Magnus Hall
Vattenfall AB Annual General Meeting 2016

Ladies and Gentlemen:

As you know, Vattenfall and the energy sector are currently in a period of major changes. Prices of commodities and electricity have continued to fall dramatically, which has strongly negative consequences for the entire sector. At the same time, customers are taking on an increasingly prominent role, and we are gradually moving away from a large-scale to a more decentralised energy system, which is presenting us with challenges as well as with tremendous opportunities. This development has also resulted in poorer conditions for fossil-based power generation, so given the prevailing market conditions, we are very satisfied that we have now reached an agreement on the sale of our lignite operations.

We are company with a long history of dealing with periods of both upturns and downturns in the market. In this picture you see our first hydro power plant in Trollhättan. Since then, Vattenfall has endured periods of both strong expansion and consolidation. We have a heritage that we can be very proud of. The expansion of hydro power, nuclear power and the power grid in Sweden laid the foundation for Sweden's base industry and created the conditions for our modern society.

In the early years, security of supply was a priority policy area. In recent decades, climate change and the environment have become drivers of development, which we fully support. The shift to a renewable energy system is clearly the right vision, but it also entails major challenges – not least in view of today's European market, with overcapacity and low electricity prices. The path forward must continue to be characterised by secure, stable and competitive electricity generation.

The market for electricity is under extreme pressure, so allow me to go through the most important factors behind our current situation.

- Demand for coal in Europe has fallen dramatically and is expected to fall further as a result of regulations related to renewable power generation, energy efficiency and carbon emissions. At the same time, fracking and production of shale gas in North America continue to contribute to the global surplus of coal. Low coal prices together with low gas prices are putting continued pressure on electricity prices. This is true not least for the Nordic market, where the price of electricity strongly correlates with the margin cost for coal-fired power plants on the European Continent.
- The overcapacity in the market remains, at the same time that renewable production is steadily rising.
- The price of CO_2 emission allowances is still low since the financial crisis, which was followed by lower demand than anticipated.

All in all this contributed to a turbulent year for Vattenfall, with low electricity prices both in the Nordic countries and on the Continent. Let's take a look now at our financial results for 2015.

Vattenfall reported an underlying operating profit of SEK 20.5 billion for 2015, which is a decrease of SEK 3.6 billion compared with 2014. Despite stable production volume, earnings have thus declined due to the price effect. Recognition of substantial impairment losses was necessary during the summer as a consequence of falling electricity prices and new regulatory requirements in Germany, which affected the risk in our lignite operations. We took the decision on an earlier closure of

Ringhals 1 and 2, as we no longer saw conditions for profitable generation against the background of the continuing investments that would be required to operate the plants until 2025.

Necessary cost-cutting measures are continuing, and we have reduced our cost base by roughly 30% (approximately SEK 15 billion) compared with 2010. Despite this, the impairment losses during the year once again left us with a negative result after tax of minus SEK 19.8 billion for 2015.

- Return on capital employed was -8.2% (-0.7%), mainly owing to the impairment of asset values during the year by a total of SEK 36.8 billion. Underlying ROCE was 7.4% (8.2%).
- Funds from operations (FFO)/adjusted net debt was 21.1%, which is an improvement compared with 2014 (20.3%), but still below the target interval.
- The debt/equity ratio was 55.4% (61.9%) and is at the lower end of the target interval of 50%-90%. The improvement is mainly explained by lower net debt.
- In view of the negative result after tax, the Board of Directors proposes – in accordance with Vattenfall's dividend policy – that no dividend be paid for 2015.

During the year we continued the shift of our company portfolio as part of our efforts to adapt to the new energy landscape. We commissioned a total of 445 MW of renewable capacity and inaugurated the DanTysk offshore wind farm in Germany. We also entered into partnerships with financial investors. Four onshore wind farms in Sweden are today co-owned with the insurance company Skandia, and one of our largest offshore wind farms, Ormonde in the UK, is currently co-owned with the pensions company AMF. Partnerships are a tool for Vattenfall that enable higher investment capacity and a faster pace of investment, allowing us to utilise our expertise in building and operating wind farms. In addition, we have invested in large-scale solar energy in the UK and see clear synergies in building this adjacent to existing wind farms, where we can utilise the infrastructure and thereby lower the investment cost.

Parallel with this we also divested the Nordjylland combined heat and power station to the Danish district heating company Aalborg Forsyning. In doing so we have thereby sold all of our fossil-based power plants in Denmark, which altogether has reduced our carbon emissions exposure by approximately 3 million tonnes a year.

During the year we also participated in discussions with the nuclear power commission in Germany that has been created to come up with recommendations on how to finance nuclear power dismantling costs over the long term. This is a very important issue for Vattenfall and other operators in Germany. A significant step has also been taken in the process in Sweden, whereby the Land and Environment Court and the Swedish Radiation Safety Authority (SSM) have now published SKB's applications to build a final repository for spent nuclear fuel adjacent to Forsmark.

We have passed a significant milestone in the company's shift by divesting our lignite operations in Germany. A contract has been signed between Vattenfall and EPH and PPF Investments, which will take over all of our lignite-fired power plants and open cast mines. In view of our expectations for the future price development, the negative impact on Vattenfall's earnings would be higher if Vattenfall were to stay on as the owner than if the operations were sold. The sale also entails that we will lower our carbon emissions exposure by approximately 60 million tonnes, which is more than 70% of our total emissions in 2015. On the whole, profitability of the lignite operations under Vattenfall's

ownership has been in line with our required rate of return. The agreement and the divestment are good for Vattenfall, the buyer and our employees in Lausitz.

I want to also note that Vattenfall today has seven hard coal–fired plants for electricity and heat production in the Netherlands and Germany. As long as Vattenfall operates these plants, we will need to buy fuel. We expect our suppliers to adhere to Vattenfall's Code of Conduct and want to contribute to improvements in the conditions at mines and to making the supply chain for coal more transparent. We have a process for on-site evaluation of suppliers, and we are working continuously with follow-up and dialogues in civil society. Last year, representatives from Vattenfall participated in a delegation to Colombia as part of our on-site monitoring of conditions.

Today we are seeing clearly higher political ambitions with respect to climate change. The COP21 climate conference that was held in Paris was clearly the high point in 2015 with an agreement to keep the rise in Earth's temperature below 2°C and to limit the increase in global warming to 1.5°C. To do this, there must be a functioning market mechanism that creates clear business opportunities. When politics and business work hand-in-hand, such a transformation can gain serious momentum. A key aspect in this context is to develop and strengthen the EU Emissions Trading System.

In line with this transformation, Vattenfall aspires to be a driver of development toward a 100% renewable energy system in Sweden. We have all of the right conditions in our country: hydro power, large sea and land areas for wind power, and forests. However, it is important that such a transformation be given time in order to be socio-economically feasible and to maintain stable system conditions.

In this respect, Sweden's existing nuclear power is of utmost importance. In order to make a transformation in a resource-efficient way, nuclear power will need to be used throughout its technical lifetime, i.e., until around 2045. Our own study shows that the cost of the transformation would increase dramatically in case of a premature phase-out, and would also lead to higher emissions as quick solutions could be needed to ensure security of supply. An abolishment of the nuclear tax is needed in order to secure continued operation of our nuclear power plants. A transformation at the right pace is necessary in order to have enough time to build out transmission capacity and also to make use of technological advancements that will gradually lower the costs for renewable production.

We can ascertain that preservation of Sweden's nuclear power is necessary for achieving a 100% renewable system in Sweden in an economically feasible manner, and during the time until then, for guaranteeing secure and reliable energy production. Combined with falling electricity prices, the current nuclear tax is contributing to a critical situation in which none of our reactors are profitable. At the same time, both Ringhals and Forsmark require safety upgrades during the coming five years for continued production during their entire technical lifetimes. We are aware that this issue is high on the energy commission's agenda, and we have made it clear that abolishment of the nuclear tax is decisive for the future of nuclear power and thus also Swedish industry's competitiveness in the decades ahead.

Hydro power is a prerequisite for an energy system that is moving toward increasingly renewable energy production. I am convinced that hydro power will play a central and key role in tomorrow's energy system on account of its ability to deliver regulating power in situations where intermittent

energy sources such as solar and wind are growing. Also here, property taxes need to be lowered to the same level as for other industrial operations in Sweden.

There is no doubt that hydro power is also being challenged today. In addition to low electricity prices, unfortunately it is uncertain which choices Sweden will make in interpreting the water framework directive and how this will affect hydro power generation. On top of this, hydro power is being severely hurt by property taxes. For 2015 Vattenfall paid just under SEK 3 billion in property taxes for our Swedish hydro power plants. At the same time, our plants are in great need of modernisation. Due to the continuous need of investment in existing hydro power plants, we need a sustained electricity price of approximately SEK 0.27-28/kWh or, alternatively, a dramatic reduction in property taxes from the current level. With the current price and tax situation, availability of our hydro power will gradually deteriorate.

Let's take a look forward now. At the same time that conventional power generation is in a difficult situation, an exciting development is taking place in renewable power generation and on the customer side.

Customers today have already taken on an increasingly prominent role, and it is clear that energy companies of the future must operate on the customers' terms in order to be successful in tomorrow's energy market. Customers are seeking solutions for producing their own energy, and the system needs to be adapted to accommodate decentralised production. In addition, customers expect smart, environmentally correct solutions that also help them improve the efficiency of their energy use. In this area we have great opportunities to develop our business together with our customers and in collaboration with partners. As an example, today we offer charging infrastructure for electric buses, where we are working in close cooperation with Stockholm's mass transit company SL and Volvo.

Technological development is moving forward at lightning speed. In parallel with dramatically falling costs for wind power, solar energy and batteries, innovative solutions and products are sprouting as a result of digitalisation. For example, today customers have tools to conveniently regulate and remotely control their energy use. It goes without saying that we must be active in these areas, and there is enormous potential in our established customer relationships that we must capitalise on. We will continue to listen to our customers and adapt our offerings in pace with development.

The energy market is becoming increasingly regulated, and there is a distinct ambition to gradually phase out power generation that is based by fossil fuels. Renewable electricity generation will thereby increase in significance and size. At the same time, the flexibility of large-scale production will increase in importance, and we see that gas, biomass and hydro power will be system-critical for the ability to handle fluctuations in the system for supply and demand.

Vattenfall has very good prospects for success in the new energy market. I can gladly begin by pointing to our employees. It is a pleasure to have the opportunity to lead a company with such competent and motivated people. Let's call it a desire for revenge. We will take advantage of what we have and continue to create the right conditions for a healthy work environment that is characterised by a focus on results, safety, and a commitment to our most important issues.

Naturally, one of these issues concerns our customers. Today it is more important than ever that we base our work on the customer's terms and on how we can create value added. We are firmly committed to being a leading, customer-centric company that offers attractive energy solutions. The electricity grid must maintain high quality and enable the shift to a renewable system. Our trading operations and dispatch must adapt by utilising synergies with the company portfolio and developing new business areas, among other things by focusing on aggregation of decentralised production.

Wind power will continue to be a priority growth area that is entirely in line with our shift in the energy mix. We can be proud of our current position as the second largest in Europe in offshore wind power and as a leader in onshore wind power in Sweden. In nuclear and hydro power, we are continuing our work on achieving increased cost efficiency. It is also important that we develop this part of the portfolio towards greater flexibility in a market with a higher share of renewable energy sources. Our heat business will be a natural community partner in which we can play a role in optimising the entire value chain in urban networks and provide heat, cooling and efficient heat and electricity production.

Last, but not least, I want to emphasise that sustainability must permeate the entire value chain. It should be a natural and integrated part of the entire company, from strategy and decision-making to the daily operating activities. Vattenfall will be a climate-neutral company by 2050. In the end, everything we do must also contribute to bringing the company back to satisfactory profitability. This requires, among other things, that we continue with our cost-cutting programme and that we critically scrutinise our investments.

One prerequisite for sustainability issues to make their mark on all our operations is, of course, that they are included as part of our corporate governance. In December the Board took an important decision by adopting six new strategic targets that have now replaced our previous sustainability targets. In doing so we are demonstrating more clearly that strategy and sustainability go hand-in-hand.

The six strategic targets for 2020 are:

1. Customer loyalty, NPS (Net Promoter Score): +2 NPS relative
2. Commissioned renewables capacity: ≥ 2,300 MW
3. Absolute CO_2 emissions pro rata: ≤ 21 Mtonnes
4. Return on capital employed: ≥ 9%
5. LTIF (Lost Time Injury Frequency): ≤ 1.25
6. Employee Engagement Index: ≥ 70%

Vattenfall has a clear idea about what kind of company we want to be in the future. Our goal is to continue to be a driver of development toward a renewable energy system. By 2025 we aim to hold a position as a leading producer of renewable energy and at the same time offer attractive energy solutions to up to 11 million customers.

It is important to note that such a shift also significantly reduces Vattenfall's business risk. We are now continuing to grow in businesses with stable and controlled cash flows, such as wind power, heat and distribution. In parallel with this, the customer will continue to be front and centre. It

should feel secure and simple to choose Vattenfall as a partner and supplier of energy solutions. We will always prioritise sustainability as a model for meeting customers' needs.

Finally, I want to note that we of course are dependent on various forms of cooperation to succeed with our transformation. In this context we want to be regarded as an attractive, competent and responsible partner. As an example, we have initiated a project together with SSAB and LKAB in which we are seeking to achieve a long-term solution to the carbon dioxide issue in the steel industry. The goal is to develop a steel production process that emits water instead of carbon dioxide. It is also natural that high growth ambitions require financial partners. In addition to Vattenfall's partnership with the pensions company AMF in the Ormonde offshore wind farm in the UK that I mentioned earlier, today we also own onshore wind power together with the insurance company Skandia in Sweden.

We have already shown that collaboration can play a decisive role for the company in several areas. We will build upon the experience gained from these for the future.