

# 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 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 goal 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, dividends and financial risk. The Board reviews the proposed targets and decides to propose them 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 fulfillment, see the presentation below.

## Goals for the business units

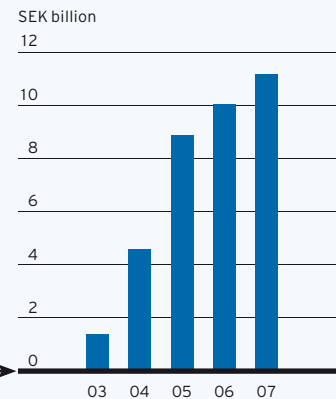
Vattenfall's management has decided to define a Group-wide return target based on a balanced consideration of

### Value creation

The difference between the achieved return on net assets and the required rate of return is multiplied by net assets to arrive at an estimated economic value that is generated by the operations every year, before tax.

\*) Figures for 2004 and onward are calculated according to IFRS.

The Group's required rate of return on net assets = 11%



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

## Financial targets

### Profitability

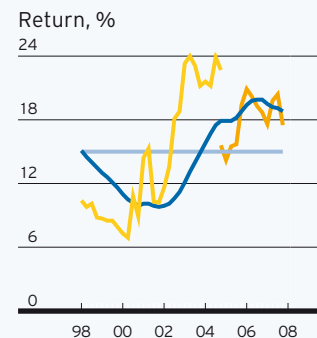
The owner's long-term return target is that profit after tax will amount to 15% on average equity. Translated to the Group's long-term required level of profitability, expressed as the return on net assets, this corresponds to a return of approximately 11% before tax.

## Outcome

- Return on equity after tax in 2007 was 17.6% (19.1%).
- Return on net assets<sup>1</sup> was 16.6% (16.8%)<sup>2</sup>.
- Return on equity after tax<sup>1</sup>, last 12 months (Sw. GAAP)
- Return on equity after tax<sup>1</sup>, last 12 months (IFRS)
- Return on equity after tax<sup>1</sup>, moving four year basis (Sw. GAAP tom Q3 2004)
- Return target, 15%

1) Excl. items affecting comparability.

2) Adjusted value compared with previously published information in Vattenfall's 2006 Annual Report. See Note 2, Accounting principles.

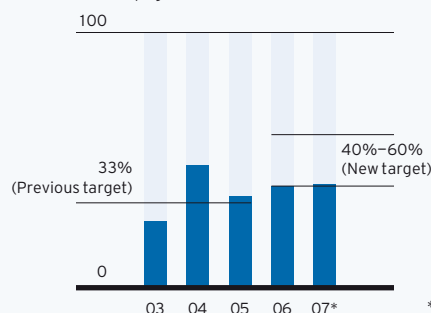


### Dividend policy

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%.

### Long-term dividend target, %

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



\*) Proposed dividend.

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 factors in its business environment which together are putting pressure on profitability in the industry in the near and medium term perspectives, including higher prices for CO<sub>2</sub> emission allowances, higher fuel costs, lower transmission and distribution tariffs in Germany, and new generation taxes in Sweden. This will put higher demands on productivity improvements and efficiency in order to ensure economic value creation. An important sub-target in this ambition is to achieve a productivity improvement of 11%, corresponding to total cost reductions of SEK 5 billion from the 2006 level during the period 2008–2010.

### 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 124,132 million (107,674). 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. Implementation of the Company's strategy, its 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, during the year quantitative goals were set for Vattenfall's five strategic ambitions. The priorities and goals for each strategic ambition are described in detail on pages 8–19.

## Financial targets

### 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. In 2006, the rating agency Fitch published a rating for Vattenfall. This was not initiated by Vattenfall and is thus based on open, publicly available information about Vattenfall.

### Cash flow interest coverage

This 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

	Long-term Moody's	Long-term S&P	Short-term Moody's	Short-term S&P
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

### Cash flow interest coverage ratio after maintenance investments

