolt in one of the plants had to be inspected in compliance with a meticulous programme that is very time-consuming. Under German legislation on decommissioning, we will be able over the next two years to recover the production lost while the plants have been at a standstill. Even so, we have suffered a major loss of revenue.

We are working methodically to regain a globally leading position in the safe operation of nuclear power, under the supervision of the Board's Nuclear Safety Council, which includes

Hans Blix. One sign that we are on the right track was that the Swedish Radiation Safety Authority recently rescinded the special regulatory supervision Forsmark has been subject to. However, in no way does this mean we are finished. Our employees are continuing to work on long-term undertakings that will yield results, in safety and profitability.

Slide: Hans-Olov Olsson, Tuija Soanjärvi, and Anders Sundström

This year, our Vice Chairman Hans-Olov Olsson and directors Tuija Soanjärvi and Anders Sundström declined to be re-elected to the Board. I thank them for all they have done on behalf of Vattenfall. It has been a pleasure to work with them, and as CEO I have appreciated their commitment and leadership in the Board's work. I wish them success with their other undertakings at the same time as I welcome to Vattenfall Björn Savén and Cecilia Vieweg, who have been nominated as new members of the Board. Björn and Cecilia will introduce themselves in a little while.

Finally, I want to say a few words about 2009.

Slide: Vattenfall 100 Making Electricity Clean

This is a memorable year for the company, because 100 years ago the Swedish parliament founded Kungliga Vattenfallsstyrelsen, which later became Statens Vattenfallsverk, and finally Vattenfall AB. We are celebrating our jubilee with our customers, employees, and other stakeholders in Swedish society, throughout the year and in all countries where we are active, not concentrating on our history but on our future. Simply put, we spent the first 100 years producing electricity. Everywhere our engineers managed to deliver electricity, it brought welfare and better living standards. Actually, electricity is a prerequisite for modern society in every country where we are now active. As our knowledge has expanded, we have also focused on generating electricity and heat with as little impact on the environment as possible. And now, as we celebrate one hundred years, we do it under the banner of Making Electricity Clean.

It is interesting to recall discussions of electrical power through history. In 1910, when the construction of a hydro power plant was planned for the falls at Älvkarleby, the newspaper *Dagens Nyheter* published a comment from the Swedish Touring Club. I quote: "The Touring Club does not intend to try to foment any opinion against the project. For this would be, it believes, as foolish as it is futile. That this scenic area be made ugly is of course regrettable, but when it is done to assist industry in our country and thus the general welfare, one is not entitled to mourn." Electricity generation has always been subject to debate in society. In the case of Älvkarleby, in particular, it is funny that the area is famous today as a beautiful tourist destination, known for its good fishing.

It is Vattenfall's strategy to make electricity clean; we are convinced that this is the right way to go. At the same time as we can be a positive force in reducing our impact on the climate, we also believe that doing so will add value and be profitable, so that in many ways we can contribute to the society that is both our customer and our owner.

The EU has shown leadership and adopted ambitious goals to be achieved by 2020: in renewable energy, greater energy-efficiency, and reduced emissions. Vattenfall applauds these goals and is helping to achieve them. They will reveal business opportunities for our company that we will make the most of. Vattenfall will be one of the companies that is

working hardest to achieve these goals. Because we have a presence in Europe and not just Sweden, we can actually affect developments more quickly. Let me give you an example.

Slide: Reverse district heating will cool Danish IKEA (*Dagens Industri*, 21 April 2009)

Three years ago, we bought into an operation in Denmark that basically consisted of coal-fired combined heat and power plants. Last year, we launched an investment programme worth five billion Danish kronor aimed at replacing much of the coal with biomass fuels, to reduce emissions of carbon-dioxide by almost one million tonnes. Not only that, but we are also working with our customers to optimally exploit the energy in our combined heat and power plants, as in this case with IKEA where heat can become cooling. So Making Electricity Clean need not affect only electricity. It is about optimising fuels, technology, and business practices in all parts of our operations, in the best interests of customers and the environment.

Vattenfall wants to work even harder on biomass fuels. Everywhere it is possible, we want to mix biomass in at ordinary coal-fired power plants, to reduce emissions. We face technical and market challenges. For example, we must ensure that there is a functioning market for biomass that favours sustainable production of biomass fuels but does not inadvertently crowd out production of food and forestry products. Here, politicians can coordinate and harmonize the support programmes for biomass at a European level. And Sweden can play a key role when it takes over the EU Presidency this summer.

With respect to renewable energy, more than half of Vattenfall's planned investments will be in biomass fuels, wind power, and hydropower. This is an enormous shift, and it will take time before it shows through in actual electricity generation, but we are on our way. To boost energy-efficiency, we are working steadily to improve our networks, power plants, and heat plants so that less fuel is used for every kilowatt hour generated, and we are helping our customers with advice. In addition, we are striving to replace fossil fuels with electricity, for example in the transport sector. For the past two years, we have been working together with Volvo Cars to develop plug-in hybrids, and in Germany we are cooperating with BMW on their electric cars. That is good for Vattenfall and good for the environment. Finally, we will reduce emissions substantially by focusing on renewable fuels, becoming more energy-efficient, and developing carbon capture and storage. All of these efforts are summarized in our Making Electricity Clean strategy, which will carry us through the next 100 years.

Final slide

Mr. Chairman, thank you for your kind attention.