

# Corporate governance report

The following pages include information on corporate governance during the 2014 financial year, as prescribed by law and the Swedish Corporate Governance Code. The Articles of Association, previous corporate governance reports and material from the most recent general meetings are available on Vattenfall's website, [www.vattenfall.com](http://www.vattenfall.com), under "Corporate Governance". The website is also a source of current information about corporate governance at Vattenfall and provides links to the Swedish state's ownership policy and the Swedish Corporate Governance Code. The corporate governance report has been reviewed by the company's auditors.

## Corporate governance at Vattenfall – general

The Parent Company of the Vattenfall Group, Vattenfall AB, is a Swedish public limited liability company with registered office in Solna. Vattenfall AB is thereby subject to the provisions of the Swedish Companies Act. The Board of Directors 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.

## Important external and internal rules and regulations for Vattenfall

### External rules and regulations

- Swedish and foreign legal rules, particularly the Swedish Companies Act and the Swedish Annual Accounts Act
- The Swedish State's ownership policy
- The Swedish Corporate Governance Code ("the Code").
- Stock exchange rules<sup>1</sup>
- International Financial Reporting Standards (IFRS) and other accounting rules
- The Global Reporting Initiative (GRI) guidelines – G4

1) Vattenfall adheres to the stock exchange rules that apply for companies that have fixed-income securities registered on Nasdaq OMX Stockholm and other marketplaces.

## Application of the Code

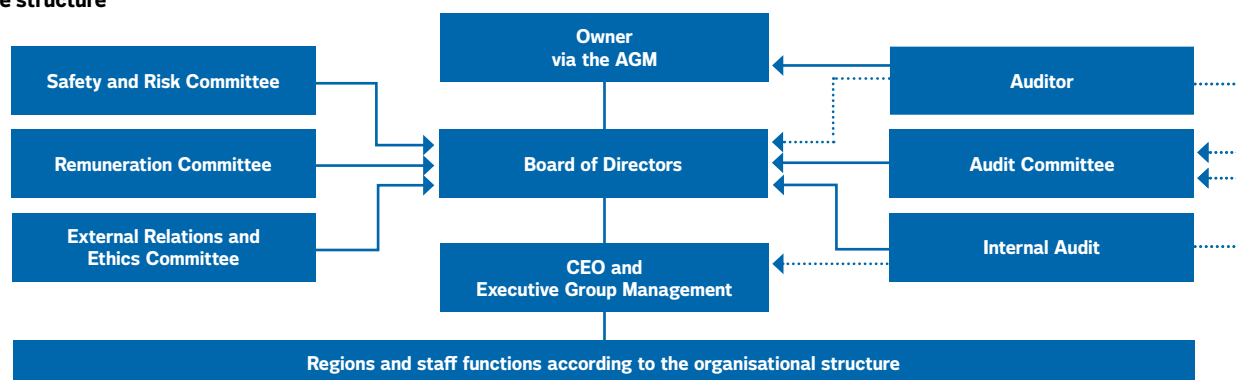
Vattenfall adheres to the Swedish Corporate Governance Code ("the Code"). However, since Vattenfall is wholly owned by the Swedish state, certain stipulations in the Code are not applicable. This applies to the matter of reporting on board members' independence, among other things. In addition, Vattenfall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

- Point 1.4, pertaining to the requirement that the nomination committee shall propose a person to serve as AGM chairman. Due to its ownership structure, Vattenfall has no nomination committee. Election of an AGM chairman is instead done at the AGM in accordance with the stipulations of the Swedish Companies Act and the Swedish state's ownership policy.
- Section 2, pertaining to the requirement that the company shall have a nomination committee. The nomination process for the Board and auditors is conducted in accordance with the Swedish state's ownership policy and is described below. Thus the references to the nomination committee in points 1.3, 1.4, 4.6, 8.1 and 10.2 are not applicable either. However, information on the nomination of board members for new election or re-election is posted on the company's website in accordance with point 2.6.

### Internal rules

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

## Governance structure



## Shareholders and general meetings

By law, the Annual General Meeting (AGM) of Vattenfall AB is to be held within six months after the end of the financial year and, according to the Swedish state's ownership policy by 30 April at the latest. The AGM;

- elects the Board of Directors and auditors, and sets their fees;
- adopts the income statement and balance sheet for Vattenfall AB and the Vattenfall Group;
- decides on distribution of the company's profit;
- grants discharge from liability for the board members and CEO;
- decides on guidelines for remuneration of senior executives; and
- decides on other matters of business as prescribed by law or the Company's Articles of Association.

Vattenfall's Annual General Meeting was held on 28 April 2014 and decided on items of business listed above. All of the board members

were re-elected, and Fredrik Arp was elected as a new director.

The AGM also resolved in favour of amendments to the Articles of Association: The name of the company was changed from Vattenfall Aktiebolag to Vattenfall AB, and a provision was added that for cases in which the Chairman of the Board leaves his assignment during the term of office, the Board shall within itself elect a chairman for the time until the conclusion of the shareholder's meeting during which a new chairman is elected. Members of Parliament were given the opportunity to ask questions, as prescribed by Vattenfall's Articles of Association. An open Q&A session was held after the AGM, in accordance with the Swedish state's ownership policy. The meeting was open to the general public and was aired live via webcast. A video-taped version, minutes and other material from the AGM are available at [vattenfall.com](http://vattenfall.com) under "Corporate Governance".

The 2015 AGM will be held on 27 April in Solna. ■

## Board of Directors

### Appointment of the Board

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

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

More detailed information on the board nomination process is provided in the Swedish state's owner policy, at [regeringen.se](http://regeringen.se).

### The Board's composition

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

Up until the AGM the Board consisted of seven and thereafter eight directors elected by a general meeting. No member of the Executive Group Management (EGM) is a director on the Board. Lars G. Nordström was Chairman of the Board in 2014. By law, the unions are entitled to appoint three board members plus three deputies, and they have exercised this right. After the AGM, four of the Board's eleven members were women, and among the directors elected by a general meeting, four of eight were women. The average age of board members was 57. One director (Eli Arnstad) was a foreign citizen. Biographical information about the board members is provided on pages 62–63.

### The Board's duties

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

The Board's Rules of Procedure stipulate that the Board shall approve major investments, acquisitions and divestments, and adopt central policies and instructions. The Board shall also approve certain important contracts, including contracts between Vattenfall and the CEO, the Deputy CEO and other persons in the Group who are defined as senior executives by the Annual General Meeting. The Board's duties pertain to Vattenfall AB as well as the Vattenfall Group.

The Chairman leads the work of the Board in accordance with the Swedish Companies Act and the Code, and is responsible for – among other things – ensuring that the board members receive relevant information, contacts with the owner on ownership matters, and conveying views from the owner to the Board. According to the Rules of Procedure, the Board – through the Chairman – is to coordinate its views with representatives of the owner when the company is facing particularly important decisions.

#### Guidelines for directors' fees

Directors' fees and fees for committee work are set by the owner at the AGM, in accordance with the Swedish state's ownership policy. The 2014 AGM resolved in favour of unchanged fees. For information on directors' fees in 2014, see Note 53 to the consolidated accounts.

#### Board meetings

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

- The Group's business situation
- Financial report for the Group
- Reports from board committees
- Matters that are not handled by the CEO in the day-to-day administration
- Other matters of material importance for the Group

In addition, the following items of business are included on the agenda every year, in accordance with the yearly planning in the Board's Rules of Procedure:

- April: first quarter interim report, strategic personnel issues, risk mandate and risk policy, and the statutory board meeting after the AGM
- July: Half-year interim report, report on major disputes
- September: Strategic plan
- October: Nine-month interim report
- December: Business, investment, communication and financing plans, the auditors' interim review, guidelines for remuneration of senior executives, Internal Audit's budget and internal audit plan

## Board committees

The Board has established four committees, which are described below, and has drawn up rules of procedure for each of them. At the statutory board meeting, the Board appointed three directors elected by a general meeting for each committee, of whom one serves as committee chair. In addition, the Board can, where necessary, establish other board committees or temporary work groups to address matters in more defined areas. In 2014 such a work group was created for recruitment of a new Group CEO.

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

- February: Year-end report, dividend, evaluation of the Board and CEO, reporting of major disputes and integrity report
- March: Annual and sustainability report, AGM notice

Investments are followed up by the Board three years after they have been decided on by the Board. In addition, the Board holds at least one board seminar every year. At these seminars the Board receives more detailed information and discusses Vattenfall's long-term development, strategy, competitive situation and risk management.

The Board met twelve times in 2014, including the statutory meeting and two meetings conducted via circulation. The agendas of the meetings included the following items of business, among others:

- Decision on appointment of the new President and CEO as well as on the terms of employment
- The Group's strategy and organisation
- Cost-cutting and cost-cutting targets
- Impairment of Vattenfall's assets
- Provisions for the nuclear power operations
- Divestment of electricity distribution network and waste incineration plant in Hamburg
- Divestment of non-core businesses
- Investments in new wind farms and wind power partnership in Sweden
- Investments in safety-enhancement measures in the nuclear power operations
- Vattenfall's sustainability targets and sustainability policy
- The Vattenfall brand
- Variable remuneration programmes for employees who are not senior executives

#### Evaluation of the Board's and CEO's work

The Board evaluates its own work and the CEO's work once a year as part of efforts to develop the Board's way of working and effectiveness. This evaluation is conducted under the direction of the Chairman and is reported to the Board and the owner.

The most recent evaluation was begun in autumn 2014 and was reported to the Board on 4 February 2015. External consultants are used in connection with the Board's evaluation. ■

#### Audit Committee

The Audit Committee's most important duties are as follows:

- To oversee Vattenfall's financial reporting
- To monitor the effectiveness of Vattenfall's internal control, internal audit and risk management with respect to the financial reporting
- To stay informed about the audit of the annual report and consolidated accounts
- To review and monitor the auditor's impartiality and independence, and in connection with that, to pay particular attention to whether the auditor provides other services to the company than auditing services
- To assist in the drafting of recommendations for decisions on the election of auditor by the Annual General Meeting
- To monitor and oversee the management of market and credit risks
- To conduct an annual evaluation of the external auditors' work

Another important issue in 2014 involved preparatory work in connection with Vattenfall's annual impairment testing of asset values, which led to a decision to recognise impairment losses.

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

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

The Audit Committee meets prior to Vattenfall's publication of interim reports and when warranted by the prevailing conditions. The CFO and head of Internal Audit serve in a reporting role on the committee. The company's external auditors attend all regular meetings and report on their observations of the audit. During the entire year 2014 the committee had at least one member with accounting or auditing competence.

### Remuneration Committee

The Remuneration Committee's most important duties are as follows:

- To conduct drafting work for board decisions on matters regarding remuneration principles, remuneration and other terms of employment for members of the Executive Group Management and other senior executives
- To monitor and evaluate application of the guidelines for remuneration of senior executives, which the AGM, by law, is required to decide on as well as the applicable remuneration structures and levels of remuneration in the company

In 2014 the committee was also tasked with conducting drafting work for the Board's decisions regarding overarching remuneration principles in general, such as the general existence of, amount and structure of variable remuneration.

The committee's duties also include the following:

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

## Auditor

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

The 2014 Annual General Meeting re-elected the auditing firm Ernst & Young AB as auditor. The auditing firm has appointed Authorised Public Accountant Hamish Mabon as auditor-in-charge. Hamish Mabon has been auditor-in-charge since 2008 and will therefore be succeeded by another auditor in 2015, at which time he will have held his assignment for seven years. He is also the auditor of Husqvarna AB, AB Tetra Pak, Tetra Laval International, Dustin AB, Apotek Hjärtat AB and Ambea AB, among other companies. The auditor has no assignments with companies that affect its independence as auditor of Vattenfall. The auditor's audit assignment also includes a review of the sustainability reporting.

The Audit Committee has approved guidelines for how procurement of other services than auditing shall take place from the auditor. Consulting services provided by Ernst & Young AB from 2012 to 2014

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

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

### Safety and Risk Committee

The aim of the Safety and Risk Committee is to increase knowledge and awareness about safety and risk issues in the Board ahead of the Board's treatment of these issues. The committee is tasked with the following:

- Conducting drafting work for the Board in its work on overseeing and quality assuring operational safety and risk work within the Vattenfall Group, with special focus on nuclear power safety and dam safety
- Reviewing and, when the committee deems it suitable, providing suggestions regarding these safety and risk matters

During the year, the committee's duties were concentrated on nuclear power safety and dam safety.

The heads of the Nordic and Continental/UK regions, and the Chief Nuclear Safety Officer (CNSO) serve in a reporting role on the Safety and Risk Committee.

For a more detailed description of Vattenfall's risks and risk management, see pages 66–72 in the Annual and sustainability report.

### External Relations and Ethics Committee

This committee was established at the Board's statutory meeting in 2013 and is tasked with the following:

- Maintaining an overview of Vattenfall's actions with respect to its undertakings as a company and in society
- Upholding, protecting and building the Vattenfall brand
- Reviewing and monitoring the effectiveness of the company's compliance and requirements according to the Global Compact and the company's sustainability targets and strategy

The CEO serves in a reporting role on the committee. ■

mainly pertained to tax and accounting issues as well as special input in connection with the divestment of subsidiaries that are no longer core businesses.

At the Annual General Meeting on 28 April 2014 the auditor reported on the audit work in 2013 and on its review of compliance with the guidelines for remuneration of senior executives that had applied since the 2013 Annual General Meeting. The auditor reported on its review of the year-end accounts for 2014 to the entire Board at the board meeting on 4 February 2015 (without the presence of any person from the Executive Group Management), and also reported on its observations at the board meeting on 17 December 2014. In addition, the auditors performed a review of the half-year interim report. The auditor has access to minutes of board meetings and board committee meetings, as stipulated in the Board's Rules of Procedure.

In accordance with the Act on Auditing of State Activities, etc., the Swedish National Audit Office may appoint one or more auditors to participate in the annual audit. No such auditor was appointed in 2014.

The auditor's fees are payable according to an approved invoice. The Group's auditing costs are described in more detail in the annual report, in Note 22 to the consolidated accounts and Note 19 to the Parent Company accounts. ■

## Internal governance

### Core values and vision

Vattenfall's core values are Safety, Performance and Cooperation. Vattenfall's vision is to develop a sustainable, diversified European energy portfolio with long-term increased profits and significant growth opportunities. At the same time, Vattenfall will be among the leaders in developing environmentally sustainable energy production.

### Governing business ethics

Vattenfall's Code of Conduct outlines eight principles in the areas Health and Safety, People, Customers and Suppliers, Business Ethics, Communication, Information Security, Company Resources, and the Environment, and includes references to the Vattenfall Management System (VMS), which more clearly elaborates on the principles. Information about the Code of Conduct is provided on the company's intranet in all of the company's languages, through articles in Vattenfall's employee news magazine, and in connection with new hiring and training. These measures have contributed to employees' familiarisation with the Code of Conduct. Vattenfall's Code of Conduct is also posted on vattenfall.se (English version on www.vattenfall.com).

The Code of Conduct gives employees the opportunity to report incidents through a whistleblowing function staffed by locally appointed external ombudsmen (advocates), to whom employees, consultants and contractors can turn to report suspected, serious improprieties that the whistleblower for some reason does not want to report internally via the normal reporting channels.

### 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 CEO in 2014 was Øystein Løseth until 30 September, and thereafter Magnus Hall. The Board began the work on recruiting a new CEO in 2013 and formed a special work group for this purpose, which was assisted in this process by an external recruitment company. After the work group submitted its recommendation and the Board made its decision, Magnus Hall was presented as the new CEO on 7 May 2014. Magnus Hall's remunera-

tion corresponds to Øystein Løseth's and is described in the Annual and sustainability report, Note 53 to the consolidated accounts.

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

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

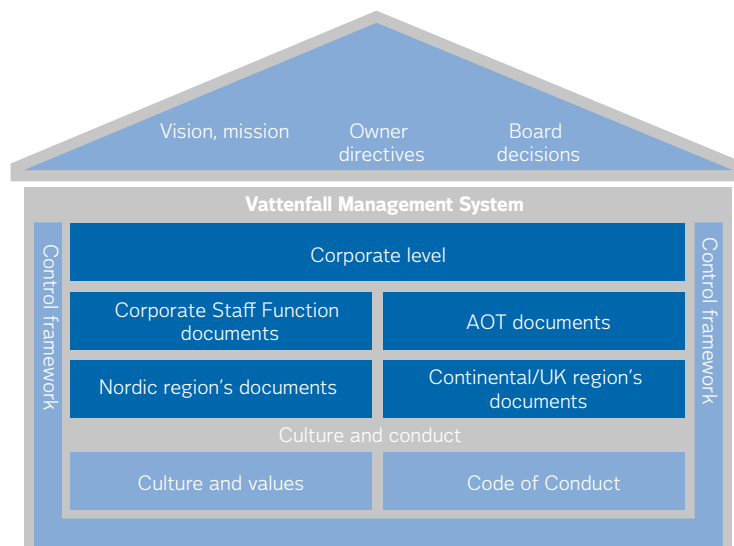
Biographical information on the members of the Executive Group Management is provided on page 64.

### Vattenfall Management System

The Vattenfall Management System (VMS) is the framework that ensures that Vattenfall's governance adheres to formal requirements as well as to requirements made by the Board, the CEO, the business operations and the Staff Functions. The VMS is documented in binding governance documents consisting of policies, instructions and process documents on three different levels: corporate level, function level and business level. Certain central documents are approved by the Board of Directors of Vattenfall AB. The VMS is an integrated management system that applies for the entire Vattenfall Group, along with the limitations that may arise from legal requirements, such as regarding the unbundling of the electricity distribution business. Vattenfall's Environmental Management System is integrated in the VMS. Special routines are in place to ensure adherence to the management system also by subsidiaries.

Work was conducted in 2014 on completing the update of the VMS as a result of the organisational change that took effect on 1 January 2014.

### VMS structure and other governance documents



**Organisation**

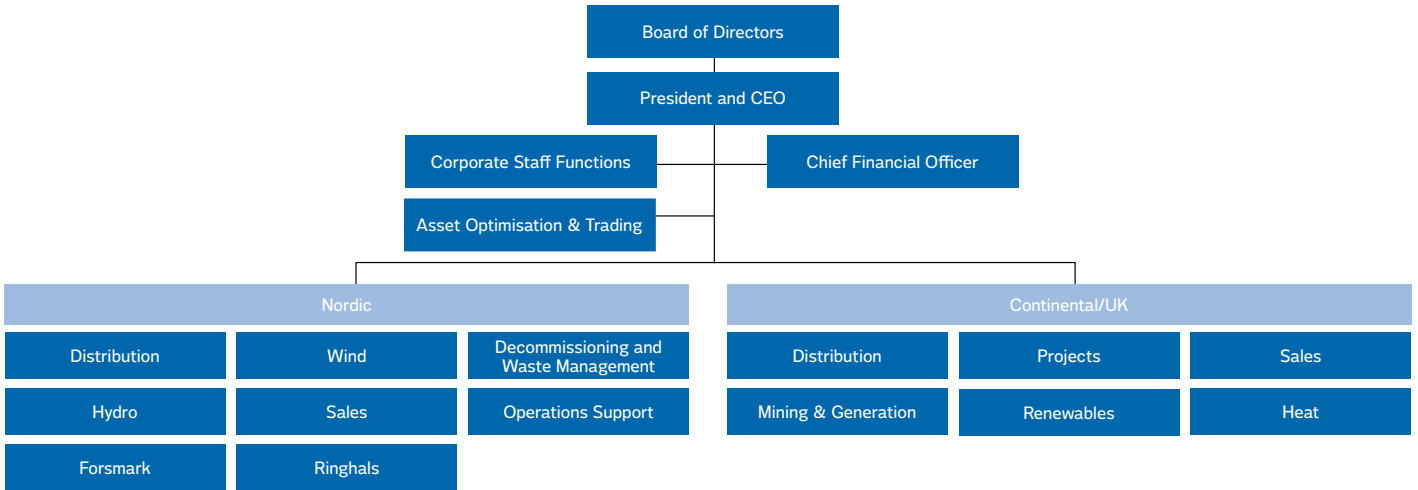
Vattenfall had three organisational levels in 2014 – Group, regional and business unit level – with operations broken down into three categories:

- Business activities, broken down into Business Units and organised in two regions and in the cross-regional unit Asset Optimisation & Trading
- Staff Functions, which are organised at the Group, regional and Business Unit levels
- Service operations, which are organised in Business Support functions and Shared Service centres at the regional level or lower

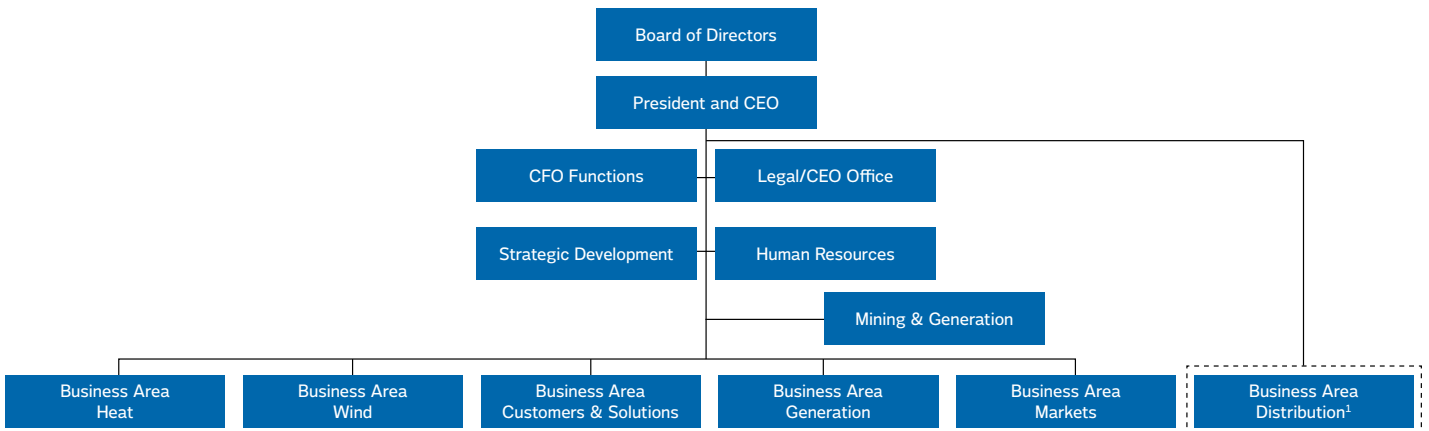
The legal structure deviates from the business structure. Governance is conducted financially, non-financially (e.g., via Staff Functions) and operationally. Unit scorecards and the VMS are the most important governance tools.

In December 2014 the Board approved a new organisational structure, entailing that the breakdown into the Nordic and Continental/UK regions has been replaced with six new Business Areas, effective 1 April 2015: Heat, Wind, Customers & Solutions, Generation, Markets, and Distribution. Vattenfall’s lignite operations are organised as a separate unit, Mining & Generation, in line with Vattenfall’s ambition to find a new owner. Further information is provided on pages 9 and 18–19. ■

**Organisational structure 2014**



**New organisational structure effective 1 April 2015**



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

## Governance of sustainability issues

The Swedish state's ownership policy stipulates that companies with state ownership shall act as a model in the area of sustainable business. In the owner policy, sustainable business is defined as "a development that meets the needs of today without jeopardising future generations' ability to meet their needs" and covers the areas of the environment, human rights, work conditions, anti-corruption, business ethics, and equality and diversity. Companies with state ownership shall also strive to comply with international guidelines that exist with respect to sustainability.

In 2014 the Board decided to adopt an overall sustainability policy as complement to individual policies, including environment, Code of Conduct and health and safety. It stipulates that for Vattenfall, sustainability entails taking responsibility for future generations by contributing to sustainable development in society – economically, environmentally and socially. The sustainability policy also stipulates that environmental issues are the top-priority focus area, based on a decision by Swedish Parliament in 2010 that Vattenfall shall operate a commercial energy business that enables the company to be among the leaders in developing environmentally sustainable energy production. This parliamentary decision is also reflected in Vattenfall AB's Articles of Association.

Vattenfall's governance with respect to sustainability issues is based on a number of policies:

- The environmental policy
- The health and safety policy

- The Code of Conduct
- The Supplier Code of Conduct, which addresses – among other things, human rights and working conditions, the environment and anti-corruption, based on the UN Global Compact

The sustainability policy, environmental policy and Code of Conduct are decided on by the Board of Directors, while other policies are decided on by the CEO. Drafting work for the Board's work with sustainability issues is conducted by the External Relations and Ethics Committee. In the EGM, the CFO is responsible for sustainability issues.

All of the aforementioned policies are part of the VMS. They are accessible for employees on the Group's intranet and are also communicated externally. However, Vattenfall does not require any signatures from employees or members of management. The content is concretised in instructions and process documents within the VMS, for example in special instructions for matters concerning competition law and for the prevention of bribes and corruption.

Operations are monitored monthly in Business Review Meetings (BRMs), where outcomes, forecasts, important events and challenges are discussed to ensure that the organisation is performing according to expectations. Every quarter a more comprehensive overview of the current situation is presented and include reports on the status of Vattenfall's sustainability areas and sustainability targets, which are discussed with the top management of each Business Unit.

## Guidelines for remuneration of senior executives

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

The 2014 AGM approved Vattenfall's application of the guidelines with the deviation that instead of the definition of senior executive in the Swedish Companies Act, senior executives shall be defined on the basis of whether they have a significant impact on the Group's earnings, through use of the International Position Evaluation (IPE) model. Managers with positions of IPE 68 and higher are to be considered to be senior executives. The Board's explanation for this deviation is stated in the 2013 Annual and sustainability report, on page 49.

Based on the AGM's definition, in 2014 a total of 15 persons, excluding the current and former CEOs, were covered by the stipulations on contracts with senior executives. Actions taken with respect to agreements with these executives were continuously reported to the Remuneration Committee and Board, which also decided on the entering into such agreements. Remuneration of senior executives and compliance with the adopted guidelines are described in more detail in the Annual and sustainability report, Note 53 to the consolidated accounts.

An evaluation of the application of the guidelines for remuneration of senior executives decided by the Annual General Meeting is posted on vattenfall.se and vattenfall.com. The proposed guidelines ahead of the 2015 AGM are shown on page 65.

## Internal control over financial reporting

This section describes the most important elements in Vattenfall's system of internal control and risk management in connection with the financial reporting, as prescribed by the Annual Accounts Act and the Code. Vattenfall's framework for this control is based on the COSO framework, which has been developed by the Committee of Sponsoring Organizations of the Treadway Commission. For further information see also the risk section, pages 66–72.

### Control environment

According to the Swedish Companies Act and the Code, the Board of Directors has overarching responsibility for internal control over financial reporting. In this context the Board shall ensure that the company's organisation is structured in such a way that the book-keeping, treasury management and the company's financial conditions in general are controlled in a satisfactory manner. The Board's audit committee conducts drafting work for the Board on matters related to internal control over financial reporting.

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

The VMS is an integrated management system for the Vattenfall Group and is revised on a continuing basis (see also the section on internal governance on page 56). The VMS contains governance documents for all identified material areas, including roles and responsibilities, authority, decision-making processes, risk management, internal control, and ethics and integrity issues. The VMS lays out the "grandfather principle" and "four eyes principle" for decision-making. The VMS also stipulates which decision-making, oversight and advisory bodies exist within the Group, in addition to those required by law.

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

### Risk assessment

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

monitored at the board level are addressed and drafted primarily by the Board's safety and risk committee.

The Board's risk management and reporting is centrally coordinated via Vattenfall's risk committee (VRC). A continuous Enterprise Risk Management (ERM) process makes it possible to quantify and compare both financial and non-financial risks.

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

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

### Control activities and monitoring

Vattenfall applies the "three lines of defence" model for management and control of risks. The first line of defence consists of the Business Units, which own and manage risks. The risk organisation, which is headed by the Chief Risk Officer (CRO), makes up the second line of defence and is responsible for monitoring and controlling risks. Internal and external audit make up the third line of defence. Internal Audit is an independent and objective function that reviews and evaluates the first and second lines of defence.

The CRO is responsible for the risk management organisation within the Group and provides information to the Board's audit committee and safety and risk committee on a regular basis. The CRO is also responsible for processes related to, among other things, new products and certain contracts with long durations.

Internal Audit evaluates, recommends and monitors improvements to the effectiveness of Vattenfall's risk management, internal controls and governance processes throughout the Group. This also applies for compliance with Vattenfall's governance documents, including the Code of Conduct. The Internal Audit function is directly subordinate to the Board of Directors and Audit Committee, and performs its work in accordance with an established internal audit plan. Internal Audit's budget, the Internal Audit Charter and the internal audit plan are drafted by the Audit Committee and decided on by the Board of Directors. The Head of Internal Audit reports administratively to the CEO and informs the management teams of the Business Units and other units about audit activities that have been performed.

### Three lines of defence





The Board oversees the Group's financial situation and addresses this matter at every regular board meeting. The Executive Group Management holds regular follow-up meetings with the heads of the regions and Staff Functions regarding the financial outcome. The internal framework for internal control includes processes for self assessments, monitoring, reporting and improvement of control activities in order to prevent, discover and correct errors in the financial reporting. Written confirmation of adherence to internal and external stipulations is part of these processes.

In 2014 a project was carried out to overhaul and upgrade the IFC process in an effort to strengthen the governance structure and effectiveness of the controls. Going forward, continuous improvements of the IFC process will be ensured through introduction of an annual evaluation and updating process. This also includes expanded control points for the most central VMS documents and establishment of a Group IFC Officer position. The project was concluded in 2014, and the upgraded IFC process will be applied starting in 2015.

### **Information and communication**

The Group's governance documents are accessible via Vattenfall's intranet. The forms for handling internal and external communication are documented in a VMS instruction which aims to ensure that Vattenfall is in compliance with legal as well as stock exchange rules, the state's guidelines for external reporting, and other obligations. Accounting policies and reporting principles are laid out in a joint manual for the entire Group. Updates and changes in these policies and principles are communicated on a continuous basis via the intranet as well as at meetings with representatives of the Group's regions and Staff Functions.

Reporting and follow-up reporting to the Board and EGM are part of monitoring activities. Internal Audit and the CRO also report on their observations to the Board's audit committee.

Financial reporting includes interim reports, the year-end report and the annual report. In addition to these reports, financial information is provided to the Group's external stakeholders via press releases and Vattenfall's websites, in accordance with the Swedish Securities Market Act, among other things. ■

## Composition of the Board and meeting attendance

The composition of the Board of Directors and attendance at board meetings in 2014 are shown below. Current biographical information about board members is provided on the corporate governance pages on vattenfall.se and vattenfall.com.

Name	Function	Committee assignment(s)	Attendance at board meetings <sup>2</sup>	Attendance at committee meetings
Lars G. Nordström	Chairman of the Board	Remuneration Committee, External Relations and Ethics Committee (chair)	12 of 12	RemCom: 4 of 4 ERE: 2 of 2
Carl-Gustaf Angelin	Employee representative	—	11 of 12	—
Eli Arnstad	Director	Safety and Risk Committee (chair), External Relations and Ethics Committee	12 of 12	S&R: 2 of 2 ERE: 2 of 2
Fredrik Arp <sup>1</sup>	Director	Remuneration Committee	4 of 8	2 of 2
Lennart Bengtsson	Employee representative, deputy director	—	10 of 12	—
Gunilla Berg	Director	Audit Committee (as chair from 28 April), Remuneration Committee (through 28 April; chair), External Relations and Ethics Committee	10 of 12	AC: 7 of 7 RemCom: 2 of 2 ERE: 1 of 2
Johnny Bernhardsson	Employee representative	Safety and Risk Committee, External Relations and Ethics Committee	12 of 12	S&R: 2 of 2 ERE: 1 of 1
Håkan Buskhe	Director	Safety and Risk Committee	10 of 12	1 of 2
Ronny Ekwall	Employee representative	Audit Committee	12 of 12	5 of 7
Håkan Erixon	Director	Audit Committee (as chair through 28 April), External Relations and Ethics Committee (through 28 April)	12 of 12	AC: 7 of 7 ERE: 1 of 1
Christer Gustafsson	Employee representative, deputy director	—	9 of 12	—
Jenny Lahrin	Director	Audit Committee, Safety and Risk Committee (from 28 April)	12 of 12	AC: 7 of 7 S&R: 1 of 1
Jeanette Regin	Employee representative, deputy director	—	8 of 12	—
Åsa Söderström Jerring	Director	Remuneration Committee (as chair from 28 April), External Relations and Ethics Committee (from 28 April)	12 of 12	RemCom: 4 of 4 ERE: 1 of 1

1) Elected at the Annual General Meeting on 28 April 2014.

2) Two of the board meetings were held via circulation, whereby only ordinary directors participated.



## Board of Directors



**Lars G. Nordström**

### Chairman of the Board

Born 1943. Law studies. Elected in 2011. Chairman of the External Relations and Ethics Committee and member of the Remuneration Committee.

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

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



**Eli Arnstad**

Born 1962. Studies in public law and political science. Elected in 2008. Chairman of the Safety and Risk Committee and member of the External Relations and Ethics Committee.

Executive Manager of SpareBank 1 SMN.

*Other assignments:* Board member of the Norwegian Football Association.

*Previous positions held:* Independent consultant (2008–2012). CEO of Enova SF (2001–2007).



**Fredrik Arp**

Born 1953. B.Sc. Econ. Honorary Doctor of Economics. Elected in April 2014. Member of the Remuneration Committee.

*Other assignments:* Chairman of Nolato AB, Mediplast AB and Parques Reunidos. Board member of Technogym Spa.

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



**Gunilla Berg**

Born 1960. B. Sc. Econ. Elected in 2012. Chairman of the Audit Committee and member of the External Relations and Ethics Committee.

CFO of PostNord Group.

*Other assignments:* Board member of Alfa Laval.

*Previous positions held:* Executive Vice President and CFO of Teracom Group (2010–2014). Executive Vice President and CFO of SAS Group (2002–2009). Executive Vice President and CFO of the KF Group (1997–2001). Various positions in the AGA Group (1987–1997).



**Håkan Buskhe**

Born 1963. M. Sc. Eng., Licentiate in transport and logistics. Elected in 2012. Member of the Safety and Risk Committee.

President and CEO of Saab AB.

*Previous positions held:* President and CEO of E.ON Nordic AB and E.ON Sverige AB (2008–2010). Executive Vice President of E.ON Sverige AB (2007–2008). Senior Vice President of E.ON Sverige AB (2006–2007). CEO of Schenker North (2002–2006). Managing Director Schenker-BTL AB (2000–2002).



**Håkan Erixon**

Born 1961. B.Sc. International Business Administration and Economics. Elected in 2011. Member of the Audit Committee.

*Other assignments:* Chairman of Orio AB. Member of the Nasdaq OMX Stockholm AB Listing Committee. Board member of Alfvén & Didrikson Invest AB.

*Previous positions held:* Board member of Saab Automobile Parts AB (2012–2013). Senior Advisor, Corporate Finance, Swedish Government Offices, which included work for the Swedish National Debt Office (2007–2010). Board member of Carnegie Investment Bank AB (2008–2009). Board member of Vasakronan AB (2007–2008). Various positions with UBS Investment Bank Ltd, London (1997–2007), including as Vice Chairman of the Investment Banking Division. Various positions with Merrill Lynch International Ltd, London (1992–1997). Kansallis-Osake-Pankki, London (1991–1992). Citicorp Investment Bank Ltd, London (1989–1991).



**Jenny Lahrin**

Born 1971. Master of Laws. Executive MBA. Elected in 2013. Member of the Audit Committee and Safety and Risk Committee. Deputy Director, Division for State-Owned Enterprises, Ministry of Enterprise and Innovation.

*Other assignments:* Board member of Swedavia AB and AB Göta kanalbolag.

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



**Åsa Söderström Jerring**

Born 1957. B. Sc. Econ. Elected in December 2013. Chairman of the Remuneration Committee and member of the External Relations and Ethics Committee.

*Other assignments:* Chairman of ELU Konsult AB and Info-books AB. Board member of JM AB, Rejlers AB, San Sac AB, Nordic Home Improvement AB and Scanmast AB. Chairman of the Construction Division of the Royal Swedish Academy of Engineering Sciences (IVA).

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



**Carl-Gustaf Angelin**

Born 1951. M.Sc. Eng. Elected in 2003. Employee representative for Akademikerrådet at Vattenfall. Vattenfall employee since 1988, currently in Business Unit Sales Nordic.  
Employee representative



**Johnny Bernhardtsson**

Born 1952. Engineering studies with supplementary coursework in economics. Elected in 1995. Employee representative for Unionen. Member of the External Relations and Ethics Committee and of the Safety and Risk Committee. Vattenfall employee since 1970, currently as Controller at Vattenfall Business Services.

*Other assignments:* Chairman of the European Works Council.  
Employee representative



**Ronny Ekwall**

Born 1953. Electrical engineer. Elected in 1999. Employee representative for SEKO Facket för Service och Kommunikation. Member of the Audit Committee. Vattenfall employee since 1977 as fitter.

Employee representative



**Lennart Bengtsson**

Born 1958. Two-year secondary school degree in mechanics and network technology training in IT. Elected in 2011. Employee representative for SEKO Facket för Service och Kommunikation. Vattenfall employee since 1979, currently as IT technician.  
Employee representative (deputy)



**Christer Gustafsson**

Born 1959. Four-year education in technology. Elected in 2013. Employee representative for Ledarna (the Association of Management and Professional Staff). Employed at Vattenfall since 1986, currently in the staff function for the engineering department, Forsmarks Kraftgrupp AB.

*Other assignments:* Representative for energy & technology, Confédération Européenne des Cadres (for energy issues).  
Employee representative (deputy)



**Jeanette Regin**

Born 1965. Secondary school diploma and two-year education in healthcare. Elected in 2011. Employee representative for Unionen. Currently head of customer service/office services for Gotland Energientreprenad.

Employee representative (deputy)

**Board members who left the Board in 2014:**

No board members left the Board in 2014.

## Executive Group Management



### Magnus Hall

Born 1959. M.Sc. Industrial Engineering and Management. President and CEO since 1 October 2014.

Many years of experience as President and CEO of the forestry group Holmen, plus several other executive positions with Holmen.

*Other assignments:* Deputy Chairman of NTM AB, Deputy Chairman of Linköping University, Director of AMF Pension, board member of the Confederation of Swedish Enterprise.

In 2014 Magnus Hall did not have any significant shareholdings in companies with which Vattenfall has business relations.



### Ingrid Bonde

Born 1959. M.Sc. Econ.

Chief Financial Officer and Deputy CEO.

Vattenfall employee since 2012. Many years of experience in the financial sector, both from the public sector and private business, most recently as Director General of the Swedish Financial Supervisory Authority (2002–2008) and President and CEO of AMF (2008–2012).

*Other assignments:* Chairman of Hoist Finance AB, board member of Loomis AB and a commission member of the Global Commission on the Economy and Climate.



### Stefan Dohler

Born 1966. M.Sc. Aerospace Engineering, MBA.

Senior Vice President, Asset Optimisation and Trading.

Vattenfall employee (HEW) since 1998. Head of network operations Vattenfall Europe AG. CEO of the Management Board of Distribution and Transmission System Operators (2008–2010). Vice President Finance, Business Division Production (2011–2012).



### Tuomo Hatakka

Born 1956. Economics studies.

Senior Executive Vice President, Continental/UK Region. Executive Vice President of Vattenfall AB.

Vattenfall employee since 2005. Head of Business Group Poland (2005–2007). Head of Business Group Central Europe (2008–2010). Head of Business Division Production (2010–2013).



### Anne Gynnerstedt

Born 1957. LL.B.

Senior Vice President, General Counsel and Secretary to the Board of Directors.

Vattenfall employee since January 2012. General Counsel, Secretary to the Board and member of executive management of SAAB AB (2004–2012). General Counsel and member of executive management of the Swedish National Debt Office (2002–2004). Corporate Legal Counsel, SAS (1990–2002).



### Torbjörn Wahlborg

Born 1962. M.Sc. Eng.

Senior Vice President, Nordic Region.

Executive Vice President of Vattenfall AB.

Vattenfall employee since 1990. Held positions in Vattenfall's Polish operations since 1997, including as country manager (2008–2009). Head of Business Group Nordic (2010). Head of Business Division Distribution and Sales (2010–2012). Head of Business Division Nuclear (2012–2013).

### Persons who left the Executive Group Management:

Øystein Løseth left the EGM on 30 September 2014 in connection with his departure as President and CEO.

Olof Gertz, Head of Staff Function Human Resources, left the EGM on 2 December 2014.

# AGM proposal

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

The Annual General Meeting resolved on 28 April 2014 to adopt the Board's proposed guidelines for compensation of senior executives. The Board proposes that the 2015 Annual General Meeting resolves to adopt the Board's proposal for unchanged guidelines for compensation of senior executives.

The Board's proposed guidelines correspond to the government's guidelines for terms of employment for senior executives of state-owned enterprises, adopted by the government on 20 April 2009 ([www.regeringen.se](http://www.regeringen.se)), with the deviation set out below.

In accordance with a resolution by the Annual General Meeting on 28 April 2014, Vattenfall deviates from the definition of senior executive of a subsidiary in such way that instead of using the definition of senior executive set forth in the Swedish Companies Act, senior executives shall be defined based on whether they have significant influence on the Group's earnings. Through application of the International Position Evaluation (IPE) model, executives with positions of IPE 68 and higher shall be considered to be senior.

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

## The Board's explanation for deviations from the guidelines

The deviation decided on by the owner at the 2014 Annual General Meeting entails use of a generally accepted ranking model instead of the definition of senior executive of a subsidiary in the Swedish Companies Act. The Board is of the opinion that the following, special reasons exist for deviating from the guidelines.

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

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

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

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

## Proposed distribution of profits

The Annual General Meeting has at its disposal retained profits, including the result for the year, totalling SEK 43,736,750,503. In accordance with the dividend policy adopted by the Annual General Meeting of Vattenfall AB, the Board of Directors and President propose, in view of the result for the year, that the profits be distributed as follows:

To be distributed to the shareholders	SEK 0
To be carried forward	SEK 43,736,750,503

## The Board of Directors' and President's assurance upon signing the Annual and sustainability report for 2014

The undersigned certify that the consolidated accounts and the Annual Report have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Commission, for application within the EU, and generally accepted accounting principles, respectively, and give a true and fair view of the Parent Company's and Group's financial position and earnings, and that the Administration Report for the Parent Company and Group presents a fair overview of the development of the Parent Company's and Group's operations, financial position and earnings and describes significant risks and uncertainties that the companies in the Group face. In addition, the undersigned certify that the sustainability report, as defined in the GRI Index on pages 154–158, has been prepared in accordance with the GRI G4 Guidelines, and has been adopted by the Board of Directors.

Solna, 17 March 2015

Lars G. Nordström

Chairman of the Board

Carl-Gustaf Angelin

Eli Arnstad

Fredrik Arp

Gunilla Berg

Johnny Bernhardsson

Håkan Buskhe

Ronny Ekwall

Håkan Erixon

Åsa Söderström Jerring

Jenny Lahrin

Magnus Hall

President and CEO

# Auditor's report

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

## Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Vattenfall AB for the year 2014, except for the corporate governance statement on pages 52–61. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 5, 8–9, 45–46, 52–61 and 65–144.

## Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

## Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 52–61. The statutory

administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

## Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Vattenfall AB for the year 2014. We have also conducted a statutory examination of the corporate governance statement.

## Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. The Board of Directors and the President are responsible for administration under the Companies Act and that the corporate governance statement on pages 52–61 has been prepared in accordance with the "The Government's owner policy and guidelines for government owned companies" (Statens ägarpolicy och riktlinjer för företag med statligt ägande).

## Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have obtained a sufficient basis for our opinion. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

## Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

A corporate governance statement has been prepared, in accordance with the owner policy, and its mandatory statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Stockholm, 17 March 2015  
Ernst & Young AB

Hamish Mabon  
Authorised Public Accountant

# Combined assurance report

## Auditor's Limited Assurance Report on Vattenfall AB's Sustainability Report

This is the translation of the auditor's report in Swedish.

To Vattenfall AB

### Introduction

We have been engaged by the Board of Directors of Vattenfall AB to undertake a limited assurance engagement of Vattenfall AB's Sustainability Report for the year 2014. Vattenfall AB has defined the scope of the Sustainability Report on page 154–158 in the Annual and sustainability report.

### Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on pages 154–155 in the Sustainability Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

### Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with

RevR 6 *Assurance of Sustainability Reports* issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

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

### Conclusion

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

Stockholm 17 March 2015

Ernst & Young AB

Hamish Mabon  
Authorised Public Accountant

Håkan Ulrichs  
Partner, Climate Change and Sustainability Services