

# GOVERNANCE OF OPERATIONS AND DECISION-MAKING

Following is information on corporate governance in accordance with the Swedish Code of Corporate Governance ("the Code") for the 2009 financial year. For information already provided in the Annual Report, reference is made to the appropriate section. The Articles of Association and other documents are available on Vattenfall's website, [www.vattenfall.se](http://www.vattenfall.se). The Corporate Governance Report and description of internal control of the financial reporting have not been reviewed by the company's auditors.

## Important internal and external regulatory systems

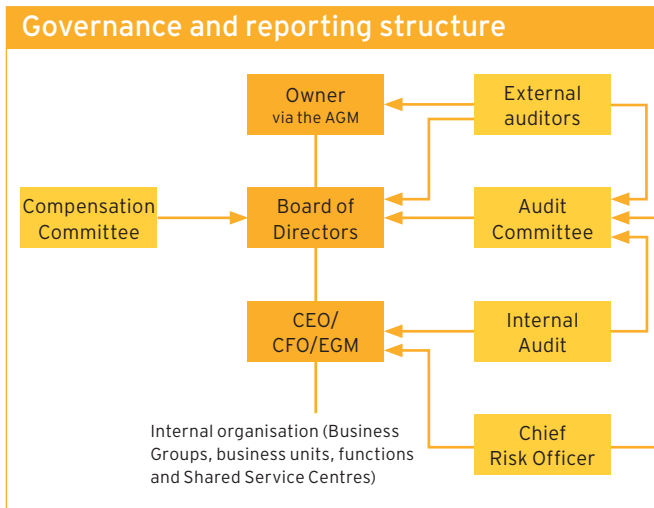
The Parent Company of the Vattenfall Group, Vattenfall AB, is a Swedish public limited liability company with registered office in Stockholm. The Swedish Companies Act thus applies for Vattenfall AB, which entails that the company shall have a board of directors that is elected by the Annual General Meeting (AGM). 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. The AGM also decides on Vattenfall AB's Articles of Association, which specifies the object of the company's business, among other things. The Articles of Association are available on Vattenfall's website.

Corporate governance within the Group is based on Swedish and foreign legal rules as well as on the Articles of Association, the Board's Rules of Procedure and other inter-

nal documents, such as the Vattenfall Management System (VMS). Where applicable, Vattenfall also adheres to the stipulations that apply for companies registered on Nasdaq OMX Stockholm, in Sweden, and the other marketplaces in which Vattenfall has securities registered.

Vattenfall applies the Swedish Code of Corporate Governance 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. Moreover, due to these ownership conditions, certain stipulations are not even applicable for Vattenfall.

Departures from the Code are specified below.



## Annual General Meeting and owner

According to Vattenfall's Articles of Association, the 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 Articles of Association.

Vattenfall's AGM was held on 29 April 2009, in Stockholm. The AGM adopted the annual report and consolidated financial statements for 2008 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. The owner's representative, Undersecretary of State Ola Alterå, gave an address in which he informed about the

## Departures from the Code

Vattenfall's corporate governance for the 2009 financial year departs from the requirements stipulated in the Swedish Code of Corporate Governance on the following points.

Code requirement	Description	Chosen solution and justification
1.4 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 AGM in accordance with the stipulations of the Swedish Companies Act. This is also in line with the Swedish state's ownership policy.
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.

Composition of the Board and meeting attendance							
	Function	Nationality	Independence in relation to the company and company management (according to the Code)	Committee assignment	Total fees (SEK 000s) per year 2009	Attendance at board meetings	Attendance at committee meetings
Lars Westerberg	Chairman of the Board	Swedish	Yes	Compensation Committee	580	17/17	9/9
Viktoria Aastrup	Director	Swedish	Yes	Compensation Committee (chair), Audit Committee	350	17/17	CC: 9/9 AC: 6/6
Carl-Gustaf Angelin	Employee representative	Swedish	–	Compensation Committee, through 29/4/2009	39	17/17	1/1
Eli Arnstad	Director	Norwegian	Yes		280	17/17	
Johnny Bernhardsson	Employee representative	Swedish	–		39	14/17	
Christer Bådholm	Director	Swedish	Yes	Audit Committee (chair)	350	16/17	6/6
Lars Carlsson	Employee representative, deputy	Swedish	–		39	14/17	
Ronny Ekwall	Employee representative, through 20/11/2009	Swedish	–		39	12/14	
Lone Fønss Schrøder	Director	Danish	Yes	Audit Committee	350	16/17	3/6
Lars-Göran Johansson	Employee representative, deputy	Swedish	–		39	15/17	
Per-Ove Lööv	Employee representative, deputy, through 20/11/2009	Swedish	–	Audit Committee, through 20/11/2009	52	11/14	5/5
Björn Savén	Director, from 29/4/2009	Swedish	Yes		187	10/11	
Cecilia Vieweg	Director, from 29/4/2009	Swedish	Yes	Compensation Committee, from 29/4/2009	187	10/11	8/8
Hans-Olov Olsson	Director and Vice Chairman, through 29/4/2009	Swedish	Yes	Compensation Committee (chair), through 29/4/2009	133	6/6	1/1
Tuija Soanjärvi	Director, through 29/4/2009	Finnish	Yes	Audit Committee, through 29/4/2009	117	6/6	1/2
Anders Sundström	Director, through 29/4/2009	Swedish	Yes	Compensation Committee, through 29/4/2009	93	5/6	1/1

Note: Two of the meetings were held per capsulam, whereby the deputies did not sign the minutes.

work being conducted by the state with respect to Vattenfall's strategic framework. He informed about the owner's focus on three core areas regarding Vattenfall's future development:

- Profitability
- Climate change
- The brand

All re-elected and newly elected directors were in attendance at the AGM. As in previous years, the meeting was open to the general public, and an open Q&A 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 aired live via webcast. A recorded version can be viewed on 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 applicable for Vattenfall.

### The Board's composition 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 com-

pany's operations and current situation as well as the Board's composition. Any recruitment needs are then determined and recruitment work is initiated. Directors are chosen from a broad recruitment base in the aim of benefiting from the competence of men and women as well as of individuals with varying backgrounds and experience. Nominations are to be made public in accordance with the Code's guidelines, however, no report is made of directors' independence with respect to the state as a major shareholder. Vattenfall provides orientation training for directors newly elected by the AGM.

#### Board members

The Articles of Association stipulate that the Board shall have of a minimum of five and a maximum of ten AGM-elected directors. Vattenfall's board includes seven AGM-elected directors. By law, the unions are entitled to appoint three board members plus three deputies. Through 20 November 2009 the unions had three members and three deputies on the Board, and for the time thereafter two members and two deputies. 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 directors, four are women and two are foreign citizens. The average age of board members is 54.

#### The work of the Board

##### 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 set 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 performance and has ultimate responsibility for internal control and risk management.

Each year the Board establishes its Rules of Procedure. Apart from mandatory items stipulated by 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 leads the work of the Board and is responsible for ensuring that board members receive adequate information. The Chairman participates when necessary in important external contacts.

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.

##### Assuring the quality of financial reporting

In its separate report on internal control (see page 45), the Board has reported on the Company's internal control struc-

ture 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 2009, external and internal auditors presented their observations concerning the Group's 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 concerning Vattenfall's risk situation.

#### The Board's risk management process

Vattenfall appointed a Chief Risk Officer (CRO) in 2009 to establish a clearer division of responsibility and more effective risk management organisation within the Group. The CRO is responsible for this organisation at the Group level and reports to the Audit Committee.

The CRO and risk organisation have overall responsibility for the Enterprise Risk Management process, involving support, development, compliance and reporting regarding all risk areas within the Group, as well as gathered market and credit risk reporting.

The CRO is particularly responsible for drafting and proposing risk management routines and policies, including continuous improvements, and for the implementation, operation and execution of these routines and policies via the risk organisation.

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. These instructions are approved by the CRO down to the business unit level. 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 75–81.

#### Description of the Board's work

The Board's Rules of Procedure stipulate that five to eight 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 concerns in nuclear power
- Review of strategic personnel issues, including competence succession

- Research and development activities within the Group  
In addition, at every meeting a report is presented on important business events since the previous meeting as well as on the financing situation. Investments are followed up and analysed three years after the Board's decision to invest.

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

The Board adhered to the Rules of Procedure in 2009. In all, the Board met 17 times, including the statutory meeting. A quorum existed at all meetings. According to the Rules of Procedure, at least one meeting every year is to be held at another location than the head offices. In 2009 a meeting was held in Amsterdam in conjunction with a visit to the recently acquired Dutch operations.

### Matters handled by the Board appointed by the 2008 AGM

Meeting date	Focus and important matters discussed
2 February 2009	<ul style="list-style-type: none"> <li>• Safety situation in the nuclear power operations and introduction of Chief Nuclear Officer</li> <li>• Strategic matters</li> <li>• Ongoing acquisition activities</li> <li>• R&amp;D activities, including CCS technology</li> </ul>
11 February 2009	<ul style="list-style-type: none"> <li>• Year-end report</li> <li>• Acquisitions/divestments</li> </ul>
25 February 2009	<ul style="list-style-type: none"> <li>• Acquisitions/divestments</li> </ul>
17 March 2009	<ul style="list-style-type: none"> <li>• Year-end book-closing, Annual Report, Audit Report and Proposed distribution of profit</li> <li>• Corporate Governance Report</li> <li>• CSR Report</li> <li>• Annual report on the district heating operations</li> <li>• Acquisitions/divestments</li> <li>• Code of Conduct</li> <li>• Terms of employment for senior executives</li> <li>• Moorburg project</li> <li>• Co-operation agreement with Östhammar and Oskarshamn municipalities</li> <li>• Safety in the nuclear power operations</li> </ul>
25 March 2009	<ul style="list-style-type: none"> <li>• Target for fixed interest durations for the debt portfolio</li> </ul>
27 April 2009	<ul style="list-style-type: none"> <li>• Terms of employment for senior executives</li> </ul>

### Matters handled by the Board appointed by the 2009 AGM

Meeting date	Focus and important matters discussed
Statutory board meeting 29 April 2009	<ul style="list-style-type: none"> <li>• The Board's Rules of Procedure, instructions and delegation of duties between the Board and CEO and instructions on financial reporting to the Board</li> <li>• Membership of the Audit Committee and Compensation Committee</li> <li>• Rules of procedure for the Audit Committee and Compensation Committee</li> <li>• Environmental policy</li> <li>• Acquisitions/divestments</li> </ul>

Meeting date	Focus and important matters discussed
28 May 2009	<ul style="list-style-type: none"> <li>• Moorburg project</li> <li>• Acquisitions/divestments</li> <li>• R&amp;D issues</li> <li>• Grid issues</li> <li>• Establishment of Chief Risk Officer position</li> <li>• Follow-up of investments made during first half of 2006</li> <li>• Safety in the nuclear power operations</li> <li>• Equal opportunity plan</li> <li>• Review of strategic HR matters</li> </ul>
5 June 2009	<ul style="list-style-type: none"> <li>• Sponsoring</li> </ul>
29 July 2009	<ul style="list-style-type: none"> <li>• Half-year interim report</li> <li>• Information on nuclear power operations</li> </ul>
24–25 August 2009	<ul style="list-style-type: none"> <li>• Strategy seminar</li> <li>• The Group's Strategic Plan</li> <li>• Acquisitions/divestments</li> <li>• Communication and branding</li> <li>• Safety in the nuclear power operations</li> <li>• General update on acquisitions</li> <li>• Finance instruction and policy, and instructions for the management of energy and commodity risks</li> </ul>
20 October 2009	<ul style="list-style-type: none"> <li>• Production planning within the Group</li> <li>• Investment programme for nuclear power operations</li> <li>• Safety in the nuclear power operations</li> <li>• Acquisitions/divestments</li> <li>• General update on acquisitions</li> <li>• Risk mandate</li> <li>• Follow-up of investments made during second half of 2006</li> </ul>
11 November 2009	<ul style="list-style-type: none"> <li>• Acquisitions/divestments</li> <li>• HR matters</li> </ul>
15 November 2009	<ul style="list-style-type: none"> <li>• New First Senior Executive Vice President of Vattenfall AB</li> <li>• Terms of employment for Øystein Løseth</li> </ul>
24 November 2009	<ul style="list-style-type: none"> <li>• Acquisitions/divestments</li> </ul>
10–11 December 2009	<ul style="list-style-type: none"> <li>• New Senior Executive Vice President of Vattenfall AB</li> <li>• Business plan and investment plan</li> <li>• Wind power</li> <li>• Investments in investment programme</li> <li>• Safety in the nuclear power operations</li> <li>• The Group's borrowings and pledging of security</li> <li>• Acquisitions/divestments</li> <li>• General update on acquisitions</li> <li>• Evaluation of the Board and CEO</li> </ul>
21 December 2009	<ul style="list-style-type: none"> <li>• Acquisitions/divestments</li> </ul>

### 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 10–11 December 2009.

## Committees

### Audit Committee

The Audit Committee is tasked with the following, among other duties:

- Assisting the Board on matters pertaining to financial risk and reporting, as well as external and internal audit
- Conducting preparatory work for the Board in quality assuring Vattenfall AB's financial reporting
- Monitoring the effectiveness of internal control, internal audit and risk management
- Assist the owner in its selection of auditors and setting fees for auditing services
- Evaluating the work of the external auditors
- Setting guidelines for other services than auditing that Vattenfall AB and the Group may purchase from the company's auditors
- Approving the internal audit plan

The Audit Committee has special responsibility for ensuring application of the Code and for preparing required reports. The Group CFO, the Head of Internal Audit, the Chief Risk Officer and the Financial Compliance Officer 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 the third quarter of 2009 and first quarter of 2010, 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 procedure for the Audit Committee. The committee reports its work to the Board through the committee chair, who informs about the committee's decisions, and by submitting meeting notes to the Board by the committee secretary.

### Compensation Committee

The Compensation Committee prepares matters regarding compensation and other terms of employment for the CEO of Vattenfall AB, for decisions by the Board, and serves as a consultative body regarding compensation and other terms of employment for other executives who are directly subordinate to the CEO – all within the framework of annual salary review. 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 is also tasked with conducting drafting work for the principles proposed by the Board to the 2010 AGM regarding the principles for compensation and other terms of employment for the CEO of Vattenfall AB, and for other executives who are directly subordinate to the CEO, and for reviewing the report on their compensation in the Annual Report.

At the 2009 AGM, new guidelines were adopted for senior executives, which correspond to the "Guidelines for terms of employment for senior executives of state-owned

companies", which were adopted by the government on 20 April 2009 ("the Guidelines"). In 2009 the Compensation Committee was particularly tasked with ensuring the implementation of and compliance with the Guidelines, with conducting drafting work for the Board's proposal for updates to the Guidelines if a need arises, and – where applicable – for conducting drafting work for the special reasons that exist for departing from the Guidelines in particular cases.

The Head of Human Resources and employee responsible for salaries and compensation within Group Function Human Resources make presentations at the committee's meetings. The Board has adopted rules of procedure for the committee's work. The committee reports its work to the Board through the committee chair, who informs about the committee's decisions, and by submitting meeting notes to the Board by the committee secretary. The Board has not delegated its decision-making right to the Compensation Committee, and thus it is the responsibility of the entire Board to decide on such matters as employment of the CEO and approval of the CEO's compensation and other terms of employment. The employee representatives on the Board have declined to participate in the committee's work.

### Offer Committee

In 2008, in accordance with the British City Code on Takeovers and Mergers, the Board established an Offer Committee to handle the public offer for Eclipse Energy UK Plc. The Board authorised the committee to make decisions on and take necessary actions to handle 100% of the shares in the company. The committee's members were Lars Westerberg (chair) and Viktoria Aastrup. The committee was dissolved in 2009 after 100% of the shares had been acquired.

## Compensation guidelines

### Board of Directors

Directors' fees are decided by the AGM. For information on directors' fees in 2009, see the table "Composition of the Board and meeting attendance" on page 39 and in Note 49 to the consolidated accounts in the Annual Report.

### Senior executives

The AGM has approved a programme that conforms with the Guidelines referred to above. In addition, the AGM has assigned the Board to look into how existing contracts containing terms for variable salary can be renegotiated in the most suitable manner possible, so that they are compatible with these guidelines.

Vattenfall's board has defined the positions that can be considered to be senior based on the impact they have on the Group's earnings, whereby the respective units' sales and size have been determining factors. Including the members of the Executive Group Management, a total of 15 positions have been identified. Individual reviews are being performed with respect to the compensation structures (fixed salary), that are to apply as from 2010. At the time of publication of this Annual Report, the situation was as follows: For the executives who

are members of the Executive Management Group in 2010 (ten persons), six receive only fixed salary and no variable salary based on annual targets or long-term targets (LT1). For the other positions, individual reviews and recruitment are being conducted. For new hires, only fixed salary will be offered.

This issue has been reviewed by the Board's compensation committee, which hired the services of external advisers for this purpose.

There are no share- or share price-related incentive programmes for the Board or EGM. Due to Vattenfall's ownership structure, nor will such programmes be possible. 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 49 to the consolidated accounts in the Annual Report.

### 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 AGM. In accordance with the Act on Audits of State Enterprises, 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 AGM, 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, Softronic AB and Ambea 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 SJ AB and Sveriges Television AB. He 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 meeting on 17 March 2009, and also reported on their remarks at the board meeting on 10 December 2009. In connection with the report on 17 March 2009, the Board met the auditors 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.

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 audi-

tors. 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 Group's auditing costs are described in more detail in Note 52 to the consolidated accounts and Note 39 to the parent company accounts. Consulting provided by Ernst & Young AB from 2007 to 2009 pertained primarily to taxation and accounting issues, as well as to project routines and management.

### Management and management system

#### CEO and Executive Group Management

The President of Vattenfall AB, who is also CEO of the Vattenfall Group, is responsible for the day-to-day administration in accordance with the Swedish Companies Act. The President has appointed decision-making bodies for the Group and makes decisions independently or with the support of these decision-making bodies. Lars G. Josefsson was President for the full year 2009. At the board meeting on 15 November 2009, Øystein Løseth was appointed as First Senior Executive Vice President of Vattenfall AB, with the intention that he will succeed Lars G. Josefsson as President prior to summer 2010.

The Executive Group Management (EGM) focuses on the Group's overall direction and decides on matters of major importance for the Group, such as the Group's strategy, major acquisitions, investments and divestments. Information on the members of the Executive Group Management is provided on pages 48–49.

#### Governing business ethics

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

Vattenfall's Group-wide 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 laid out in more detail in other parts of the management system. Further information on guiding business ethics is provided in Vattenfall's CSR Report.

A new Code of Conduct was adopted in 2009. It was developed in an international project that was headed by Group Function Human Resources and involved a large number of units in order to ensure that it is in line with the Group's strategy and the issues that are central for the day-to-day operations. Central issues that are covered by the new Code of Conduct include sustainability, customers and suppliers, people, culture and values, business ethics, health/security/safety and communication.

In 2009 Vattenfall continued with the introduction of the Group-wide whistleblowing function, with locally appointed external ombudsmen (attorneys), to whom employees, consultants, entrepreneurs and suppliers can turn to report suspected, serious improprieties that the reporting person for any reason does not want to report internally via the ordinary reporting channels. This function has existed in Vattenfall's

German operations since 2007 and was implemented in Poland and Sweden in 2009. Work on implementing the function in Denmark, Finland, the Netherlands and Belgium is under way and is expected to be completed during the first half of 2010.

**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 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). 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 opposite) and is documented in binding governing documents, consisting of CEO documents, Group policies, instructions, directives and other documents. The Group policies specify guidelines on matters of major importance for the Group, while instructions provide more detailed and operative control.

The Group’s management processes for strategic planning, business planning and follow-up are central governance tools for the EGM. The Group functions are responsible for proposing, developing and following up Group policies and instructions. The Group’s Quality function has a co-ordinating role for the management system and has a decision-making committee that is tasked with establishing adherence

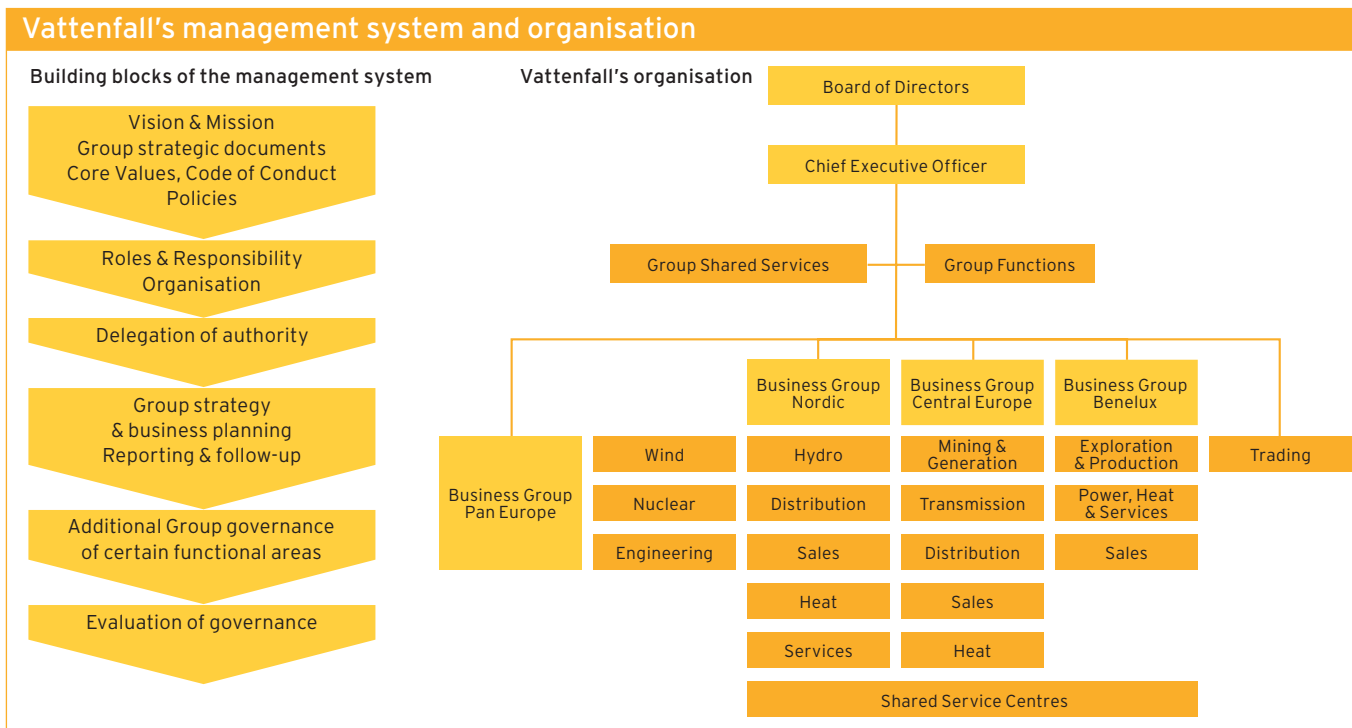
and improvements to the VMS. In addition, certain central documents are approved by the Vattenfall AB board each year or after material changes have been made. All units within Vattenfall are obligated to comply with the management system’s governing documents.

Special routines are in place to ensure that the Vattenfall Management System is also applied by subsidiaries. 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. In the event during the agreement’s validity period a net loss were to be reported for a given calendar year in Vattenfall Europe AG’s annual report, and such a net loss could not be compensated by the dissolution of reserves that have been set aside during the control agreement’s validity period, then Vattenfall AB would be obligated to cover the net loss. Information on liability pursuant to the agreement is also provided in Note 33 to the parent company accounts (Contingent liabilities).

**Organisation and processes**

Vattenfall’s organisational model is based on the value chains for electricity (generation, transmission, distribution and sales) and 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. The organisation is illustrated in the chart opposite.

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 units operate at both the Group (Group Shared Services) and Business Group levels

A number of important processes have been established to facilitate governance within the Group. 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: strategic and business planning, reporting and follow-up, risk management, mergers & acquisitions, investments, communications, management development and asset management.

The strategic 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. Strategic planning includes the Group's long-term operations as well as its financial performance. Each year a 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 one-year plan and a five-year plan containing a strategic direction. These plans are subject to the ultimate approval of the EGM. The finance plan for the following calendar year is ultimately adopted by the Board.

The acquisition of 49% of the share capital and operative control of N.V. Nuon Energy resulted in the formation of the new Business Group Benelux on 1 July 2009, with units for Exploration & Production, Power, Heat & Services, and Sales. In addition, a Group-wide energy trading business unit was formed through integration of Vattenfall's and Nuon's energy trading units.

## 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, core values, and norms for the employees. The Vattenfall Management System (VMS), which has been established by the CEO, contains governing documents which include, among other things, Group instructions for authorisations, governance, 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 central risk committee. 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 for internal control 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 monitors the Parent Company's and Group's financial position and addresses this matter at every board meeting. The EGM has regular follow-up meetings on the financial outcome with the management and finance functions of Vattenfall's various Business Groups, functions and shared service units. The VMS contains governing documents for the essential financial reporting processes. The VMS serves as a platform for internal control for all units within the Group.

The Finance Compliance function is responsible for overseeing self evaluations, follow-up, reporting and improvements in the control activities for financial reporting. These control activities are intended to prevent, discover and correct errors in the financial reporting. Finance Compliance reports to 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 is available on Vattenfall's intranet, which is accessible to all employees in the Group. The Group's accounting and reporting policies are laid out in the Group reporting manual. Updates and changes these policies are communicated on a continuous basis via Vattenfall's intranet as well as at meetings with representatives of Vattenfall's Business Groups, functions and shared service units.



# 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.

**Viktoria 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 took employment with 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, most recently as assistant unit manager of the State Enterprises Division of the Ministry of Enterprise, Energy and Communications. Starting in 2010 she is a regional manager for Nordea AB, Stockholm Region, a director of Lernia AB, and Nomination Committee Chair for TeliaSonera.

**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. Ms Arnstad is Vice Chairman of Sparebank 1 Midt-Norge and a director on the board of Senter for økonomisk forskning at NTNU, Stiftelsen Nidarosdomens Restaureringsarbeider, AF-gruppen, 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 supplementary coursework in economics. He has held various positions within the Vattenfall Group since 1970.

**Christer Bådholm** (born 1943) is a director and was elected 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 Svevia AB, and is Chairman of Bombardier Transportation Sweden AB, Balfour Beatty Rail AB and VINN Group AB.

**Lars Carlsson** (born 1951) is an employee representative (for Unionen) and deputy, 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.

**Lone Fønss Schrøder** (born 1960) is a director and was elected in 2003. She has a 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. From 2003 to 2005 she was an executive director of AKER-Kvaerner, and since 2005 she has been serving as Managing Director of Wallenius Lines AB. She is a director on the boards of Aker Solution ASA (publ), NKT A/S, Yara ASA (publ) (and member of the Audit Committee) and Svenska Handelsbanken AB (publ) (and member of Audit Committee), Chairman of Bioneer A/S and WWL A/S, and Vice Chairman of Aker ASA (publ) (and member of the Audit Committee).

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

**Björn Savén** (born 1950) was elected as a director in 2009. He has a B.Sc. Econ. degree from the Stockholm School of Economics (1972), and an MBA from Harvard Business School (1976). He also holds an honorary doctorate from the Hanken School of Economics in Helsinki, Finland. From 1976 to 1988 he held numerous senior positions with the Esselte Group in Stockholm, London and New York, and prior to that he spent two years (1972–1974) with Gulf Oil. Since the company's establishment in 1989, he has been serving as Chairman and CEO of IK Investment Partners (IK). He is also a director of Nordea Bank AB (publ) and several of IK's portfolio companies.

**Cecilia Vieweg** (born 1955) was elected as a director in 2009. From 1987 to 1990 she worked as an attorney for Berglund & Co Advokatbyrå. Thereafter she served as a company lawyer for AB Volvo, until 1992, when she became General Counsel of Volvo Car Corporation. In 1998 she was an attorney and partner of Wahlin Advokatbyrå, and in 1999 she joined Electrolux as a member of the executive management with responsibility for legal affairs, intangible rights, risk management and security. She is Company Secretary for AB Electrolux and a director of Haldex AB and PMC Group AB. She is also a member of the Swedish Securities Council.

## Directors who left the Board in 2009

**Hans-Olov Olsson** (born 1941) was elected as a director in 2004 and resigned at the 2009 Annual General Meeting.

**Tuija Soanjärvi** (born 1955) was elected as a director in 2007 and resigned at the 2009 Annual General Meeting.

**Anders Sundström** (born 1952) was elected as a director in 2004 and resigned at the 2009 Annual General Meeting.

**Ronny Ekwall** (born 1953) was elected as an employee representative in 1999. He resigned on 20 November 2009.

**Per-Ove Lööv** (born 1961) was elected as an employee representative and deputy director in 1999. He resigned on 20 November 2009.



Lars Westerberg



Viktoria Aastrup



Carl-Gustaf Angelin



Eli Arnstad



Johnny Bernhardsson



Christer Bådholm



Lars Carlsson



Lone Fønss Schrøder



Lars-Göran Johansson



Björn Savén



Cecilia Vieweg

# EXECUTIVE GROUP MANAGEMENT

**Lars G. Josefsson** (born 1950), President and CEO of Vattenfall AB since 2000. M.Sc. Eng., Chalmers University of Technology, Gothenburg. Ericsson, 1974–1993 Radar Section and Surface Sensor Division, among others. 1993–1997 Managing Director, Ericsson Austria AG, Vienna; thereafter Managing Director of Celsius until 2000. Director of ESKOM Holdings Ltd and Robert Bosch GmbH. Partner of Robert Bosch Industrietreuhand. Chairman of Eurelectric and the German–Swedish Chamber of Commerce. Member of the UN Secretary-General’s advisory committee on energy and climate change. Member of the Swedish government’s Commission for Sustainable Development through August 2009. At year-end Lars G. Josefsson did not have any material shareholdings in companies with which Vattenfall has business dealings.

**Dag Andresen** (born 1964) Chief Financial Officer since October 2008. Second Senior Executive Vice President of Vattenfall AB. Graduate Naval Officer from the Royal Norwegian Air Force Academy; M.Sc. Econ., Norges Handelshøyskole (NHH). Executive MBA, Helsinki School of Economics and Business Administration. Educated at Harvard Business School and Stanford Graduate School of Business. Has held various senior officer positions in the Royal Norwegian Navy and Royal Air Force. 1993–2000 held various management positions with Nordiska Investeringsbanken (NIB), Helsinki, and Den norske Bank (DnB), as well as in shipping and industry. 2001–2008 held various executive management positions with Nordea AB, lastly as Head of the Transaction & Finance Banking business area.

**Helene Biström** (born 1962), Deputy Head of Business Group Nordic 2007–2008. Head of Business Group Pan Europe as from 1 Jan. 2009. M.Sc., Eng., Royal Institute of Technology, Stockholm. 1983–2000 held various positions in Vattenfall AB. 2001–2002 President of REGA Energiplanering AB; 2004–2007 Head of the Nordic Heat business unit. Director of Stella Plastic Holding AB.

**Lars Gejrot** (born 1954), Head of Group Function Human Resources function since 2 Feb. 2009; acting Director of Communications, August 2009–31 December 2009. Regimental Officer, Karlberg; university studies in sociology, psychology and education, leadership training courses. 18 years with IKEA, holding several foreign assignments and management positions; Human Resources Manager, IKEA Group, 2001–2008. Four years as a consultant with Mercuri Urval, and 10 years as a regimental officer.

**Tuomo Hatakka** (born 1956), Executive Vice President of Vattenfall AB since 2005 and Head of Business Group Central Europe since 1 January 2008. Head of Business Group Poland, 2002–Dec. 2007. Economics studies at the Helsinki School of Economics and Business Administration and Instituto de Estudios Superiores de la Empresa, Barcelona, Spain. Consultant, Bain & Company, London, Executive Vice President and partner at Enterprise Investors, Warsaw, Poland; and President and CEO of Elektrim Kable SA, Warsaw, Poland.

**Øystein Løseth** (born 1958), First Senior Executive Vice President of Vattenfall AB and Head of Business Group Benelux from 1 July 2009. Civ. Eng. degree, Norges Tekniske Høyskole, Trondheim, Norway; studies in economics at Bedriftsøkonomisk Intitut, Bergen, Norway. Statoil, Norway, 1983–1993. Planning Manager, Alliance Gas, London, UK 1993–1994; 1994–1997 Commercial Director, Naturkraft, Oslo. 1997–2003 various positions for Statkraft in Norway and the Netherlands. Joined Nuon N.V., Amsterdam, in 2003 as President of Nuon Energy Solutions and director of Nuon N.V. April 2008, appointed CEO of N.V. Nuon Energy. Appointed First Senior Executive Vice President of Vattenfall AB on 15 November 2009, with the intention to succeed Lars G. Josefsson as CEO prior to summer 2010.

**Hans-Jürgen Meyer** (born 1957), member of EGM and CFO of Vattenfall Europe AG, since 2005. Dr. Jur., University of Tübingen Law School, Master of Laws, Harvard University Law School, USA. Law Clerk with Federal Administrative Court of Germany, in Berlin, 1983–1985; judge 1987–1991. 1991–2000, Treuhandanstalt/BVS (a Federal Agency), Berlin, Vice President in 1993. Joined Bewag AG in 2000 as CFO. 2002–2005 Head of Control and Finance for Vattenfall Europe AG.

**Helmar Rendez** (born 1962), Executive Vice President, Group Function Strategies, since August 2007. Ph.D., Berlin University of Technology (TU). Project manager, Zentrum für Logistik und Unternehmensplanung GmbH, Berlin, 1989–1993, Managing Director, Kienbaum Management Consultants GmbH, Berlin office, 1993–1998; head of group development at VEAG (Vereinigte Energiewerke AG), Berlin, 1998–2001. Responsible for the integration process within Vattenfall Europe and head of Company Development 2001–2003. Member of executive management of WEMAG AG, Schwerin, 2004–2007, and Managing Director of Vattenfall Europe Business Services GmbH, Berlin, 2006–2007.

**Elisabeth Ström** (born 1962), Director of Group Function Communication, from 1 January 2010. Degree in Market Economics, Berghs School of Communication. Head of curriculum at Berghs School of Communication, 1985–1988, rector 1996–1997. 1991–1995 Marketing Manager, Nordiska Kompaniet; 1997–2000 member of executive management of Förenings-sparbanken (today Swedbank). Recruited in 2000 as Vice President at the Swedish Co-operative Union (KF) and Vice President of Coop Sverige AB. 2003–2005, Deputy CEO and Vice President, Posten AB. 2005–2009 consultant and adviser in business development and branding.

**Torbjörn Wahlborg** (born 1962), Executive Vice President and Head of Business Group Nordic since 1 January 2010. M.Sc., Eng., Chalmers Institute of Technology, Gothenburg. 1988–1990 Nynäs Petroleum, Nynäshamn, Sweden. 1990–1994 head of Electricity for Vattenfall Värmekraft, Stenungssund, Sweden; 1994–1996 manager for Sjøelandske Kraftverker, Copenhagen, Denmark. 1996–1997 project manager at Vattenfall International, in Stockholm. Vice President of Vattenfall Poland, 1997–2001; Vice President of GZE SA, Gliwice, 2001–2006. Head of the Vattenfall Sales business area, Poland, 2006–2008, and country manager for Vattenfall Poland, 2008–2009.

## Persons who left the Executive Group Management in 2009

**Doede Vierstra** (born 1958) was CFO of N.V. Nuon Energy until 31 December 2009, when he left Vattenfall.

**Hans von Uthmann** (born 1958) was Executive Vice President of Vattenfall AB and Head of Business Group Nordic until 31 December 2009, when he left Vattenfall.

**Christopher Eckerberg** (born 1971), was acting Director of Communication until August 2009. As from August 2009 he is head of the Engineering business unit of Business Group Pan Europe.

**Carolina Wallenius** (born 1968) served as Head of Group Function Communications until February 2009, when she resigned.



Lars G Josefsson



Dag Andresen



Helene Biström



Lars Gejrot



Tuomo Hatakka



Øystein Løseth



Hans-Jürgen Meyer



Helmar Rendez



Elisabeth Ström



Torbjörn Wahlborg