



through efficient operations. All our business units aim to be leading in their fields. In order to measure our success, we introduced our Key Performance Indicators (KPI). We have created a positive development spiral linked to market development. However, this is only the beginning, as the market and the world around us continues to change.

Power supply is global, in terms of both supply and demand. The greenhouse effect and measures to deal with it require joint efforts from all of humanity. A secure power supply demands an open global economy based on mutual acceptance and understanding. Well functioning open markets are necessary to achieve social-economic efficiency. This development requires that every part of the value chain covers its own costs – environmental costs and other

external effects must come at a price; compound subsidies must be abolished.

### **We are facing major challenges**

Power companies are facing major challenges. Market conditions, and therefore energy prices, are changing. Taxes and economic means of control are becoming a larger part of the consumer's energy price. Most factors indicate that energy will become a resource of ever increasing value. This will lead to gradual adaptations in customer consumption patterns and improved energy efficiency. The energy supply is also facing major technical challenges. Carbon dioxide-free technology based on renewable energy sources, the separation and storage of carbon dioxide and new nuclear power are of inter-

national interest. We will see new solutions and more advanced facilities with increasing greater demands regarding functionality. The demands on business and its role are undergoing great changes. The power companies of today and the future need to be extremely competitive and also – well informed – about the world in which they operate.

At Vattenfall, we perceive this wave of change as a series of opportunities. The challenges must be transformed into commercial activities; which requires that the solutions must be in place for when the right market conditions arise. We are committed to continually develop our resource base to take advantage of these opportunities. Long-term investments and risk-taking requires large-scale companies that can combine competence with financial resources. This annual report shows that we are now considerably better equipped than we were five years ago. We are investing in future technologies, in a proactive role in the market and in an open dialogue with the world around us. By standing for modern and successful business, we can realise our vision to be a leading European energy company.

### Energy solutions for a sustainable development

Our ambition is to run our plants in the best possible way and to stay a step ahead of the competition. It is about everything from environmental efficiency in our daily work to investments in major changes. In 2005, we took some important steps. We have declared our ambition in the shape of a new environmental policy. According to this policy we shall, when making investments, make a sound assessment balancing environment and economy. We shall also do our utmost to choose modern, efficient and environmentally-effective technologies.

We have decided to invest in a pilot installation to develop carbon dioxide-free coal-fired power technology. Construction at our Schwarze Pumpe plant in eastern Germany will begin this summer. Dealing with the greenhouse effect in a responsible manner demands a global price for carbon dioxide. Vattenfall has been deeply involved in this issue: in January 2006, we published a report entitled “Curbing Climate Change – An outline of a framework leading to a low carbon emitting society” (the report can be downloaded from [www.vattenfall.com](http://www.vattenfall.com)). We will continue to work to persuade our industry, and trade and industry as a whole, to act together on this issue and demand a sustainable market-based global solution.

It is our job and our responsibility to contribute to the development of energy solutions suited to sustainable societal development. Such solutions must include consideration for nature, customers, employees and society in general. This requires size and financial clout. Vattenfall's knowledge about customers, technology and the market contributes to a more effective energy supply in Sweden as well as in Europe. Vattenfall represents innovative thinking in the European energy sector. We have taken the decisive step on the chosen path and our success ensures that we can continue to grow. Our five strategic ambitions, a recurring theme in this annual report, will guide the way. By being the best we will become leading. Today's resources, wisely used, will create additional resources for both tomorrow and the day after tomorrow.



Lars G Josefsson  
President and Chief Executive Officer

## IMPORTANTEVENTS

### Storm caused major network disruptions

In January 2005, southern Sweden was hit by a widespread storm with hurricane-force winds. The damage to forests, infrastructure and the electricity network was enormous. Vattenfall's costs for network repairs, disruption guarantees, damages and additional work amounted to more than SEK 500 million.

### Major acquisition in Denmark

In April, Vattenfall acquired 35.3 per cent of the shares in the Danish company Elsam for approximately SEK 10.3 billion. In June, an agreement in principle was signed with the Danish oil and gas company Dong in which Vattenfall, in exchange for shares in Elsam and our holdings in Avedöre 2, acquires production assets. (Read more on pages 36 and 64).

### Open annual general meeting

On 26 April, Vattenfall held its first open annual general meeting. Previously, the meeting had only been open to members of the Swedish parliament. More than 250 people attended the meeting. After the formal procedures, the public was offered the opportunity to pose questions directly to the Chairman of Vattenfall's Board of Directors and Chief Executive Officer.

### Closure of Barsebäck

In line with government decision and current law the Swedish nuclear power plant Barsebäck 2 was closed down on 31 May. Following negotiations between the Swedish state, E.ON and Vattenfall, an agreement was signed in November on fair compensation for the loss of production from Barsebäck 2 (see page 65).

### Pilot installation for a carbon dioxide-free coal-fired power plant

In May, Vattenfall announced that it will build the world's first installation for a carbon dioxide-free coal-fired power plant based on so-called oxyfuel technology<sup>1</sup>. The installation will be built adjacent to

1) Carbon dioxide from the combustion process is captured, liquefied and finally stored in the bedrock.

Vattenfall's coal-fired power plant Schwarze Pumpe in eastern Germany with an investment of approximately SEK 370 million. The plant is expected to be put into operation in 2008.

### Investment in wind power

In October, Vattenfall decided to build a wind power farm at Lillgrund in Öresund. Lillgrund represents the largest investment in wind power in Sweden and one of the largest in Europe. Vattenfall has also acquired the rights to develop the Swedish part of Kriegers Flak in the Baltic Sea.

### New energy law in Germany

On 13 July, the new German energy industry act (EnWG) came into force. As a result, the new German network regulator, Bundesnetzagentur, was able to begin its work. Initially, all tariff changes must be approved in advance by the regulator. The aim is to make the transition to an incentive-based regulatory model in 2007.

### Squeeze-out of minority shares in Germany

In August, Vattenfall announced that its shareholding in the listed German subsidiary Vattenfall Europe AG exceeds 95 per cent. In December, the decision was made to hold an extra general meeting in March 2006 at Vattenfall Europe AG for a decision on the squeeze-out of the minority owners' shares.

### A common brand is being built

On 1 January 2006, Vattenfall's German subsidiaries Bewag and HEW, as well as the Polish subsidiary EW was renamed Vattenfall and in Vattenfall's Polish subsidiary GZE the business units now operate under the Vattenfall brand.

### Increased energy taxes in Sweden

The Swedish parliament decided to increase property tax on hydro power as well as the tax on installed nuclear power capacity, effective 1 January 2006. For Vattenfall, this entails increased annual costs of approximately SEK 1.5 billion.