

Øystein Løseth, President and CEO

Thank you, Mr. Chairman.

When I took office as CEO in 2010 we knew that we were in the midst of a difficult period, with low demand for electricity and narrowing margins. At the same time, I, the Board and most people in our operating environment had hopes that Europe's economies would soon recover from the financial crisis and that Vattenfall by now – in 2014 – would once again have entered into a growth phase.

Back then, we still expected that it would be the price of carbon dioxide – through the European emissions trading system – that would drive the shift in the energy industry. From that perspective, it was our most highly emitting plants that constituted not only a climate risk but also the greatest financial risk for the company. But the emissions trading system has not developed in the direction that we wanted and believed in. We still believe that a higher price for carbon dioxide and an effective emissions trading system are the best tools for bringing about a shift in Europe's energy sector. But there is political uncertainty about whether – and in such case when – this tool will be fully effective. Vattenfall's most highly emitting plants – the lignite-fired plants in Germany – still account for a substantial share of the company's revenue, while the state-of-the-art gas plants that have been commissioned in Europe in recent years are not profitable.

The breakthrough for fracking and shale gas in North America have also changed the conditions for electricity and heat production in Europe. In pace with the dramatic rise in the supply of natural gas in North America, the USA has become nearly self-sufficient in energy, and prices have fallen sharply. This has led to a drop in demand for hard coal in the USA, which in turn has resulted in a global surplus of coal. As a result, prices of hard coal in Europe have fallen by about a third since 2010.

As a result of these changes, the financial risk is coming from another direction than what we had anticipated. Instead of coming from plants with higher carbon emissions, today the greatest financial risk for our operations is coming from overcapacity in the market. There is

now a surplus of production capacity throughout Europe at the same time that renewable energy production continues to be added to the market, largely owing to political support systems. Combined with low demand, this is resulting in falling prices. These falling prices are penalising all types of power and all companies, and are making energy production – both in renewables and conventional production – less profitable.

In 2010 we also thought that the work on European integration would be a strong driving force behind the development of the energy market. That picture today is not as clear.

On the one hand, we are seeing an increase in transmission capacity between Europe's countries and in initiatives to extend and strengthen trading in CO₂ emission allowances. On the other hand, we can see that individual member states want to take care of their own capacity reserves and their security of supply. We are also seeing a clearer national development, such as in the structure of support systems for renewable energy, and the manner in which countries treat particularly exposed customers continues to have national overtones.

This greater focus on national, political solutions is also making it increasingly important for Vattenfall to focus on and adapt the various parts of the company to developments in the individual countries – which was also a strong, contributing reason for the organisational change that was implemented on 1 January 2014.

Now for our 2013 results.

Earnings for the year

I am satisfied to have been able to report a higher underlying operating profit by 1.3% for 2013, despite challenging market conditions. The positive result from previous years' forward hedges and successful cost-cutting measures compensated for the effect of lower wholesale electricity prices in Germany and higher costs for purchases of CO₂ emission allowances. During the year we cut our annual operating expenses by another SEK 3.2 billion, particularly through lower operating and maintenance costs, and lower costs for sales and administration. We also showed a strong cash flow after investments.

In terms of production, 2013 was a very good year, with high availability at our plants. Electricity generation increased by 1.6% to 181.7 TWh. In Sweden, our nuclear power plants

generated 52 TWh of electricity, which is the second-highest level since our nuclear power plants began generating electricity nearly 40 years ago. We are now reaping the harvest of recent years' modernisation work at our nuclear facilities; this can be seen in the production result as well as among our customers in Sweden and the Nordic countries. As a result of the modernisation of the nuclear reactors in Forsmark and Ringhals, Vattenfall can plan for an operating life of up to 60 years for five of the seven reactors.

In Germany, the need for electricity from lignite has risen, and Vattenfall's lignite-fired generation had very high availability. At the same time, the Group's wind power generation has increased. Hydro power generation was down for the year due to lower water supply compared with a year earlier.

Write-downs

Operating profit was negative, at SEK -6,453 million. Naturally, this is unsatisfactory. Due to poorer market conditions and higher business risks, in 2013 we recognised impairment losses of SEK 30.1 billion, which were charged against operating profit. These write-downs are mainly due to a drop in the value of assets for conventional gas- and coal-fired electricity generation associated with lower demand in the market.

Cost-savings

Last year we announced that we would increase the level of cost-savings for 2014 from SEK 1.5 billion to SEK 2.5 billion, and we set a new savings target of SEK 2 billion for 2015. At the same time, the investment programme for the five-year period 2014-2018 was scaled back to SEK 105 billion, compared with SEK 123 billion for the years 2013-2017.

Last year we also announced that the number of employees would be reduced by 2,500 by year-end 2014. By year-end 2013 the number of employees had been reduced by 850.

Financial targets

I would also like to report on our performance with respect to the financial targets that were set at an extraordinary general meeting in November 2012:

- Return on capital employed was -2.1%, which is to be compared with the goal of 9% over a business cycle. This is attributable to the write-downs of our asset values. Excluding these write-downs and other items affecting comparability, the return on capital employed was 9.2%.
- Funds from operations (FFO)/adjusted net debt was 19.6%, which is just under the target interval of 22%-30% as a result of slightly lower cash flow (FFO) and a higher level of adjusted net debt.
- The debt/equity ratio increased from 72.1% to 81.8% as a result of the year's write-downs of asset values, which reduced the company's equity. 81.8% is within the target interval of 50%-90%.
- Due to the negative result after tax, the Board of Directors has proposed – in accordance with the dividend policy – that no dividend be paid for 2013.

Vattenfall's sustainability targets

The Board has set three targets for Vattenfall's sustainability work. The first pertains to the company's CO₂ emissions, the second pertains to the company's rate of growth in renewable production, and the third pertains to Vattenfall's work with energy efficiency improvements.

- CO₂ emissions amounted to 88.4 million tonnes in 2013, an increase of 3.4 million tonnes compared with 2012. The goal is that Vattenfall will reduce its CO₂ exposure to 65 million tonnes by 2020. The increase in CO₂ emissions in 2013 is attributable to the commissioning of new power plants, which is in line with our expectations and what we have previously communicated. The path to our 2020 target for CO₂ emissions is mainly through divestments of high-emitting production plants.
- The second target – for renewable energy production – is that Vattenfall's rate of growth in newly installed renewable capacity will be higher than the average rate of growth for ten defined countries in Europe during the period 2013–2020. In 2013 Vattenfall installed 145 MW of new capacity and thereby increased its capacity by 9.1% compared with 2012. Although national statistics on growth in renewable capacity in the reference countries were not available at the time of publication of the Annual and sustainability report, a rough estimate indicates growth between 11% and 15%.
- The third target – which pertains to energy efficiency improvement – entails that Vattenfall will save an average of 1 GWh per day on average, for a total of 365 GWh. Energy efficiency improvements will be achieved through internal efficiency

improvements and by Vattenfall's efforts to help its customers improve the efficiency of their energy use.

We have embarked on a journey towards being a more sustainable company – an undertaking that permeates the entire company's operations. And for Vattenfall, sustainability entails much more than these three targets. We are working daily with safeguarding biodiversity and lowering our emissions of sulphur oxides, nitrogen oxides and particulates.

At the same time, while I can say there is still a great deal of work left to do before the first two sustainability targets for 2020 will be achieved, we still believe that the goals are realistic.

Performance in the respective core markets

Vattenfall is a large company with considerable breadth in its operations. I would like to highlight a few examples of important events in 2013:

Germany

Germany's so-called energy turnaround – *Energiewende* – is having a decisive impact on all of our operations in Germany. We want to be a partner in this energy turnaround and contribute to the goals set by the German government. We are doing this mainly by building offshore wind power off the German North Sea coast and by supporting the cities of Hamburg and Berlin in their sustainability initiatives.

In Hamburg and Berlin, referendums were carried out during the year on the issue of whether the cities should return the electricity, gas and district heating grids to municipal ownership. On 7 February 2014, the sale of Vattenfall's shareholding in the electricity grid company "Stromnetz Hamburg" was completed, while we will retain our ownership in the district heating network for the time being. In Berlin we are striving to retain our concessions for the future.

Netherlands

At the end of February, the first electricity was delivered from the gas-fired Magnum power plant in Eemshaven, in the Netherlands. Unfortunately, only one of three units has been commissioned due to the poor market conditions for gas-based power generation.

During the second quarter, the land-based Princess Alexia Wind Farm (previously known as Zuidlob) was commissioned, with 150 MW in installed capacity.

Sweden

In Sweden, output at reactor 2 at the Forsmark nuclear power plant was raised by 114 MW to 1,120 MW, allowing Forsmark to generate roughly 1 TWh more electricity per year than previously.

At the start of the year, construction was started of the land-based Hjuleberg wind farm, in Halland. With its 33 MW of capacity, it will be southern Sweden's largest land-based wind farm.

In Sweden, it is also gratifying to note that customer satisfaction has continued to improve, and that the number of customers has remained at a stable level.

UK

In July 2013 Vattenfall decided to build two new wind farms in the UK, where we are investing SEK 4.7 billion in installed capacity of slightly more than 260 MW. In addition, we will be expanding the Kentish Flats wind farm offshore England's southeast coast by another 15 new wind turbines.

Positive signs

Much has been said about the challenging situation and the structural transformation that the energy industry is currently experiencing. Against this background, I would like to point to a few of the positive signs that I see regarding Vattenfall's ability to meet these challenges:

- Vattenfall set out at an early stage with the measures needed to adapt the company to the new market situation. We have cut our costs, scaled back our investments, divested businesses outside of our non-core markets and thereby lowered our debt. While the work on adapting Vattenfall to the new market conditions will continue in the years ahead, we must not forget to acknowledge the work that we have carried out to date. We have set tough goals. And we have delivered. For this work, Vattenfall's employees deserve great thanks. The willingness to cooperate and the genuine interest to develop the company that exists among Vattenfall's employees are unique. They are also future success factors for Vattenfall in its efforts to deal with future challenges. I would like to offer special thanks to the trade organisations

and their representatives – we have had fruitful, constructive discussions during the past years.

- I also want to underscore that new technology has a strong foundation in Vattenfall. Vattenfall has a long heritage of developing and employing new technology. We are one of the world's largest producers of offshore wind power, and in this work we have time and again shown how we have used technological development to boost production capacity and improve the efficiency of production. Vattenfall's technical know-how and expertise are also areas that other organisations and actors in society cite when asked about the company. We have good reason to be proud of this – it is a heritage that should be nurtured with care.
- Vattenfall's technical know-how is a matter not only of production and distribution of energy, but also of how our products can be used in new ways. I would point in particular to our partnerships with the car industry, where we now – in addition to Volvo and BMW – have also partnered with Mitsubishi in Germany. Since last year, Vattenfall provides the charging structure, installation and maintenance service, and special electricity contracts for people who buy Mitsubishi plug-in hybrid cars.
- Another example is the five-year electricity supply contract that Facebook signed with Vattenfall for its computer centre in Luleå, with 100% hydro power from the Lule River in northern Sweden. The Nordic region is an attractive place for companies interested in establishing a computer centre, as it offers high delivery reliability and a large share of renewable energy sources. Vattenfall's ability to offer an entirely renewable product was one of Facebook's key criteria for establishing operations in Luleå.
- We are also witnessing the emergence of a new market for customer-centric services, as many customers seek to be more active as consumers – and in certain cases even wanting to be electricity producers themselves, or “prosumers”. New business opportunities are being created for electricity companies that can offer these so-called prosumers access and connection to the electricity grid for solar panels, for example, or which can give customers tools for handling the balance between production and consumption. Positioning our brand in this new energy landscape represents an opportunity for Vattenfall.

My contract with Vattenfall expires in March 2015, and I have informed the Board that I do not wish to renew it. Thus, this is the last AGM at which I will stand before you as CEO of Vattenfall. While I will continue to work at full strength until a new CEO has been installed, I

would like to take this opportunity to thank all of my colleagues and the Board for their great cooperation during my tenure.

I would like to conclude by showing a film featuring the most important advisers that one can have as the CEO of a large energy company – a film presented in the voices of our customers.