

FINANCIAL TARGETS AND PERFORMANCE

Vattenfall's vision to be a leading European energy company is conditional upon economic value creation and profitable growth. These are the starting points for the Group's financial targets, which in turn are the platform for the business planning process at the business unit level. The financial targets are long-term, which means that they are to be evaluated as averages over a business cycle (approx. 5–7 years).

Main objective is long-term sustainable economic value creation

Creating economic value by generating a competitive return over time is Vattenfall's overriding financial objective, since the Group's other strategies are based on a requisite level of financial strength. The owner's required rate of return is used as the basis for setting targets for profitability, the dividend and financial risk. The Board reviews the proposed targets and makes decisions on their proposal to the Annual General Meeting, where the owner then makes the final decision. For a compilation of Vattenfall's four current financial targets and goal fulfilment, see page 51.

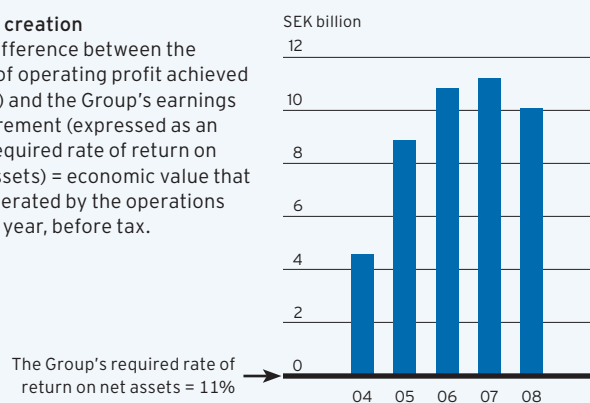
Goals for the business units

Vattenfall's management has defined a Group-wide return target based on a balanced consideration of the financial targets that have been set by the owner at the Annual General Meeting. Since Vattenfall works in an exceptionally plant-intensive industry, this target is expressed as the return on net assets (operating profit as a percentage of average net assets). Since Vattenfall's various operations have varying conditions, the Group-wide target is broken down into individual targets for each business unit, according to which operations are conducted. The basic principle for target formulation at the business unit level is that asset-intensive operations are evaluated according to the return on the asset base, while service operations are measured according to operating margin. If a business unit exceeds its target, it can seek profitable growth opportunities.

Vattenfall has identified a number of important external factors which together are putting pressure on profitability in the industry in the near and medium term perspectives, including rising prices for CO₂ emission allowances, higher fuel costs, and lower transmission and distribution tariffs in Germany. This is putting higher demands on productivity improvements and efficiency in order to ensure sustained economic value creation.

Value creation

The difference between the level of operating profit achieved (EBIT) and the Group's earnings requirement (expressed as an 11% required rate of return on net assets) = economic value that is generated by the operations every year, before tax.



Management of the Vattenfall Group's equity

The Vattenfall Group's equity consists of reported equity including minority interests, which at year-end amounted to SEK 140,886 million (124,132). The owner's long-term target for return on equity attributable to shareholders in the Parent Company is 15% after tax. In addition, the owner has defined a cash flow-based target for interest coverage and the goal of maintaining a single A credit rating. The rating is a balanced assessment of Vattenfall's creditworthiness and replaces more specific targets, such as equity ratio, debt/equity ratio, and so on. Execution of the company's strategy, the company's financial position and other financial targets are taken into account when making the annual dividend decisions.

Other goals

In addition to Vattenfall's financial targets, in 2007 Vattenfall defined a set of quantitative goals for the Group's five strategic ambitions. The priorities and goals for each strategic ambition are described in detail on pages 8–11.

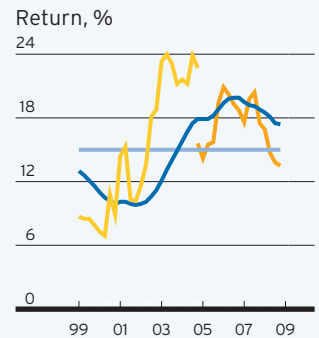
Financial target: Profitability

The owner's long-term return target is that profit after tax should amount to 15% of average equity. Translated to the Group's long-term required level of profitability, and expressed as the return on net assets, this corresponds to a return of approximately 11% before tax.

Outcome

- Return on equity after tax in 2008 was 13.6% (17.6%).
- Return on net assets¹ was 15.1% (16.6%).
- Return on equity after tax¹, last 12 months (Sw. GAAP)
- Return on equity after tax¹, last 12 months (IFRS)
- Return on equity after tax¹, moving four year basis (Sw. GAAP through Q3 2004)
- Return target, 15%

1) Excl. items affecting comparability.

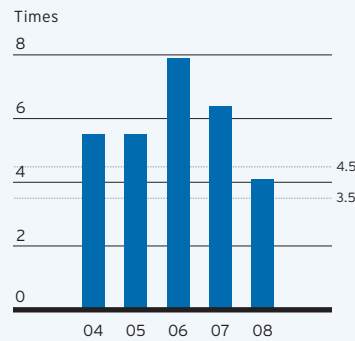


Financial target: Cash flow interest coverage

The cash flow interest coverage target was redefined in April 2006. The owner's previous target that the cash flow interest coverage ratio based on operating profit should amount to 3.5–5.0 times was replaced with the target that "the cash flow interest coverage ratio after maintenance investments" should amount to 3.5–4.5 over the long term. For a complete definition, see page 127.

Outcome

Cash flow interest coverage ratio after maintenance investments



Financial target: Ratings

It is Vattenfall's intention to maintain a long-term credit rating in the single A category from both Moody's and Standard & Poor's.

Vattenfall's current ratings are A-/A-2 from Standard & Poor's and A2/P-1 from Moody's. Both Moody's and Standard & Poor's changed their outlook from positive to stable during the third quarter of 2006 due to Vattenfall's stepped up investment plans, stricter requirements from the network regulators and higher political risk, among other factors.

Outcome

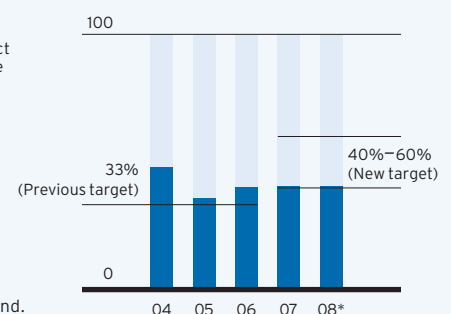
	Long-term Moody's	Long-term S&P	Short-term Moody's	Short-term S&P
2008	A2	A-	P-1	A-2
2007	A2	A-	P-1	A-2
2006	A2	A-	P-1	A-2
2005	A2	A-	P-1	A-2
2004	A3	A-	P-2	A-2
2003	A3	A-	P-2	A-2
2002	A3	A-	P-2	A-2
2001	A3	A-	P-2	A-2
2000	A1	A+	P-1	A-1

Financial target: Dividend

The aim is that the dividend over the long-term shall amount to 40%–60% of profit after tax. However, the yearly decisions on the dividend shall take implementation of the company's strategy, financial position and other economic targets into account. The dividend target was changed in April 2006. Previously it was 33%.

Outcome

Dividend, %
Per cent of profit for the year. Exact dividend amounts are shown in the 10-year review on page 123.



*) Proposed dividend.