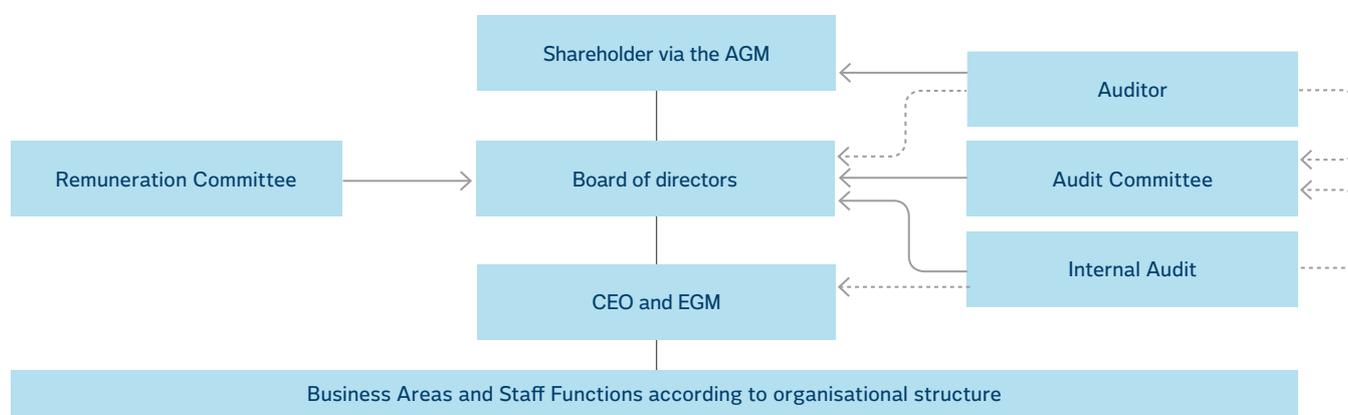


CORPORATE GOVERNANCE REPORT

The following pages include information on corporate governance during the 2016 financial year, as prescribed by law and the Swedish Corporate Governance Code. The corporate governance report has been reviewed by the company's external auditor.

Vattenfall's corporate governance model



Governance and reporting structure

The Parent Company of the Vattenfall Group, Vattenfall AB, is a Swedish public limited liability company with registered office in Solna. Vattenfall AB is thereby subject to the provisions of the Swedish Companies Act. The main decision-making bodies are the Annual General Meeting, the board of directors, and the President. The board of directors is elected by the Annual General Meeting. The Board, in turn, appoints the President, who is responsible for the day-to-day administration of the company in accordance with the Board's guidelines and instructions.

Application of the Code

Vattenfall adheres to the Swedish Corporate Governance Code ("the Code"). However, since Vattenfall is wholly owned by the Swedish state, certain stipulations in the Code are not applicable. This applies to the matter of reporting on board members' independence, among other things. In addition, Vattenfall also

deviates from the Code with respect to the following points:

Point 1.3, pertaining to the requirement that the nomination committee shall propose a person to serve as AGM chairman. Due to its ownership structure, Vattenfall has no nomination committee. Election of an AGM chairman is done at the AGM in accordance with the stipulations of the Swedish Companies Act and the Swedish state's ownership policy.

Chapter 2, pertaining to the requirement that the company shall have a nomination committee. The nomination process for the Board and auditors is conducted in accordance with the Swedish state's ownership policy and is described below. Thus the references to the nomination committee in points 1.2, 1.3, 4.6, 8.1 and 10.2 are not applicable either. However, information on the nomination of board members for new election or re-election is posted on the company's website in accordance with point 2.6.

Important external and internal rules and regulations for Vattenfall

External rules and regulations

- Swedish and foreign legal rules, particularly the Swedish Companies Act and the Swedish Annual Accounts Act
- The Swedish state's ownership policy
- The Swedish Corporate Governance Code ("the Code")
- Stock exchange rules¹
- International Financial Reporting Standards (IFRS) and other accounting rules
- The Global Reporting Initiative (GRI) G4 Guidelines

Internal rules

- Vattenfall's Articles of Association
- The Board's and committees' Rules of Procedure, including the CEO's instructions and instructions for reporting to the Board
- The Vattenfall Management System (VMS), including the Code of Conduct, and other internal governance documents

¹ Vattenfall follows the stock exchange rules that apply for companies that have fixed-income instruments registered on Nasdaq Stockholm and other marketplaces.

Vattenfall's Articles of Association and continuously updated information about corporate governance at Vattenfall are available on Vattenfall's website: vattenfall.com (original Swedish documents available on vattenfall.se). The website is also a source for previous corporate governance reports, documentation and video presentations from the most recent Annual General Meetings, and links to the Swedish state's ownership policy, the Swedish Corporate Governance Code and Vattenfall's Code of Conduct.

Shareholder and general meetings

Vattenfall AB is wholly owned by the Swedish state. The shareholder's right to make decisions about Vattenfall's affairs is exercised at the Annual General Meeting (AGM) and other general meetings. Through a general meeting resolution on the content of the Articles of Association, the owner makes decisions on the company's operations. In accordance with the Swedish state's ownership policy, the company's financial targets are also decided on by a general meeting. The Annual General Meeting of Vattenfall AB is to be held yearly within six months after the end of the financial year by law and not later than 30 April in accordance with the Swedish state's ownership policy. Notice of the AGM is issued not earlier than six weeks and not later than four weeks before the meeting is to be held.

Vattenfall held its 2016 AGM on 27 April 2016. The company's owner, the Swedish state, participated at the AGM through its owner representative. The President, auditor and quorumed Board were also in attendance. Staffan Bohman and Hilde Tonne were elected as new directors on the Board. Gunilla Berg and Håkan Buskhe had declined re-election. Members of Parliament were given the opportunity to ask questions during the AGM, and an open Q&A session was arranged after the meeting, in accordance with the Swedish state's ownership policy. The AGM was open to the general public and was aired live via webcast.

The 2017 AGM will be held on 27 April 2017 in Solna, Sweden.



Duties of the Annual General Meeting:

- Elect the board of directors, the Chairman of the Board and the auditors, and decide on their fees
- Adopt the income statement and balance sheet for Vattenfall AB and the Vattenfall Group
- Decide on distribution of the company's profit
- Grant discharge from liability for the board members and the President
- Decide on guidelines for remuneration of senior executives
- Decide on other matters of business prescribed by law or the company's Articles of Association

Board of directors

The Board's duties

The Board's fundamental duties are laid out in the Swedish Companies Act and the Code. Each year the Board adopts its Rules of Procedure and a number of instructions. The Rules of Procedure and instructions regulate such matters as reporting to the Board, delegation of duties between the Board, the President and the Board's committees, the Chairman's duties, the form and content of board meetings, and the evaluation of the work of the Board and the President.

The Board's Rules of Procedure stipulate that the Board shall set the overarching targets for Vattenfall's operations, decide on Vattenfall's strategy for achieving those targets, and ensure that suitable systems are in place for monitoring and controlling Vattenfall's operations, risks and financial position in respect of the set targets. The Board is responsible for approving major investments, acquisitions and divestments, and for adopting central policies and instructions. The Board shall also approve certain important contracts, including contracts between Vattenfall and the President, Executive Vice Presidents and other persons in the Group who have been defined by the AGM as being senior executives. The Board's duties pertain to Vattenfall AB as well as the Vattenfall Group. Vattenfall's General Counsel serves as secretary to the board of directors.

The Chairman leads the work of the Board in accordance with the Swedish Companies Act and the Code, and is responsible for –

among other things – ensuring that the board members receive relevant information, contacts with the owner on ownership matters, and serving as a liaison between the owner and the Board. According to the Rules of Procedure, the Board – through the Chairman – shall coordinate its views with representatives of the owner when the company is facing particularly important decisions.

Board meetings

According to the Board's Rules of Procedure, the Board shall hold eight to twelve regular board meetings every year. In addition to the regular meetings, the Board is convened when necessary. The agenda of every regular meeting shall include the following items of business:

- The Group's business situation
- Financial report for the Group
- Reports from board committees, when committee meetings have been held
- Matters that are not handled by the President in the day-to-day administration
- Other matters of material importance for the Group

In addition, certain items of business are included on the agenda every year, in accordance with the yearly planning in the Board's Rules of Procedure. Investments approved by the Board are followed up by the Board one year after their implementation.

The Board's yearly planning



The Board holds at least one board seminar every year. At these seminars the Board receives more detailed information and discusses Vattenfall's long-term development, strategy, competitive situation and risk management.

The Board met eleven times in 2016, including the statutory meeting. Major matters addressed included the company's strategy, handling of investments in nuclear power and nuclear power safety, and the divestment of Vattenfall's lignite operations in Germany along with related issues. Several matters for the Board in 2016 pertained to investments in wind farms and tenders in connection with auctions of wind power projects.

Appointment of the Board

For companies that are wholly owned by the Swedish state, uniform and joint principles for a structured nomination process apply. These principles are set forth in the Swedish state's ownership policy and supersede the Code's rules on drafting work for decisions on the nomination of board members and auditors.

The board nomination process in the Swedish Government Offices is coordinated by the Ministry of Enterprise and Innovation. The competency needs are analysed on the basis of the company's operations, situation and future challenges as well as the Board's composition and evaluations of the Board that have been carried out. Thereafter, any recruitment needs are determined and recruitment work is initiated. Once this process has been completed, the nominations are publicly announced in accordance with the Code; however, no account is made regarding directors'

independence. Vattenfall provides orientation training for new directors who are elected by the AGM.

The Swedish state's ownership policy stipulates that the selection of board members shall be made from a broad recruitment pool in the aim of soliciting expertise of both women and men as well as persons with varying experience. Discrimination based on gender, transgender identity or expression, ethnic origin, religion or other faith, functional disability, sexual orientation or age may not take place.

At the 2016 AGM the owner's representative presented a motivating statement on the Board's composition as well as on the changes that had been proposed. In summary, the Board's composition – with the proposed changes and in respect of the company's operations, stage of development and conditions in general – was judged to be suitable and distinguished by diversity and breadth regarding the directors' competence, experience and background, as well as fulfilling the government's goal that the share of women and men shall be at least 40%.

More detailed information on the board nomination process is provided in the Swedish state's owner policy, at regeringen.se.

The Board's composition

Vattenfall's Articles of Association stipulate that the board of directors shall have, in addition to the employee representatives, a minimum of five and a maximum of ten members without deputies. The directors are elected annually by the Annual General Meeting, which also elects the Chairman of the Board.

The Board's main items of business in 2016:

- Vattenfall's strategic direction and goals, including sustainability targets and reporting
- Cost-cutting and cost-cutting targets
- Valuations on Vattenfall's balance sheet
- Divestment of the lignite operations in Germany
- Submissions of tenders and investments in new wind farms
- Business model and wind power partnerships
- Investments in improved safety (independent core cooling) at the Forsmark nuclear power plant
- Nuclear power issues in Germany
- Electricity distribution operations in Berlin
- Re-investments in German heat operations and strategy for heat operations
- Cyber security
- Improved control in the supply chain and revised Code of Conduct for Suppliers
- Measures for meeting the requirements of the EU Market Abuse Regulation that apply for Vattenfall
- UK Modern Slavery Act statement

In 2016 the Board was composed of nine directors elected by a general meeting. No member of the Executive Group Management (EGM) was a director on the Board. Lars G. Nordström was Chairman of the Board. By law, the unions are entitled to appoint three board members plus three deputies, and they exercised this right. After the AGM, five of the Board's twelve members were women, and among the directors elected by a general meeting, four of nine were women. The average age of board members was 58. One director, Hilde Tonne, is a foreign (Norwegian) citizen. Biographical information about the board members is provided on pages 74–75.

Sustainability issues addressed by the Board

The Swedish state's ownership policy stipulates that companies with state ownership shall serve as a model for sustainable business. The ownership policy defines sustainable business as "a development that meets the needs of today without jeopardising future generations' ability to meet their needs" and covers human rights, work conditions, the environment, anti-corruption, business ethics, and equality and diversity.

The Board has adopted an overarching sustainability policy as a complement to individual policies for such areas as the environment, the Code of Conduct, and health and safety. It stipulates that for Vattenfall, sustainability entails taking responsibility for future generations by contributing to sustainable development in society – economically, environmentally and socially. The sustainability policy also stipulates that environmental issues are the top-priority focus area, based on a decision by Swedish Parliament in 2010 that Vattenfall shall operate a commercial energy business that enables the company to be among the leaders in developing environmentally sustainable energy production. This parliamentary decision is also reflected in Vattenfall AB's Articles of Association.

At the Board's annual review of the company's sustainability targets and strategy it was emphasised that Vattenfall's four strategic objectives (see page 18) by and of themselves constitute sustainability objectives, and that one of their purposes is that sustainability issues shall constitute an integral part of Vattenfall's operations.

Guidelines for directors' fees

Directors' fees and fees for committee work are set by the owner at the AGM, in accordance with the Swedish state's ownership policy. The fees paid to the Chairman of the Board and directors were unchanged between 2008 and 2016. The 2016 AGM resolved in favour of a 7.8% increase in the fee paid to the Chairman of the Board and a 7.1% increase in the fees paid to the other board members. For work as chair and a member of board committees, the AGM resolved in favour of unchanged fees. Information on directors' fees in 2016 is provided in the Annual and Sustainability Report, Note 46 to the Consolidated accounts, Number of employees and personnel costs.

Evaluation of the Board's and President's work

The Board evaluates its own work and the President's work once a year as part of efforts to develop the Board's work forms and effectiveness. This evaluation is conducted under the direction of the Chairman and is reported to the Board and the owner. The most recent board evaluation was begun at the board meeting on 26 October 2016. As in previous years, with the support of external consultants, the Board conducted a self-assessment using questionnaires, where the individual board members evaluated both their own and other board members' performance. This evaluation used a questionnaire for the Board as a whole, which each of the directors and deputy directors responded to, and a questionnaire for evaluation of the individual directors, responded to by the directors elected by a general meeting. The questions addressed Vattenfall's current challenges, management and organisation, the Board's effectiveness, composition and expertise, and its relationship with the owner, the Chairman and the President. The evaluation was reported on and discussed at the board meeting on 16 December 2016. As a follow-up to the written evaluation, the Chairman held discussions individually on a voluntary basis with each of the directors elected by a general meeting and jointly with the employee representatives.

Board committees

The Board has established two committees, which are described below, and has established Rules of Procedure for these. At the statutory board meeting, the Board appointed five directors elected by a general meeting for each committee, of whom one serves as committee chair. In addition, the Board can, where necessary, establish other board committees or temporary work groups to address matters in defined areas. No such additional committees or temporary work groups were active in 2016. Information on the committees' composition is provided on pages 74–75.

The committees report their work to the Board at the next regular board meeting, whereby the committee chair presents a report accompanied by minutes from the committee meetings. Except for a few matters handled by the Audit Committee, the committees are only drafting bodies and make recommendations to the Board. The Board's legal responsibility under company law for the company's organisation and administration of the company's affairs is not constrained by the committees' work.

Audit Committee

In 2016 the Audit Committee conducted preparatory work in connection with Vattenfall's annual impairment testing of asset values, which resulted in the recognition of impairment losses. The impairment testing in 2016 was specifically focused on the sale of the lignite operations and the energy policy agreement in Sweden. During the year the committee revised its work forms to meet new requirements posed by legislation in Sweden and the EU, including

among other things stricter requirements on auditors' reports to the committee and a specification of how the committee chair is to report to the Board.

The Audit Committee's most important duties are:

- To oversee Vattenfall's financial reporting, including sustainability reporting
- With respect to financial reporting, to monitor the effectiveness of Vattenfall's internal control, internal audit and risk management
- To stay informed about the audit of the annual report and Consolidated accounts as well as about the conclusions of the Supervisory Board of Public Accounts' quality control of auditing activities performed by the company's auditor
- To review and monitor the auditor's impartiality and independence
- To assist in the drafting of recommendations for decisions on the election of auditor by the Annual General Meeting
- To review and oversee the management of market and credit risks
- To conduct an annual evaluation of the external auditors' work

The Audit Committee is responsible for meeting with Vattenfall AB's external and internal auditors on a regular basis in order to stay informed about the planning, focus and scope of the company's audit. The Audit Committee is also responsible for discussing coordination of the external and internal audit work and views of the company's risks. Internal Audit's budget, the Internal Audit Charter and the internal audit plan are prepared by the committee.

The Audit Committee has the right, on behalf of the Board, to decide on guidelines for other services than auditing that Vattenfall may procure from the Group's auditors.

The Audit Committee meets prior to Vattenfall's publication of interim reports and when warranted by the prevailing conditions. The CFO and head of Internal Audit serve in a reporting role. The company's external auditors attend all regular meetings and report on their observations of the audit. During the entire year 2016 the committee had at least one member with accounting or auditing competence.

Remuneration Committee

The committee's duties include the following:

- Serving as a drafting body to ensure implementation and compliance with guidelines
- Where applicable, conducting drafting work for any special reasons that may exist in an individual case to deviate from the guidelines

- Conducting drafting work for the Board's report on remuneration of senior executives in the annual report and, ahead of the Annual General Meeting, monitoring and following up the auditors' review.

The President serves in a reporting role on the Remuneration Committee.

The Remuneration Committee's most important duties are:

- To conduct drafting work for board decisions on matters regarding remuneration principles, and on remuneration and other terms of employment for members of the Executive Group Management and other senior executives
- To monitor and evaluate application of the guidelines for remuneration of senior executives, which the AGM, by law, is required to decide on as well as the applicable remuneration structures and levels of remuneration in the company
- To conduct drafting work for the Board's decisions regarding overarching remuneration principles in general, such as the general existence of, amount and structure of variable remuneration (for employees who are not senior executives)

Auditor

The Swedish state's ownership policy stipulates that the owner is responsible for the election of auditors and that the auditors are to be appointed by the Annual General Meeting. The auditors are elected for a mandate period of one year, in accordance with the main rule in the Swedish Companies Act. Vattenfall's Articles of Association stipulate that the company shall have one or two auditors with or without one or two deputy auditors, or a chartered auditing firm as auditor.

At the 2016 AGM, the auditing firm Ernst & Young AB was re-elected as auditor. The auditing firm appointed Authorised Public Accountant Staffan Landén as auditor-in-charge. He has held this position since the 2015 AGM. Staffan Landén is also the auditor of, among others, Capio AB, Academedia AB, and Nederman Holding AB, and is a stock exchange auditor appointed by Nasdaq Stockholm. The auditor has no assignments with companies that affect its independence as auditor of Vattenfall.

The auditor's audit assignment includes a review of the annual report, the Consolidated accounts, the corporate governance report and the sustainability reporting. The auditor has access to minutes of board meetings and board committee meetings, as stipulated in the Board's Rules of Procedure. The Audit Committee has

approved guidelines for how procurement of other services than auditing shall take place from the auditor. Consulting services provided by Ernst & Young AB from 2014 to 2016 mainly pertained to tax and accounting issues and studies of organisational issues.

At the 2016 AGM the auditor reported on the audit work in 2015 and on its review of compliance with the guidelines for remuneration of senior executives. The auditor reported on its review of the year-end accounts for 2016 to the entire Board at the board meeting on 6 February 2017 (without the presence of any person from the Executive Group Management), and also reported on its observations at the board meeting on 16 December 2016. In addition, the auditors performed a review of the half-year interim report.

In accordance with the Act on Auditing of State Activities, etc., the Swedish National Audit Office may appoint one or more auditors to participate in the annual audit. No such auditor was appointed in 2016.

The auditor's fees are payable according to an approved invoice. The Group's auditing costs are described in more detail in the Annual and Sustainability Report (in Note 17 to the Consolidated accounts, Auditor's fees, and in Note 16 to the Parent Company accounts, Auditor's fees).

CEO and Executive Group Management

The President of Vattenfall AB, who is also Chief Executive Officer (CEO) of the Vattenfall Group, is responsible for the day-to-day administration in accordance with the Swedish Companies Act. The CEO in 2016 was Magnus Hall. An account of the President's remuneration is provided in the Annual and Sustainability Report, Note 46 to the Consolidated accounts, Number of employees and personnel costs.

The CEO has set up internal bodies for governance of the Group and makes decisions independently or with the support of these bodies. The most important of these are the Executive Group Management (EGM) and the Vattenfall Risk Committee (VRC).

The EGM focuses on the Group's overall direction and addresses – within the framework of the CEO's mandate from the board of directors – matters of importance for the Group, such as certain investments. The VRC focuses on decisions pertaining to risk mandates and credit limits, among other things, and exercises oversight of the risk management framework. Both of these bodies conduct preparatory drafting work on matters that are to be decided by the board of directors.

Biographical information on the members of the Executive Group Management is provided on page 76–77.

Internal governance

Core values, purpose and strategy

Operations in 2016 rested upon three core values: Safety, Performance and Cooperation.

Vattenfall wants to contribute to a sustainable energy system in all parts of the value chain, to be a company that is truly customer-centric, and to transform to a long-term sustainable production portfolio. We are striving to accelerate and enable climate-smart living entirely without the use of fossil fuels, which is expressed in our purpose: the "Power Climate Smarter Living". Vattenfall has set a target to be climate-neutral by 2050, and by 2030 in the Nordic countries.

Vattenfall aspires to contribute to a sustainable energy system in all parts of the value chain and to be a company that is distinctly customer-centric. Parallel with this Vattenfall is working to transform to a long-term sustainable production portfolio. Vattenfall has four strategic objectives: The company shall be 1) Leading towards Sustainable Consumption and 2) Leading towards Sustainable Production. Achieving these requires 3) High Performing Operations and 4) Empowered and Engaged People.

Governing business ethics

Vattenfall's internal Code of Conduct builds upon eight principles in the areas of Health and Safety, People, Customers and Suppliers, Business Ethics, Communication, Information Security, Company Resources, and the Environment, and includes references to the Vattenfall Management System (VMS), which elaborates on the principles in more detail. Information about the Code of Conduct is provided on the company's intranet in all of the company's languages, through articles in Vattenfall's employee news magazine, and in connection with new hiring and training. The company also has an e-learning programme on application of the Code of Conduct. Together these measures have contributed to employees' awareness of the Code of Conduct.

To ensure that the organisation acts in an ethical and non-corrupt manner, Vattenfall requires all employees to take personal responsibility by acting in accordance with the company's ethical guidelines, which are set forth in the Code of Conduct as well as in internal policies and instructions. Vattenfall believes that competition plays a decisive role for a market to function effectively and has zero tolerance for bribery and corruption. An important step in ensuring this is the training that is conducted within the Vattenfall Integrity Programme, which is described on page 55.

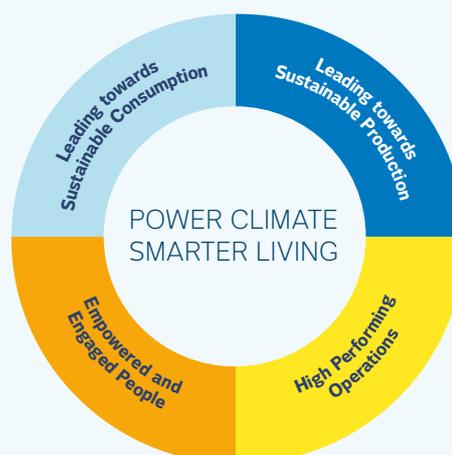
The Code of Conduct gives employees the opportunity to report incidents anonymously through a whistleblower function staffed by locally appointed external ombudsmen (attorneys), to whom employees, consultants and contractors can turn to report suspected, serious improprieties that the whistleblower does not want to report internally via the normal reporting channels. Read more about reported incidents on page 55.

Ongoing legal processes are described in Note 44 to the Consolidated accounts, Contingent liabilities.

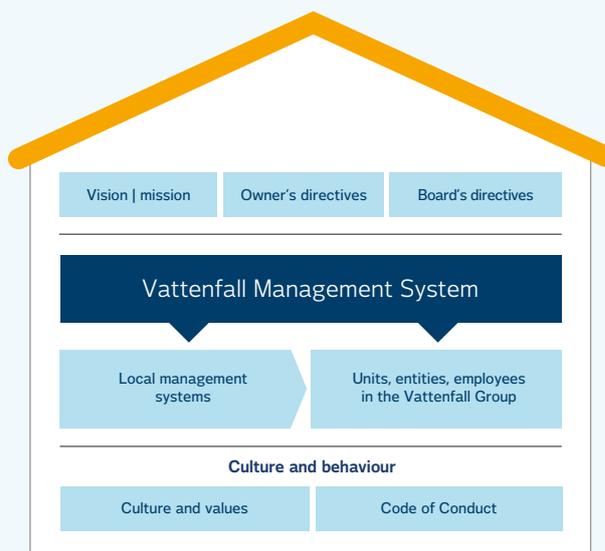
Vattenfall Management System

The Vattenfall Management System (VMS) is the framework that ensures that Vattenfall's governance adheres to formal requirements as well as to requirements made by the Board, the President, the business operations and the Staff Functions. It covers the governance that is necessary at an overarching level within Vattenfall. The VMS is documented in binding governance documents consisting of policies, instructions and process documents on three different levels: corporate level, function level and business level. Certain central documents are approved by the board of directors of Vattenfall AB. The VMS is an integrated management system that applies for the entire Vattenfall Group, along

Four strategic objectives



VMS – Vattenfall Management System



VMS structure and other governance documents

with the limitations that may arise from legal requirements, such as regarding the unbundling of the electricity distribution business. Special routines are in place to ensure adherence to the management system also by subsidiaries. In 2016 a number of simplifications and continuing updates of the VMS were conducted. In addition, the evaluation has been improved with respect to knowledge about and compliance with the VMS.

The company's direction is laid out by certain policies. Vattenfall's governance with respect to sustainability issues is based on the company's sustainability policy along with a number of other policies, including:

- The environmental policy
- The health and safety policy
- The Code of Conduct
- The Code of Conduct for Suppliers, which addresses issues such as human rights, work conditions, the environment and anti-corruption, based on the UN Global Compact.

Policies have also been drawn up in the areas of risk, dam safety and nuclear safety.

The sustainability policy, the environmental policy and the Code of Conduct are decided on by the board of directors, while other policies are decided on by the President. In the EGM, the Head of Strategic Development is responsible for sustainability issues. The company's policies are accessible to employees on the company's intranet and are also communicated externally. However, Vattenfall does not require any acknowledgement by employees or management that they have read the policies.

The content of the company's policies is concretised in instructions within the VMS, such as in special instructions for matters concerning competition law and for countering bribery and corruption. Instructions in the VMS can also include concretisations of the content of the Board's Rules of Procedure – for example, with respect to the issuance of information and delegation of responsibilities.

Vattenfall's Environmental Management System is integrated in the VMS. At year-end 2016 nearly 100% of Vattenfall's production portfolio had certified environmental management systems in accordance with ISO 14001 (2015: 87%). In addition, the Group's business units are certified in accordance with OHSAS 18001 for occupational health and safety, and seven units have certified energy management systems in accordance with ISO 50001.

Organisation

Vattenfall's organisational structure comprises six Business Areas: Heat, Wind, Customers & Solutions, Generation, Markets and Distribution. The Business Areas are organised in five operating segments, where Generation and Markets make up a single operating segment. The central Staff Functions are organised in a Corporate Centre which supports and directs the business activities. The organisational structure has been formed to reflect Vattenfall's overall strategy for the coming years (see preceding page). For further information see pages 17–19.

The company structure differs from the business structure. Decisions are made primarily in the business organisation and, to the extent necessary or suitable, by subsidiaries' boards. Governance is conducted financially, non-financially (such as through Staff Functions), and operationally. Unit scorecards and the VMS are the most important governance tools.

Integrity organisation

The aim of integrity work at Vattenfall is to uphold integrity and protect the Group's reputation. Toward this end an organisational framework has been created which, within its area of responsibility, is tasked with ensuring transparency, understanding of applicable laws, guidelines and standards, and promoting compliance with these in all countries in which Vattenfall operates.

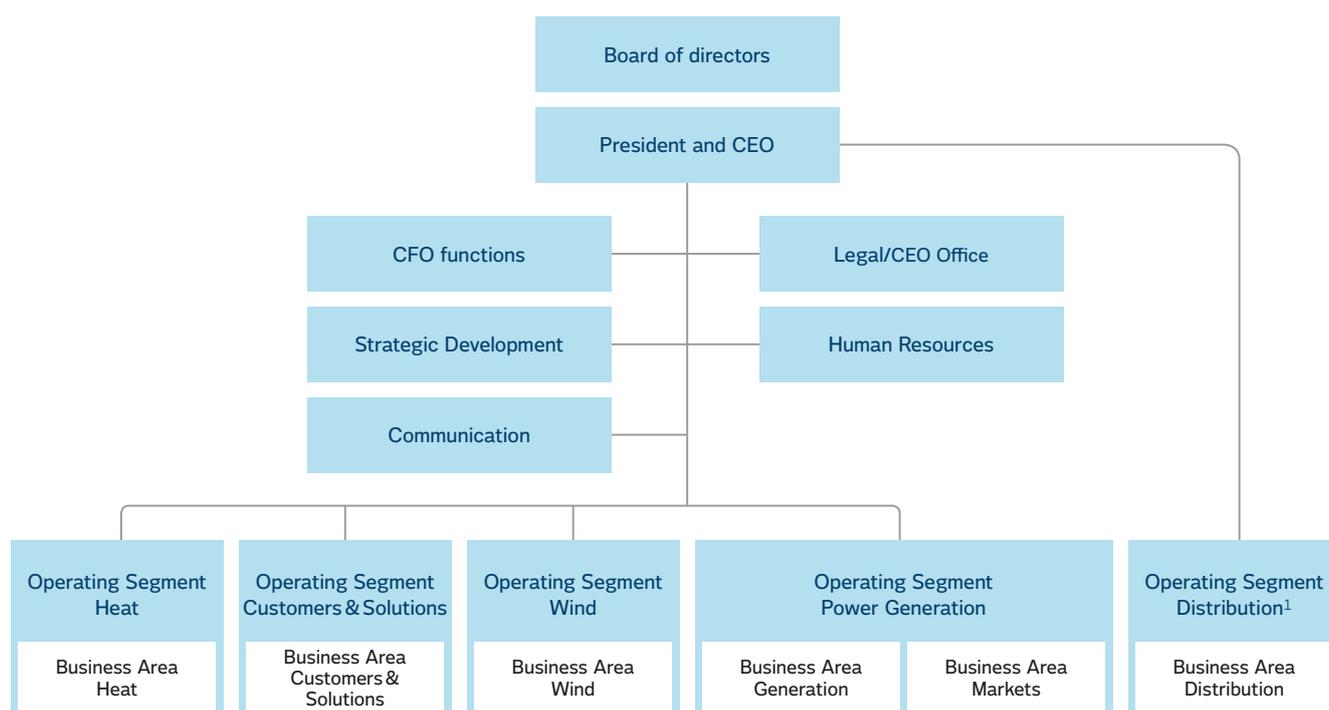
Integrity work at Vattenfall is organised according to the three lines of defence principle, with varying roles for risk ownership, control and advice, and quality assurance:

1. Ownership: The line organisation, which is responsible for compliance with laws and regulations within the unit
2. Control and advice: The integrity organisation, with reporting to the Group's General Counsel
3. Quality assurance: The Internal Audit unit

The Integrity organisation's area of responsibility covers competition matters, bribery and corruption, conflicts of interest, insider information, awareness of Vattenfall's Code of Conduct, and coordination of Vattenfall's whistleblower function.

Within its area of responsibility the Integrity organisation supports Vattenfall in identifying, avoiding, managing and monitoring the risk for non-compliance with laws, other legal stipulations, regulations, norms and codes of conduct that are relevant for operations.

Work within the Integrity organisation in 2016 is described in more detail on page 55.



¹ The electricity distribution operations are regulated by the Swedish Electricity Act (Ellagen) and the German Energy Industry Act (Energiewirtschaftsgesetz), and are unbundled from Vattenfall's other operations.

Guidelines for remuneration of senior executives

Vattenfall AB applies the Swedish Government Offices' "Guidelines for terms of employment for senior executives in state-owned companies". These guidelines are available on the Government Offices' website: regeringen.se.

The 2016 AGM approved Vattenfall's application of the guidelines with the deviation that instead of the definition of senior executive in the Swedish Companies Act, senior executives shall be defined on the basis of whether they have a significant impact on the Group's earnings, through use of the International Position Evaluation (IPE) model. Managers with positions of IPE 68 and higher are to be considered as senior executives. The Board's explanation for this deviation is stated in the 2015 Annual and Sustainability Report, on page 69.

Based on the AGM's definition, in 2016 a total of 14 persons, excluding the President, were covered by the stipulations on

contracts with senior executives. Actions taken with respect to agreements with these executives were continuously reported to the Remuneration Committee and Board, which also decided on the entering into such agreements. Remuneration of senior executives and compliance with the adopted guidelines are described in more detail in the Annual and Sustainability Report, Note 46 to the Consolidated accounts, Number of employees and personnel costs.

The Board and Remuneration Committee's report on compliance with the guidelines for remuneration of senior executives set by the AGM is posted on vattenfall.se (English translation is available on vattenfall.com).

The proposed guidelines ahead of the 2017 AGM are shown on page 78.

Internal control over financial reporting

This section describes the most important elements in Vattenfall's system of internal control and risk management in connection with financial reporting, as prescribed by the Annual Accounts Act and the Code. Vattenfall's framework for this control is based on the COSO framework, which has been developed by the Committee of Sponsoring Organizations of the Treadway Commission. For further information see also the section Risks and risk management on pages 57–63.

Control environment

According to the Swedish Companies Act and the Code, the board of directors has overarching responsibility for internal control over financial reporting. In this context the Board shall ensure that the company's organisation is structured in such a way that the bookkeeping, treasury management and the company's financial conditions in general are controlled in a satisfactory manner. The Board's audit committee conducts drafting work for the Board on matters related to internal control over financial reporting, makes recommendations and proposals to ensure the reliability of reporting, and informs the Board about the results of the audit and about the ways in which the audit contributed to the reliability of the financial reporting and about which function the committee has had.

The control environment is based on the division of responsibility between the Board and the President, which is set forth in the Board's Rules of Procedure, along with the reporting requirements made by the Board. The Board has also adopted Vattenfall's Code of Conduct, which lays out the overarching rules governing employee conduct.

The VMS is an integrated management system for the Vattenfall Group and is revised on a continuous basis (see also the section on internal governance on page 70). The VMS contains governance documents for all identified material areas, including roles and responsibilities, authority, decision-making processes, risk management, internal control, and ethics and integrity issues. The VMS lays out the "grandfather principle" and "four eyes principle" for decision-making. The VMS also stipulates which decision-making, oversight and advisory bodies exist within the Group, on top of those required by law.

Vattenfall has an internal financial control (IFC) process whose overall purpose is to ensure that controls are in place in the financial reporting.

Risk assessment

The Board addresses the Group's risk assessment and risk

management process at an overarching level. The Board's audit committee conducts drafting work for evaluation and monitoring of risks and quality in financial reporting. The Audit Committee maintains continuous and regular contact with the Group's internal and external audit functions.

The Board's risk management and reporting is centrally coordinated via the Vattenfall Risk Committee (VRC). A continuous Enterprise Risk Management (ERM) process makes it possible to quantify and compare both financial and non-financial risks. Ahead of decisions made by the President in the Executive Group Management or VRC on major investments and transactions, the risk unit performs an independent risk analysis, which makes up part of the decision-making documentation.

For the financial reporting, the IFC process serves as a framework for internal control that identifies and defines risks for material errors in the financial reporting. These are overseen by the CFO Function through regular reporting on tests performed of defined control points. The CFO Function is also responsible for performing regular analyses of risks related to financial reporting and for updating this framework.

The external and internal auditors discuss Vattenfall's risk situation in connection with the planning work ahead of the annual audit.

Control activities and monitoring

Vattenfall applies the "three lines of defence" model for management and control of risks.

The first line of defence consists of the business operations (Business Units and Staff Functions), which are responsible for managing risks.

The risk organisation, which is headed by the Chief Risk Officer (CRO), makes up the second line of defence and is responsible for monitoring and controlling risks. The CRO heads the risk management organisation within the Group and provides information to the Board's audit committee on a regular basis. The CRO is also responsible for processes related to, among other things, new products and certain contracts with long durations.

The second line of defence also includes the Group Internal Financial Control Officer (IFCO), who is responsible for monitoring and control of risks in the financial reporting. Information about ineffective controls is provided to internal and external audit. Each incidence of ineffectiveness is risk-assessed in consultation with the first line of defence. Information about these risks is provided to the risk organisation.

Internal and external audit make up the third line of defence. Internal Audit is an independent and objective function that over-

sees and evaluates the first and second lines of defence. Internal Audit evaluates, recommends and monitors improvements to the effectiveness of Vattenfall’s risk management, internal controls and governance processes throughout the Group. This also applies to compliance with Vattenfall’s governance documents, including the Code of Conduct. The Internal Audit function is directly subordinate to the board of directors and Audit Committee, and performs its work in accordance with an established internal audit plan. Internal Audit’s budget, the Internal Audit Charter and the internal audit plan are drafted by the Audit Committee and decided on by the board of directors. The Head of Internal Audit reports administratively to the President and informs the management teams of the business units and other units about audit activities that have been performed.

The Executive Group Management holds regular follow-up meetings with the heads of the Business Areas and Staff Functions regarding the financial outcome. Operations are followed up on a monthly basis via Business Performance Meetings, where outcomes, forecasts, important events and challenges (including status reports on Vattenfall’s sustainability focus areas and sustainability targets) are discussed with the top management of each business unit to ensure that the organisation is performing in line with expectations.

The internal framework for internal control includes processes for self assessments, monitoring, reporting and improvement of control activities in order to prevent, discover and correct errors in the financial reporting. Written confirmation of adherence to internal and external stipulations is part of these processes. This is done through internal Representation Letters to management. Self assessments are conducted for certain stipulations within the VMS and for matters concerning integrity and competition law, among other things.

The Group IFCO is responsible for the IFC process, which aims to strengthen the governance structure and effectiveness of controls. Continuous improvements to the IFC process are ensured through an annual evaluation and updating process.

The Board monitors and addresses the Group’s financial situation at every regular board meeting, with a starting point from the

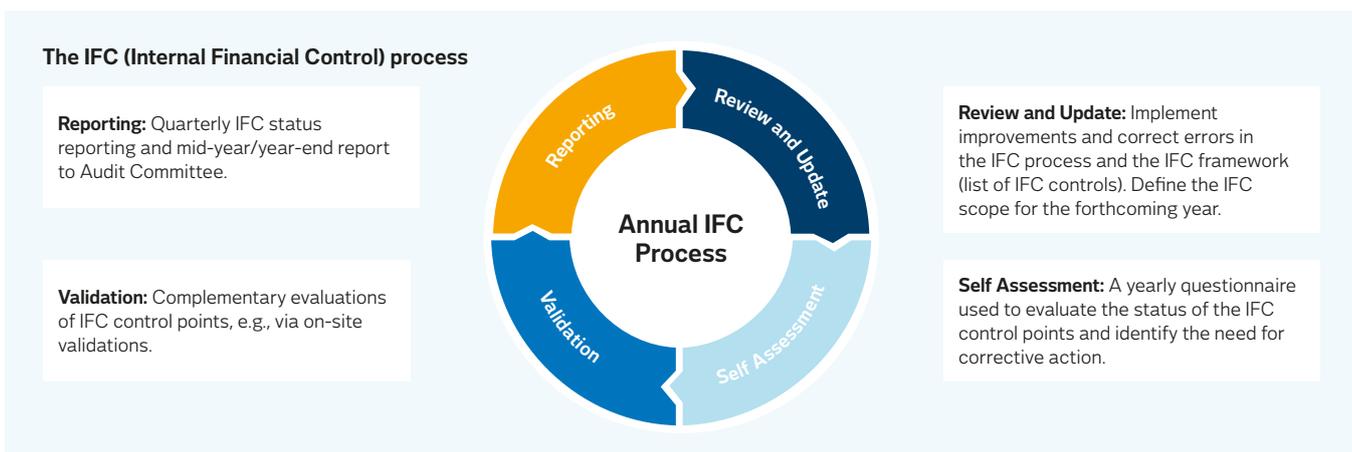
financial report submitted by the President and the Chief Financial Officer.

The Board’s monitoring of the effectiveness of internal control is conducted via the Audit Committee, which regularly receives status reports on the Group’s internal control over financial reporting, in accordance with the IFC process. A financial report, including a report on accounting and sustainability issues, is presented at every regular Audit Committee meeting, and tax issues are reported on and followed up on a regular basis. The Audit Committee, in turn, reports to the Board on its most important observations and recommendations. The timing and forms of this reporting are set in the Board’s and Audit Committees’ respective Rules of Procedure.

Information and communication

The Group’s governance documents are accessible via Vattenfall’s intranet. The forms for handling internal and external communication are documented in a VMS instruction which aims to ensure that Vattenfall is in compliance with legal as well as stock exchange rules, the state’s ownership policy (including guidelines for external reporting), and other obligations. In 2016, updated VMS stipulations about insider issues were drawn up in response to changed legislation. Accounting policies and reporting principles are laid out in a joint manual for the entire Group. Updates and changes in these policies and principles are communicated on a continuous basis via the intranet as well as at meetings with representatives of the Group’s Business Areas and Staff Functions.

Reporting and follow-up reporting to the Board and EGM are part of monitoring activities. Internal Audit and the CRO also report on their observations to the Board’s audit committee. Financial reporting includes interim reports, the year-end report and the annual report. In addition to these reports, financial information is provided to the Group’s external stakeholders via press releases and Vattenfall’s websites, in accordance with the Swedish Securities Market Act, among other things. Presentations and conference calls for financial analysts, investors and the media are held as a rule on the same day that reports are published. In addition, Vattenfall arranges a capital markets day once a year.



Board of directors



LARS G. NORDSTRÖM (1943)

Chairman of the Board
Education: Law studies

Other assignments: Chairman of the Finnish-Swedish Chamber of Commerce. Board member of Nordea Bank, Viking Line Abp, the Swedish-American Chamber of Commerce and SNS. Member of the Royal Swedish Academy of Engineering Sciences (IVA). Honorary Consul for Finland in Sweden

Previous positions: Board member of TeliaSonera (2006–2010). Chairman of the Royal Swedish Opera (2005–2009). President and CEO of Posten Norden AB (2008–2011). Various executive positions with Nordea Bank (1993–2007), including as President and Group CEO (2002–2007). Various positions with Skandinaviska Enskilda Banken (1970–1993), including as Executive Vice President (1989–1993)

Elected: 2011

Committee assignment: Member of the Remuneration Committee

Board meeting attendance: 11/11

Committee meeting attendance: RemCom: 7/7



FREDRIK ARP (1953)

Board member
Education: B.Sc. Econ. Honorary Doctor of Economics

Other assignments: Chairman of Nolato AB. Board member of Parques Reunidos and Swedfund

Previous positions: President and CEO of Volvo Car Corporation (2005–2008). CEO of Trelleborg AB (1999–2005), PLM AB (1996–1999), Trelleborg Industrier AB (1989–1996) and Boliden Kemi AB (1988–1989). Various positions in Trelleborg AB (1986–1989) and Tarkett (1979–1986)

Elected: 2014

Committee assignment: Member of the Remuneration Committee

Board meeting attendance: 11/11

Committee meeting attendance: RemCom: 6/7



VIKTORIA BERGMAN (1965)

Board member
Education: Communication Executive Program at IFL/Stockholm School of Economics. Berghs School of Communication

Other assignments: Chairman of Galber AB. Board member of The Swedish Association of Communication Professionals and GS-Hydro Oy

Previous positions: Member of Group Management and Senior Vice President Stakeholder Management & Corporate Sustainability E.ON Nordic, Board member E.ON Försäkring, E.ON Kundsupport and E.ON Smart Living (2012–2014). Positions in Trelleborg Group (2002–2011), member of Group Management and Senior Vice President Corporate Communications Trelleborg Group (2005–2011). Various positions in Falcon Breweries/Unilever (1989–1996), Cerealia Group (1987–1989)

Elected: 2015

Committee assignment: Member of the Remuneration Committee

Board meeting attendance: 11/11

Committee meeting attendance: RemCom: 7/7



STAFFAN BOHMAN (1949)

Board member
Education: M.Sc. Economics and Business Administration; Stanford Executive Program

Other assignments: Chairman of Höganäs Aktiebolag and Cibes Lift Group AB. Vice Chairman of Rezidor Hotel Group AB. Board member of Atlas Copco Aktiebolag and Upplands Motor AB. Member of the Royal Swedish Academy of Engineering Sciences (IVA). Chairman of Swedish Tax Delegation for Industry and Commerce

Previous positions: President & CEO of Gränges/Sapa AB (1999–2004). President & CEO of DeLaval (1992–1999). Corporate Controller Alfa Laval AB (1988–1991)

Elected: 2016

Committee assignment: Audit Committee chair

Board meeting attendance: 7/8

Committee meeting attendance: AC: 5/5



HÅKAN ERIXON (1961)

Board member
Education: B.Sc. International Business Administration and Economics

Other assignments: Chairman of Hemnet Sverige AB, Orio AB and Capacent AB (publ). Member of the Nasdaq OMX Stockholm AB Listing Committee. Board member of Alfvén & Didrikson Invest AB

Previous positions: Board member of IT-Gården i Landskrona AB (2014–2016) and Saab Automobile Parts AB (2012–2013). Senior Advisor, Corporate Finance, Swedish Government Offices, which included work for the Swedish National Debt Office (2007–2010).

Board member of Carnegie Investment Bank AB (2008–2009). Board member of Vasakronan AB (2007–2008). Various positions with UBS Investment Bank Ltd, London (1997–2007), including as Vice Chairman of the Investment Banking Division. Various positions with Merrill Lynch International Ltd, London (1992–1997). Kansallis-Osake-Pankki, London (1991–1992). Citicorp Investment Bank Ltd, London (1989–1991)

Elected: 2011

Committee assignment: Member of the Audit Committee

Board meeting attendance: 11/11

Committee meeting attendance: AC: 7/7



TOMAS KÄBERGER (1961)

Board member
Education: M.Sc. Engineering Physics. Ph.D. Physical Resource Theory, Associate Professor, Environmental Science

Current positions: Professor, Chalmers University of Technology, Industrial Energy Policy

Other assignments: Chairman of Renewable Energy Institute, Tokyo. Vice Chairman of the National Swedish Forest Agency. Board member of Innoventum AB

Previous positions: Professor, Lund University, International Sustainable Energy Systems (2006–2008). Director General, Swedish Energy Agency (2008–2011)

Elected: 2015

Committee assignment: Member of the Audit Committee

Board meeting attendance: 11/11

Committee meeting attendance: AC: 6/7



JENNY LAHRIN (1971)

Board member
Education: Master of Laws. Executive MBA

Current positions: Investment Director, Division for State-Owned Enterprises, Ministry of Enterprise and Innovation

Other assignments: Board member of AB Göta kanalbolag and SOS Alarm Sverige AB

Previous positions: Board member of Swedavia AB (2012–2015). Board member of RISE Research Institutes of Sweden AB (2012–2013), Legal Counsel at the Division for State-Owned Enterprises, Ministry of Enterprise/Ministry of Finance (2008–2012). Legal Director at Veolia Transport Northern Europe AB (2003–2008) and attorney (2001–2002)

Elected: 2013

Committee assignment: Member of the Audit Committee

Board meeting attendance: 11/11

Committee meeting attendance: AC: 7/7



ÅSA SÖDERSTRÖM JERRING (1957)

Board member
Education: B.Sc. Econ.

Other assignments: Chairman of Delete OY and Scannast AB. Board member of JM AB, OEM International AB, Nordic Home Improvement AB, Balco Group AB and ELU Konsult AB. Member of the Royal Swedish Academy of Engineering Sciences (IVA)

Previous positions: President SWECO Theorells AB (2001–2006) and Ballast Väst AB (1997–2001). Marketing Manager NCC Industry (1994–1997), and Communications Manager NCC Bygg AB (1991–1993)

Elected: 2013

Committee assignment: Remuneration Committee chair

Board meeting attendance: 11/11

Committee meeting attendance: RemCom: 7/7

**HILDE TONNE** (1965)**Board member****Education:** M.Sc. Petroleum Technology**Other assignments:** Board member of Danske Bank Group

Previous positions: Executive Vice President in Telenor Group (2007–2015). Head of Technology & Research Norsk Hydro Oil & Energy (2005–2007). Various leadership positions in Saga Petroleum and Norsk Hydro (1991–2005). Board member of Nordea Norge AS (2015–2016), DNVGL (2008–2016) and Statkraft AS (2009–2010). Various international directorships in listed companies as part of executive positions (2007–2015)

Elected: 2016**Committee assignment:** Member of the Remuneration Committee**Board meeting attendance:** 5/8**Committee meeting attendance:**

RemCom: 3/5

**CARL-GUSTAF ANGELIN** (1951)**Employee representative****Education:** M.Sc. Eng.

Current positions: Employee representative for Akademikerrådet at Vattenfall. Vattenfall employee since 1988, currently in Business Area Customer & Solutions

Elected: 2003**Board meeting attendance:** 9/11**JOHNNY BERNHARDSSON** (1952)**Employee representative****Education:** Engineering studies with supplementary coursework in economics

Current positions: Employee representative for Unionen. Vattenfall employee since 1970, currently in Human Resource Service at Vattenfall Business Services

Other assignments: Chairman of the European Works Council**Elected:** 1995**Board meeting attendance:** 11/11**RONNY EKWALL** (1953)**Employee representative****Education:** Electrical engineer

Current positions: Employee representative for SEKO Facket för Service och Kommunikation

Elected: 1999**Committee assignment:** Member of the Audit Committee**Board meeting attendance:** 11/11**Committee meeting attendance:**

AC: 7/7

**LENNART BENGTSSON** (1958)**Employee representative (deputy)****Education:** Two-year secondary school degree in mechanics and network technology training in IT

Current positions: Employee representative for SEKO Facket för Service och Kommunikation. Vattenfall employee since 1979, currently as IT technician.

Elected: 2011**Board meeting attendance:** 11/11**CHRISTER GUSTAFSSON** (1959)**Employee representative (deputy)****Education:** Four-year education in technology.

Current positions: Employee representative for Ledarna (the Association of Management and Professional Staff). Employed at Vattenfall since 1986, currently in the staff function for the engineering department, Forsmarks Kraftgrupp AB

Other assignments: Representative for Energy & Technology, Confédération Européenne des Cadres (for energy issues).**Elected:** 2013**Board meeting attendance:** 10/11**JEANETTE REGIN** (1965)**Employee representative (deputy)****Education:** Secondary school diploma and two-year education in healthcare

Current positions: Employee representative for Unionen. Currently head of customer service/office services for Gotland Energientreprenad

Elected: 2011**Board meeting attendance:** 8/11

Board members who left the Board in 2016: Gunilla Berg and Håkan Buskhe declined re-election at the Annual General Meeting on 27 April 2016.

Executive Group Management



MAGNUS HALL (1959)
 President and CEO
 Vattenfall employee since: 2014
 Education: M.Sc. Industrial Engineering and Management
 Previous positions: President and CEO of Holmen forestry group
 Other assignments: Chairman of NTM AB
 In 2016 Magnus Hall did not have any significant shareholdings in companies with which Vattenfall has business relations.



KERSTIN AHLFONT (1971)
 Senior Vice President, Human Resources
 Vattenfall employee since: 1995
 Education: M.Sc. Eng.
 Previous positions: Long-standing experience from Vattenfall through various management positions within Finance in BU Heat Nordic, BG Pan Europe, BD Production and Region Nordic as well as acting head of Human Resources



STEFAN DOHLER (1966)
 Senior Vice President, Business Area Markets
 Vattenfall employee since: 1998
 Education: M.Sc. Aerospace Engineering, MBA
 Stefan Dohler was appointed as CFO effective 1 December 2016
 Previous positions: Head of network operations Vattenfall Europe AG. CEO of the Management Board of Distribution and Transmission System Operators (2008–2010). Vice President Finance, Business Division Production (2011–2012). Head of BA Markets (2012–2016)
 Other assignments: Board member of GASAG



GUNNAR GROEBLER (1972)
 Senior Vice President, Business Area Wind
 Vattenfall employee since: 1999
 Education: Mechanical Engineering
 Previous positions: Vice President, BU Renewables, Region Continental/UK, Vattenfall (2014–2015). Head of BU Hydro Germany, Vattenfall (2011–2013). Head of Corporate Development & M&A, BG Central Europe, Vattenfall Europe AG (2009–2010). Head of Mergers & Acquisitions, BG Central Europe, Vattenfall Europe AG (2008–2009). Head of Corporate Restructuring, Vattenfall Europe AG (2007–2008). Head of Purchasing, Vattenfall Europe Hamburg AG (2005–2007)



ANNE GYNNERSTEDT (1957)
 Senior Vice President, General Counsel and Secretary to the board of directors.
 Vattenfall employee since: 2012
 Education: LL.B.
 Previous positions: General Counsel, Secretary to the Board and member of executive management of SAAB AB (2004–2012). General Counsel and member of executive management of the Swedish National Debt Office (2002–2004). Corporate Legal Counsel, SAS (1987–2002)
 Other assignments: Board member Swedish Space Corporation



MARTIJN HAGENS (1971)
 Senior Vice President, Business Area Customer & Solutions
 Vattenfall employee since: 2003
 Education: M.Sc. Industrial Engineering and Management
 Previous positions: Head of Heat Continental/UK, Vattenfall (2014–2015). Head of Customer Service, Vattenfall (2011–2013). Head of Customer Care Centre, Nuon (2008–2010). Program Director Unbundling, Nuon (2006–2007). Nuon Consultancy Group & Lean Competence Center, Nuon (2005–2006). Head of Customer Care B2B, Nuon (2003–2004). Management Consultant, Accenture (1996–2002)
 Other assignments: Chief Operating Officer, Nuon Netherlands



TUOMO HATAKKA (1956)
 Senior Executive Vice President, Business Area Heat, German region, Executive Vice President, Vattenfall AB
 Vattenfall employee since: 2002
 Education: B.Sc. Econ. MBA
 Previous positions: Head of Business Group Poland (2005–2007). Head of Business Group Central Europe (2008–2010). Head of Business Division Production (2010–2013)



KARIN LEPASOON (1968)
 Senior Vice President, Group Communications.
 Vattenfall employee since: 1 April 2016
 Education: LL.M. in EU Law
 Previous positions: Director of Communications, Environment, Social and Governance Standards and HR, Nordic Capital (2015–2016). Executive Vice President and member of the group senior executive team (full member since 2008), Skanska (2006–2015). VP Group Communications, Gambro (1999–2006)



ANDREAS REGNELL (1966)

Senior Vice President,
Strategic Development
Vattenfall employee since: 2010
Education: B.Sc. Econ.

Previous positions: Head of Nordic Business Strategy, Vattenfall (2014–2015). Head of Strategy and Sustainability, Vattenfall (2010–2013). Senior Partner and Managing Director, Managing Partner of Nordic Region, The Boston Consulting Group (1992–2010). Analyst and Account Manager, Citibank (1989–1992)



TORBJÖRN WAHLBORG (1962)

Senior Executive Vice President,
Business Area Generation, Executive
Vice President, Vattenfall AB
Vattenfall employee since: 1990
Education: M.Sc. Eng.

Previous positions: Vattenfall's Polish operations 1997–2010, including as country manager (2008–2009). Head of Business Group Nordic (2010). Head of Business Division Distribution and Sales (2010–2012). Head of Business Division Nuclear (2012–2013). Head of Business Region Nordic (2014–2015)

Other assignments: Board member of the Confederation of Swedish Enterprise and of Swede Energy. Chairman of EFA AB

In 2016 Magnus Hall did not have any significant shareholdings in companies with which Vattenfall has business relations.
Persons who left the Executive Group Management in 2016: Ingrid Bonde left her position as CFO on 30 November 2016.

AGM proposal

Proposed principles for compensation and other terms of employment for senior executives

The Annual General Meeting resolved on 27 April 2016 to adopt the Board's proposed guidelines for compensation of senior executives. The Board proposes that the 2017 Annual General Meeting resolve to adopt the Board's proposal which correspond to the government's guidelines for terms of employment for senior executives of state-owned companies, adopted by the government on 22 December 2016 (www.regeringen.se), with the deviation set out below.

In accordance with a resolution by the Annual General Meeting on 27 April 2016, Vattenfall deviates from the definition of senior executive of a subsidiary. Instead of using the definition of senior executive set forth in the Swedish Companies Act, senior executives shall be defined based on whether they have significant influence on the Group's earnings. Through application of the International Position Evaluation (IPE) model, executives with positions of IPE 68 and higher shall be considered to be senior.

The Board certifies that the compensation in question is in compliance with the guidelines set by the Annual General Meeting, in the following respects. Before a decision is made on compensation and other terms of employment for a senior executive, written documentation shall be available that shows the company's total cost. The proposal for decision shall be drafted by the Board's remuneration committee and thereafter be put to the Board for a decision. The company's auditors shall perform a review to ensure that the set compensation levels and other terms of employment have not been exceeded and, in accordance with the Companies Act, shall once a year – not later than three weeks before the Annual General Meeting – issue a written statement as to whether the adopted guidelines have been adhered to.

The Board's explanation for deviations from the guidelines

The deviation decided on by the owner at the 2016 Annual General Meeting entails use of a generally accepted ranking model instead of the definition of senior executive of a subsidiary in the Swedish Companies Act. The Board is of the opinion that the following, special reasons exist for deviating from the guidelines.

Like other international groups, Vattenfall governs its operations from a commercial perspective and not according to the legal company structure. For commercial and legal reasons, the Vattenfall Group has approximately 300 subsidiaries. Through application of the government's guidelines for subsidiaries, a very

large number of executives would be considered to be senior, without them having any significant influence on the Group's earnings.

The proposed deviation reflects these circumstances. The criteria used to define what constitutes a senior executive are the individual subsidiary's size based on sales, the number of employees and number of steps in the value chain, as well as the requirements on the individual executive for innovation, knowledge, strategic/visionary role and international responsibility.

The International Position Evaluation (IPE) model is used as support for determining in a systematic manner which positions can be considered to be senior. The Board's conclusion is that, in addition to the members of the Executive Group Management, executives in positions of IPE 68 or higher should be considered to be senior.

Proposed distribution of profits

The Annual General Meeting has at its disposal retained profits including the result for the year, totalling SEK 43,618,361,708. In accordance with the dividend policy adopted by the Annual General Meeting of Vattenfall AB, the board of directors and President propose, in view of the result for the year, that the profits to be distributed as follows:

To be distributed to the shareholders: SEK 0

To be carried forward: SEK 43,618,361,708

The board of directors' and President's assurance upon signing the Annual and Sustainability Report for 2016

The undersigned certify that the Consolidated accounts and the Annual Report have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Commission, for application within the EU, and generally accepted accounting principles, respectively, and give a true and fair view of the Parent Company's and the Group's financial position and earnings, and that the Administration Report for the Parent Company and the Group presents a fair overview of the development of the Parent Company's and the Group's operations, financial position and earnings and describes significant risks and uncertainties that the companies in the Group face. In addition, the undersigned certify that the sustainability data, as defined in the GRI Index on pages 166–171, has been prepared in accordance with the GRI G4 Guidelines, and has been adopted by the Board of Directors.

Solna, 21 March 2017

Lars G. Nordström,
Chairman of the Board

Carl-Gustav Angelin

Fredrik Arp

Viktoria Bergman

Johnny Bernhardsson

Staffan Bohman

Ronny Ekwall

Håkan Erixon

Tomas Kåberger

Åsa Söderström Jerring

Jenny Lahrin

Hilde Tonne

Magnus Hall,
President and CEO

Audit Report

To the general meeting of the shareholders of Vattenfall AB, corporate identity number 556036-2138

Report on the annual accounts and Consolidated accounts

Opinions

We have audited the annual accounts and Consolidated accounts of Vattenfall AB (publ) except for the corporate governance statement on pages 64–78 for the year 2016. The annual accounts and Consolidated accounts of the company are included on pages 2, 6–9, 56–151 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The Consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 64–78. The statutory administration report is consistent with the other parts of the annual accounts and Consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and Consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and Consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key Audit Matters, the Group

Valuation of Tangible and Intangible assets

In the Group's statement of financial position as per December 31, 2016 reported value of fixed tangible and intangible assets amounts to SEK 233,928 million, which equals 57,2% of the Group's total assets. As described in Note 11 to the Consolidated accounts, Impairment losses and reversed impairment losses, the Company is making assessments throughout the year for any indication that an asset may have decreased in value. If there is an indication of this kind, the asset's recoverable amount is calculated in order to determine whether there is any need for impairment. For goodwill the recoverable amount is calculated at least annually or as soon as there is an indication that an asset has decreased in value.

The Company has grouped its individual assets to the smallest group of assets that generates cash inflows that are largely independent from cash inflows from other assets. Recoverable amount is determined by calculating value in use and in Note 11 to the Consolidated accounts the main assumptions, such as future market prices of electricity, fuel and CO₂ emission allowances used when calculating the value in use, are described. Further, in Note 11 to the Consolidated accounts it is described that the calculation of value in use for cash-generating units with finite useful lives are based on forecasts of the useful life of the respective asset. Cash flow projections for cash-generating units with infinite useful lives are based on the business plan for the coming five years. Cash flows after the five year-period are calculated based on a growth factor of 0%. Future cash flows have been discounted to value in use using a discount rate as described in Note 11 to the Consolidated accounts.

In 2016 the Company has recorded impairment losses of SEK 33,767 million in total, whereof SEK 21,413 million are related to the German Lignite operations. The impairment loss related to the Lignite operations is included in the earnings for the period from discontinued operations. The allocation of the other impairment losses to different assets is described in Note 11 to the Consolidated accounts.

Changes in assumptions may have a significant impact on the calculation of value in use which imply that the determination of assumptions is of significant importance to the calculation. Hence, we have assessed the valuation of tangible and intangible assets as a key audit matter in the audit.

In our audit we have evaluated the Company's process to develop and perform impairment tests. We have assessed how cash-generating units, based on established criteria's, are identified and compared to how the Company internally monitors its business. We have involved valuation specialists to assist us in the assessment of the Company's valuation and calculation methods, assessment of reasonableness in used assumptions, sensitivity analysis of changed assumptions, comparisons with historical results and the accuracy in previous forecasts. Each cash-generating units' discount rate and long-term growth have been evaluated through comparisons with other companies within the same industry and current market rates. We have also assessed whether the information disclosed is appropriate.

Divestment of Lignite operations

As per September 30, 2016 the Company divested its Lignite operations in Germany. Due to the significance of the operations it has been reported as Discontinued operations in accordance with IFRS 5. In brief this means that the profit for 2015 and 2016 related to the Lignite operations, including operating profit, impairment losses and capital gains, has been reported as one single amount in the income statement. A complete income statement for the Lignite operations is presented in Note 5 to the Consolidated accounts, Discontinued operations, in the Company's annual report.

In 2016 the loss from the divested operations amounts to SEK 23,833 million whereof SEK 21,833 million relate to impairment of assets belonging to the Lignite operations and SEK 278 million relate to the capital gain that arose at point of time for the divestment.

Due to the substance of the transaction and the significant accounting consequences triggered by the transaction, we have assessed the transaction as a key audit matter in the audit.

In our audit we have reviewed the sales agreement and the calculation of impairment loss and capital gain. We have also evaluated the allocation of assets, liabilities, revenues and costs between continued and discontinued operations. We have performed audit procedures on the restatement of comparative figures in the income statement and related changes in the disclosures. We have also assessed whether the disclosed information of the divestment of Lignite operations is appropriate.

Provisions for future expenses of nuclear power operations

In the Group's statement of financial position as per December 31, 2016 the provisions for future expenses of nuclear power operations amounts to SEK 80,888 million. As described in Note 35 to the Consolidated accounts, Other interest-bearing provisions, the provisions pertain to future obligations for handling the decommissioning of the Company's nuclear power plants in Sweden and Germany as well as for handling nuclear waste. The provisions are based on long-term cash flow estimations with respect to future expenses. These long-term cash flow estimations mainly pertain to technical plans, estimations on the amount of the expenses and when in time these are expected to fall due, discounted to a present value based on a discount rate.

Calculation of future expenses for decommissioning of nuclear power operations include a number of assumptions determined by the Company and changes in these assumptions may have a significant impact on the provision amount. Hence, we have assessed the recognition of provisions for future expenses of nuclear power operations as a key audit matter in the audit.

In our audit we have evaluated the Company's process to calculate the amount of the provisions. We have evaluated the Company's calculation methods, obtained assessments by third-parties, assessed the reasonableness in used assumptions and sensitivity analysis of changed assumptions and performed comparisons with historical results and the accuracy in previous forecasts. The reasonableness of used discount rate has been evaluated through comparisons with other companies within the same industry and current market rates. The mid-term and long-term expenses for handling nuclear waste in German nuclear power plants have been audited in the light of current legislation in Germany. We have also assessed whether the information disclosed is appropriate.

Key Audit Matters, the Parent company

Valuation of Shares in subsidiaries

In the Parent company's statement of financial position as per December 31, 2016 shares in subsidiaries amounts to SEK 145,571 million, which equals 55,6% of the Company's total assets. As described in Note 19 to the Parent company, Shares and participations, which refers to the Note 11 to the Consolidated accounts, the Company is making assessments throughout the year for any indication that shares in subsidiaries may have decreased in value. If there is an indication of this kind, the recoverable amount of shares in subsidiaries is calculated and if the recoverable amount is less than the carrying amount an impairment loss is recognized. Recoverable amount is the higher of value in use and fair value. Value in use is calculated as present value of future cash flows from the operations that are managed within the Parent company adjusted for current net debt as per December 31, 2016.

The Company's valuation of shares in subsidiaries is based on the calculations of value in use. In the Note 11 to the Consolidated accounts the main assumptions such as future market prices of electricity, fuel and CO₂ emission allowances used when calculating the value in use are described. The future cash flow projections are discounted to present value based on the discount rates described in the Note 11 to the Consolidated accounts.

In 2016 the Company has impairment losses of SEK 13,333 million in total, whereof SEK 12,700 million are related to book value of shares in Vattenfall GmbH.

Changes in assumptions may have a significant impact on the calculation of value of shares in subsidiaries which imply that the determination of assumptions is of significant importance to the calculation. Hence, we have assessed the valuation of shares in subsidiaries as a key audit matter in the audit.

In our audit we have evaluated the Company's process to develop and perform impairment tests of shares in subsidiaries. We have involved valuation specialists to assist us in the assessment of the Company's valuation and calculation methods, assessment of reasonableness in used assumptions, sensitivity analysis of changed assumptions, comparisons with historical results and the accuracy in previous forecasts. The reasonableness of used discount rate and long-term growth have been evaluated through comparisons with other companies within the same industry and current market rates. Current net debt has been verified to obtained information from lenders. We have also assessed whether the information disclosed is appropriate.

Other Information than the annual accounts and Consolidated accounts

This document also contains other information than the annual accounts and Consolidated accounts and is found on pages 1, 4–5, 10–55, 157–182. The board of directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and Consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and Consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and Consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors and the Managing Director

The board of directors and the Managing Director are responsible for the preparation of the annual accounts and Consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the Consolidated accounts, in accordance with IFRS as adopted by the EU. The board of directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and Consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and Consolidated accounts, The board of directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the board of directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and Consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and Consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and Consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors and the Managing Director.
- Conclude on the appropriateness of the board of directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and Consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and Consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and Consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and Consolidated accounts, including the disclosures, and whether the annual accounts and Consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the Consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the board of directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the annual accounts and Consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and Consolidated accounts, we have also audited the administration of the board of directors and the Managing Director of Vattenfall AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the board of directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the board of directors and the Managing Director

The board of directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The board of directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the board of directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the board of directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the board of directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The board of directors is responsible for that the corporate governance statement on pages 64–78 has been prepared in accordance with "The State's Ownership Policy and guidelines for companies with state ownership" ("the Ownership Policy").

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. The information mandated by The Ownership Policy is consistent with the other parts of the annual accounts and the Consolidated accounts.

Stockholm, 21 March 2017
Ernst & Young AB

Staffan Landén
Authorized Public Accountant

Auditor's Combined Assurance Report on Vattenfall AB's Sustainability Report

To Vattenfall AB

Introduction

We have been engaged by the Board of Vattenfall AB to undertake an examination of Vattenfall AB's Sustainability Report for the year 2016. The Company has defined the scope of the Sustainability Report to the pages referred to in the GRI index on the pages 168–171.

Responsibilities of the Board and Management for the Sustainability Report

The board of directors and Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on pages 166–167 in the Sustainability Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative, GRI) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the procedures we have performed. We conducted our engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. The engagement includes a limited assurance engagement on the complete Sustainability Report and audit of the data that is specified below. The objective of an audit is to obtain reasonable assurance that the information is free of material misstatements. A reasonable assurance engagement includes examining, on a test basis, evidence supporting the quantitative and qualitative information in the Sustainability Report. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted

in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden. Hence, the conclusion based on our limited assurance procedures does not comprise the same level of assurance as the conclusion of our reasonable assurance procedures. Since this engagement is combined, our conclusions regarding reasonable assurance and limited assurance are presented separately below.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our audit has consisted of following information:

Outcome of the strategic targets, disclosed on page 6:

- Customer loyalty, NPS (Net Promoter Score)
- Commissioned renewables capacity
- Absolute CO₂ emissions pro rata
- Work injuries, LTIF (Lost Time Injury Frequency)
- Employee Engagement Index

Our procedures are based on the criteria defined by the board of directors and the Group Management as described above.

We consider these criteria suitable for the preparation of the Sustainability Report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusions

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the board of directors and Group Management.

In our opinion the information in the Sustainability Report which has been subject to our reasonable assurance procedures have, in all material respects, been prepared in accordance with the criteria defined by the board of directors and Group Management.

Stockholm, February 21, 2017
Ernst & Young AB

Staffan Landén
Authorized Public Accountant

Outi Alestalo
Specialist member in FAR