

Growth through acquisitions

DENMARK ADDS NEW ARM TO VATTENFALL'S ENERGY GENERATION

If you were to view the energy market as a puzzle, then another important piece was added to Vattenfall's European business in 2006. On 1 July Vattenfall took over 24% of the generation capacity from the Danish companies Elsam and Energi E2, following a deal with the energy company DONG.

Under the deal, Vattenfall acquired five combined heat and power (CHP) plants and over 400 wind power stations in exchange for shares in Elsam.

"The Danish CHP and wind power assets complement Vattenfall's hydro and nuclear power generation in Sweden and its coal power plants in Germany," says Per Ebert, general manager of Vattenfall Denmark.

Annual generation from the plants amounts to approximately 6 TWh of electricity and 6 TWh of heat.

"Vattenfall has gained both larger and more even electricity generation through the Danish plants. But it is not only a matter of power generation. Vattenfall has also gained access to a wealth of expertise that exists in this organisation," says Ebert.

The Danish plants will not form a separate business unit, but will be incorporated organisationally in Vattenfall's Nordic operations, in the units for wind power, combined heat and power, and sales. Slightly more than 600 employees of Elsam/Energi E2 were transferred to their new employer, Vattenfall, on 1 July, and integration has progressed very smoothly.

"There haven't been any culture clashes," Ebert notes. "In part, because the cultural differences between Denmark and Sweden are small, and in part because Vattenfall is not a Swedish company any more, but an international one, which has created many new opportunities for the employees."

The Danish operations posted very good figures for the year, both regarding production and revenues. The goal now is for Vattenfall to grow in Denmark. Work is currently in progress on modernising block 1 at the Amagerverk plant in Copenhagen. In addition, a new CHP plant is being built in Fyn, which will be based on hay. The plant, which will use 170,000 tonnes of hay per year, will be ready in 2009 and will have a capacity of 35 MW of electricity and 84 MJ/s heat.

"But before then, additional pieces will certainly have been added to Vattenfall's puzzle of Europe," says Ebert.





NORDIC COUNTRIES: LOW WATER LEVELS AND DROP IN ELECTRICITY GENERATION

Sales for the year increased through the acquisition of generation capacity in Denmark and high electricity prices. However, earnings fell due to low water levels and the loss of nuclear power generation.

Sales and earnings

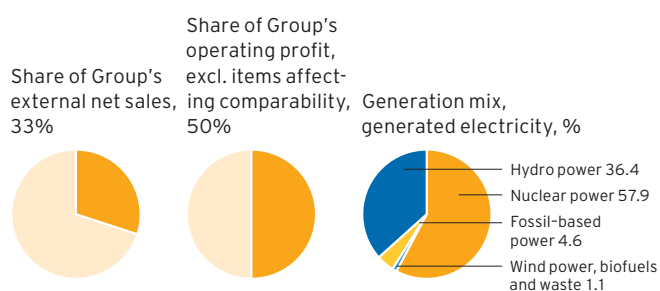
The Nordic operations performed slightly worse compared with a year ago, mainly due to low water levels in reservoirs, a significant disruption of generation at Forsmark, and sharply higher generation taxes. Operating profit excluding items affecting comparability decreased by 3.6%, to SEK 13,217 million (13,704). Earnings should be assessed exclusive of items affecting comparability, since the net compen-

sation of SEK 3,057 million for the closure of Barsebäck 2 was booked in 2005. Sales increased, however, by 17.1% to SEK 49,205 million (42,021) as a result of higher wholesale prices of electricity and consolidation of the combined heat and power and wind power assets in Denmark.

Generation of electricity and heat

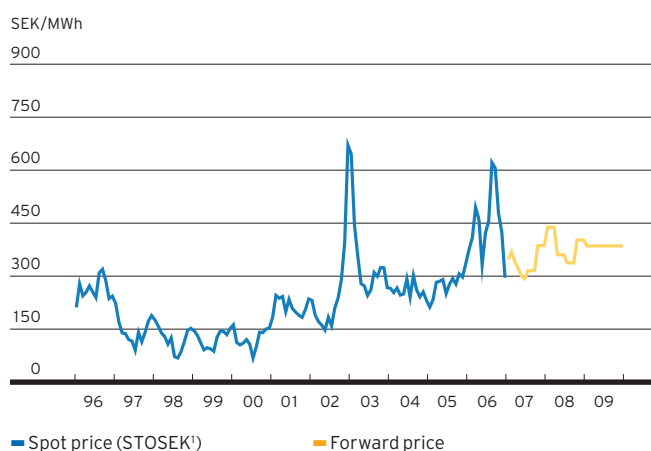
Having a highly diversified generation portfolio is of central

Brief facts



Vattenfall is the leading energy company in the Nordic region, with a market share in generation of slightly more than 20%. In Sweden and Finland Vattenfall generates, distributes and sells both electricity and heat, while in Denmark operations are limited to the generation of electricity and heat. Although hydro power and nuclear power are the platform of our electricity generation, wind power, biofuels, waste and fossil fuels are also used. Electricity is generated by seven nuclear power plants, approximately one hundred hydro power plants, 500 wind power plants, ten heating plants and five combined heat and power plants. Vattenfall is the fourth largest supplier of heat in the Nordic region, with 50 district heating plants and 140 so called "Färdig Värme" heating plants. Vattenfall also conducts contracting activities for the operation and maintenance of networks and hydro power, energy consultation, and research and development.

Swedish electricity prices 1996–2009, monthly averages



Source: Nord Pool
As per 31 December 2006

1) Stockholm price area in SEK

| SEK million, unless indicated otherwise | | 2006 | 2005 | Change, % |
|---|---|-----------|-----------|-----------|
| Net sales ¹ | ▲ | 49,205 | 42,021 | 17.1 |
| Operating profit | ▼ | 13,287 | 16,794 | -20.9 |
| Operating profit excl. items affecting comparability | ▼ | 13,217 | 13,704 | -3.6 |
| Operating margin excl. items affecting comparability, % | ▼ | 26.9 | 32.6 | |
| Net assets | ▲ | 81,687 | 77,190 | 5.8 |
| Return on net assets, % | ▼ | 15.7 | 24.1 | |
| Return on net assets excl. items affecting comparability, % | ▼ | 15.6 | 19.4 | |
| Generation capacity, electricity, MW | ▲ | 18,885 | 16,355 | 15.5 |
| Generation capacity, heat, MW | ▲ | 5,351 | 3,440 | 55.6 |
| Electricity generation, TWh | ▼ | 84.9 | 89.8 | -5.5 |
| Heat generation, TWh | ▲ | 8.5 | 7.3 | 16.4 |
| Number of electricity customers | ▼ | 949,000 | 953,000 | -0.4 |
| Number of network customers | ▲ | 1,294,000 | 1,291,000 | 0.2 |
| Number of employees, full-time equivalents | ▲ | 9,158 | 8,788 | 4.2 |

1) Of which, external net sales in 2006: 48,235 and 2005: 40,713.

importance for being able to handle variations in weather and market conditions. Vattenfall's generation in the Nordic countries consists primarily of hydro and nuclear power, however, waste, biofuels and fossil fuels are also used. In 2006, electricity generation in the Nordic countries decreased by 4.9 TWh compared with 2005. Hydro power generation was 5.5 TWh lower than in 2005 due to lower water supply in reservoirs during most of the year. Nuclear power generation was 3.7 TWh lower due to the incident at Forsmark, but also to a fire at the Ringhals nuclear power plant and the closure of Barsebäck 2 on 31 May 2005. Fossil-based power increased by 3.9 TWh following the acquisition of the combined heat and power assets in Denmark. The acquisition also entailed an increase in heat production by 1.8 TWh.

In July the generation assets from Vattenfall's acquisition in Denmark were acquired. These consist of five combined heat and power (CHP) plants, several land-based wind power plants, and Horns Rev – one of the world's largest offshore wind power farms. All of the facilities are very efficient, and the fuels used in the CHP plants consist primarily of hard coal but also hay, natural gas and a small portion of oil. Vattenfall generates approximately 6 TWh of electricity in Denmark, corresponding to 17.5% of Danish electricity consumption, and approximately 6 TWh of heat, corresponding to 17% of heat consumption in Denmark. Fuel prices rose sharply during the year which, together with higher taxes, put a burden on the heat operations. However, the earnings decline was mitigated by higher electricity prices and our success at cutting costs. In addition, the tax on waste combustion was lower than feared.

Electricity network

Earnings of the electricity network operations are being pressed downward by constant changes in regulations which do not provide opportunities for a reasonable return on invested capital. In order to lower costs and take advantage of synergies in administration, expertise and development projects, the electricity network operations in Finland and Sweden were merged in May 2006. During the year, Vattenfall also worked hard at improving its information, which led to a tangible reduction in problems for our customers in association with disruptions.

Sales

Sales activities are characterised by competition and small margins. Various surveys show that customers in all categories have grown increasingly dissatisfied. There is a general distrust toward the entire energy industry – the perception is that electricity prices are too high and the quality of service is too low. To improve service and boost confidence, Vattenfall is taking several initiatives, including work on reorganising its customer service organisation and on developing unique products that are adapted to individual needs. In June 2006 the "Trygghetsavtalet" contract was introduced (read more on page 5). It became an immediate success and has attracted a new inflow of customers to Vattenfall.

Investments

Investments in the Nordic countries have increased during the past three years, even excluding the acquisition in Denmark. Most of the increase has consisted of generation assets. Large investments in electricity generation lead to a greater supply in the market and contribute indirectly to keeping prices down. The investment programmes for nuclear and hydro power will increase Vattenfall's annual generation capacity by 8.5 TWh. Vattenfall's ambition is to increase generation from renewable energy sources by approximately 10 TWh in Sweden by 2016, mostly wind power (read more on pages 30–31).

Opportunities to build new hydro power stations are also being looked into under the condition that environmental and profitability requirements can be met. Vattenfall is also investing major sums in improving security of supply by upgrading and making improvements to the electricity networks. The ongoing investment programmes in Sweden and Finland aimed at improving the quality of the electricity networks and in installing remote readable electricity meters will amount to slightly more than SEK 3.5 billion in 2007. To date, 571,000 customers have had new meters installed, of whom 384,000 are in Sweden and 187,000 in Finland.

Investments have also been increased in the heat segment, including a new CHP plant in Motala, the acquisition of a generation plant in Tavastehus and the upgrading of a CHP plant in Uppsala.

Market development

Electricity prices fluctuated sharply in 2006. The winter months were characterised by cold weather. Electricity and commodity prices rose sharply due to a poorer hydrological balance and very high prices for CO₂ emission allowances. In late April it became apparent that emission allowances had been over-allocated, causing a dramatic drop in the price for these. Electricity prices soon followed suit, both on the spot and forward markets. During the summer months, electricity prices rose sharply again due to rising coal and oil prices, very warm weather on the Continent, a steadily weaker hydrological balance in the Nordic countries and the loss of nuclear power generation. Mild weather and heavy rainfall combined with lower oil prices and lower prices for emission allowances during the remainder of the year resulted in a steady drop in the forward market and steadily lower spot prices. The hydrological balance for the Nordic countries as a whole was considerably worse on average in 2006 than a year earlier. At the end of December the hydrological balance showed a surplus of 10.7 TWh, compared with a deficit of 3.7 TWh at year-end 2005. Average spot prices (SYSSEK²) on Nord Pool were SEK 450/MWh in 2006, which was 65% higher than a year earlier (SEK 272/MWh). During the fourth quarter, the average price was SEK 408/MWh, compared with SEK 306/MWh during the same period in 2005.

Forward contracts for 2007 and 2008 in the Nordic countries closed the year at EUR 37.0/MWh and EUR 42.3/MWh, respectively.

² Nordic system price in SEK.

Challenges for operations in the Nordic countries

- Continued good profitability development
- Improve safety routines in our nuclear business
- Expansion in Nordic countries
- Boost the public's and media's confidence in Vattenfall
- More satisfied customers
- Actively participate in setting framework and terms of our operations
- Ensure competence succession

Activities based on Vattenfall's strategic ambitions

Profitable Growth

- Ensure implementation of nuclear and hydro power investment programmes
- Develop investment strategies and plans for combined heat and power and wind power
- Ensure conditions for hydro power generation and improve conditions for building new hydro power capacity
- Continue to evaluate opportunities to grow the customer base through acquisitions
- Combine low price and unique products with greater use of Web solutions
- Increase the percentage of direct sales

Benchmark for the Industry

- Effectively implement generation and distribution investment programmes
- Continue integration of the network operations in Finland and Sweden
- Develop new, long-term fuel strategies for the Heat business unit
- Develop new products that reduce the risk and costs associated with mass-market sales
- Refine the IS/IT initiative regarding SAP, between segments and countries
- Continue implementation of the shared services concept
- Implement the "One IT infrastructure" project

Number One for the Customer

- Provide electricity contracts to industrial customers and other major consumers in order to support their short- and long-term capacity requirements and at the same time offer stable and competitive electricity prices
- Reorganise customer service so that Vattenfall will be the leader in Scandinavia with respect to quality for customers and cost effectiveness
- Continue implementing and communicating "Reko Fjärrvärme" in combination with information on a new pricing policy
- Facilitate customer contacts with Vattenfall by intensifying co-operation and developing processes between different units
- Realise quality improvements and cost reductions in the SAP platform
- Continue to implement remote electricity meter reading
- Complete investments in quality assurance of the electricity networks in Sweden and Finland

Number One for the Environment

- Increase generation from renewable energy sources and nuclear power
- Recommend and apply for locations for permanent storage of spent nuclear fuel, and apply for storage licence
- Minimise environmental risks by handling and following up transformer oils, impregnating of poles, and insulation gases
- Material recycling
- Increase the share of biofuels in combined heat and power plants

Employer of Choice

- Define competencies that will be in demand in the future
- Work systematically with management and competence planning
- Further develop communication surrounding Vattenfall as the Employer of Choice, both internally and externally
- Continue active co-operation with universities and schools to create contacts with young, potential employees
- Encourage and facilitate internal mobility in order to develop employee competencies
- Ensure that management systems containing strategies, processes, follow-up and control are implemented throughout the organisation

GERMANY: EARNINGS LIFT FROM ELECTRICITY AND HEAT GENERATION

Operating profit in Germany rose by slightly more than 25%. Above all, electricity and heat generation performed strongly. However, the Transmission and Distribution business units were adversely affected by new network regulations.

Sales and earnings

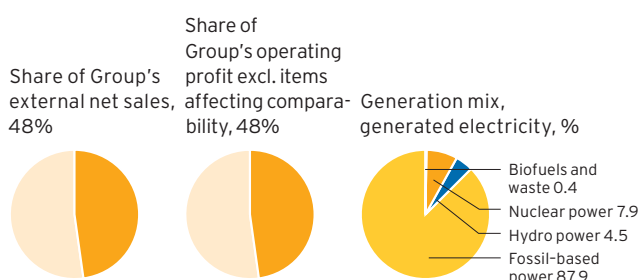
Vattenfall's German operation performed strongly during the year. Net sales rose 6.6%, to SEK 111,970 million (104,995). Operating profit excluding items affecting comparability rose 25.7%, to SEK 12,886 million (10,251). The sales and earnings increases are mainly attributable to rising electricity prices, a better outcome from hedged electricity generation and slightly higher generation volumes. The Mining and Generation business unit, which accounts for the absolute largest part of earnings, improved its operating profit by 64% compared with 2005. Allocation of CO₂ emission allowances for the first trading period was in parity with demand and therefore had no negative impact on earnings for the year. The Sales business unit improved its earnings by 22%, mainly due to lower sales and administrative costs. In the sales activities, work has been focused on

further adapting the product portfolio to customers' needs and to improving customer service. The Heat business unit increased its operating profit by approximately 33% despite a stagnation in heat volume caused by warm weather. The Distribution unit, on the other hand, reported a sharp drop in earnings, by 56%. Following the adoption of new rules and a decision by Bundesnetzagentur, the German network regulator, Vattenfall's distribution assets were written down by SEK 1,019 million (EUR 110 million). The Transmission unit was also adversely affected by the new network regulations.

Generation of electricity and heat

Electricity and heat generation were marginally higher in Germany in 2006 compared with 2005. On the whole, the generation facilities had a very good level of availability.

Brief facts



In Germany, Vattenfall generates, transmits, distributes and sells electricity and heat and is currently the country's third-largest generator of electricity and the largest supplier of district heat. Operations comprise open-cast lignite mines in Lausitz, power plants in eastern and northern Germany, the transmission network in eastern Germany, and regional and local networks in Berlin, Hamburg and Mecklenburg Vorpommern. Vattenfall operates several combined heat and power plants and thermal power plants, four large lignite-fired power plants, a hard coal-fired power plant, eight pumped storage power plants, and five gas turbine power plants. Vattenfall is also a part-owner of three nuclear power plants. Vattenfall has approximately 2.9 million electricity customers and 3.3 million network customers, mainly in Berlin and Hamburg. Vattenfall also provides a wide offering of energy-related services.

SEK million, unless indicated otherwise

| | | 2006 | 2005 | Change, % |
|---|---|-----------|-----------|-----------|
| Net sales ¹ | ▲ | 111,970 | 104,995 | 6.6 |
| Operating profit | ▲ | 13,059 | 10,113 | 29.1 |
| Operating profit excl. items affecting comparability | ▲ | 12,886 | 10,251 | 25.7 |
| Operating margin excl. items affecting comparability, % | ▲ | 11.5 | 9.8 | |
| Net assets | ▼ | 61,818 | 68,717 | -10.0 |
| Return on net assets, % | ▲ | 18.2 | 13.0 | |
| Return on net assets excl. items affecting comparability, % | ▲ | 18.0 | 13.2 | |
| Generation capacity, electricity, MW | ▲ | 15,221 | 15,112 | 0.7 |
| Generation capacity, heat, MW | ▲ | 8,727 | 8,697 | 0.3 |
| Electricity generation, TWh | ▲ | 76.2 | 75.9 | 0.4 |
| Heat generation, TWh | ▲ | 15.5 | 15.4 | 0.6 |
| Number of electricity customers | ▼ | 2,861,000 | 2,916,000 | -0.2 |
| Number of network customers | ▼ | 3,285,000 | 3,287,000 | -0.1 |
| Number of employees, full-time equivalents | ▼ | 19,821 | 20,096 | -1.4 |

1) Of which, external sales 2006: 68,905 and 2005: 70,304.

However, heat generation was considerably lower at the end of the period due to warm weather.

Investments

Curbing greenhouse emissions is one of today's most imperative global challenges, and the debate on the greenhouse effect is taking up an increasingly greater place in the German media. Electricity generation from renewable energy sources will most likely increase in significance in the future and account for a greater share of total electricity generation. For example, the German government's target is that renewable energy sources will account for 25% of Germany's electricity generation by 2020, which would be a doubling of today's level. Vattenfall is currently evaluating the technological and economic conditions for building offshore wind power plants, such as through participation in the Borkum West test development project. In addition, the CO₂ emission-free pilot coal-fired plant project is proceeding according to plan (read more on page 4).

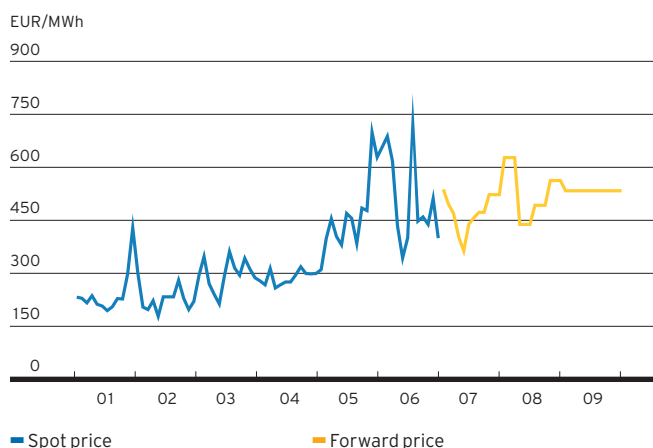
However, lignite and – to a lesser extent, nuclear power – will continue to be the most important energy sources for Vattenfall in Germany. Vattenfall, which already operates the world's most technically advanced lignite power plant, will continue to increase the efficiency and economic effectiveness of its plants, and will continue to invest in the development of CO₂ emission-free technology. The decision has also been made to build three new power plants. The Boxberg lignite-fired power plant in Sachsen will be expanded by 675 MW, involving optimisation of capacity utilisation of the nearby open-cast mine (read more on page 20). In Hamburg (Moorburg), a coal-fired combined heat and power plant with a capacity of 1,640 MW will be built, and in Rostock a waste combustion plant with an output of 20 MW is planned. In addition, further growth opportunities in the Berlin area are also currently being evaluated.

Market development

Price trend

Coal and oil prices were at high levels throughout 2006, which is a result of global economic and political developments and speculation on the commodity exchanges. During the fourth quarter the price of oil fell to USD 68 by year-end. Prices of electricity, gas and coal showed a similar trend. After rising to approximately EUR 31/tonne, prices of emission allowances fell to about EUR 14/tonne by the end of April, when it came out that actual emissions in Europe in 2005 were considerably lower than what had previously been assumed. Electricity prices soon followed suit, both on the spot and forward markets. In September, prices of emission allowances fell even further when it became increasingly likely that there will not be any shortage of emission allow-

German electricity prices 2001–2009, monthly averages



Source: European Energy Exchange (EEX)
As per 31 December 2006

ances during the first trading period, which will conclude in 2007. The average price of emission allowances during the year was EUR 18.2/tonne. On 29 November the EU rejected Germany's national allocation plan for the second trading period, which runs from 2008 until 2012. The EU is demanding reductions of 6%, to 453 million tonnes/year and a ban on guaranteeing future emission allowances for new plants. At year-end, the price of emission allowances for 2007 and 2008 were EUR 6.5/tonne and EUR 18.3/tonne, respectively, compared with year-end 2005 levels of EUR 18.5/tonne and EUR 18.3/tonne, respectively.

On the European Energy Exchange (EEX) in Germany, spot prices in 2006 (base load) averaged EUR 50.8/MWh, compared with EUR 46.0/MWh in 2005. The corresponding prices during the fourth quarter were EUR 44.7/MWh and EUR 60.0/MWh, respectively. Forward contracts for 2007 and 2008 closed at EUR 50.7/MWh and EUR 56.2/MWh, respectively.

The high spot and forward prices led to intensive debate on electricity prices and has put greater political pressure on utility companies.

Political developments

The political situation in Germany is characterised by a greater propensity to further regulate the energy market. This is reflected not only in Bundesnetzagentur's decision to cut the network operators' network tariffs, but also by several new proposals on how energy policies should be formulated in Germany. An example can be seen in the proposal to introduce price controls. Moreover, the new government is sticking by its decision to gradually phase out nuclear power generation.

Challenges for operations in Germany

- Continue growing through future acquisitions
- Improve safety in our nuclear business
- Ensure profitable gas heat generation and replace older heat generation
- Manage the rising competition in the mass market sector
- Maintain profitability of the electricity networks despite new regulations
- Further reduce CO₂ emissions and increase the share of renewable energy in the generation portfolio
- Increase Vattenfall's attractiveness as an employer and ensure the recruitment process

Activities based on Vattenfall's strategic ambitions

Profitable Growth

- Build the power plants in Moorburg, Boxberg, Rostock and Rüdersdorf
- Build district heating network in Moorburg in Hamburg and expand the heat network in Berlin
- Actively evaluate business opportunities in connection with the privatisation of the municipal energy companies (Stadtwerke)
- Study opportunities for joint ventures in new markets
- Develop gas activities for Vattenfall Trading Services and Sales

Benchmark for the Industry

- Involvement in projects designed to improve the efficiency of processes and establish best practice across business units
- Increase efficiency by combining various telecom activities
- Implement the "One IT infrastructure" project
- Heat: Benchmark with the municipal heating companies and study if the fuel specifications used in the power plants can be expanded and made more flexible
- Mining and Generation: Maintenance programme to guarantee the value of our plants
- Networks: Conduct overview of all costs and optimise management of all assets
- Sales: Create a competitive organisation by further integrating middle-office and control
- Shared Services: Implement a service unit and make administrative processes more efficient

Number One for the Environment

- Continue to position Vattenfall as a pioneer and leader in technology for CO₂ emission-free power plants
- Implement a CO₂ emission-free pilot plant at the Schwarze Pumpe facility
- Acquire a share in the Borkum West offshore test area (12.5 MW wind power turbines) at an investment cost of approximately EUR 181 million, with planned commissioning in 2008
- Analyse opportunities to expand activities in offshore wind power projects

Number One for the Customer

- Adapt the product portfolio to changed customer needs and evaluate a dual-fuel offering using electricity and gas
- Inform about Vattenfall's contribution to environmentally friendly solutions
- Clearly position Vattenfall Europe as a company that provides new, environmentally friendly, differentiated products
- Provide advice and information to customers on energy

Employer of Choice

- Ensure early and goal-oriented competence planning in recruitment and development of young employees
- Ensure retention of knowledge and experience of experienced employees
- Implement age-adapted career paths and avoid promotions based on seniority
- Improve and develop the Group's trainee programme
- Expand marketing at universities

POLAND: CONTINUED EARNINGS IMPROVEMENTS

Operating profit rose nearly 17%. Heat and Distribution accounted for most of earnings, while the sales activities were hurt by lower margins.

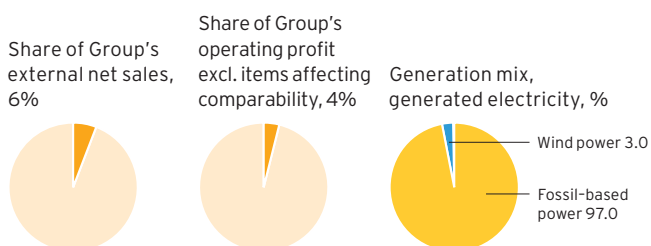
Sales and earnings

Vattenfall had a very good year in Poland in 2006. Sales rose 6.8% to SEK 9,449 million (8,850). Operating profit excluding items affecting comparability rose 16.6% to SEK 942 million (808). Most of earnings are generated by the Heat business unit, which accounts for roughly two-thirds of operating profit. Slightly lower heat volumes caused by warm weather were compensated by better heat tariffs and higher electricity prices. The Distribution business unit has shown a significant earnings improvement, mainly through

operational streamlining, improved gross margins, lower transmission losses and a drop in “electricity theft”.

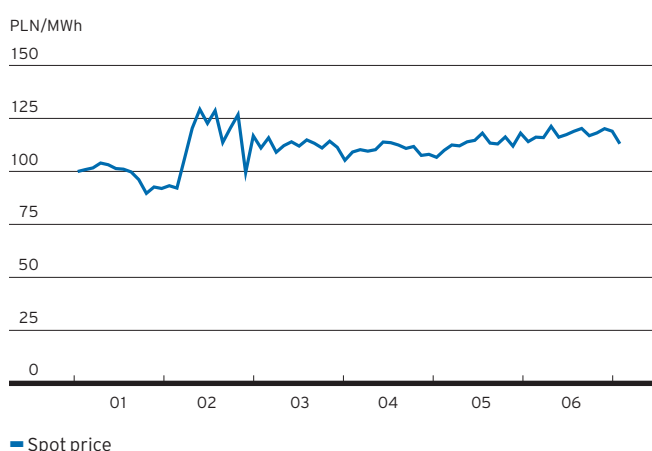
Operating profit for the sales activities decreased during the year due to lower margins. Sales prices, which are regulated, have remained at the same level, while market-based wholesale prices rose sharply due to a shortage of renewable energy and the introduction of emission allowances. As a result, large industrial customers have begun purchasing their electricity directly from generators.

Brief facts



Vattenfall has actively participated in the shaping of the Polish energy market since starting activities there in 2000. Vattenfall was involved in one of the largest deals ever in the country as a result of the privatisation of the Polish energy sector, and acquired a majority stake in Elektrociepłowni Warszawskie S.A. (EW), one of the largest heat suppliers in Europe and a leading electricity generator in Warsaw. In 2001 Vattenfall also acquired a stake in the first Polish electricity distribution company offered for sale by the Polish government – Górnoslaski Zakład Elektroenergetyczny (GZE), in southern Poland. GZE is one of the largest distribution companies in the country and serves more than a million industrial, corporate and household customers. Since 1 January 2006, Vattenfall's companies have been working under the Vattenfall name in the Polish market.

Polish electricity prices 2001–2009, monthly averages



■ Spot price
Source: Gielda Energii SA
As per 31 December 2006

SEK million, unless otherwise indicated

| | 2006 | 2005 | Change, % |
|---|-------------|-----------|-----------|
| Net sales ¹ | ▲ 9,449 | 8,850 | 6.8 |
| Operating profit | ▲ 1,072 | 842 | 27.3 |
| Operating profit excl. items affecting comparability | ▲ 942 | 808 | 16.6 |
| Operating margin excl. items affecting comparability, % | ▲ 10.0 | 9.1 | |
| Net assets | ▼ 8,812 | 9,295 | -5.2 |
| Return on net assets, % | ▲ 12.2 | 10.1 | |
| Return on net assets excl. items affecting comparability, % | ▲ 10.7 | 9.7 | |
| Generation capacity, electricity, MW | ▲ 1,008 | 981 | 2.8 |
| Generation capacity, heat, MW | ▼ 4,986 | 4,996 | -0.2 |
| Electricity generation, TWh | ▼ 3.3 | 3.4 | -0.3 |
| Heat generation, TWh | ▼ 11.2 | 11.4 | -0.2 |
| Number of electricity customers | ▲ 1,107,000 | 1,104,000 | 0.3 |
| Number of network customers | ▲ 1,108,000 | 1,104,000 | 0.4 |
| Number of employees, full-time equivalents | ▼ 2,836 | 3,029 | -6.4 |

1) Of which, external sales 2006: 8,981 and 2005: 8,790.

Challenges for operations in Poland

- Strengthen market position by acquiring and developing both "brownfield" and "greenfield" projects
- Continue to streamline activities in the aim of being a benchmark in productivity and service
- Adapt the organisation to a deregulated market, including a legal separation of sales and network activities and adaptation of current systems and processes to facilitate third party access and changes of suppliers
- Reduce emission levels in accordance with EU directives

Activities based on Vattenfall's strategic ambitions

Profitable Growth

- Benefit from organic growth in the heat and sales operations
- Establish a stronger presence in generation through acquisitions and/or development of projects with existing/non-existent infrastructures (brownfield/greenfield)

Benchmark for the Industry

- Continue efficiency-improvement work, especially in support functions
- Continue improving technical service in the network activities
- Implement the "One IT infrastructure" project

Number One for the Customer

- Adapt current systems and processes in an effort to facilitate third party access and enable customers to change electricity suppliers
- Strengthen customer loyalty by being a benchmark in customer service and the product offer
- Make the customer relations process more effective in order to reduce waiting times

Number One for the Environment

- Comply with environmental standards for emission levels of particulates, SO₂ and NO_x
- Change the fuel mix in the heat operations to include biofuels (5% by 2012)
- Act to improve energy efficiency in Poland

Employer of Choice

- Keep a high level of satisfied employees and measure employee satisfaction through "My Opinion" surveys
- Continue to develop the human resources function by constantly training and developing employees, offering going-rate salaries and implementing Vattenfall's core values
- Develop human resources through external recruitment
- Provide good leadership in line with the required management competence

Generation of electricity and heat

Generated volume of heat and electricity for the year as a whole was marginally lower compared with 2005. Toward the end of the year, both heat and electricity generation were considerably lower, mainly due to warm weather.

Investments

During the year, the Heat business unit continued its medium-term investment programme to reduce, NO_x and SO₂ emissions. During the coming three years, approximately SEK 1,652 million (PLN 700 million) will be invested in lowering emissions and modernising production equipment in the heat operations. In the electricity distribution operations, investments are being focused on improving network quality. In connection with the acquisition of GZE in 2001 and as a supplement to the reinvestment undertaking, Vattenfall committed itself to ensuring that the company will have invested SEK 3,304 million (PLN 1.4 billion) in

growth by 2011. By year-end 2006, growth investments in GZE amounted to SEK 151 million (PLN 64.1 million).

Market development

Coal prices rose during the year, as Polish mines could not produce sufficient amounts of hard coal. Prices also rose due to more stringent environmental regulations. Trading in CO₂ emission allowances was introduced, and uncertainties surrounding the allocation of emission allowances during the second trading period (2008–2012) caused major price fluctuations. Compared with Nord Pool and EEX, liquidity on the Polish electricity exchange (POLPX) is still low, especially in the forward market. The average price on POLPX during the year was 3.3% higher than in 2005 – PLN 117.3/MWh, compared with PLN 113.5/MWh. During the year, Vattenfall Trading Services in Poland began setting prices for electricity and CO₂ emission allowances.

Value creation

STRENGTHENING EARNINGS THROUGH EFFECTIVE CUSTOMER PROCESSES

Why stand in a long queue when all you have to do is lift the phone or visit a website?

Vattenfall's Polish operation has witnessed an organisational revolution in recent years – from internal bureaucracy to centralised processes with the customer in focus.

Eighteen customer service offices have been reduced to three. In their place, since 2003 a single call centre has been taking care of virtually all matters that the offices previously handled.

"Customers shouldn't need to be transferred between various departments when they call. Our goal is that customer contacts will be handled seamlessly and conveniently according to our motto: One issue, one customer contact," says Grzegorz Lot, Head of Vattenfall Customer Services Poland, which was established on 1 January 2006.

Backing up Grzegorz are the staff at Vattenfall's call centre, who provide answers to everything from contracts to moves and payments.

"All of our electricity customers – except for the absolute largest ones, who have their own key account managers – can now call a single number and get an immediate answer to their questions," says Lot.

Vattenfall Poland has outsourced its call centre function to an external company.

"Their experience and flexibility made them the most cost-effective solution for us," Lot explains. "What's more, many of our former employees landed new jobs with our call centre."

The call centre is just one example of an administrative function that has been made smoother and more efficient. Another example can be seen in the handling of invoices sent by post, where Vattenfall Poland will save EUR 170,000 in 2007.

"We are constantly on the lookout for new ways to improve our efficiency," says Lot. "The savings we generate allow us to invest in further measures to improve our customer service."

Over time, customers will be able to handle more of their matters online, even though it will take a while before these services are launched. It's not only new tools and services that are in the pipeline – efficiency must be improved through the entire organisation.

"It's a matter of changing attitudes and constantly making the customer number one. We are going through all of our processes and trying to find out how we can be more efficient. This is only the beginning," assures Grzegorz Lot.



