

FINANCIAL TARGETS AND PERFORMANCE 2009

Vattenfall's vision to be a leading European energy company is conditional upon economic value creation and profitable growth. Based on this, Vattenfall's owner – the Swedish state – has set four financial targets. Together with Vattenfall's five strategic ambitions, these form the foundation of Vattenfall's business control.

Vattenfall's overarching financial goal is to create economic value by generating a competitive return over time. Based on this, Vattenfall's owner has set four financial targets for profitability, interest coverage, credit rating and the dividend. The targets are long-term, which means that they are to be evaluated as averages over a business cycle (approx. 5–7 years). They are also the foundation for the business planning process within the Group.

In addition to the financial targets set by Vattenfall's owner, Vattenfall has defined five strategic ambitions: Number One for the Customer, Number One for the Environment, Profitable Growth, Benchmark for the Industry and Employer of Choice. These are described on the following pages. Each ambition has a set of quantitative goals that are followed up yearly. Vattenfall has also defined long-term goals for each ambition, such as the goal of halving CO₂ emissions per produced unit of electricity and heat by 2030, compared with 1990 levels.

The financial targets and the goals for the strategic ambitions together form the framework for Vattenfall's business control.

Financial target

Profitability

- The owner's long-term target for Vattenfall's earnings is that profit after tax should amount to at least 15% of average equity.
- Internally, Vattenfall also uses a target for return on net assets of 11% before tax.

Interest coverage

The owner's long-term target for Vattenfall's interest coverage is that the cash flow interest coverage ratio after maintenance investments should amount to 3.5–4.5. This target has been set to ensure that Vattenfall always has sufficiently high cash flow to be able to cover its interest expenses even after bearing the cost of maintenance investments. By maintenance investments is meant primarily investments in maintenance and productivity improvements in existing plants.

Rating

Vattenfall's goal is to maintain a long-term credit rating in the single A category from both Moody's and Standard & Poor's (S&P). A rating from these rating agencies is a balanced assessment of a company's creditworthiness based on quantitative credit metric analysis as well as qualitative assessment of the company's business risk. Ratings are therefore a good indication of a company's financial position. The single A category is defined as A3 – A1 by Moody's and A- – A+ by S&P. The ratings are monitored continuously by the rating agencies.

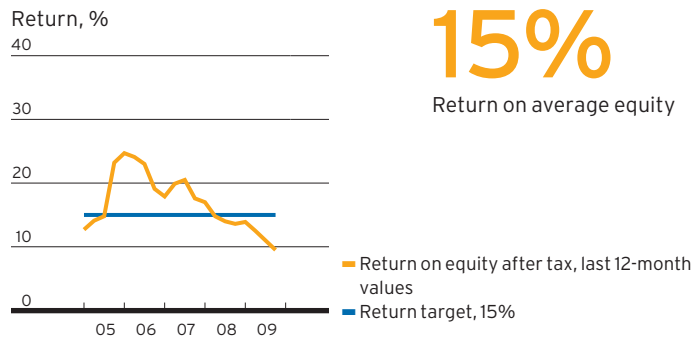
Dividend

Vattenfall's dividend to the owner should 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.

Outcome 2009

- Return on equity after tax was 9.5% in 2009.
- Return on net assets was 10.0%.

The decline from a year ago (13.6%) is mainly attributable to lower operating profit and higher financial costs. For an analysis of Vattenfall's income statement, see page 53.

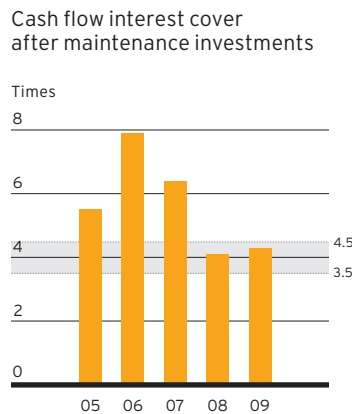


Target

15%
Return on average equity

- The cash flow interest coverage ratio after maintenance investments was 4.3 in 2009.

The improvement compared with a year ago (4.1) is attributable to an increase in cash flow from operating activities. For an analysis of Vattenfall's cash flow, see page 56.



3.5–4.5

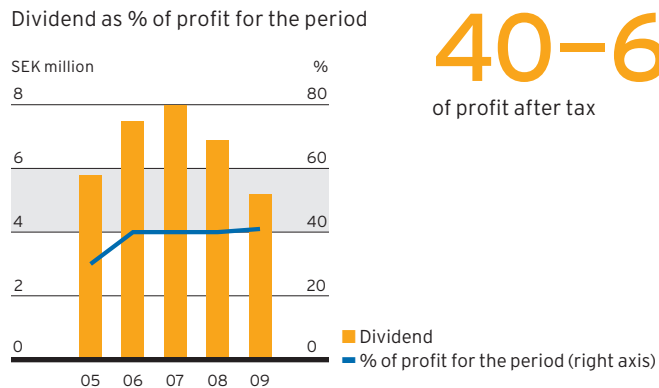
Cash flow after maintenance investments shall amount to 3.5–4.5 times interest expense

Vattenfall's current ratings are A2/P-1 from Moody's and A/A-1 from S&P. On 1 July 2009 S&P upgraded Vattenfall's credit rating for long-term borrowing from A- to A and for its short-term borrowing from A-2 to A-1, in accordance with its new methodology for the rating of government related entities. The outlook for Vattenfall's rating is stable from Moody's and negative from S&P. S&P changed its outlook from stable to negative on 23 December 2009.

	Long-term Moody's	Long-term S&P	Short-term Moody's	Short-term S&P
2009	A2	A	P-1	A-1
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

A
"Single A" category rating

The proposed dividend for 2009 is SEK 5.2 billion (40.6% of profit after tax). The pay-out ratio is on par with the preceding year (40.4%).



40–60%
of profit after tax

STRATEGIC AMBITIONS

Vattenfall's five strategic ambitions	Activities during the year
<p>Number One for the Customer Increase customer orientation and win market shares while boosting cost effectiveness</p> <ul style="list-style-type: none"> • Make sure Vattenfall has the right products, services and prices • Increase awareness about and strengthen the Vattenfall brand • Continue growing the customer base and market shares • Increase cost effectiveness • Increase customer orientation in all of Vattenfall's business areas 	<ul style="list-style-type: none"> • Further development of co-operation with the cities of Berlin and Hamburg in Germany • Automation of the electricity grid and widening of the underground cable network for improved security of supply • Installation of automatic meter reading systems for electricity consumption for all customers in Sweden and Finland and for industrial customers in Poland • Work with upgrading the new, more efficient billing system was conducted in Sweden and Finland. A similar billing system is being implemented in Germany • Advice to customers on energy efficiency improvement. Vattenfall also allows its customers to choose electricity with a declaration of origin, e.g., wind power, hydro power or nuclear power
<p>Number One for the Environment Develop the generation portfolio towards Clean Electricity (renewable energy, nuclear power and coal/gas with CCS)</p> <ul style="list-style-type: none"> • Significantly increase investments in low CO₂-emitting energy generation, i.e., renewable energy, nuclear power and coal/gas with CCS • Accelerate business development activities to enable low-emitting technologies • Actively advocate global and market-oriented climate policies to promote investment in low-emitting technologies • Increase efficiency of existing electricity and heat production as well as in network activities • Integrate environmental aspects in all business activities 	<ul style="list-style-type: none"> • Investments in wind power in the UK, Sweden and Germany (including the Thanet, Edinbane, Stor-Rotliden and alpha ventus wind farms) • Continued construction of a new hydro power plant (Abelvattnet) in Sweden • Continued work on increasing the use of biomass (for example, the Amagerverket and Fynsverket plants in Denmark and the Siekierki combined heat and power plant in Poland) • Several development projects were carried out in 2009 focusing on low CO₂-emitting electricity generation and use, for example, CCS technology at Schwarze Pumpe in Germany, e-mobility (co-operation with Volvo and BMW on rechargeable hybrids and electric cars), gasification of biomass and ocean energy
<p>Profitable Growth Drive growth through organic expansion and business development combined with acquisitions in priority markets</p> <ul style="list-style-type: none"> • Organic expansion will be of central importance for future growth • Business development will be used as a complement to organic and acquisition-driven expansion • Acquisition-driven expansion is important in the long term. However, in the near and medium terms, the focus will be on consolidation of existing market positions 	<ul style="list-style-type: none"> • Acquisition of 49% interest in Dutch energy group N.V. Nuon Energy on 1 July 2009 • Acquisition of the outstanding interests in Vattenfall Heat Poland S.A. and GZE S.A. in Poland • Continued investments to raise the level of safety and increase the availability and useful life of nuclear power plants • Continued investments in wind power, biomass and efficient coal-fired plans (such as the Thanet and alpha ventus wind farms, the Amagerverket and Fynsverket plants in Denmark, the Boxberg and Moorburg power plants in Germany, and the Siekierki and Zeran combined heat and power plants in Poland)
<p>Benchmark for the Industry Strive for operational efficiency through productivity improvements and better utilisation of Group synergies</p> <ul style="list-style-type: none"> • Adopt long-term benchmarking goals for the business areas by benchmarking operations against peer companies • Continuously work on improving processes and ensure internal bench-learning and the utilisation of best practices in order to achieve long-term goals 	<ul style="list-style-type: none"> • Continuation of OPEX, the Group's productivity improvement programme. The goal for the OPEX programme is an 11% productivity improvement from 2006 to 2010, corresponding to a cost reduction of SEK 5 billion • Continued investments in nuclear power to raise the level of safety and increase availability and useful life of plants
<p>Employer of Choice Attract, retain and develop people and competencies for the future</p> <ul style="list-style-type: none"> • Focus on talent management • Develop leadership talents • Develop employer branding • Work in accordance with Vattenfall's culture and values • Continue focus on health and safety • Establish a performance culture 	<ul style="list-style-type: none"> • Continued work on strengthening leadership and management competencies • Continued work on strengthening employee commitment, motivation and performance

Long term target

72

In the annual customer survey, Vattenfall received a Customer Satisfaction Index score of 72 (of a maximum 100), compared with the goal of 66. This represents an improvement compared with a year ago (64)

73

Customer Satisfaction Index score of 73 for retail customers

75

Customer Satisfaction Index score of 75 for retail customers

0.3

During the year, Vattenfall's CO₂ emissions per kWh decreased by 0.3%. The business plan target for 2009–2011 is to reduce CO₂ emissions by 2% (corresponding to 2 million tonnes) in the Group's own operations

1) Normalised values with respect to, among other things, weather and market conditions.

1.3

Reduce CO₂ emissions by 1.3%¹, corresponding to 1.2 million tonnes, from own operations in 2010

-50

Halving of CO₂ emissions per produced unit of electricity and heat in own operations by 2030, compared with 1990 levels

19.2

Normalised annual generation¹ increased by 19.2 TWh, compared with the goal of 5.8 TWh. The increase is mainly attributable to the acquisition of N.V. Nuon Energy, and to a lesser degree to other acquisitions

1) Planned generation as well as sales of electricity and heat with normal weather values and plant status.

4.9

Increase in normalised annual generation of electricity by 4.9 TWh from 2009 to 2010

Top 3

The long-term target was redefined during the year: Vattenfall will be among the top 3 producers of clean electricity (renewables, nuclear power and coal/gas with CCS) in EU27 + Norway and Switzerland, expressed in produced TWh per year. This new target reflects Vattenfall's strategy better than the previous target, which was a 10% market share of the European energy market

3.4

The outcome for 2009 was 3.4%, compared with the goal of 5.1%. The OPEX programme is progressing according to plan in most areas. The deviation from the goal for 2009 is primarily due to unplanned cost increases for operations and maintenance

11.0

Productivity improvement of 11% from 2006 to 2010, corresponding to a cost reduction of SEK 5 billion

↗

Vattenfall will belong to the upper quartile in the industry

74

In 2009 Vattenfall received a Commitment score of 74, compared with target of 72. The improvement from 70 in 2008 is attributable to various activities at Vattenfall to build employee commitment

75

Commitment score of 75

81

Commitment score of 81

1) In 2010 N.V. Nuon Energy's operations will be integrated in the business planning process. Consequently, the targets for Vattenfall's operations in 2010 currently do not include N.V. Nuon Energy's operations.