

**Honoured owner representatives, ladies and gentlemen,**

Our work this year has been intensive and has focused on the new strategic direction initiated by Vattenfall, which will deliver on the new owner directive announced by our owner prior to last year's AGM and adopted during the extra shareholders' meeting on 23 August 2010. Vattenfall's new mandate is to operate a commercial energy business that enables the company to be among the leaders in developing environmentally sustainable energy production.

Vattenfall is active on competitive markets. Our task is to manage and develop the company's significant assets in such a manner that our owner – the Swedish people – receives a good return. The yield requirement is currently set at 15 per cent of equity. The energy industry is capital-intensive, and lead times are long. There are significant risks associated with regulation, and therefore a great need for regulatory certainty. Our responsibility is to develop the company in the existing and the anticipated market environment to the best of our ability, while simultaneously guiding our operations in an environmental direction.

The EU's shared climate goals – 20-20-20 – are often used as a guideline for the conversion of the energy system. These goals entail the reduction of carbon dioxide emissions by 20 per cent between 1990 and 2020 by the EU as a whole, and an increase of renewable energy as a part of total energy use to 20 per cent by the year 2020. As a control measure on the European level, an emissions trading scheme for carbon dioxide has been introduced. Various types of support systems are used in various countries to stimulate renewable power production. This is the political climate change framework that governs the energy markets.

The existence of shared control measures helps us in our efforts to deliver on yield requirements and environmental goals. We are now beginning to see this.

The shift of Vattenfall's investments in a carbon neutral direction is increasingly evident. In Vattenfall's 2011-15 investment plan – which has decreased 10 per

cent in total – investments in carbon-free power and heat production are increased 20 per cent: from 50 to 60 billion Swedish kronor. Towards the end of the period, investments in carbon-free power and heat production constitute over 2/3 of power- and heat-related investments.

The downside of being a capital-intensive company with long lead times is that changes take a long time to implement. The advantage is that changes have a great impact when they finally start to be felt.

Vattenfall is also a company that arouses strong emotions. This is sometimes due to things beyond our control, and sometimes due to things we ourselves have created. In terms of things beyond our control – such as prevailing energy market rules – we will ensure that we continue to take part in the debate. In terms of the things that we have direct responsibility for, we can ensure that we learn the right lessons and rectify any errors that we commit. Efficient, market-based and transparent corporate governance is crucial in terms of being able to manage the large values that Vattenfall represents.

The past period has been full of measures we have taken following the events that took place during the spring.

The Board of Directors met 14 times during 2010, the Audit Committee met 5 times and the Compensation Committee 7 times. I would like to thank the Board for their work during the past year, as well as former Chairman Lars Westerberg for his efforts for Vattenfall.

When former chairman Lars Westerberg stepped down, an acting Chairman of the Board and deputy Chairman was appointed to head the Board through the next annual general meeting. I was chosen for this post, and since March 18th I have served as Vattenfall's Chairman.

Due to the events during the spring of 2011 concerning the former group CEO's severance pay and the media attention surrounding some German executives' employment agreements, the Board has concentrated on significantly streamlining corporate governance, with new rules of procedure for the Board and the Committees.

In terms of compensation issues, routines have been introduced to minimise the risk of information deficiencies and standard violations. The requirements for documentation, transparency and professionalism in business dealings that Vattenfall's owner and customers have every right to impose as a matter of course are therefore fulfilled. The role of the Committees has been defined, and the CEO reports to the Board regarding matters treated by the Compensation Committee and his subordinate senior officers. The CFO normally submits reports on matters treated by the Audit Committee.

The reorganisation entails more responsibility for the Chairman of the Board, the CEO and the CFO and includes clearly defined areas of responsibility for those posts. In addition, the Board has now decided to establish a separate Security and Risk Committee, tasked with investigating and preparing for the Board issues relating to operational reliability and financial risks.

Vattenfall's 2010 AGM decided to adopt the government's guidelines of 20 April 2009 concerning employment terms for senior management in state-owned companies. Companies covered by the guidelines shall also apply the guidelines within their subsidiaries or provide justification for not doing to. This "comply or explain" model is also included in the formal Code of Corporate Governance.

In view of the large number of subsidiaries included in the Vattenfall Group, the guideline's delineation of employees that are considered senior management would result in a huge number of agreements with national variations falling within the scope of the guidelines. The 2010 AGM has, as in previous years,

deviated from the guidelines' definition of senior management in terms of Vattenfall's subsidiaries.

To be able to systematically determine the members of management that can be considered "senior" within the Vattenfall Group, the generally accepted international calculation model IPE (International Position Evaluation) has been applied. Vattenfall has thereby concluded that, in addition to senior management, managers with positions IPE 68 and above shall be considered senior management. Pursuant to the definition in the government's guidelines, all senior managers are included in the analysis of senior managers delineated as IPE 68 and above. Utilisation of this method identified [16] senior managers in 2010. Of this number, 10 are members of group management and the others are officers employed by subsidiaries. A separate, thorough review of these agreements has been conducted. There are no deviations from the guidelines with respect to Vattenfall's group management. Some discrepancies have been found with respect to senior management in foreign subsidiaries. These discrepancies are rooted in national legislation and practice. Detailed information on this issue is found in Vattenfall's Corporate Governance Report on page 64 and onwards and in Vattenfall's Annual Report in Note 50 to the Group Financial Statements on page 118 and onwards, where discrepancies have been reported.

In addition, this past month Vattenfall's Board initiated an additional analysis of a wider circle of senior officers within the group, aimed at establishing whether the employment terms for these individuals are reasonable, well balanced and competitive in accordance with the guidelines' requirements.

An in-depth analysis was also conducted over the past few months concerning the guidelines' compatibility with German law and practice with respect to employment terms for senior management. An adjustment has been initiated, aimed at making these agreements as compatible with the guidelines as possible without sacrificing competitiveness. This is where we are as of today.

Finally, as our owner has indicated, I have been nominated to serve as Vattenfall's Chairman through the extra shareholders' meeting, to be held no later than June 2011. I am grateful for the trust and confidence that have been shown me, and I intend to continue doing my utmost to preserve this trust and confidence throughout the remaining period of my appointment.

Thank you.