

Commodity Markets at a Glance

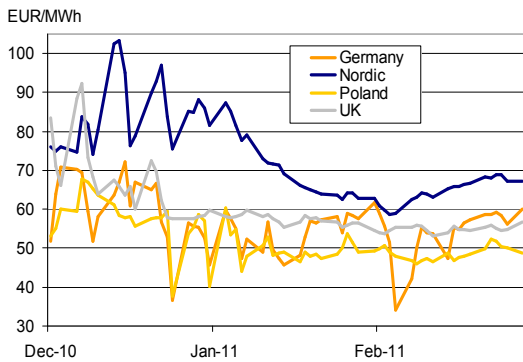
February 2011

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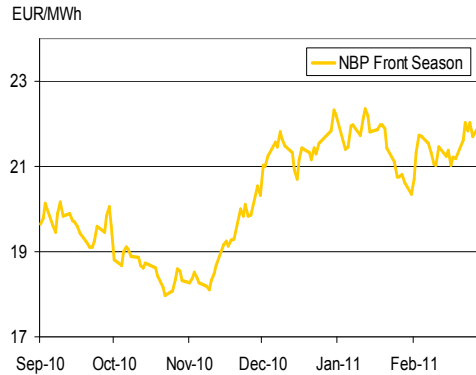
Market Letter by Vattenfall Energy Trading

European Power

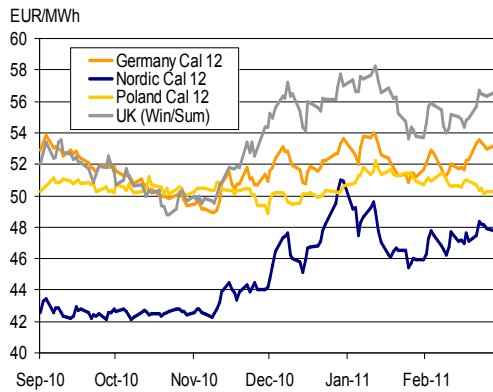
Spot markets: Firming prices



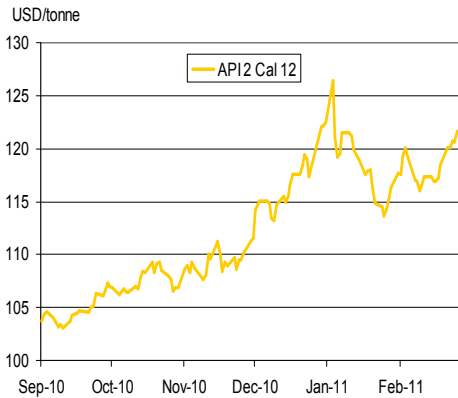
Gas Trading: Record low demand



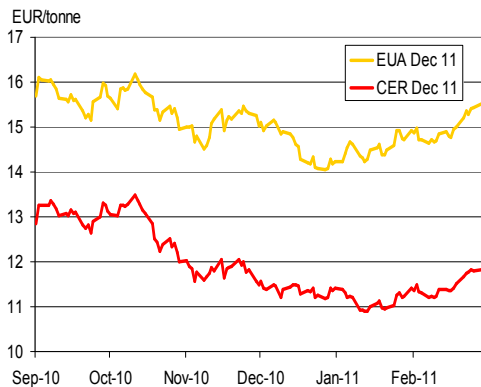
Power term markets: Low volatility



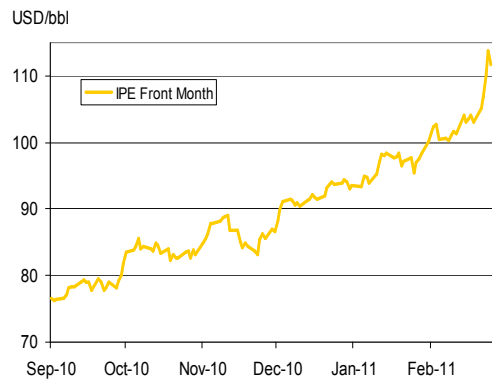
Coal Trading: Low supply and demand



CO2 Trading: Reopening of registries



Oil Trading: Middle East unrest prevails



Sources: EPEX Spot, EEX Power Derivatives, Nord Pool, PolPX, Vattenfall Energy Trading

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1. EUROPEAN POWER

Spot markets: Firming prices

Spot prices on European energy markets started low into February, but had increased slightly by the end of the month. The average Nordic system price lost 5.15 EUR/MWh compared with the previous month. The UK followed with a 2.70 euro downward move. On average, the Polish spot decreased by 1.01 euro and the German spot by 0.73 euro.

[EUR/MWh]	Germany	Nordic	Poland	UK
Current month av	50.86	64.46	48.30	54.33
Last month av	50.13	69.62	49.31	57.02
Difference	0.73	-5.15	-1.01	-2.70

Continental Europe

German Day-ahead Base opened at 58.82 EUR/MWh. At the beginning of the month, the low over Germany led to the highest wind production of over 22 GW ever sold on the German exchange. After a decrease to 34.06 EUR/MWh on 4 February, this triggered negative prices for some hours during the weekend. Overall, the wind production forecast was 13 GWh in the first week of February and almost 7 GWh on monthly average. Towards the end of the month, wind production and temperatures decreased, supporting the spot prices, which closed at 60.15 EUR/MWh. On average, temperatures in February were 2°C. The hydro deficit in the Alps continued due to a lack of precipitation and German exports in the Alps region went up. The daily traded average volume at EPEX Spot increased by 7 GWh to 636 GWh.

Temperatures in France were 1°C higher than normal. Nuclear availability remained high, but decreased slightly towards the end of the month. France imported 730 MWh from Germany on average.

The Benelux market started on a very bearish note with extreme wind conditions and mild temperatures, giving spot prices a massive bias to the downside. Holland kept healthy plant availability during the month, even though it imported power from Germany most of the time. The second half of the month turned more bullish as colder temperatures, very low wind

production and several outages of power plants in surrounding countries gave Benelux prices a bullish impetus. Dutch spot prices closed at 60.15 EUR/MWh on 28 February.

Nordic

The Nordic system opened at 60.92 EUR/MWh. February started with warmer weather than normal, but during the second week the temperatures began to drop significantly. In the east it was particularly cold with temperatures in Finland down to 15°C below normal. High load in Sweden and Finland triggered high morning peak prices on 24 February, with prices above the 100 euro level during one hour. All nuclear reactors were running throughout most of February. Brief outages occurred only in Sweden and Finland. From 25 to 28 February, production at Ringhals 1 in Sweden was halted due to maintenance on the 400 kV line. Load was rather low during that stoppage due both to rising temperatures and the fact that it was the weekend. The hydrological balance moved sideways and inflows were below normal levels. At the beginning of the month, inflows were slightly above average due to warmer weather and more precipitation than normal. During the cold spell as of the second week, inflows decreased to one third of normal amounts. The precipitation outcomes in Norway and Sweden were approximately 11 TWh during January, which is close to normal. Swedish reservoirs stood at 21% of maximum by the end of week 8, which is 24% lower than normal at this time of the year and much lower than at the end of January. Norwegian reservoirs stood at 27% of maximum, which is 26% lower than normal. Natural storage (snow and soil water storage) showed a large deficit, especially in Norway.

Poland

February in Poland was rather cold, with an average temperature of -2°C, which was almost 3°C below normal and 1°C below February 2010. The weather conditions led to higher demand, which increased by 3% compared with January 2011 and was on the same level year-on-year. Due to scheduled maintenance and a few unplanned outages, power supply in February was 4% lower year-on-year. The average price for baseload on PPX amounted to

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48.30 EUR/MWh, representing a 6% increase compared with the previous year. The rise was triggered by higher demand coupled with lower supply. Polish spot price was significantly lower than spot in Sweden (on average by 16.16 euro) and that of neighbouring countries (1.67 EUR lower than in Czech Republic and 2.56 EUR compared with Germany). This resulted in substantial energy export to linked power systems. Tightness in the Polish energy system caused by few unexpected outages resulted in four price spikes on the balancing market.

UK

UK Day-ahead Base opened at 54.04 EUR/MWh and closed at 56.72 EUR/MWh. After a volatile January on the back of changing temperatures, demand and gas storage levels, the market initially calmed down at the beginning of February. Tensions in the Middle East caused enormous fears as oil prices rocketed. In addition, the increased likelihood of delivery disruptions of LNG cargos into Europe supported spot prices in the UK.

Term markets: Low volatility

On the power term markets, prices remained in a sideways channel. In the Polish market, they did not break out of this channel, but showed a slight bearish tendency compared with other European markets.

Continental Europe

The German Cal 12 opened at 52.12 EUR/MWh and went down to 51.25 EUR/MWh on 9 February. By the end of the month, prices had recovered slightly, reaching 53.22 EUR/MWh on 28 February. Overall, Cal 12 prices did not break out of the channel between 51 and 54 euro. The daily traded volume remained at the same level as in January of 1,500 MWh per day.

The Dutch Cal 12 contract started the month on a bullish note, increasing to 53.50 EUR/MWh in the first week of the month, before falling back to 52.50 EUR/MWh mid-month on the back of softer fuels and bearish spot prices. The second half of the month was much stronger, reaching a high of 54.50

EUR/MWh as stronger gas and coal prices as well as bullish spot prices gave more support.

Nordic

Most contracts increased during the month, but contracts further out on the curve decreased less than the front contracts. The change in the weather forecast in the beginning of the month had a significant impact on the front contracts. The Quarter 2/2011 contract had a rollercoaster ride in the first week of February. It opened at 50.05 EUR/MWh on 1 February, peaked at 57.85 EUR/MWh on 4 February and closed at 54.30 EUR/MWh (+3.75 euro). On 28 February the Nordic Cal 12 closed at 47.75 EUR/MWh, which was 1.40 EUR/MWh higher compared with the last of January.

Poland

Liquidity on the term market was healthy, with 1,225 MW of March 2011 contract, 245 MW of April 2011, 248 MW of Quarter 2/2011 and 275 MW of Cal 12 traded in February. Cal 12 traded downwards reaching 50.27 EUR/MWh at the end of the month. March 2011 closed at 46.46 EUR/MWh and April 2011 traded at 45.14 EUR/MWh. Volatility on term products was low and all prices stayed in a narrow corridor. The Polish energy market showed much more indifference toward the turmoil in the Middle East and North Africa than other European energy markets. Neither was it influenced by rocketing oil prices. However, investors' risk aversion resulted in a PLN weakening.

UK

Although prices were volatile, the curve was largely bullish on the back of rising tensions in the Middle East. Supportive coal and oil markets helped to keep the spark spreads in a bullish trend. This was reinforced by news that UK generators were going to shut down inefficient CCGT plants creating a tighter market and putting further upward pressure on margins. Summer 2011 opened the month at 54.64 EUR/MWh and closed at 56.56 EUR/MWh.

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2. CO2 TRADING: Reopening of registries

The CO2 trading focus remained on the term products and supported the December 2011 contract.

Prices for European Union Allowances (EUA) opened at 14.86 EUR/tonne. They reached a low of 14.68 EUR/tonne on 9 February after the EC announced the reopening of five major registries for spot trading on 4 February. A major part of the spot exchanges, however, remained closed, preventing a big comeback of spot trading. As a consequence, prices for the December 2011 contract remained strong, rising to 15.51 EUR/tonne by the end of the month, supported by overall rising commodity prices. The EUA future contracts trading volume on the European Climate Exchange went up from 190 million tonnes in the previous month to 208 million tonnes in February. Prices for Certified Emission Reductions (CER) were slightly less supported due to uncertainties regarding the future of these certificates. CER prices opened at 11.36 EUR/tonne and went up to 11.82 EUR/tonne. The spread between EUAs and CERs slightly increased throughout the month to 3.69 EUR/tonne on the 28 February.

3. GAS TRADING: Record low demand

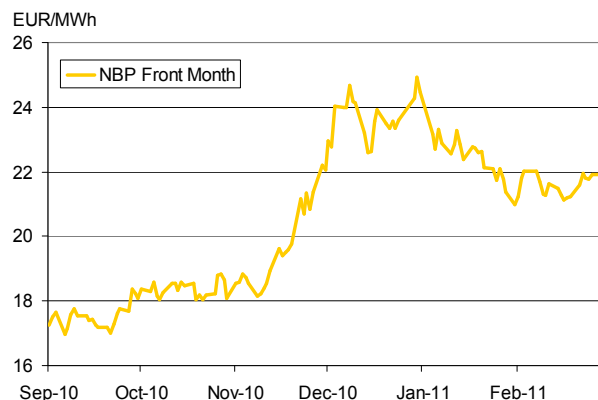
Supply issues counteracted the low demand in February, and supported gas prices.

The March 2011 contract opened at 21.23 EUR/MWh, reaching a low of 21.12 EUR/MWh on 16 February on the back of a weaker prompt market. Subsequently the contract recovered slightly and settled at 21.93 EUR/MWh. Although supply issues exerted pressure on the front-end, warmer weather and the return of flows helped prompt prices to fall in the first half of the month. Demand has been at record low levels for February. Despite low demand, supply problems caused some issues. A power cut at Norway's Kårstø processing plant saw flows through both the Langeled and Vesterled pipelines fall away resulting in a very short system. Gas supply issues have meant that storage has had to come into play and withdrawals have been seen at the long-term

rough storage facilities as well as at the main mid-term storage facilities. The second half of February was dominated by the Middle Eastern and North African unrest and the halt of the Greenstream gas pipeline between Libya and Italy (approx. 10% of Italy's daily gas supply). Fears of further supply disruptions kept up the front (prompt, Summer 2011 contract) and the strong oil market pushed up Winter 2012 and later dated contracts. The interconnector has not seen significant volumes due to the flat basis between the NBP and Zee gas hubs.

The front season, although also losing ground in the first half of the month, has been supported by the Brent oil market. Summer 2011 has been squeezed between a generally weaker prompt and stronger later dated contracts, which are still driven by oil-indexed prices.

NBP Front Month in EUR/MWh



Source: Vattenfall Energy Trading

4. COAL TRADING: Low supply and demand

Volatility and Trading volumes decreased as market participants played safe.

European-delivered coal prices weakened in the first half of February. The risk premium, which mainly resulted from supply disruptions in Queensland, Australia, cooled down with the market assessing that it was somewhat overbought. A period of low and liquidity ensued in mid-February with many

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directionless market players. By this point, the API2 Quarter 2/2011 had fallen from 118 USD/tonne to 113.75 USD/tonne; and the API2 Cal 12 fell from 117.61 USD/tonne to 116.86 USD/tonne on 15 February. What followed was a flurry of buying activity not just in the coal market, but in the whole energy complex as geopolitical unrest in North Africa and the Middle East unfolded. The Quarter 2/2011 API2 contract then rallied to close the month at 118.25 USD/tonne (roughly unchanged month-on-month) and the Cal 12 API2 contract closed at 121.91 USD/tonne (up 4.23 USD/tonne month-on-month).

As a whole, the situation around the globe painted a low demand and low supply scenario. Any substantial demand increase particularly from India or China would have put price risks to the upside and any supply decrease would have spiked an increase in prices. This situation worsened as Australia, Colombia, Russia (and to a certain extent South Africa) had a curtailed supply of coal. As a result, volatility and traded volumes decreased as many market players were not prepared to take too high risks.

5. OIL TRADING: Middle East unrest prevails

The market remains bullish with Brent moving towards 120 USD/bbl as a risk premium is added.

Geopolitical issues, notably unrest in Libya, continued to dominate the markets. The threats to oil installations in Libya with a daily production of 1.4 million bbl has led to a firm risk premium with buying from investors anticipating a shortage of oil in the short term. Other OPEC countries, such as Saudi Arabia, stated that they could replace the Libyan output, if necessary. But, as several countries in that region have their own political tensions, unrest and uncertainty supported the oil market. No market player wanted to be short and dips were generally

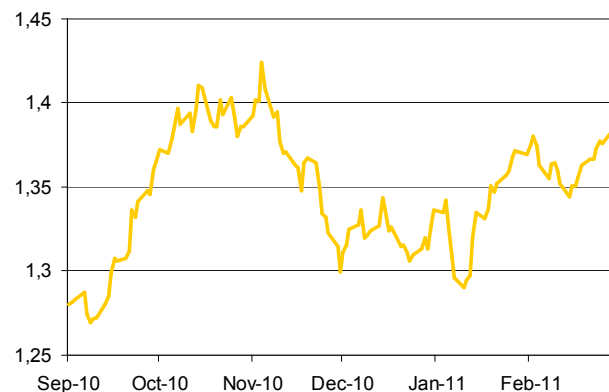
being bought into. This supported a rocketing of oil prices from 101.42 USD/bbl up to 112.74 USD/bbl throughout the month despite it being a weak demand period. Refineries were preparing for the upcoming driving season. Moreover, refinery margins were very poor, also dampening demand.

6. FX TRADING: Geopolitical tensions

The EUR/USD exchange rate dipped mid-month, but recovered thereafter.

Political tensions in the Middle East and North Africa had a huge impact on all commodity markets in February and thus also enhanced volatility on the currency markets. Starting at 1.38 EUR/USD, the exchange rate reached a low of 1.34 EUR/USD on 14 February, as the US dollar was supported by confidence in the increasing economic recovery. According to the Federal Open Market Committee, downside risks to growth and inflation in the US have diminished. However, the euro was able to gain on hawkish comments from European Commission Board members in terms of inflation. By the end of the month, the exchange rate had recovered and gone back up to 1.38 EUR/USD.

Exchange Rate EUR/USD



Source: Vattenfall Energy Trading

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ABBREVIATIONS USED

API2	All Publications Index at the Amsterdam-Rotterdam-Antwerp Range
API4	All Publications Index for South African free on board (FOB) coal
ARA	Amsterdam-Rotterdam-Antwerp, major coal-importing ports in north-west Europe
C4	Voyage freight rate between Richards Bay and ARA
CCGT	Combined cycle gas turbine
CDM	Clean Development Mechanism
CHP	Combined heat and power plant
CER	Certified Emission Reduction, resultant of an emission-reducing project in developing countries that has been certified
ECX	European Climate Exchange
EEX	European Energy Exchange, Leipzig
EPEX Spot	European Power Exchange, German-French spot exchange, Paris
ETS	European Union Emissions Trading System
EUA	European Union Allowance Unit
FOB	Free on board: a shipping term which indicates that the supplier pays the shipping costs from the point of manufacture to a specified destination
IMF	International Monetary Fund
IPE	International Petroleum Exchange, London
IUK	Interconnector UK – gas pipeline connecting the UK and Europe
LNG	Liquefied natural gas
MCM/D	Million cubic metres per day
NBP	National Balancing Point, gas hub in Great Britain
N ₂ O project	CDM project to reduce nitrous oxide (N ₂ O)
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OTC	Over-the-counter trading
PPX	Polish Power Exchange, Towarowa Gielda Energii S.A.
TSO	Transmission system operator
TTF	Title Transfer Facility, virtual gas trading hub in the Netherlands
UNFCCC	United Nations Framework Convention on Climate Change

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