

STRONG YEAR IN 2008

2008 was yet another good year for Vattenfall. In view of the general economic decline in Europe, the fact that the Brunsbüttel and Krümmel nuclear power plants were at a standstill during the entire year, and considerably higher costs for CO₂ emission allowances, I feel we have reason to be satisfied with the result for the year. Vattenfall's net sales increased by 14.6% to SEK 164,549 million (143,639), and operating profit rose 4.6% to SEK 29,895 million (28,583). The return on equity decreased to 13.6% (17.6%). However, this decline is mainly attributable to a positive, nonrecurring effect on the preceding year's earnings due to the reduction in the German company tax rate.

The financial crisis has affected Vattenfall, but to a considerably lesser extent than many other companies. Electricity and commodity prices rose steadily during the first half of the year, but then fell back sharply during the autumn as a result of the financial crisis. However, sharply falling electricity prices during the autumn had only a limited impact on earnings due to Vattenfall's price hedging.

Vattenfall's stable finances are a strength, which became apparent in November 2008 when the company's bond issue was oversubscribed nearly four times. These uncertain times are also giving rise to opportunities, where Vattenfall can benefit from its financial strength to advance its positions. During the year, Vattenfall carried out three acquisitions in the UK and acquired a stake in a large energy company in Poland. After the end of the financial year, in early 2009, Vattenfall made an offer for 100% of the shares in the Dutch energy group Nuon. Nuon will form a third regional Business Group of Vattenfall. After the acquisition, Vattenfall will have combined electricity generation of approximately 185 TWh. We have clearly pointed out the Benelux countries and the UK as highly attractive regions, and I am very pleased to note that we are now establishing a strong position in Benelux and have begun our establishment in the UK.

In 2008 our work on giving our customers better offers and service continued to generate results. In the Nordic countries, our Customer Satisfaction Index (CSI) score improved from 62 to 69 compared with a year ago, and we are one of the companies that is gaining the most customers in the market. In Germany, where Vattenfall lost many customers in 2007, we reversed the trend in 2008, and customer numbers are increasing once again. Customer confidence is Vattenfall's most important asset, and even though much work remains to be done until we have

achieved a satisfactory level of customer satisfaction, we are on the right path.

Safe operation of our plants is the foundation of our business and a prerequisite both for profitability and earning the trust of people in our business environment. Work is being conducted throughout the Group on continuous improvement and building a strong safety culture. In 2008 the company's two nuclear power plants in Germany were off-line as a result of inspections and technical improvements. They will be restarted as soon as this work is completed, which is being conducted in close dialogue with the German authorities.

On track to a climate-neutral operation

In many respects, 2008 was the year of wind power at Vattenfall. In June the Lillgrund wind farm in the Oresund Strait was inaugurated by His Majesty Carl XVI Gustaf, King of Sweden, and Sweden's Deputy Prime Minister, Maud Olofsson. During the autumn, Vattenfall acquired the companies AMEC Wind Ltd and Eclipse Energy UK Plc, as well as the Thanet Offshore Wind Ltd wind farm – all in the UK, where we already own the Kentish Flats offshore wind farm. In addition, in partnership with ScottishPower Renewables, Vattenfall will be participating in the tendering process for the continued expansion of offshore power in Britain.

The wind power investments in the UK are one of many examples of how Vattenfall is working actively and methodically in accordance with our strategic direction, which we summarise in the three words Making electricity clean. These three words embody our promise to customers and society, and an integral part of this strategic direction is our climate vision: to make Vattenfall's operations climate-neutral by 2050.

The climate vision is Vattenfall's answer to the gigantic challenge presented by the major emissions of greenhouse gases and the accelerating warming of Earth's climate. The world's leaders are in agreement that this perilous trend must be slowed and, over time, reversed. Responsibility for this rests with all of us. In December 2008 the EU adopted binding climate targets that entail that CO₂ emissions must be reduced by 20% by 2020, that the share of renewable energy shall be 20%, and that energy consumption shall be reduced by 20% by 2020. Vattenfall supports these goals and is committed to being one of the European companies that makes the greatest contribution toward them. European

leadership on the climate issue is a key to success in the international negotiations set to take place in Copenhagen in December 2009, which Vattenfall hopes will lead to a global climate accord.

Of course, the journey to a climate-neutral Vattenfall does not follow a single path, but several different ones. Up until 2020, the expansion of renewable energy sources such as wind power and biomass will be our most visible contribution to Europe's climate goals. Total carbon emissions can be reduced by combining biomass with fossil fuels in conventional power plants. Further development of existing nuclear power is also a vital step. Most important over time will be the adoption of the emerging CCS technology, which makes it possible to capture and store carbon dioxide instead of emitting it into the atmosphere. In September 2008 Vattenfall inaugurated a pilot CCS plant at Schwarze Pumpe, Germany, and it is our ambition to participate in the EU's programme for demonstration plants on a larger scale. Due to the world's dependence on coal today and in the future, CCS technology can play a key role as a bridge to future energy systems.

One step in the work toward sustainable development involves increasing the share of electricity in total energy use. If more areas were to change over from other forms of energy to electricity, this would contribute to the solution to the climate issue. Heating and cooling buildings with heat pumps, powering energy-intensive industries and – perhaps not the least – powering private cars, are a few areas in which electricity will be gaining considerably in use.

This year Vattenfall's annual report is being published on the same day as the company's Corporate Social Responsibility report. Together these two documents are designed to provide a comprehensive picture not only of the company in 2008, but also in the future as we see it. 2009 is a landmark year for Vattenfall. It was namely 100 years ago that Sweden's parliament made the decision to establish the State Power Board of Sweden, Vattenfall AB's predecessor. We are proud of our long heritage, which coincides with the development of modern society in Sweden. Several of the companies that are today part of the Vattenfall Group are in fact more than 100 years old, and when we celebrate our jubilee and look ahead, it is important that we think not only about what we will be doing in the future, but how we do it. This is why we have chosen to celebrate our 100 years under the banner Making electricity clean.

It is with favourable prospects and with the strength



of good earnings in 2008 that we now face the challenges in 2009 and forward. Long-term profitability is a prerequisite for achieving our climate vision. But the converse also applies: We are convinced that active climate work is a successful business strategy. The energy companies that are first to succeed in adapting to the new demands from their operating environment will be the most profitable. Vattenfall has a good starting position.

A handwritten signature in blue ink, which appears to read 'Lars G. Josefsson'. The signature is fluid and cursive, written over a light blue background.

Lars G. Josefsson
President and CEO