

Vattenfall AB Annual
General Meeting 2007
Stockholm, 26 April 2007

Slide 1: CEO's statement

Mr. Chairman,

Slide 2: Sales and operating profit

The past year, 2006, was in many ways another record-breaking year for Vattenfall. Net sales rose to SEK 145 billion and operating profit, excluding items affecting comparability, rose to SEK 26.7 billion. This figure represents an all-time high. We integrated the newly acquired Danish operations, welcomed more employees to the Group and strengthened our financial position. Vattenfall is a successful company in every way. Today it is my pleasure, together with the Board of Directors and our approximately 32,000 employees, to present the accounts from yet another prosperous year to the general meeting and the owner. Vattenfall faces the future from a position of strength.

I would now like to present some of last year's most important events at Vattenfall and conclude with a look at the future. Before I do so, however, I would like to remind everyone that a quick glance at the tables in the annual report shows that not quite all of the curves point upward.

Return on equity, one of the goals that the owner, the Swedish state, sets for Vattenfall, was an impressive 18.7% (excluding items affecting comparability), which is well over the owner's requirements. However, we cannot forget that the previous year, it was just over a half percentage point higher. Nor did profit after tax for the year reach the record high of 2005; it dropped 3% to SEK 19.9 billion. As I said this morning at the press conference, operating profit and net sales for the first quarter of the year are also somewhat lower than the same period last year, mainly because of a lower output volume due to abnormally warm weather, as well as because of lower revenues in network operations.

The successes that Vattenfall achieved in recent years and the good earnings trend that its owner has been able to follow have two main explanations. First of all, the markets in which Vattenfall is active have shown extremely strong growth. Second of all, Vattenfall's employees have consistently worked to make continuous improvements in the various operations. We have consolidated and coordinated additional operations and invested in new technology.

Slide 3 Nordpool historic and future prices

Looking forward, we cannot expect the same strong growth in the market for our end products, heat and electricity, that we've seen over the past five years. Although the market outlook is mainly stable, it faces major uncertainties with respect to both primary energy prices and emission allowances.

The market has given producers clear price signals to invest in new production. With the typical lead times in this industry, which is capital-intensive and associated with complicated permit processes, the reaction to these price signals only comes after some delay – but it has arrived. We and even our competitors are now increasing our investments—primarily in new production—and the growing demand from the market is being met with an increased supply.

Slide 4: investments

During the five-year period 2007-2011 Vattenfall plans to invest SEK 134 billion, which is SEK 30 billion more than the plan I presented last year. SEK 71 billion will be invested in Germany, SEK 57 in the Nordic countries and SEK 6 in Poland. The majority, SEK 102 billion, will go to electricity and heat generation, while SEK 31 billion goes to network operations and the remaining SEK 1 billion to other operations.

In other words, we cannot just sit back and be satisfied that we met and exceeded all of the owner's financial requirements for 2006. We must also accept the new challenges that we see for the future. All employees in the Group must continue to make every effort to ensure that Vattenfall remains a successful company and continues to grow. We believe that prices will be stable over the next few years and it is only by being faster, more effective and providing our customers with more reliable and better service than our competitors that Vattenfall will be able to reap even greater success.

Slide 5 Our five strategic ambitions (starfish)

With a few important milestones behind us relating to consolidation of the Group and the brand, Vattenfall's management will focus even more on our strategic ambitions to be a "benchmark of the industry" to ensure our continued competitiveness. I would now like to tell the general meeting about some of the significant events of 2006.

Slide 6 Danish wind power plant

Vattenfall has a growth strategy and the company continues to grow successfully. The latest of a number of acquisitions include production plants for electricity and heat in Denmark. On 1 July 2006 Vattenfall completed the deal and integrated the Danish organisation in the Group. We welcomed 600 new employees to Vattenfall, which strengthened our expertise in wind power, biofuels and CHP. Our annual production increased in conjunction with the acquisition by about 6 TWh of electricity and 6 TWh of heat.

Slide 7 Brand migration

In 2006 we essentially completed the brand migration within the Group that began with the acquisitions in Germany and Poland. For several years the Vattenfall brand has stood side by side with the names of the local companies that Vattenfall acquired. These companies have long proud traditions, in some cases longer than Vattenfall's almost one hundred year history, and it is with great pleasure that we move on together under a single name. All of Vattenfall's almost six million electricity, network and heat customers now have a supplier with the name Vattenfall, irrespective of whether they live in the Nordic countries, Germany or Poland.

Slide 8 of customer to symbolise "Trygghetsavtal" product

One year ago at the Annual General Meeting Vattenfall presented its “Trygghetsavtal” product for private customers in Sweden, a three-year fixed-price contract that shelters customers against rising electricity prices for three years at the same time that it gives them the right to sign a new three-year contract at a lower price if the price of electricity falls. The Trygghetsavtal product is unique in the market because our customers do not have to pay for the right to sign a new contract until they actually choose to exercise it. At last year’s Annual General Meeting I promised that Vattenfall’s Trygghetsavtal would give customers the lowest price in the market. I would now like to report to the general meeting that we kept our promise.

Slide 9 Slide inserted from the Swedish Consumer Agency website on April 25

As can be seen in this slide, taken from the Swedish Consumer Agency website yesterday evening, we have the lowest three-year price in the market. Demand has been strong and we have received an extremely positive response to the Trygghetsavtal product. Customer flow has been good, sometimes so good that the customers have had to wait, which we regret. Today we have about 630,000 private customers in Sweden, which means that in one year our market share increased from 13 to 14 per cent. We have heard some criticism about our Trygghetsavtal product from our competitors, which is, of course, extremely gratifying.

Slide 10 Forsmark

{PRIVATE “TYPE=PICT;ALT=Extensive problems in “}The events in Forsmark last summer and the subsequent reporting in the media is a major issue for Vattenfall. The chairman has mentioned the incident and the measures that Vattenfall’s Board of Directors has taken. This was a serious incident, but we have to remember that the control room staff responded exemplarily and that the cooling of the reactor core was under control at all times. There was never any risk of radioactive discharge, which the Swedish Nuclear Power Inspectorate confirmed. Vattenfall’s management and employees continue to learn from the events and subsequent analyses. As principle owner of Forsmark we take the strengthened safety work extremely seriously and are reminded today that good safety practices and financial results go hand in hand. Loss of income for Vattenfall when the reactors stood still amounted to about SEK 900 million.

Slide 11 Pilot plant

In May Vattenfall began construction of a pilot facility for a lignite-fired power plant with technology to capture carbon dioxide. It is based on oxyfuel technology, and is the first of its kind in the world. The plant, which is being built next to the Schwarze Pumpe power plant in eastern Germany, represents a milestone in developing new technology which over the long term will safeguard lignite-based power generation without carbon dioxide emissions into the atmosphere, and by doing so, make a strong contribution to a global solution to the climate issue. Vattenfall is investing about SEK 600 million in the pilot plant, which will be commissioned in 2008.

[Break] Pilot film shown

Slide 12 Cover page climate section (penguins)

I have been involved with climate issues for many years. When I speak about the challenges posed by climate change and the solutions that we at Vattenfall advocate, I am sometimes asked, rather often actually, why as the head of an energy company I have become involved in the climate debate. There is no doubt that the use of energy is a strong contributing factor to the climate problem. Our industry manages the resources and produces the electricity and heat that society demands. One would therefore believe that our industry has a great deal to *lose* by putting climate

issues on the agenda and accelerating the process that leads to a situation in which carbon dioxide emissions cost money.

I am convinced that the opposite is true.

In order to solve the climate problem we must change society from the current situation in which high emission levels are standard to tomorrow's society, in which extremely low emissions are the norm. With the knowledge that we possess and the responsibility that we feel, this necessary transition can be accomplished with minimum disruption to the economy and to personal quality of life. Vattenfall is on the forefront of this change and it is my conviction that by being a leader in this process we will also have a positive effect on our competitive situation and therefore on profitability. The climate issue poses serious consequences; through our commitment and concrete initiatives we hope to be a part of the global solution.

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Researchers believe that even a two-degree increase in temperature compared with the situation before industrialisation will have serious consequences. If temperatures continue to increase by two degrees by 2080, researchers believe that a few hundred million people will be afflicted by malaria and a few billion will experience a shortage of drinking water. Add hunger and flooding to this scenario.

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The challenge is growing because global energy consumption will increase, especially in the developing countries. The use of coal as fuel—which is a large source of greenhouse gas emissions—will increase. The most recent forecasts from the IEA even upgraded the importance of coal as a source of energy. Solving the problem of carbon dioxide emissions from combustion of coal is crucial to meeting the climate challenge.

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The challenge is enormous – but we have no choice. It's time to get to work. Vattenfall teamed up with McKinsey to create a “climate map” where we mapped the potential for reducing carbon dioxide emissions in six sectors of the economy and in six regions of the world. The findings can then be compared with the emission levels which climate researchers believe should not be exceeded to keep the temperature increase below two degrees centigrade. The challenge, or the bad news, is that we all have to do our part: rich and poor countries, all parts of society, small and large companies. The good news is that it is possible to achieve the goal and even at a reasonable or small cost if we begin now. Vattenfall is classified under “Power” / “OECD Europe” along with the other European power companies and it is only natural for us to ask the question: what do we do now?

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We mainly work in three ways.

Vattenfall has taken the initiative to form a global business initiative called 3C, Combat Climate Change, which advocates a global cap on greenhouse gas emissions. We are convinced that this is a necessary part of the solution. A global price for carbon dioxide emissions is a key to success. Almost 40 companies support 3C at this time, including General Electric, Lufthansa, BP, Hitachi and the Chinese oil company CNOOC – major companies in different industries, from different parts of the world, which can all contribute to influence future developments.

We also make an effort to help our customers save energy. Today we conduct collaborative projects with major industrial customers such as Holmen and Korsnäs, and with the city of Berlin (where we are working on improving energy efficiency in about 200 public buildings). For private customers we have driven a widely acclaimed campaign to inspire efficient electricity use.

[Break] Light bulb commercial shown.

If each one of Vattenfall's approximately 600,000 customers in Sweden replaced a bulb it would be equal to the power consumption of every household in a community like Flen. In other words it is possible to save vast quantities of energy with relatively small means, which is what we want to show with the bulb. A thank-you gift for coming today awaits every one of you when you leave the meeting. Can you guess what it is?

The third cornerstone of our climate work is naturally what we do in our own plants and in our own operations. At 80 million tonnes annually, Vattenfall is one of the biggest carbon dioxide emitters in Europe. Therefore it is important that we practice what we preach and drastically reduce our emissions.

The pilot project for the "CO₂-free power plant", which you can see here when it was opened by Germany's Chancellor Angela Merkel, is one of our keys to success. You have seen a film describing how it will work. However, this project is just one of Vattenfall's many investments.

We want to work to eliminate carbon dioxide emissions from Vattenfall's plants. We are prepared to make great efforts to achieve this goal, though we do not know how long it will take. We are at the mercy of external factors such as technology development and political decisions, including the establishment of a global price for carbon dioxide to finance the transition. Nevertheless, the goal is set.

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Vattenfall is now working on these five fronts to achieve the goal. As I said earlier, we have an extensive investment programme over the next five years. We will invest a total of SEK 102 billion in electricity and heat generation and a large part of this investment will reduce emissions in one way or another.

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In addition to the pilot plant in Germany I would like to mention a few other examples of the concrete measures we are taking. Even investments in conventional fossil-based power generation, which at first glance perhaps may not seem to be environmentally sound, actually help to reduce emissions through more modern and efficient power plants which force out older, less efficient power plants from the system. Vattenfall has started to build a new lignite-fired power plant in Boxberg, Germany, that will be completed in 2011. An efficiency rate of 44% makes it substantially more effective than the industry average of about 37%, which cuts emissions by a

relative amount. Converted into tonnes, it corresponds with about 1 million tonnes annually in reduced emissions to the atmosphere. We have also prepared this power plant so that we will be able to apply technology for the capture and storage of carbon dioxide in the future.

Anyone who has recently traveled across the Öresund bridge toward Denmark and glanced to the left out to sea may have seen the foundation for Lillgrund, Sweden's biggest wind power park. Vattenfall hopes that the plant will begin to spin this autumn and start to deliver electricity, which in one year will meet the consumption needs of 60,000 households.

A little farther to the east, on Fyn in Denmark, we are building a new CHP plant which will be fired with 170,000 tonnes of hay per year. The Group is involved in many similar projects.

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The type of investments that we are currently making, as well as those that lie ahead in Vattenfall's investment programme, enable us to set extremely ambitious quantitative targets with respect to carbon dioxide emissions as we move toward our goal of eliminating them. As you know, the heads of government in Europe have set the goal of reducing emissions within the EU by 20% by 2020, compared with the base year, 1990. Some people feel that the EU is too radical and that this goal is too high. Vattenfall, however, considers the EU's goal to be necessary and reasonable.

Vattenfall wants to be among the leaders and today we are setting a long-term goal. Vattenfall intends—with retained or even increased electricity and heat production—to cut emissions by 50% by 2030, compared with the base year, 1990. We have already achieved a reduction of about 30% in our plants compared with 1990, and we are setting a goal of reducing emissions by an additional 20% by 2030. What happens subsequently, as I said previously, is heavily dependent on other external factors, but our aspiration to continue to reduce emissions remains unchanged.

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To reach its long-term objective, Vattenfall must reduce emissions by an average of 1 million tonnes annually until 2030, which is the equivalent of emissions from about 400,000 passenger cars every year. We will report annually on the progress of our carbon dioxide emissions, calculated in gram/kWh, so that the world can monitor our path toward our goal. By 2030 we will have reduced our emissions by 50% compared with 1990. We use 1990 as the base year since this was the year used for both the Kyoto protocol and the EU target.

This is a radical change, but with a global price on carbon dioxide it will pay off and by staying ahead of society's requirements we will have an advantage in relation to our competitors.

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Naturally I will not be the CEO in 2030 when we have succeeded in reducing our carbon dioxide emissions by 50%; others will get to celebrate that accomplishment. However, we have set a course for our long-term development and we begin today. To contribute to the regrowth of involved citizens, researchers, politicians and perhaps even employees, Vattenfall and National Geographic are launching a contest for schoolchildren aged 14 to 19. The purpose of the contest is to find the best ideas for sustainable energy consumption to stop climate change and it is being held now during the spring in the countries where we have our operations – Sweden, Finland, Denmark, Germany and Poland. If you have children in this age group I encourage you to go to the National Geographic website and let your children or teachers know about this fun and educational opportunity.

And on that note, I thank you for this opportunity to speak to you today.