

STRATEGIES FOR EUROPEAN LEADERSHIP

After a period of rapid growth, Vattenfall has been working to consolidate its operations since 2001. This work has primarily consisted of two aspects: improving the company's ability to create value and to integrate and consolidate acquired companies. Both aspects have been carried out with successful results.

Future strategies will focus primarily on Vattenfall's vision: to be a leading European energy company. This shall be achieved primarily through profitable growth. At the same time, Vattenfall must continuously strive to maintain and further enhance operational efficiency in an industry where increased competition and price squeezing are expected to continue.

The power industry has entered a new development phase, one in which Vattenfall sees many opportunities, including:

- The aging state of power plants in Europe and the resulting need for replacement facilities creates interesting opportunities for investment in new power generation.
- Consolidation of the European energy market creates opportunities for new acquisitions.
- Our experience with competitive markets and with integrating acquired companies makes Vattenfall well equipped to act offensively.
- Our strong position in Northern Europe can be further developed.
- Vattenfall's experience with various types of power provides a strong base upon which to develop the company's production facilities in order to achieve increased efficiency and meet tougher environmental demands.

There are also challenges, however, to be faced on the road towards our vision, such as:

- Competitors continue to expand and can gain a more dominant position in Vattenfall's home markets.
- Possible changes to legislation and taxation can affect Vattenfall's competitive edge and ultimately decrease our profitability.
- Institutional decisions, on both European and national levels, such as those regarding the allocation of emission allowances, can affect Vattenfall's competitive edge negatively.

Vattenfall has formulated a number of strategic ambitions that govern future decision-making and investments. All of these have a common guiding principle: to contribute to our efforts to be a leading European energy company.

Our five strategic ambitions

To continue the profitable growth

The past five years have seen Vattenfall's sales quadruple, while we have simultaneously created a good platform for future growth. Profitable growth is required if Vattenfall is to continue to be competitive, to create value and to be a positive force in the industry with regard to contributing to sustainable development in society. Size provides a range of strategic advantages, such as market position, financial strength and the ability to balance risks. There are also operational advantages, such as more cost-effective procurement and more effective administration, which also increases profitability.

How?

- ☒ Regularly evaluate possible acquisitions and investments in increased capacity and ability to deliver. Geographic expansion will primarily take place in or around those regions where Vattenfall is already established.
- ☒ Grow with a focus – even in the future – on being a vertically integrated power company with a focus on the generation of electricity and heat. Natural gas can also be an attractive acquisition area, partly as a source for heat and electricity generation and partly with consideration for the increased convergence between the electricity and gas markets.

To become the benchmark for the industry

Increased competition and price squeezing will be an enduring trend in the European energy market. In order to meet this challenge, and to maintain our competitive edge, Vattenfall must continue to focus on operational efficiency and value creation. In recent years, Vattenfall has been considerably streamlined and we have reduced our costs, but this has primarily taken place on a regional level. The next challenge is to take advantage of the synergies and opportunities for optimisation throughout the company and in this way facilitate expansion while retaining good profitability.

- ☒ Broaden optimisation work to encompass the entire organisation.
- ☒ Continue to improve our follow-up systems.
- ☒ Implement strategies for taking advantage of economies of scale in IT investments and purchases.
- ☒ Further improve and centrally coordinate capacity management.

To become "Number One for the Customer"

Vattenfall has approximately six million customers. Having satisfied customers that have confidence in the company is both a requirement and a condition for gaining acceptance for the company's operations and being able to develop new solutions. The goal is for us to gain market shares while continuing to increase customer satisfaction – all the while with retained or improved profitability.

- ☒ Guarantee competitive pricing while providing the best possible service.
- ☒ Create a united brand covering all parts of our company in order to meet the customer in an enhanced and more distinct way.
- ☒ Simplify things for customers in all points of the sales chain.
- ☒ Measure and follow up on customer satisfaction in order to carry out improvement measures.
- ☒ Create coordination between customer service in all business units.

To become "Number One for the Environment"

The challenge for the energy industry is to contribute to the sustainable development of society while continuing to grow. At the same time, knowledge concerning the environmental problems we must face continues to grow. In light of globalisation, technology development and a transition to stricter legislation, the relevance of our ambition to lead the industry in environmental issues has been further underlined. Our goal is to find solutions that reduce carbon dioxide emissions and to have a leading role in renewable electricity and heat generation.

- ☒ Invest in energy production that generates little or no carbon dioxide emissions and technology to reduce emissions in the fossil-fired power plants.
- ☒ Increase capacity in existing facilities that do not generate carbon dioxide.
- ☒ Continue to invest in wind power and increase the proportion of biofuel, assuming attractive commercial conditions.
- ☒ Increase efficiency in the generation and transmission of electricity.
- ☒ Create better systems and processes for controlling and following up on environmental work.

To be the employer of choice

Vattenfall's success is dependent upon our having good leadership, the right competence and highly dedicated employees. Vattenfall is facing a generation shift that entails major challenges. At the same time that people with unique skills leave the company, students' interest in technology is decreasing. Vattenfall, however, has the resources and strategies to create the conditions required to attract, develop and retain leading expertise and motivate employees to perform to the best of their abilities.

- ☒ Strengthen leadership through a first-class management planning process and a Group-wide program for management development.
- ☒ Carry out long-term strategic competence planning throughout the Group.
- ☒ Develop employee competence on an ongoing basis, based on business requirements.
- ☒ Conduct the annual "My Opinion" employee survey in order to secure a basis for improvement work and strengthen employee commitment.
- ☒ Offer all employees a safe, healthy and stimulating working environment, on both the physical and psycho-social level.
- ☒ Continue to develop flexible compensation and benefit models that support the Group's long-term goals.