

Commodity Markets at a Glance

April 2008

Market Letter by Vattenfall Trading Services

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1. GERMAN POWER: Firm markets

The beginning of the maintenance season combined with very cold temperatures pushed day-ahead prices up in the first half of April. Warm weather and a better wind production eased the tension on the spot in the second half of the month.

In April, day-ahead base opened at 61.11 EUR/MWh and continuously rose to 98.68 EUR/MWh on 10 April on the back of cold temperatures and a low wind production. The beginning of the maintenance season in the first week of April and unexpected outages led to a tight supply situation throughout the whole month. Higher fuel costs, especially the leaping gas prices, fully impacted the spot market. In the second half of April, the spot quotations eased though still remaining on a firm level well above 60 euros. Warmer temperatures, an increasing wind production, and the extremely good hydro situation in Switzerland with a lot of water inflow expected in the next few weeks added bearish elements to the market. The first snowmelt in the Alps which started end of April exemplified this downward pressure on spot prices softening day-ahead base to 60.05 EUR/MWh on 25 April. Spot quotations at the EEX closed the month at 59.98 EUR/MWh on 30 April. On monthly average, day-ahead base was delivered at 67.46 EUR/MWh, which is 14.10 euros above the average price for the preced-

ing month. The daily traded average volume was set at 396.825 MWh, which is 45.477 MWh below the volume of March.

Figure 1: EEX Base in EUR/MWh

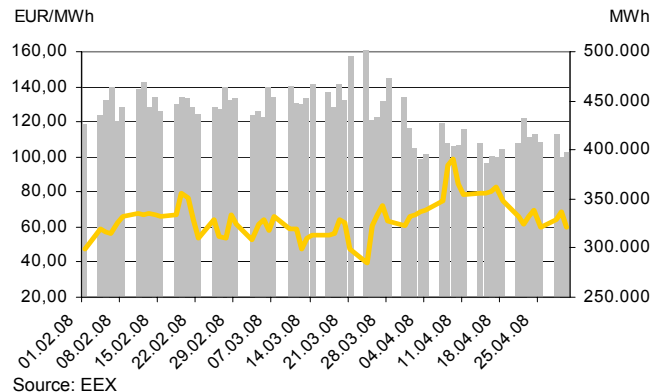
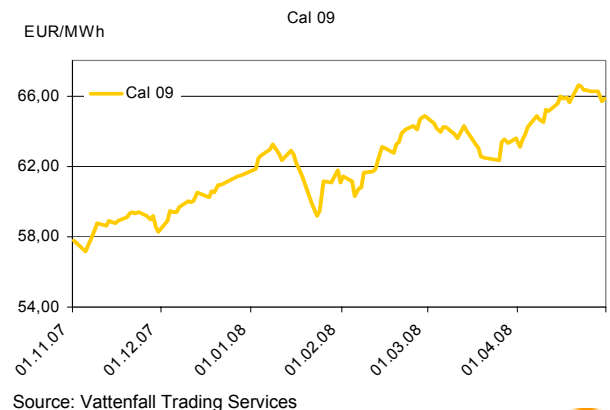


Figure 2: Cal 09 base in EUR/MWh



Commodity Markets at a Glance

In April, the long term market was dominated by a very strong commodity complex being headed by record-breaking oil prices.

The Cal 09 opened the month at 63.08 EUR/MWh and steadily climbed to a new all time high of 66.60 EUR/MWh on 21 April on the back of strong oil, gas, coal and CO2 quotations. Towards the end of the

month the market was slightly pushed down by profit taking and a weaker spot. The Cal 09 contract dropped to 65.80 EUR/MWh on 30 April which is 2.22 EUR/MWh above the closing of March. On average, Cal 09 was traded on a record high of 65.35 EUR/MWh.

2. NORDIC POWER: Turnaround on spot and term market

Nordic Spot prices increased on the back of a weaker hydrological balance and empty reservoirs.

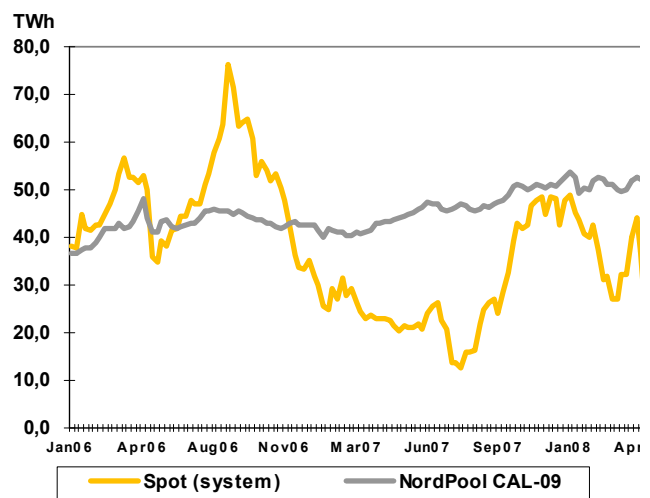
Spot prices turned upwards in April, the month delivering at 37.9 EUR/MWh, which is up some 8.3 EUR/MWh compared to March. The main reason for this movement is a weaker hydrological balance in combination with many reservoirs being empty. The last week in April however showed a decreasing trend in spot prices as very warm weather forecasts indicated that large volumes of snow would start melting. April saw 10.5 TWh of precipitation in Sweden and Norway, corresponding to 109% of normal amounts. Temperatures were some 2.3 °C above normal whereas wind production was about 70% of normal. Exports to the continent were on the whole still very large.

On 30 April the Nordic Cal 09 closed at 52.4 EUR/MWh, up 2.4 EUR/MWh compared to the preceding month. This movement was supported by the strong development both in coal and in CO2. The Q3-08 and Q4-08 contracts also followed the weaker hydrological balance and the strong spot development, closing at 39.1 EUR/MWh (+1.5 EUR/MWh) and 53.1 EUR/MWh (+3.1 EUR/MWh) respectively.

	2008 April	2007 April	2008 March
Avg system spot (EUR)	37.9	22.4	29.6

Source: NordPool

Figure 3: Spot price and Cal 09



3. POLISH POWER: Mixed Development

Spot prices slightly weakened while long-term market shows mixed development.

The average temperatures in April were +8.8°C, which is almost concurrent to the 15-years normal, and below last year's temperature of +10.3°C.

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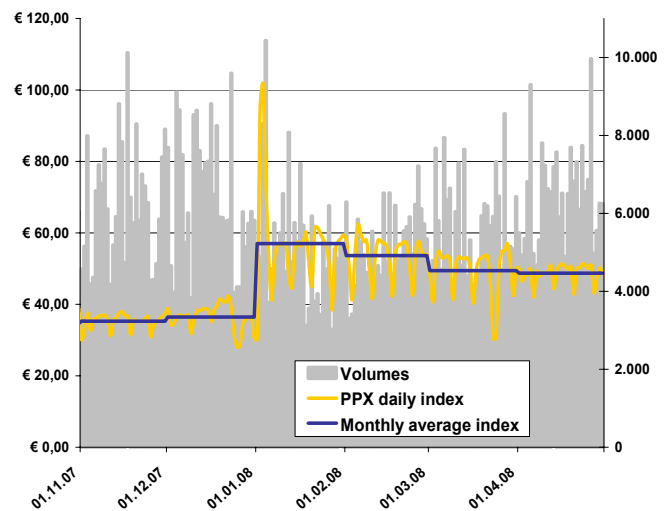
The system monthly demand increased YtY by 6.17%. This huge growth resulted mostly from higher cloudiness. The spot prices in April closed at 167.82 PLN/MWh for base load, 182.85 PLN/MWh for peak load and 155.09 PLN/MWh for off-peak. Compared to March, prices were at a relatively low level, the off-peak being the notable exception, which was higher than in March due to power plant operators being concerned on the allocation of CO2 certificates to the energy sector. Some producers bought energy in off-peak hours. The average spot price on PPX from January to end of April closed at 179.56 PLN/MWh for base load, 219.05 PLN/MWh for peak load and 145.60 PLN/MWh for off-peak load.

Prices in the balancing market were at a similar level as in March (balancing market buy price was at 180.65 PLN/MWh), but this time they were comparable to very low peak prices in April.

Import via SWEPOL link was limited during the whole April. The interconnector even came up with some export hours. Apart from that, all monthly cross border capacity auctions for May and June were cancelled. The CO2 National Allocation Plan for Poland was still not approved mostly because of the dispute on the amount of allowances for the energy sector between the Department of the Environment and the Treasury Department. The latter is aiming to give more allowances to the energy sector in order to prepare the energy groups for Initial Public Offerings. Given the low liquidity in the long-term power market

in the second half of April, most market players seem to wait for a final decision on the NAP. In April Cal 09 was traded up from 185 to 189 PLN/MWh, which also was the closing price. Q3-08 ended with a spread of

Figure 4: Prices and volumes on the Polish Power Exchange



Source: Vattenfall Trading Services

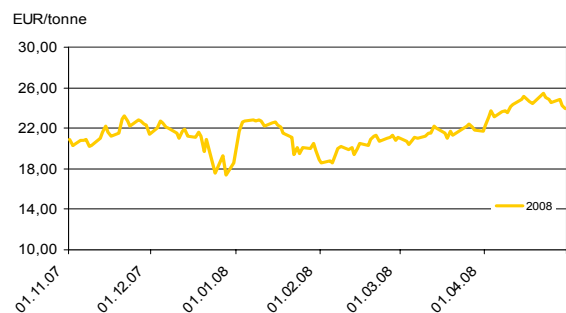
173.50 – 180 PLN/MWh. Q4-08 was traded from 183.10 to 186.45 PLN/MWh closing the month at 185.50 PLN/MWh.

4. CO2 TRADING: Strengthened uptrend

After CO2 had mainly followed the developments in commodity markets in March, the release of verified emission data gave new impetus to the CO2 market.

CO2 contracts started into the month at 22.29 EUR/tonne continuing the steady upward trend which started in February. On 2 April, EU's publication of CO2 emissions data for 2007 sent out bullish signals to the market and pushed the market to 25.46 EUR/tonne until 22 April. According to the report,

Figure 5: European Union Allowances in EUR/tonne on forward market



Source: Vattenfall Trading Services

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emissions from installations in the EU's emissions trading scheme are about 20m tonnes higher than the 2.03 billion tonnes emitted in 2006. All in all 94% of installations have reported their emissions, that is well above last year's figures. The upward trend was supported by exploding gas and oil prices. End of month, CO2 contracts dipped to 23.93 EUR/tonne on the back of a weaker oil price and closing of

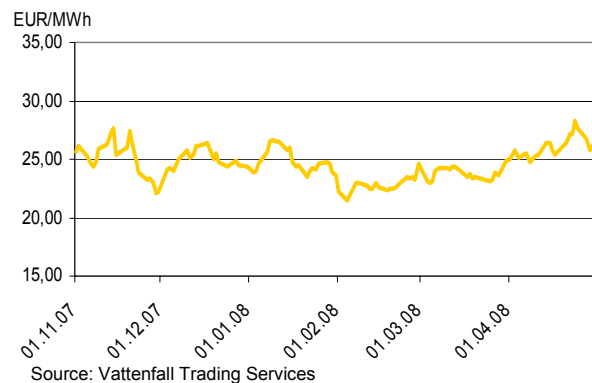
positions. The CER market saw only modest gains in April, which widened the spread to EUA up to 9 EUR/tonne. This development reflects current insecurities about the full functioning of ITL until the start of delivery on 1 December 2008, and EU commission's proposal not to expand the CER cap for the period 2008-2020.

5. GAS TRADING: Alongside with oil market

The gas market was driven by firm oil prices, cold temperatures in Europe and a weaker supply situation than expected.

The NBP front month opened at 24.83 EUR/MWh on 1 April and continuously traded up to 28.28 EUR/MWh on 24 April. This bullish development was driven by a strong oil market in combination with relatively cold temperatures in Europe. Further, less than expected gas flows from Norway added bullish signals to the market. The main driver on the short-end of the curve was the tight supply/demand balance delaying the start of the summer injection programs. A Strike at a refinery in Grangemouth, Scotland, increased the risk premium partially balancing the impact of warmer temperatures towards the end of the April. NBP was delivered at 26.08 EUR/MWh on 30

Figure 6: NBP front month in EUR/MWh



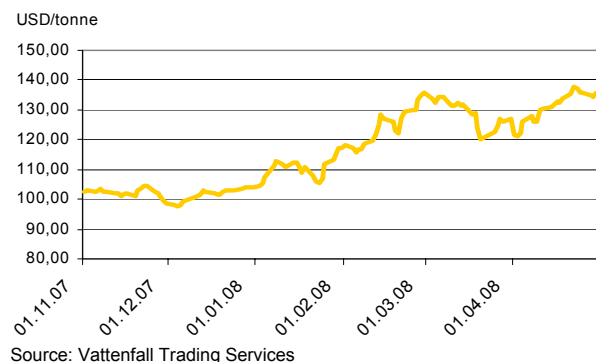
April, which is 1.25 EUR/MWh above the closing of March.

6. COAL TRADING: Chasing new records

After correcting in March, the coal and freight markets moved upward in April again.

During the first week of April, the markets continued to be weak, as there were no urgent supply issues neither on coal nor freight. With Cal 09 API 2 having tested the 120 USD/tonne mark the selling pressure stopped, mainly due to technical support, but also lacking further bearish issues. The possible end of the subprime crisis, a strong commodity complex, and surging EUR vs. USD pushed prices to 137.83 USD/tonne until 22 April.

Figure 7: API 2 Cal 09 in USD/tonne



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Coking coal prices, which settled around 300 USD/tonne for yearly contracts were offered at up to 360 USD/ tonne free-on-board Australia. In 2007, the same product was sold for around 100 USD/tonne. That makes mining coking coal more attractive. Steam coal is relatively unattractive even at current price levels, so available tonnages decrease. China's power coal reserve has fallen to 12 days and the country is expected to be a net importer in 2008. The most upward pressure lay on the Australian (Newcastle) mar-

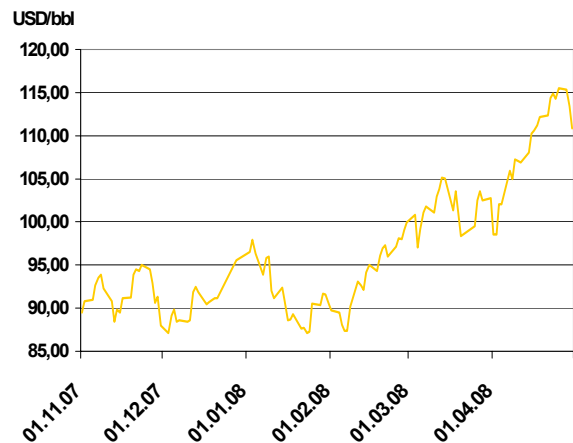
ket, but South Africa (Richards Bay) got healthy support as well. The freight market showed increased volumes and volatility with substantial upward moves. In the spot market there were not enough vessels available, partly due to the starting grain season. Cal09 API2 closed the April at 135.88 USD/tonne with a strong outlook. A new record high was reached the very next day, and spot prices were approaching 150 USD/tonne.

7. OIL TRADING: On the rally

Having rested at a level around 100 USD/bbl in the second half of March, the oil market headed off to new record highs in April.

Brent crude oil for May delivery was traded at 98.54 USD/bbl on 1 April and rallied to a new all-time high of 115.55 USD/bbl until 25 April. The main driver in the first half of the month was the further decline of the US-Dollar with EUR/USD hovering around the record high of 1.60. Improving perception of US economy and further evidence that the supply growth is worse than expected especially in Russia and Mexico pushed prices higher. Demand growth from Emerging Countries was further strong and not showing any signs of weakness. The market corrected end of month in the wake of a stronger US Dollar to level off at 110.86 USD/bbl on 30 April.

Figure 8: IPE Brent Oil in USD/bbl



Source: Vattenfall Trading Services

ABBREVIATIONS USED

API2	All Publications Index at the Amsterdam-Rotterdam-Antwerp Range
CER	Certified Emission Reduction, resultant of an emission-reducing project in developing countries that has been certified
EEX	European Energy Exchange, Leipzig
EUA	European Union Allowance
ITL	International Transaction Log, records transactions of CERs to national registries
NAP	National Allocation Plan, determine the total amount of CO2 that installations covered by the EU ETS can emit in a given Member State
NBP	National Balancing Point, gas hub in Great Britain

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OPEC	Organization of the Petroleum Exporting Countries
PPX	Polish Power Exchange Towarowa Gielda Energii SA
SWEPOL	Submarine cable connecting Sweden and Poland

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