

Dear readers,

I took office as Chairman of the Board of Vattenfall at the Annual General Meeting on 29 April 2008. Leading the board work for one of Sweden's largest companies and the fifth largest energy producer in Europe is an important and honourable assignment that I gladly accepted. The fact that Vattenfall is a Swedish limited liability company that is run entirely in accordance with professional business principles, adheres to the same laws and playing rules as other, major corporations in Sweden, and which has a professionally composed board of directors, was an important precondition for me to take on this assignment. Vattenfall is a very well managed company, which in only a few years' time has developed from a national, Swedish electric utility to a large and financially strong European energy company with major potential for continued growth and value creation.

The importance of energy issues for social development, the environment and the climate can hardly be overestimated. In this context Vattenfall has a major responsibility to meet profitability requirements while working for sustainable development on both the local and global planes. We are the first energy company in the world to set the goal of being climate-neutral in our operations by 2050. This will require enormous investments in new plants and in work on converting all power plants to generation of electricity and heat with low emissions of carbon dioxide. I am proud to note that Vattenfall has taken a world-leading position in the development of new CCS technology and that we are a world leader in offshore wind power.

We can and must finance some of these investments with our own cash flow. However, a large part must also be financed through borrowing in the credit market. Attracting debt financing requires a high and stable credit rating, a position of trust, and a highly transparent presentation of the company's financial performance. As this is being written,

the financial market is experiencing a very difficult situation, and many companies are having a hard time obtaining any financing at all at reasonable terms. Vattenfall has a relatively favourable position as a result of its stable ownership situation and its open and consistent communication with the financial markets. Vattenfall's objective is to be equally as transparent as the major listed companies in the market.

Vattenfall's board, executive management and owner are unanimous in their support of Vattenfall's strategic direction – Making electricity clean – with profitable growth and value creation as the overarching goals. So despite the current difficult conditions in the world economy, I am highly optimistic about Vattenfall's future.

In closing, I would like to express my great thanks to the Board, the Executive Management and all of Vattenfall's employees for their hard work during the past year.



A handwritten signature in blue ink that reads "Lars Westerberg". The signature is written in a cursive, flowing style.

Lars Westerberg
Chairman of the Board

CORPORATE GOVERNANCE AND DECISION-MAKING

Governance of Vattenfall's operations

The Parent Company of the Vattenfall Group, Vattenfall AB, is a Swedish public limited liability company with registered office in Stockholm. The Swedish Companies Act thus applies for Vattenfall AB, which entails that the company shall have a board of directors that is elected by the Annual General Meeting. The Board, in turn, appoints the President and CEO, who is responsible for the day-to-day administration of the company in accordance with the Board's guidelines and instructions.

Corporate governance within the Group is based on Swedish and foreign legal rules as well as on the company's Articles of Association, the Board's Rules of Procedure and other internal documents, such as the Group's management system. Where applicable, Vattenfall also adheres to the stipulations that apply for companies registered on Nasdaq OMX Stockholm, in Sweden.

Vattenfall applies the Swedish Code of Corporate Governance ("the Code") and considers it as one of several important sets of governing systems for external reporting and communication. Vattenfall also adheres to the Swedish state's ownership policy. The departures that Vattenfall makes from the Code are mainly due to the company's ownership structure – Vattenfall is 100%-owned by the Swedish state, while the Code is written primarily for listed companies with broad ownership.

Information on corporate governance according to the Code for the 2008 financial year is provided below. For information already provided in the Annual Report, reference will be made to the appropriate section.

Annual General Meeting

According to the company's Articles of Association, the Annual General Meeting (AGM) shall be held yearly within six months after the end of the financial year. The AGM elects, on the recommendations of the owner, the Board and auditors, adopts the income statement and balance sheet,

and deals with other matters of business that are incumbent upon the Meeting pursuant to the Swedish Companies Act or the company's Articles of Association.

Vattenfall's Annual General Meeting was held on 29 April 2008, in Stockholm. The AGM adopted the annual report and consolidated financial statements for 2007 submitted by the Board of Directors and Group CEO, resolved to distribute the company's profit and discharged the members of the Board and the CEO from liability.

At the AGM, all directors were present, including the new directors elected to the Board. As in previous years, the meeting was open to the general public, and an open question and answer session was arranged, in accordance with the state's ownership policy. Members of Parliament were given the right to ask questions, as stipulated in Vattenfall's Articles of Association. The meeting was broadcast live via the Internet. A recorded version of the AGM can be viewed via Vattenfall's website, along with the minutes and other material from the AGM.

Due to Vattenfall's ownership structure, no application process is available via e-mail or the company's website for shareholders to attend the AGM; nor is information about shareholders' opportunity to submit items of business for the AGM provided on the company's website. The Code's stipulations about this are thus not directly applicable for Vattenfall.

The Board's composition and work

Appointment of the Board

For enterprises that are wholly owned by the Swedish state, uniform and joint principles for a structured nomination process are applied, which take the place of the Code's rules on the appointment of directors and auditors. The nomination process is co-ordinated by the State Enterprises Division of the Ministry of Enterprise, Energy and Communications. A work group analyses qualification needs based on the company's operations and the current situation as well as the Board's composition. Thereafter, any recruitment needs are determined and recruitment work is initiated. Board members are chosen from a broad recruitment base. Once this process has been completed, any nominations are to be made public in accordance with the Code's guidelines. The

Departures from the Code

Vattenfall's corporate governance for the 2008 financial year departs from the requirements stipulated in the Swedish Code of Corporate Governance in its wording as per 1 July 2008, on the following points. The corresponding stipulation in the previously applicable Code is indicated in parentheses.

Code requirement	Description	Chosen solution and justification
1.4 (1.4.1) Chairman to preside over the Annual General Meeting	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 instead done at the Meeting in accordance with the stipulations of the Swedish Companies Act. This is also in line with the Swedish state's ownership policy.
2. (2) Nomination committee	The company shall have a nomination committee.	Due to its ownership structure, Vattenfall has no nomination committee. The nomination process is instead conducted in accordance with the Swedish state's ownership policy.
2.6 (2.2.3) Proposal of board members	The proposal shall be presented in the notice of the Annual General Meeting and on the company's website in connection with issuance of the notice.	At the latest possible date for issuance of the notice of the AGM, the nomination work was not fully completed. The proposal was instead presented on Vattenfall's external website as soon as it was available for Vattenfall.

directors elected by the Annual General Meeting receive orientation training provided by Vattenfall.

Composition of the Board of Directors

According to Vattenfall's Articles of Association, the Board shall have of a minimum of five and a maximum of ten members, in addition to the directors and deputies appointed pursuant to other laws than the Swedish Companies Act. Vattenfall's board has eight AGM-elected directors, plus three directors and three deputies elected by the unions. No members of the Executive Group Management (EGM) are board members. Thus in accordance with the Swedish state's ownership policy, nor is the Group CEO a member of the Board. Of the board members, four are women and three are foreign citizens. The average age of board members is 55.

At the 2008 AGM, Christer Bådholm, Hans-Olov Olsson, Lone Fonss Schroder, Tuija Soanjärvi and Anders Sundström were re-elected, and Lars Westerberg, Viktoria Aastrup and Eli Arnstad were elected as new directors. The AGM appointed Lars Westerberg as Chairman of the Board and Hans-Olov Olsson as Vice Chairman. The unions appointed Carl-Gustaf Angelin, Johnny Bernhardsson and Ronny Ekwall as employee representatives, with their deputies Lars Carlsson, Lars-Göran Johansson and Per-Ove Lööv, respectively. For further information on the Board of Directors, see pages 46–47.

Directors' fees

Directors' fees are set by the AGM. For information on directors' fees for 2008, see Note 47 to the consolidated accounts.

Directors' independence

The Swedish state's ownership policy stipulates that nomination of directors is to be made public in accordance with the guidelines of the Code. However, no account is provided of the independence of the board members in relation to the state as a major owner. Of the company's directors, Viktoria Aastrup, Eli Arnstad, Christer Bådholm, Hans-Olov Olsson, Lone Fonss Schroder, Tuija Soanjärvi, Anders Sundström and Lars Westerberg are independent in relation to the company and the EGM.

The duties and delegation of work on the Board

The matters reserved for the Board are prescribed primarily by the Swedish Companies Act and the Board's Rules of Procedure. The main duties of the Board, apart from appointing the CEO and executive vice presidents, are to establish the strategic direction of operations, approve major investments, acquisitions and substantial organisational changes in the Group, and to set central policies and instructions. In addition, the Board monitors the company's financial development and has ultimate responsibility for

internal control and risk management.

Each year the Board establishes its Rules of Procedure. Apart from mandatory items pursuant to the Swedish Companies Act, the Rules of Procedure regulate such things as the Chairman's duties, information to the Board, the form of board meetings, the establishment of board committees, and evaluation of the work of the Board and the CEO.

The Chairman's duties are outlined in the Swedish Companies Act and the Board's Rules of Procedure. The Chairman heads the work of the Board and is responsible for ensuring that other board members receive adequate information. The Chairman participates when necessary in important external contacts. In the event the Chairman is prevented from fulfilling his duties, the Board's work is headed by the Vice Chairman.

The Board has established within itself an audit committee and a compensation committee. In addition, the Board can, where necessary, establish other committees to look into matters in more defined areas. In other respects, the Board shall not delegate any special areas of responsibility or duties among its members.

The Board's risk management process

Operational risk management is regulated by Group instructions with special focus on risks associated with energy and commodity trading, and financial, insurance and credit risks. The Board decides on overall risk limits for the Group in all these areas. Operational risks are monitored and reported on a regular basis within the respective Business Groups. At each board meeting the Board is informed about the Group's financial position, and any outstanding guarantees and risks are reported. The Board also holds an annual risk management seminar, which conducts a more thorough review of the Group's financial and operational risks.

For more detailed information about Vattenfall's risks and risk management, see pages 71–75 and Note 35 to the consolidated accounts.

Description of the Board's work

The Board's Rules of Procedure stipulate that seven regular meetings are to be held each year. In addition to the regular meetings, the Board is summoned to further meetings if the need arises.

The Rules of Procedure stipulate, among other things, that the following items must be included on the agenda once a year:

- The Group's strategic plan
- The Group's total risk exposure
- Safety and environmental issues within the Group's nuclear power operations
- Review of strategic personnel issues within the Group, including competence succession
- Research and development activities within the Group

In addition, at every meeting important business events since the previous meeting are reported on, as well as the monthly report and a report on the financing situation. Investments are followed up and analysed by the Board three years after the Board's decision to invest.

The Board also holds a number of board seminars each year. At these seminars the Board receives more detailed information about and discusses Vattenfall's long-term development, strategy, competitive scenario and risk management.

The Board adhered to the plan in the Rules of Procedure in 2008. In all, the Board met 17 times, including the statutory meeting. According to the Rules of Procedure, at least one meeting every year is to be held at another location than the head offices. In 2008 a meeting was held in Cottbus, Germany. This meeting was combined with a visit to the open-cast mine in Jämschwalde and the plant Schwarze Pumpe, including the pilot CCS plant.

Matters handled by the Board appointed by the 2007 AGM

Meeting date	Focus and important matters discussed
21 January 2008	<ul style="list-style-type: none"> The National Audit Office's audit of governance at Vattenfall Safety status of the nuclear power operations and the appointment of a Chief Nuclear Officer Review of strategic personnel matters Ongoing acquisition activities
6 February 2008	<ul style="list-style-type: none"> Year-end report Report on corporate governance and internal control
26 February 2008	<ul style="list-style-type: none"> Acquisition activities
13 and 17 March 2008	<ul style="list-style-type: none"> Year-end book-closing, Annual Report and Audit Report Grid issues Safety status of the nuclear power operations Vattenfall's R&D activities The Group's total risk exposure Fundamental principles for terms of employment for senior executives Acquisition activities
20 April 2008	<ul style="list-style-type: none"> Acquisition activities
28 April 2008	<ul style="list-style-type: none"> Vattenfall's three-month interim report Financial targets for Vattenfall AB Report from the Safety Committee and decision to dissolve the Safety Committee District heat issues Investment activities Acquisition activities

Matters handled by the Board appointed by the 2008 AGM

Meeting date	Focus and important matters discussed
Statutory board meeting 29 April 2008	<ul style="list-style-type: none"> The Board's Rules of Procedure, instructions and delegation of duties between the Board and CEO and instructions on financial reporting to the Board Members of the Audit Committee Routines for approval of quarterly reports Members of the Compensation Committee
20 May 2008	<ul style="list-style-type: none"> Audit Committee's rules of procedure Instructions for managing and reporting of the Group's business risks and instructions for managing energy and commodities risks Follow-up of investments made during the first half of 2005 Moorburg project Current investments and divestments Safety status of nuclear power operations The company's strategic direction
29 July 2008	<ul style="list-style-type: none"> Vattenfall's half-year interim report
26–27 August 2008	<ul style="list-style-type: none"> Strategy seminar Strategic plan Group structure for crisis management Finance instructions and policy Wind power activities Safety status of nuclear power operations Report on the German nuclear power operations Moorburg project Routines for reporting on disputes Acquisition activities
30 September 2008	<ul style="list-style-type: none"> Acquisition activities Vattenfall's climate work
23–24 October 2008	<ul style="list-style-type: none"> Vattenfall's strategies Emission allowance trading system General update on acquisitions Wind power activities Moorburg project Ongoing efficiency-improvement programme Follow-up of investments made during the third quarter of 2005 Grid issues Safety status of nuclear power operations Communication issues Evaluation of Board and CEO Acquisition activities
30 October 2008	<ul style="list-style-type: none"> Acquisition activities
6 November 2008	<ul style="list-style-type: none"> Acquisition activities
8 December 2008	<ul style="list-style-type: none"> Acquisition activities
15 December 2008	<ul style="list-style-type: none"> Vattenfall's strategies Vattenfall's organisation Business plans Investment plan and investment programme Liquidity situation Evaluation of the Board CCS project Group borrowings and pledging of security Risk mandate General update of acquisitions Acquisition activities
19 December 2008	<ul style="list-style-type: none"> Acquisition activities

Directors' attendance at board meetings

Board appointed by 2007 AGM

	21/1/08	6/2/08	26/2/08	13/3 and 17/3/08	20/4/08	28/4/08
Dag Klackenber	X	X	X	X X	X	X
Carl-Gustaf Angelin (E)	X	X	X	X X	X	X
Johnny Bernhardsson (E)	X	-	X	X X	X	X
Christer Bådholm	X	X	X	X X	X	X
Ronny Ekwall (E)	X	-	X	- -	X	X
Lone Fønss Schrøder	X	X	X	X X	X	X
Greta Fossum	X	X	X	X X	X	X
Jonas Iversen	X	-	-	X X	X	X
Hans-Olov Olsson	X	X	-	- X	X	X
Tuija Soanjärvi	-	X	X	X X	X	X
Anders Sundström	X	X	X	X X	X	X
Lars Carlsson* (E)	X	X	X	X X	X	X
Stig Lindberg* (E)	X	X	X	X X	X	X
Per-Ove Lööv* (E)	X	X	X	X X	X	X

Board appointed by 2008 AGM

	29/4/08	20/5/08	29/7/08	26-27/8/08	30/9/08	23-24/10/08	30/10/08	6/11/08	8/12/08	15/12/08	19/12/08
Lars Westerberg	X	X	X	X	X	X	X	X	X	X	X
Viktoria Aastrup	X	X	X	X	X	X	X	-	X	X	X
Carl-Gustaf Angelin (E)	X	X	X	X	X	X	X	X	X	X	X
Eli Arnstad	X	X	X	X	X	-	-	X	X	X	X
Johnny Bernhardsson (E)	X	X	X	X	X	-	X	X	X	X	X
Christer Bådholm	X	X	X	X	X	X	X	-	X	X	X
Ronny Ekwall (E)	X	X	X	X	X	X	X	X	X	X	X
Lone Fønss Schrøder	-	X	X	X	X	-	X	X	X	X	X
Hans-Olov Olsson	X	X	X	X	X	-	X	-	X	X	X
Tuija Soanjärvi	X	X	X	-	X	X	-	X	X	X	X
Anders Sundström	X	X	X	X	X	X	X	-	X	X	X
Lars Carlsson* (E)	X	X	-	X	X	X	X	X	X	X	X
Lars-Göran Johansson* (E)	X	X	X	X	X	X	X	X	X	X	X
Per-Ove Lööv* (E)	X	X	X	X	X	X	X	X	X	X	X

X Present - Not present *) Deputy (E) Employee representative

Evaluation of the Board's and CEO's work

The Board evaluates its own work and the CEO's work once a year through a systematic and structured process in the aim of developing the Board's work forms and effectiveness. This evaluation is headed by the Chairman and is reported to the Board. The most recent evaluation was presented at the board meeting on 15 December 2008.

Committees

Audit Committee

The Audit Committee is a board committee tasked with

assisting the Board on matters pertaining to financial risk and reporting, external audit, and assisting the owner in the choice of auditors. The Audit Committee does preparatory work for the Board in quality assuring Vattenfall AB's financial reporting, draws up guidelines for determining which other services than auditing that Vattenfall AB and the Group may purchase from the company's auditors, and evaluates the company's audit work. The Audit Committee has special responsibility for ensuring application of the Code and for preparing required reports. The Group CFO and head of internal audit make presentations at Audit Committee meetings. In addition, the company's auditors report their observations regarding the audit.

The Board of Directors has authorised the Audit Committee to – on behalf of the Board – approve the quarterly reports for Q3 2008 and Q1 2009, i.e., the reports that are not formally reviewed by the auditors. However, the Board as a whole shall be convened for a review and approval of these reports if the Audit Committee is of the opinion that this should be done.

The Board has adopted rules of procedures for the Audit Committee. The committee reports its work to the Board by submitting meeting notes to the Board and through reports presented at Board meetings by the Audit Committee chair.

At the board meeting on 29 April 2008, Christer Bådholm, Lone Fønss Schrøder and Tuija Soanjärvi were re-elected as members of the Audit Committee, and Viktoria Aastrup was elected as a new member of the committee. Christer Bådholm was elected to chair the committee. Among non-AGM-elected board members, Per-Ove Lööv participated on the Audit Committee. With respect to fees paid the committee's members, see Note 47 to the consolidated accounts in the annual report. The respective committee members' attendance at Audit Committee meetings is shown below.

Attendance at Audit Committee meetings in 2008

	6/2/08	28/4/08	29/7/08	29/10/08	4/12/08
Viktoria Aastrup	-	-	X	X	X
Christer Bådholm	X	X	X	X	X
Lone Fønss Schrøder	X	X	X	X	X
Tuija Soanjärvi	X	X	X	X	X
Per-Ove Lööv (employee representative)	X	X	X	X	X

In addition, the auditor in charge was present at all meetings.

Nomination Committee

Vattenfall AB has no nomination committee. This is in accordance with the state's ownership policy. For more de-

tailed information on the Board's nomination process, see the section "Appointment of the Board" on page 37.

Safety Committee

From 8 February 2007 through 28 April 2008, the Board had a safety committee that was tasked with closely monitoring and overseeing nuclear safety within the Group. The Safety Committee focused on conducting analyses of management systems, safety, reporting and management functions at Vattenfall's nuclear power plants. The committee conducted oversight of safety work and reported its observations to the Board. This was done by submitting meeting notes to the Board as well as through reports presented to the Board by the committee chair and by the safety expert who was appointed to perform an analysis of the Group's nuclear power plants. The Safety Committee had no formal decision-making authority.

In 2008, until 28 April, the committee had the following members: Christer Bådholm, Dag Klackenberg and Anders Sundström. Among non-AGM-elected directors, Johnny Bernhardsson participated on the Safety Committee. The Safety Committee had one meeting in 2008, on 27 April, at which Dag Klackenberg, Christer Bådholm and Johnny Bernhardsson were present. At the board meeting on 28 April 2008, the Safety Committee presented its conclusions to the Board. The committee noted that the formation of the Safety Committee had been a temporary measure and that the committee had fulfilled its purpose since the recommended actions had been implemented, especially through the appointment of a Chief Nuclear Officer. In accordance with the Safety Committee's recommendation, the Board decided that the committee would be dissolved.

Compensation Committee

The Compensation Committee prepares ongoing matters regarding executive compensation, including matters pertaining to annual salary reviews and other terms of employment for the CEO. In addition, a going-rate principle is adhered to regarding the salaries and remuneration of all executive vice presidents and heads of the Group functions. The committee reviews current levels of compensation, fixed and variable salaries, and other compensation where applicable, including significant pension terms, for all such executives. The committee also conducts drafting work on principles regarding salary and remuneration.

At the board meeting on 29 April 2008, Anders Sundström was re-elected as a member of the Compensation Committee, and Viktoria Aastrup, Hans-Olov Olsson and Lars Westerberg were elected as new members of the committee. Hans-Olov Olsson was elected to serve as committee chair. Among non-AGM-elected directors, Carl-Gustaf Angelin participated on the Compensation Committee.

The head of Human Resources and deputy head of Human Resources make presentations at the committee's meetings. The Compensation Committee has adopted rules of procedure for its work. The committee reports its work to the Board, whereby the committee chair informs the Board about the committee's positions and by submitting meeting notes to the Board. The Board as a whole must decide on matters concerning the CEO's employment and decide on the CEO's terms of employment.

The Compensation Committee held one meeting in 2008, on 23 January, which was attended by Dag Klackenberg, Anders Sundström and Carl-Gustaf Angelin.

Offer Committee

On 26–27 August 2008, in accordance with the British City Code on Takeovers and Mergers, the Board resolved to establish an Offer Committee for the purpose of handling the public offer for the company Eclipse Energy UK Plc. The Board has authorised the committee to make decisions on and take necessary actions to handle 100% of the shares in the company. In 2008 the committee's members were Lars Westerberg (committee chair) and Viktoria Aastrup. The committee reports its work to the Board and by submitting meeting notes to the Board. The committee had three meetings in 2008, on 17 September, 9 October and 2 December. Lars Westerberg and Viktoria Aastrup were present at all meetings.

Executive compensation

The Annual General Meeting has approved a programme that conforms with the Swedish government's guidelines on terms of employment for persons in executive positions in state companies.

According to these guidelines, salaries and other benefits shall be competitive but not leading in terms of salary in relation to peer companies. Neither variable salary components nor bonuses are payable to the Group CEO. For other executives in the Swedish part of the operation, the variable salary component shall amount to a maximum of 16.7% of their normal fixed salary. For certain executives, the normal fixed salary can also be reduced by 16.7%, depending on outcomes. Local practice applies in other countries.

The owner's long-term demand for improvements in value creation shall be a joint goal. Starting in 2008, this includes – in addition to financial value creation – also goals within the five strategic ambitions that Vattenfall works with. For members of the Executive Group Management, except for the CEO, and for the business unit managers (approx. 20 individuals in all), the long-term targets are set for a three-year period, 2008–2010, with the opportunity for that period to earn a total of four additional months' salary upon achievement of the targets in the strategic areas.

There are no share- or share price-related incentive

programmes for the Board or Executive Group Management. Due to Vattenfall's ownership structure, no such programmes will be possible, either. More detailed disclosures about taxable salaries, benefits and pension costs for the Chairman of the Board, company directors, the CEO and other senior executives are provided in Note 47 to the consolidated accounts in the Annual Report.

Assuring the quality of financial reporting

In its separate report on internal control (page 45), the Board has reported on the company's internal control structure in the financial reporting routines. The Audit Committee's work is a part of this control exercised by the Board. Through the Audit Committee, a more detailed quality audit can be performed than what would be possible for the entire board to do. At all Audit Committee meetings in 2008, external and internal auditors presented their observations concerning the full-year and half-year book-closing, among other things. In conjunction with planning work for the annual audit, discussions are held between the external auditors and the internal audit unit concerning Vattenfall's risk situation.

Auditors

The Swedish state's ownership policy states that responsibility for election of auditors of state-owned companies

shall always rest with the owner by decision of the Annual General Meeting. Pursuant to the Act on Audits of State Enterprises, etc., the Swedish National Audit Office can appoint one or more auditors to participate in the annual audit. Vattenfall's Articles of Association stipulate that a minimum of one and maximum of three auditors are to be appointed at the Annual General Meeting, along with a minimum of one and a maximum of three deputies, and that a chartered auditing firm can be appointed as auditor or deputy auditor.

The 2008 Annual General Meeting appointed the auditing firm Ernst & Young AB as auditor, with Authorised Public Accountant Hamish Mabon as the new auditor-in-charge. This appointment applies for a term until the 2012 AGM. Apart from his assignment for Vattenfall, Hamish Mabon serves as auditor for the following companies: Hexagon AB, Relacom Holding AB, Scania Sverige AB and Softronic AB. Hamish Mabon has no assignments with companies that affect his independence as auditor of Vattenfall.

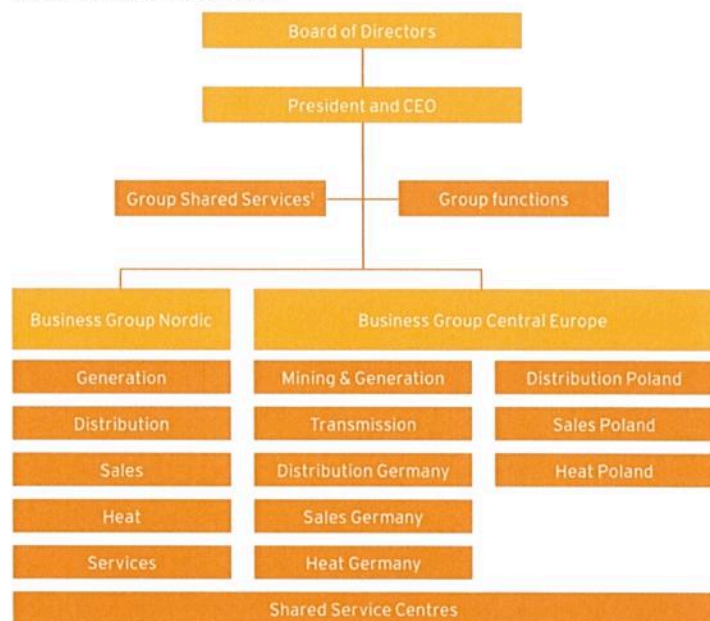
The Swedish National Audit Office has appointed Authorised Public Accountant Per Redemo to serve until the 2012 AGM, with Authorised Public Accountant Göran Selander as deputy during the same time period. Per Redemo has held this position since 2004. Per Redemo is the National Audit Office's auditor for the following companies: Posten AB,

Vattenfall's management system and organisation

Building blocks of management system



Vattenfall's organisation 2008



1) Vattenfall Trading Services, Vattenfall Treasury, Vattenfall Insurance, Vattenfall Research and Development, and Vattenfall IT Infrastructure Services.

Sveriges Television AB and Chalmers Tekniska Högskola AB, and he is auditor-in-charge for the following authorities/state enterprises: the Swedish Tax Agency, the Swedish National Board of Student Aid (CSN), and Swedish State Railways. Per Redemo has no assignments for companies that affect his independence as an auditor of Vattenfall.

The auditors reported on their audit of the year-end book-closing to the entire board at the board meetings on 6 February 2008 and 13 March 2008. In connection with the report on 13 March 2008, the Board met the auditor without the presence of the CEO or other person from management. The auditors also provided more detailed reports at meetings of the Audit Committee. In addition, the auditors meet Vattenfall's CEO and CFO on a number of occasions during the year.

In cases where more extensive consulting activities are to be performed by the elected auditors, the assignment must first be discussed and approved by the Audit Committee or CFO. The Audit Committee has approved guidelines for how procurement of other services than auditing shall take place. These guidelines apply for all of the Group's external auditors. The Group's auditing costs are described in more detail in Note 50 to the consolidated accounts and Note 39 to the parent company accounts in the Annual Report. Consulting provided by Ernst & Young AB from

2006–2008 pertained primarily to taxation and accounting issues, as well as to project routines and management.

The Group's management system

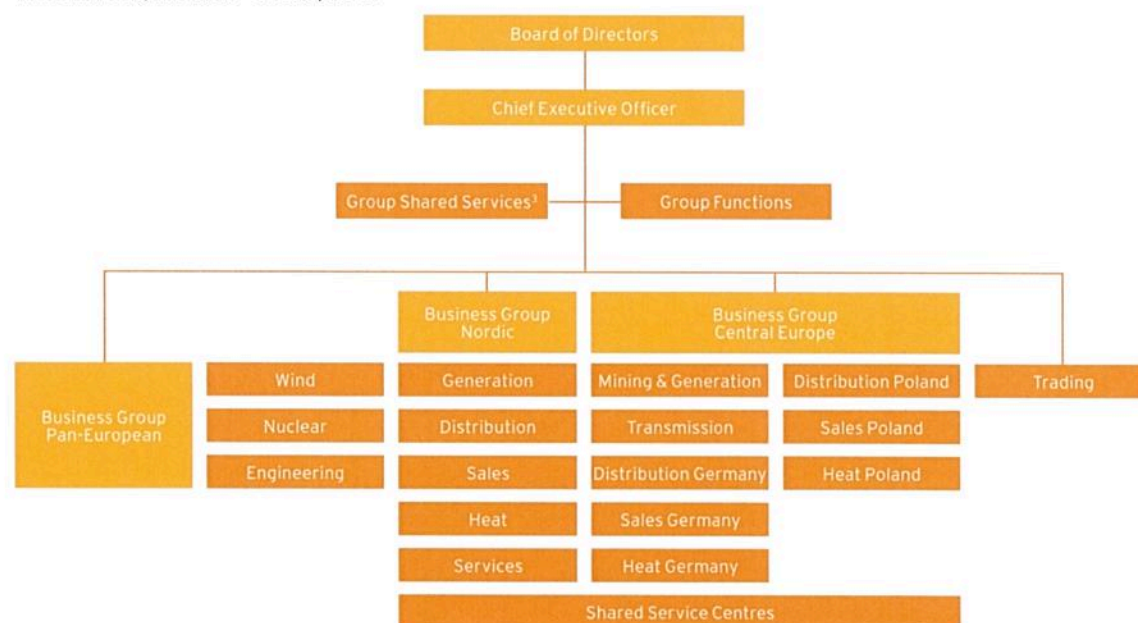
Governing business ethics

Vattenfall's core values are Openness, Accountability and Effectiveness.

Vattenfall's joint-Group Code of Conduct and company philosophy stipulate that all employees shall adhere to and work in accordance with Vattenfall's core values, policies and instructions. The stipulations of the Code of Conduct are concretised in other parts of the management system, such as in instructions for general legal and business ethics principles, and competition matters. Further information on guiding business ethics is provided in Vattenfall's CSR Report.

In 2008 work was begun on updating Vattenfall's Code of Conduct. As a first step, a special Code of Conduct for suppliers was adopted by the Executive Group Management. In connection with this updating, a Group-wide "whistle-blowing function" is being established, where employees, consultants, entrepreneurs and suppliers can turn to regarding violations of applicable laws, etc. This system is fully operating in the German organisation, and implementation is currently being completed in other parts of Vattenfall's organisation.

Vattenfall's organisation – January 2009²



²) Provided that Vattenfall's offer pertaining to the acquisition of Nuon in the Netherlands is approved and completed, a new Business Group – Benelux – will be established in Vattenfall's organisation (read more on page 70).

³) Vattenfall Treasury, Vattenfall Insurance, Vattenfall Research and Development, and Vattenfall IT Infrastructure Services.

General information on the Vattenfall Management System (VMS)

The Group is governed with a focus on value creation and long-term overarching goals and requirements for the Business Groups and business units. The Business Groups propose short-term goals for each business unit, which are subsequently approved by the CEO and the Executive Group Management (EGM).

To ensure that Vattenfall develops in the intended direction and lives up to ethical and legal requirements, the CEO has established the Vattenfall Management System (VMS – previously called the Group Management System). Integrated with the VMS is an Environmental Management System. The VMS is available to all employees on the Group's intranet. The VMS consists of a number of building blocks (see illustration on page 42) and is documented in governing documents, consisting of Group policies, instructions, directives and other documents. The Group policies describe the intentions for action on matters of major importance for the Group, while Group instructions provide more detailed and operative control, and lay down binding rules.

The Group's management processes for strategic planning, business planning and follow-up are central governance tools for the Executive Group Management. The Group functions are responsible for proposing, developing and following up Group policies and instructions. The Group's Quality function is charged with co-ordinating the management system and is assisted in this work by a committee that is tasked with establishing adherence and improvements to the VMS. Governing documents at the Group level are submitted to the EGM for approval. Certain central documents are also approved by Vattenfall AB's board. All units within Vattenfall are obligated to comply with the management system's governing documents.

Implementation and follow-up of the Vattenfall Management System

Special routines are in place to ensure that the Vattenfall Management System is also applied by subsidiaries. With respect to subsidiaries in the Nordic countries, this is done in part through special owner statements at Annual General Meetings which specify that the management systems shall also apply for the respective subsidiaries within the framework of applicable laws, etc.

With respect to the German subsidiaries, since June 2008 a special agreement (*Beherrschungsvertrag*) has been in place between Vattenfall AB and the German holding company, Vattenfall Europe AG. Under this agreement, the board (*Vorstand*) of the holding company is subordinate to Vattenfall AB, and Vattenfall AB has the right to issue directives regarding governance. Vattenfall AB has issued

such a directive specifying that the holding company shall comply with the VMS. It is then the duty of the board of the holding company to ensure that the VMS is implemented in its original structure by the entire holding company and in other German subsidiaries.

Instructions in the VMS shall contain follow-up points. In 2008 such points began to be introduced at the Group level. The Quality function responsible for handling the VMS documents is responsible for ensuring that such follow-up takes place. Internal Audit is responsible for reviewing follow-up routines and for reviewing and evaluating compliance with the Group's management systems.

Organisation and processes

Vattenfall's organisational model is based on the value chain for electricity – generation, transmission, distribution and sales – and for heat – production, distribution and sales. Reporting and follow-up of the business activities are conducted with full transparency in accounting, control, profitability and value creation.

In terms of governance, Vattenfall's operations are broken down into three categories:

- Business activities are handled by the Business Groups and their business units.
- Functions that support their respective management teams.
- Shared Service units, which provide and develop services that support the business units and other users' efforts to optimise their business activities. Shared Service activities operate at both the Group (Group Shared Services) and Business Group levels.

A number of important governance processes have been established. Each process is managed by a process owner, usually a member of the EGM, who is responsible for developing the process. At present, the following Group processes exist: strategy and business planning, reporting and follow-up, risk management, mergers & acquisitions, investments, communications, management planning and capacity management.

The strategy and business planning process culminates in yearly strategy and business plans. This process includes the analysis, evaluation and assessment of strategic issues with decisions made by the EGM on selection, formulation and priorities. Strategy planning includes the Group's long-term operations as well as its financial performance. Each year a five-year strategic plan is drafted for decision by Vattenfall's board. Based on the directives of the strategic plan, the Business Groups and business units draw up three-year business plans that are ultimately approved by the EGM. The investment plan for the following calendar year is then adopted by the Board.

Organisational change

On 15 December 2008, Vattenfall AB's board approved a change in Group structure. The change entails that, in addition to the geographical breakdown of operations that has applied to date, consisting of a Business Group for the Nordic region and one for Central Europe, a Pan-European Business Group has been established for wind power, nuclear power and technological development in all countries in which Vattenfall has operations. This Business Group will also be responsible for European business development with focus on efficient use of energy and biomass. The aim of the organisational change is to further improve the Group's ability to carry out major investment programmes, to achieve the Group's climate and growth ambitions, and to better utilise opportunities for cross-border co-operation. The new organisational structure applies with effect from 1 January 2009, but will be fully implemented on 1 July 2009.

Audit of the Corporate Governance Report

The Corporate Governance Report and the description below of the company's internal control of financial reporting have not been audited by the company's auditors.

The Board's report on internal control of financial reporting

This report has been prepared in accordance with the Swedish Code of Corporate Governance.

Control environment

The formal decision-making structure in the Group is based on the division of responsibility between the Board and CEO, which is stipulated in the Board's Rules of Procedure. The Board has established Vattenfall's Group-wide Code of Conduct, which defines the obligation of all employees to adhere to Vattenfall's company philosophy, Code of Conduct, core values, policies and rules. The Executive Group Management has implemented the Vattenfall Management System (VMS) along with governing documents which specify Group instructions for – among other things – decision-making, delegation, payment authorisation, governance of subsidiaries, risk management and internal control.

Risk analysis

The rules and outcome of the Group's risk assessment and risk management processes are reviewed by the Board each year. The Group's risk management and reporting are coordinated by a risk committee that is headed by Vattenfall's CFO. The Board evaluates and monitors risks and the quality of financial reporting via the Audit Committee, which maintains continuous and regular contact with the Group's internal and external audit functions in order to evaluate

risk in the financial reporting. The Vattenfall Management System includes a framework that identifies and defines risks related to financial reporting. The Finance Compliance function within the Group's Accounting and Finance Group function performs yearly analyses of risks related to financial reporting and is responsible for updating this framework.

Control activities and follow-up

The Board receives monthly financial reports, and the Parent Company's and Group's financial position are discussed at every board meeting. The EGM has regular follow-up meetings on the financial outcome with the management and finance functions of the various business areas. Vattenfall's management system contains governing documents for the essential financial reporting processes. The management system serves as a platform for internal control for all units within the Group. The Finance Compliance function within the Accounting and Finance Group function is responsible for overseeing self evaluations, follow-up, reporting and improvements in the control activities for financial reporting. The Finance Compliance function reports to the head of Finance and Accounting, Vattenfall's CFO and the Audit Committee. Internal Audit's work involves, among other things, evaluating and reviewing risk management, compliance with policies, rules and instructions, and the effectiveness of internal control in the financial reporting. Internal Audit reports to the Executive Group Management, to the management teams in the various countries and units, and to Vattenfall's Audit Committee.

Information and communication

Information about the Group's policies, instructions, guidelines and manuals are available on Vattenfall's intranet, which is accessible to all employees in the Group. Updates and changes in accounting and reporting principles are communicated on a continuous basis via regular meetings held by the Group's finance and control functions.

BOARD OF DIRECTORS

Lars Westerberg (born 1948), Chairman of the Board since 2008. Lars Westerberg has an M.Sc. in Engineering from the Royal Swedish Institute of Technology and a B.Sc. Econ. from Stockholm University. He began his career in 1972 with an engineering internship at ASEA, where he stayed until 1984, when he was Sales Manager for ASEA Robotics. In 1984 he joined Esab, where he served as President and CEO from 1991 to 1994. From 1994 to 1999 he was President and CEO of Gränges AB, and thereafter President and CEO of Autoliv AB until April 2007. Since 2007 he has been Chairman of Autoliv AB and Husqvarna AB, and a director on the boards of SSAB and AB Volvo.

Hans-Olov Olsson (born 1941) is Vice Chairman of the Board and was elected as a director in 2004. He has an M. Sc. in Political Science from the University of Gothenburg with a focus on Economics and Information Management. He has completed a management programme at Harvard Business School. In 2006 he received an honorary doctorate in economics from the University of Gothenburg School of Economics, Business and Law. He began his career at Volvo in 1966 as a systems engineer, followed by a number of management positions. He was President and CEO of Volvo Car Corporation from 2000 to 2005 and Chairman of the Board in 2006. In 2006 he was responsible for global branding and marketing strategy at Ford Motor Company and a member of Ford's executive management. He is currently Chairman of the industry and employer organisation Teknikföretagen, Vice Chairman of the Confederation of Swedish Enterprise, and a member of the Royal Swedish Academy of Engineering Sciences (IVA). He is also a director of AB SKF, Lindab International AB, Elanders AB, the Anna Lindh Memorial Fund and the IQ initiative.

Viktorija Aastrup (born 1971) was elected as a director in 2008. She has an M.Sc. Econ. degree from Linköping University (1995) and a Financial Analyst diploma from the Stockholm School of Economics (2002). In 1995 she began working for the Swedish Road Administration, and starting in 1998 she served for the Swedish government Ministry of Communications and the Ministry of Enterprise, Energy and Communications. She is currently assistant unit manager of the State Enterprises Division of the Ministry of Enterprise, Energy and Communications, where she has worked since 2000. Viktorija Aastrup is a director of Lernia AB, CEO of Förvaltningsaktiebolaget Stattum, and Nomination Committee Chair for TeliaSonera AB and Nordea AB.

Carl-Gustaf Angelin (born 1951) is an employee representative (for Akademikerrådet) and was elected to the Board in 2003. He has an M.Sc. in Engineering from the Royal Institute of Technology in Stockholm. Between 1977 and 1988 he worked at AB Svenska Fläktfabriken, and has since held various positions within the Vattenfall Group. He is currently active in Nordic Sales.

Eli Arnstad (born 1962) was elected as a director in 2008. She studied public law and political science at the University of Oslo and received an M.Sc. degree from HiNT (Høgskolen i Nord-Trøndelag). She was employed by Stiklestad Nasjonale Kultursenter in 1999 and by Stjørdal Naeringsforum in 2000. From 2001 to 2007 she served as CEO of Enova SF. Eli Arnstad is Vice Chairman of Sparebank 1 Midt-Norge and a director of Senter for økonomisk forskning at NTNU, Stiftelsen Nidarosdomens Restaureringsarbeider, AF-gruppen, Sparebankforeningen Norway, and Posten Norway.

Johnny Bernhardsson (born 1952) is an employee representative (for Unionen) and was elected to the Board in 1995. He received his education as an engineer and has completed complementary coursework in economics. He has held various positions within the Vattenfall Group since 1970.

Christer Bådholm (born 1943) is a director and was elected to the Board in 2002. He has an M.Sc. in Engineering from Chalmers University of Technology (Gothenburg) and has also completed courses in Corporate and Group Management at IFL and in International Management at MiL. He has a long record of experience as a CEO for various companies in the transport industry, including ABV Southern Region, NCC International AB, ABB Traction AB, Adtrans GmbH and Bombardier Transportation GmbH. He has had his own consultancy business since 2002. He is also a director of Icomera AB and Svevia AB, and is Chairman of Bombardier Transportation Sweden AB and Balfour Beatty Rail AB.

Lars Carlsson (born 1951) is an employee representative (for Unionen) and was elected to the Board in 1991. He received his education in engineering from Katrineholm Technical College. He has held various positions within the Vattenfall Group since 1972.

Ronny Ekwall (born 1953) is an employee representative for the Union of Service and Communication Employees (SEKO) and was elected to the Board in 1999. He received his education in electrical engineering from the Stora Kopparberg Vocational College. From 1969 to 1977 he served as principal electrician at Stora Kopparberg, and has since then worked as an electrician within the Vattenfall Group.

Lone Fønss Schröder (born 1960) is a director and was elected to the Board in 2003. She has an Master's in Law from the University of Copenhagen, and a Master's in Economics from the Copenhagen Business School. From 1982 to 2003 she held various executive positions at A.P. Møller/Maersk A/S, and since 2003 she has been serving as Managing Director of Wallenius Lines AB. She is a director of DSB, NKT A/S and Yara ASA, Chairman of Bioneer A/S and WWL A/S, and Vice Chairman of Aker ASA.

Lars-Göran Johansson (born 1953) is an employee representative for the Association and Management and Professional Staff (Ledarna) and was elected to the Board in 2008. He has a secondary school education and has worked as a technician and work leader within the Vattenfall Group since 1971.

Per-Ove Lööv (born 1961) is an employee representative for the Union of Service and Communication Employees (SEKO) and was elected as a deputy director in 1999. He received his education in Business Economics from the Luleå University of Technology, and has a degree in Engineering from Midskogsskolan Luleå. He has held various positions within the Vattenfall Group since 1987.

Tuija Soanjärvi (born 1955) is a director as was elected to the Board in 2007. She has a Master's in Economics from the Helsinki School of Economics and Business Administration and is CFO of Itella Abp (formerly Posten Finland Abp). She worked for Kesko Abp from 1981 to 1986, and thereafter held various positions for TietoEnator Abp. She was CFO of Elisa Abp from 2003 to 2005.

Anders Sundström (born 1952) is director and was elected to the Board in 2004. He has a degree in Social Sciences from Umeå University. He served as Municipal Commissioner for the Municipality of Piteå from 1980 to 1994, Chairman of the Norrbotten Chapter of the Swedish Social Democratic Party from 1989 to 1999, and was a member of the Social Democratic party board and executive committee from 1990 to 2005. He has also held several minister posts in the Swedish government: Minister of Labour 1994–1996, Minister of Enterprise, Energy and Communications 1996–1998, and Minister of Health and Social Affairs in 1998. From 1999 to 2002 he was President of Sparbanken Nord. He is currently Managing Director of Folksam Liv and Folksam Sak, Chairman of the Luleå University of Technology, and a director of Boliden AB and ALKA Forsikring A/S.



Lars Westerberg



Hans-Olov Olsson



Viktoria Aastrup



Carl-Gustaf Angelin



Eli Arnstad



Johnny Bernhardsson



Christer Bådholm



Lars Carlsson



Ronny Ekwall



Lone Fønss Schrøder



Lars-Göran Johansson



Per-Ove Lööv



Tuija Soanjärvi



Anders Sundström

EXECUTIVE GROUP MANAGEMENT

Lars G. Josefsson (born 1950) has been serving as President and CEO since 2000. He has an M.Sc. in Engineering from the Chalmers University of Technology in Gothenburg and began his career at Ericsson in 1974, where he held several positions until 1993 in the Radar Section and Surface Sensor Division. From 1993 to 1997 he was Managing Director of Schrack Telecom AG, Vienna, and thereafter served as Managing Director of Celsius until 2000. He is a director of ESKOM Holdings Ltd, Chairman of Eurelectric, Chairman of the German-Swedish Chamber of Commerce, and a member of the Swedish government's Commission for Sustainable Development. At year-end Lars G. Josefsson did not have any material shareholdings in companies with which Vattenfall has business dealings.

Dag Andresen (born 1964) took office as First Senior Executive Vice President and Chief Financial Officer of Vattenfall AB in October 2008. He is a certified Ship's Master and senior officer from Luftkrigsskolen in Norway and has an M.Sc. Econ. degree from the Norwegian School of Economics and Business Administration (NHH). He has an Executive MBA from the Helsinki School of Economics and Business Administration. In addition, Dag Andresen has completed coursework at Harvard Business School and the Stanford Graduate School of Business. He has held various senior officer positions in the Royal Norwegian Navy and Royal Air Force. From 1993 to 2000 he held various management positions with Nordiska Investeringssbanken (NIB) in Helsinki and Den norske Bank (DnB), as well as in shipping and industry. From 2001 to 2008 he held various executive management positions with Nordea AB, most recently as Head of the Transaction & Finance Banking business area.

Hélène Biström (born 1962) served as Vice Head of Business Group Nordic from 2007 to 2008. Starting on 1 January 2009 she is Senior Executive Vice President and Head of Business Group Pan-European. She has an M.Sc. in Engineering from the Royal Institute of Technology in Stockholm. From 1983 to 2000 she held various positions at Vattenfall AB. From 2001 to 2002 she was President of REGA Energiplanering AB, and from 2004 to 2007 she served as Head of the Nordic Heat business unit. She is a director of Svensk Energi and Stella Plastic Holding AB.

Tuomo Hatakka (born 1956) has been serving as Senior Executive Vice President of Vattenfall AB since 2005 and Head of Business Group Central Europe since 1 January 2008. He was Head of Business Group Poland from 2004 to December 2007. He studied economics at the Helsinki School of Economics and Business Administration and the Instituto de Estudios Superiores de la Empresa, in Barcelona, Spain. His professional experience includes work as a consultant at Bain & Company, London, Executive Vice President and partner at Enterprise Investors in Warsaw, Poland, and President and CEO of Elektrim Kable SA, Warsaw, Poland.

Hans-Jürgen Meyer (born 1957) is CFO of Vattenfall Europe AG since 2005. He has a Dr. Jur. degree from the University of Tübingen Law School, and a Master of Laws degree from Harvard University Law School, USA. He served as a Law Clerk with the Federal Administrative Court of Germany, in Berlin, from 1983 to 1985, and from 1987 to 1991 he worked as a judge. From 1991 to 2000 he worked for Treuhandanstalt/ BVS (a Federal Agency) in Berlin, and was named Vice President in 1993. He joined Bewag AG in 2000 as its Chief Financial Officer. From 2002 to 2005 he was Head of Control and Finance for Vattenfall Europe AG.

Helmar Rendez (born 1962) took office as Senior Vice President and Head of Group Function Strategies in August 2007. He has a Ph.D. from the Berlin University of Technology (TU). He was a project manager at Zentrum für Logistik und Unternehmensplanung GmbH in Berlin from 1989 to 1993, Managing Director of Kienbaum Management Consultants GmbH's Berlin office from 1993 to 1998, and head of group development at VEAG (Vereinigte Energiewerke AG), Berlin, from 1998 to 2001. He was also responsible for the integration process within Vattenfall Europe and head of Company Development from 2001 to 2003. He was a director of WEMAG AG, Schwerin, from 2004 to 2007, and Managing Director of Vattenfall Europe Business Services GmbH, Berlin, from 2006 to 2007.

Hans von Uthmann (born 1958) has been serving as Senior Executive Vice President of Vattenfall AB and Head of Business Group Nordic since 2003. He attended the Stockholm School of Economics. From 1984 to 1994 he held various management positions with the Shell Group. He then served as Head of Business and Strategy Consulting for Shell International in London until 1996, when he was appointed as Managing Director of AB Svenska Shell. In 2000 he was named President and CEO of Duni AB, a post he held until 2003. He is a director of the Confederation of Swedish Enterprise, DF AB and Fryshuset, and Chairman of EFA (Energiföretagens Arbetsgivarreförening).

Jan Erik Back (born 1961) served as First Senior Executive Vice President and Chief Financial Officer until 15 August 2008, when he left Vattenfall.

Ann-Charlotte Dahlström (born 1952) served as Senior Vice President and Head of Group Function Human Resources until 10 September 2008, when she left Vattenfall.

Knut Leman (born 1950) was Senior Vice President and Head of Group Function Communications until 1 February 2008, when he left Vattenfall.

Carolina Wallenius (born 1968) served as Senior Vice President and Head of Group Function Communications until 6 February 2009, when she left Vattenfall.

New EGM members 2009

Christopher Eckerberg (born 1971) is acting head of Group Function Communications, since 6 February 2009. He has an M. Sc. Econ. degree from Lund University. He has worked for Vattenfall since 2003, most recently as head of Public Affairs, since 2007. Prior to joining Vattenfall, he worked for Enron Europe and NetCircle AB, among other companies.

Lars Gejrot (born 1954) is Senior Vice President and Head of Group Function Human Resources as from 2 February 2009. He has a regimental officer's degree from Karlberg, has completed university studies in sociology, psychology and education, and has completed several leadership training courses. He spent 18 years with IKEA, where he held several foreign assignments and management positions, mainly in HR. Prior to that, he served four years as a consultant with Mercuri Urval, and 10 years as a regimental officer.



Lars G Josefsson



Dag Andresen



H el ene Bistr om



Christopher Eckerberg



Lars Gejrot



Tuomo Hatakka



Hans-J urgen Meyer



Helmar Rendez



Hans von Uthmann



Jan Erik Back
(left the EGM on
15 August 2008)



Ann-Charlotte Dahlstr om
(left the EGM on
10 September 2008)



Knut Leman
(left the EGM on
1 february 2008)



Carolina Wallenius
(left the EGM on
6 February 2009)