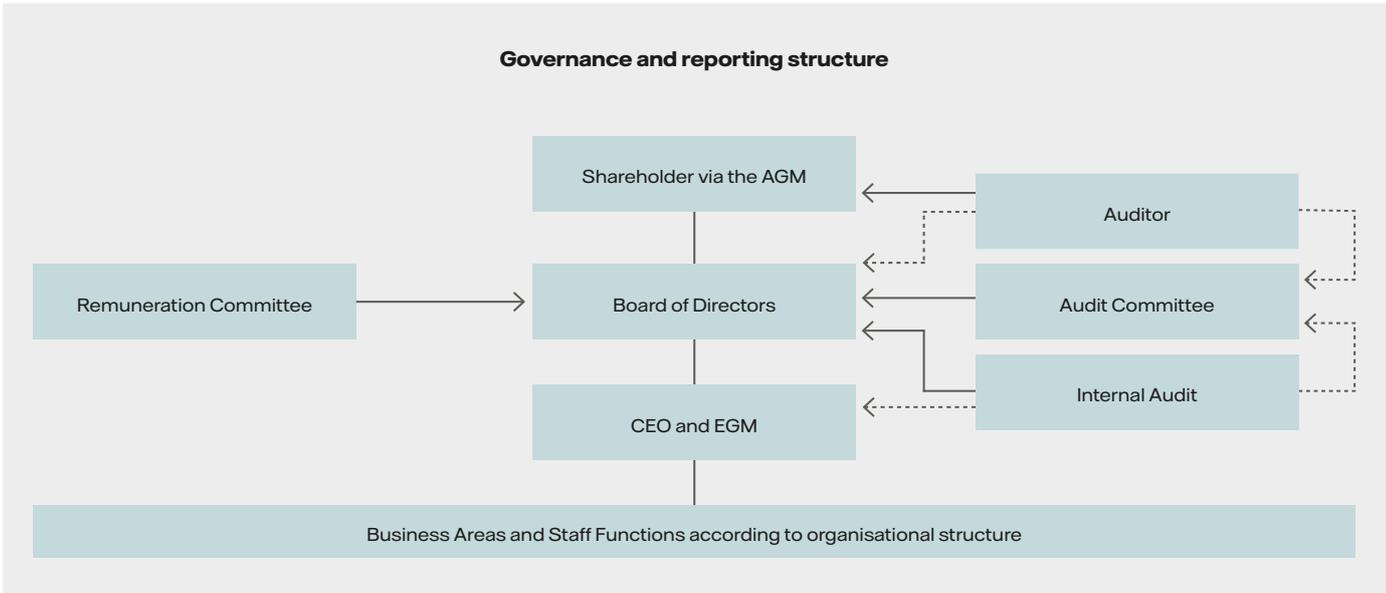


Corporate Governance Report

The following pages include information on corporate governance during the 2018 financial year, as prescribed by law and the Swedish Corporate Governance Code. Supported by good corporate governance - with effective organisational structure, internal control and risk management - Vattenfall's business can be driven towards the set targets and in accordance with Vattenfall's principles. The Corporate Governance Report has been reviewed by the company's external auditor.



Governance and reporting structure



Vattenfall's corporate governance model

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

Application of the Code

Vattenfall adheres to the Swedish Corporate Governance Code ("the Code"). However, since Vattenfall is wholly owned by the Swedish state, certain stipulations in the Code are not applicable. This applies to the matter of reporting on board members' independence, regulated in point 4.4 and 4.5, among other things. In addition, Vattenfall also deviates from the Code with respect to the following points: Point 1.3, pertaining to the requirement that the nomination committee shall propose a person to serve as AGM chairman. Due to its ownership structure, Vattenfall has no nomination committee. Election

of an AGM chairman is done at the AGM in accordance with the stipulations of the Swedish Companies Act and the Swedish state's ownership policy.

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

Important external and internal rules and regulations for Vattenfall

External rules and regulations

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

Internal rules

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

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

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

Shareholder and general meetings

Vattenfall AB is wholly owned by the Swedish state. The shareholder's right to make decisions about Vattenfall's affairs is exercised at the Annual General Meeting and other general meetings. Through a general meeting resolution on the content of the Articles of Association, the owner makes decisions on the company's operations. The Swedish state's ownership policy and the guidelines for external reporting in state-owned companies are decided on at the general meeting. In accordance with the Swedish state's ownership policy, the company's financial targets are also decided on by a general meeting.

By law, the AGM of Vattenfall AB is to be held yearly within six months after the end of the financial year and not later than 30 April in accordance with the Swedish state's ownership policy. Notice of the AGM

is issued not earlier than six weeks and not later than four weeks before the meeting is to be held.

Annual General Meeting 2018

Vattenfall held its 2018 AGM on 25 April. The company's owner, the Swedish state, participated at the AGM through its owner representative. The President, auditor and quorumed Board were also in attendance. Members of Parliament were given the opportunity to ask questions during the AGM, and an open Q&A session was arranged after the meeting, in accordance with the Swedish state's ownership policy. The AGM was open to the general public and was aired live via webcast.

The 2019 AGM will be held on 11 April in Solna, Sweden.

Duties of the Annual General Meeting

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

Board of Directors

The Board's duties

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

The Board's Rules of Procedure stipulate that the Board shall set the overarching targets for Vattenfall's operations, decide on Vattenfall's strategy for achieving those targets, and ensure that suitable systems are in place for monitoring and controlling Vattenfall's operations, risks and financial position in respect of the set targets. The

Board is responsible for approving major investments, acquisitions and divestments, and for adopting central policies and instructions. Part of this is to define appropriate guidelines to govern the company's conduct in society, with the aim of ensuring its long-term value creation capability. The Board shall also approve certain important contracts, including contracts between Vattenfall and the President and other senior executives. The Board's duties pertain to Vattenfall AB as well as the Vattenfall Group. Vattenfall's General Counsel serves as secretary to the Board of Directors.

The Chairman leads the work of the Board in accordance with the Swedish Companies Act and the Code and is responsible for - among other things - ensuring that the board members receive relevant information, contacts with the owner on ownership matters, and serving as a liaison between the owner and the Board. According to the Rules of Procedure,

the Board - through the Chairman - shall coordinate its views with representatives of the owner when the company is facing particularly important decisions.

Board meetings

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

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

The Board's yearly planning

Report from the auditors, nomination of auditor, annual accounts, dividend, reporting on major disputes and integrity reports

Q1

Annual and Sustainability Report, AGM notice

First quarter interim report, strategic personnel issues, diversity and equal opportunity plan, risk mandate and risk policy, and statutory board meeting following the AGM

Q2

Brand strategy
Strategic sustainability issues

Strategic plan, R&D strategy, nuclear power and dam safety

Q3

Half-year interim report, reporting on major disputes

Business, investment and financing plans, auditor's interim review, guidelines for remuneration of senior executives, overall remuneration principles within Vattenfall, Internal Audit's budget and plan, issues regarding human rights and UK Modern Slavery Act statement, tax policy, evaluation of the Board and President

Q4

Nine-month interim report, report on safety and threat landscape

In addition, certain items of business are included on the agenda every year, in accordance with the yearly planning in the Board's Rules of Procedure. Investments approved by the Board are followed up by the Board one year after their commercial operation date. Strategy issues are discussed in more detail at an annual board seminar. The Executive Group Management participates at the board seminars.

The Board met ten times in 2018, including the statutory meeting.

Appointment of the Board

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

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

The Swedish state's ownership policy, which is the diversity policy applied with regard to the Board, stipulates that the selection of board members shall be made from a broad recruitment pool in the aim of soliciting expertise of both women and men as well as persons with varying backgrounds and experience. Discrimination based on gender, transgender identity or

expression, ethnic origin, religion or other faith, functional disability, sexual orientation or age may not take place.

At the 2018 AGM the owner's representative presented a motivating statement on the Board's composition as well as on the changes that had been proposed. In summary, the Board's composition – in respect of the company's operations, stage of development and conditions in general – was judged to be suitable and distinguished by diversity and breadth regarding the directors' competence, experience and backgrounds, as well as fulfilling the government's goal on gender balance.

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

The Board's composition

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

In 2018 the Board was composed of eight directors elected by a general meeting. No member of the Executive Group Management (EGM) was a director on the Board. Lars G. Nordström was Chairman of the Board. By law, the unions are entitled to appoint three board members plus three deputies, and they exercised this right. All directors were Swedish citizens. Biographical information about the board members is provided on pages 80–81.

Sustainability issues addressed by the Board

Based on a decision by the Swedish Parliament in 2010, Vattenfall AB's Articles of Association stipulate that Vattenfall shall operate a commercial energy business that enables the company to be among the leaders in developing environmentally sustainable energy production.

The Swedish state's ownership policy stipulates that companies with state ownership shall integrate sustainability in their

corporate governance and act exemplarily in this area. The companies are to operate in a manner that promotes sustainable development, i.e., "a development that meets the needs of today without jeopardising future generations' ability to meet their needs". Of particular importance is that companies with state ownership promote a healthy and safe work environment, respect for human rights, good and decent working conditions, equality and diversity, reduced climate and environmental impact, good business ethics and active work on anti-corruption, and that they ensure that no abuses occur due to their special status of being state-owned and exhibit responsible conduct in the tax area.

The annual planning for the Board and its committees includes recurring items in several of the areas identified by the owner. These areas are furthermore included as an integral part of the handling of concrete Board matters and are also handled by the Executive Group Management. The Board has also stressed that Vattenfall's four strategic objectives in themselves constitute sustainability objectives and that one aim is that sustainability issues should be an integral part of Vattenfall's operations. Among others, sustainability issues such as climate related consequences of CO₂ emissions are included in the Board's handling of the strategy and in the business planning process.

The Board has adopted an overarching sustainability policy as a complement to individual policies, such as the human rights policy, the environmental policy and the Code of Conduct and Integrity. The sustainability policy stipulates that for Vattenfall, sustainability entails taking responsibility for future generations by contributing to sustainable development in society – economically, environmentally and socially. Further highlighted is that access to energy is a precondition for our society to function and to develop in a sustainable way. The sustainability policy also stipulates that Vattenfall's sustainability focus extends throughout its value chain, from suppliers to customers and partners as well. The company shall leverage partnerships to maximise its contribution to a fossil-free society.

The Board's main items of business in 2018

- Items according to the Rules of Procedure
- The energy transition to a fossil-free future
- New Code of Conduct and Integrity
- New Sustainability Policy, Environmental Policy and Human Rights Policy
- Owner's sustainability analysis of Vattenfall with focus area human rights
- Cost-cutting and cost-cutting targets
- Outsourcing in HR, Finance and Procurement
- Brand strategy
- Financing
- Investments in new wind farms
- District heating investments
- Divestment of the district heating business in Hamburg
- Acquisition items
- Research and development project on fossil-free steel ("HYBRIT")
- Office locations in Berlin and Hamburg as well as Nordic real estate items
- Issues related to the General Data Protection Regulation (GDPR)

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 2018 AGM resolved in favour of increased fees to be paid to the Chairman and the directors on the Board, while the fees to be paid to committee members and chairs were unchanged. Information on directors' fees in 2018 is provided in the Annual and Sustainability Report, Note 42 to the consolidated accounts, Number of employees and personnel costs.

Board committees

The Board has established two committees, which are described below, and has established Rules of Procedure for these. At the statutory board meeting, the Board appointed a number of directors elected by a general meeting for each committee, of whom one serves as committee chair. In addition, the Board can, where necessary, establish other board committees or temporary work groups to address matters in defined areas. No such additional committees or temporary work groups were active in 2018. Information on the committees' composition is provided on pages 80–81.

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

Remuneration Committee

The Remuneration Committee's duties include serving as a drafting body to ensure implementation and compliance with guidelines for remuneration of senior executives. Where applicable, it conducts drafting work for any special reasons that may exist in an individual case to deviate from the guidelines. It also conducts work for the Board's report on remuneration of senior executives in the annual report and, ahead of the Annual General Meeting, monitoring and following up the auditors' review.

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

Evaluation of the Board's and the President's work

The Board evaluates its own work and the President's work once a year as part of efforts to develop the Board's work forms and effectiveness. This evaluation is conducted under the direction of the Chairman and is reported to the Board and the owner. The most recent board evaluation was begun at the board meeting on 29 October 2018. As in previous years, with the support of external consultants, the Board conducted a self-assessment using questionnaires, where the individual board members evaluated both their own and other board members' performance. This evaluation used a questionnaire for

the Board as a whole, which each of the directors and deputy directors responded to, and a questionnaire for evaluation of the individual directors, responded to by the directors elected by a general meeting. The questions addressed Vattenfall's current challenges, management and organisation, the Board's effectiveness, composition and expertise, and its relationship with the owner, the Chairman and the President. The evaluation was reported on and discussed at the board meeting on 6 February 2019. As a follow-up to the written evaluation, the Chairman held discussions individually on a voluntary basis with each of the directors elected by a general meeting and jointly with the employee representatives.

Audit Committee

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 financial risks. The committee prepares Internal Audit's budget, the Internal Audit Charter and the internal audit plan for resolution by the Board. It has the right, on behalf of the Board, to decide on guidelines for other services than auditing that Vattenfall may procure from the Group's auditors.

The Audit Committee meets prior to Vattenfall's publication of interim reports and when warranted by the prevailing conditions. The CFO and head of Internal Audit serve in a reporting role. The company's external auditors attend all regular meetings and report on their observations of the audit. During the entire year 2018, the committee had at least one member with accounting or auditing competence.

The Audit Committee's most important duties are:

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

The Remuneration Committee's most important duties are:

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

Auditor

The Swedish state's ownership policy stipulates that the owner is responsible for election of auditors and that the auditors are to be appointed by the Annual General Meeting. Proposals for election of auditors and for auditors' fees are submitted by the Board and drafted by the company. 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 accounting firm as auditor.

At the 2018 AGM, the accounting firm Ernst & Young AB was re-elected as auditor. The accounting firm appointed Authorised Public Accountant Staffan Landén as auditor-in-charge. He has held this position since the 2015 AGM. Staffan Landén is also the auditor of, among others, Alfa Laval AB, Nederman Holding AB, Semcon AB

and Polygon AB, and is a stock exchange auditor appointed by Nasdaq Stockholm. The auditor has no assignments with companies that affect its independence as auditor of Vattenfall.

The auditor's audit assignment includes a review of the annual report, the consolidated accounts, the corporate governance report and the sustainability reporting. The auditor has access to minutes of board meetings and board committee meetings, as stipulated in the Board's Rules of Procedure. The Audit Committee has approved guidelines for how procurement of other services than auditing shall take place from the auditor. Consulting services provided by Ernst & Young AB from 2016 to 2018 mainly pertained to tax and accounting issues and studies of organisational issues.

At the 2018 AGM the auditor reported on the audit work in 2017 and on its review of compliance with the guidelines for

remuneration of senior executives. The auditor reported on its review of the year-end accounts for 2018 to the entire Board at the board meeting on 6 February 2019 (without the presence of any person from the Executive Group Management), and also reported on its observations at the board meeting on 17 December 2018. In addition, the auditors performed a review of the half-year interim report.

In accordance with the Act on Auditing of State Activities, etc., the Swedish National Audit Office may appoint one or more auditors to participate in the annual audit. No such auditor was appointed in 2018.

The auditor's fees are payable according to an approved invoice. The Group's auditing costs are described in more detail in the Annual and Sustainability Report, in Note 15 to the consolidated accounts, Auditor's fees, and in Note 14 to the Parent Company accounts, Auditor's fees.

CEO and Executive Group Management

The President of Vattenfall AB, who is also Chief Executive Officer (CEO) of the Vattenfall Group, is responsible for the day-to-day administration in accordance with the Swedish Companies Act. The CEO in 2018 was Magnus Hall. An account of the President's remuneration is provided in the Annual and Sustainability Report, Note 42 to the consolidated accounts, Number of employees and personnel costs.

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

overall direction and addresses – within the framework of the CEO's mandate from the Board of Directors – matters of importance for the Group, such as certain investments. In the EGM, the Head of Strategic Development is responsible for sustainability issues. 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. Ahead of decisions made by the President in the EGM or VRC on major investments and transactions, the risk unit performs an inde-

pendent risk analysis, which makes up part of the decision-making documentation.

In addition, the President follows up operations via quarterly Business Performance Meetings. At these meetings, outcomes, forecasts, important events and challenges are analysed (including the status of Vattenfall's sustainability related targets) with the top management of each business unit, to ensure that the organisation is performing in line with set targets and expectations. Yearly deep-dives into sustainability topics (challenges, progress and actions for coming year) are performed with the top management of each Business Area.

Biographical information about the members of the EGM is provided on pages 82–83.

Internal Audit

Internal Audit is an independent and objective function that evaluates, recommends and monitors improvements to the effectiveness of Vattenfall's risk management, internal controls and governance processes throughout the Group. This also applies to compliance with Vattenfall's

governance documents, including the Code of Conduct and Integrity. The Internal Audit function is directly subordinate to the Board of Directors and Audit Committee and performs its work in accordance with an established internal audit plan. Internal Audit's budget, the Internal Audit Charter

and the internal audit plan are drafted by the Audit Committee and decided on by the Board of Directors. The Head of Internal Audit reports administratively to the President and informs the management teams of the business units and other units about audit activities that have been performed.

Internal governance

Principles and strategy

Vattenfall has formulated a strategy with the purpose to Power Climate Smarter Living and enable fossil-free living within one generation.

Vattenfall has four strategic objectives: The company shall be 1) Leading towards Sustainable Consumption and 2) Leading towards Sustainable Production. Achieving this requires 3) High Performing Operations and 4) Empowered and Engaged People. These four strategic objectives have been

broken down into strategic targets. In addition to this are the financial targets decided on by the general meeting. The targets are further described in the Annual and Sustainability Report on page 11. Group scorecards break down the targets, for instance with regard to absolute CO₂ emissions, development of the "CO₂ roadmap" and internal energy savings. Reporting back to the Board is then performed as part of the quarterly reporting.

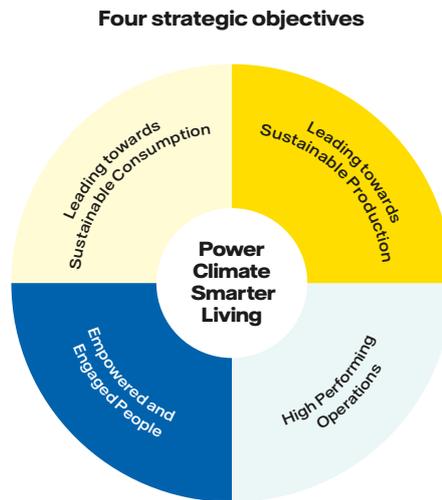
Vattenfall's strategy is well aligned with the UN's Agenda 2030 Sustainable Development Goals and will drive Vattenfall to make an important contribution to the global sustainable development agenda.

Governing business ethics

In 2018 the Board adopted a new Code of Conduct and Integrity, which replaces the previous code of conduct. The new Code builds upon the four Vattenfall principles – open, active, positive and safety –

and contains a number of rules built on the “think first” approach. It includes references to the Vattenfall Management System (VMS), which elaborates on these rules. The Code has been launched in the whole Group and is available on the intranet in several language versions, corresponding to the countries where Vattenfall has business operations. Information about the Code is provided in connection with new hiring and training. An e-learning programme on application of the Code has also been launched, which will be mandatory for all Vattenfall employees.

To ensure that the organisation acts in an ethical and non-corrupt manner, Vattenfall requires all employees to take personal responsibility by acting in accordance with the company’s ethical guidelines, which are set forth in the Code of Conduct and Integrity as well as in internal instructions. Vattenfall believes that competition plays a decisive role for a market to function effec-



tively and has zero tolerance for bribery and corruption. An important step in ensuring this is the training that is conducted within the Vattenfall Integrity Programme, which is described on page 61.

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

Read more about reported incidents in the Annual and Sustainability Report on page 61. Ongoing legal processes are described in Note 40 to the consolidated accounts, Contingent liabilities. Sustainability initiatives and principles that Vattenfall has aligned itself with or supports are listed on page 164.

Three lines of defence

Vattenfall applies the “three lines of defence” model, for management and control of risks in general. The model secures the principle of segregation of duties and includes different roles for risk ownership, control and independent reporting and assurance. In particular, it is applied in the internal control of the financial reporting and in the integrity organisation, as described further below.

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

The second line of defence consists of, among others, the risk organisation, which is headed by the Chief Risk Officer (CRO). The CRO is accountable for the risk management framework and is responsible for securing risk governance and risk control. Included in this responsibility are processes related to, among other things, new products and certain contracts with long durations. The CRO provides informa-

tion on a regular basis to the Vattenfall Risk Committee and to the Executive Group Management as well as to the Board and the Board’s audit committee.

The third line of defence is made up of internal and external audit. Internal audit is an independent and objective function that oversees and evaluates the first and second lines of defence.

Vattenfall Management System

The most important internal rules for governing Vattenfall are found in the Vattenfall Management System (VMS). The VMS is the Group framework that ensures that Vattenfall adheres to formal requirements as well as to requirements made by the Board, the President, the business operations and the Staff Functions. It covers the governance that is necessary in Vattenfall, while local management systems cover specific business governance. The VMS is documented in binding governance documents, consisting of policies and instructions. Certain central documents

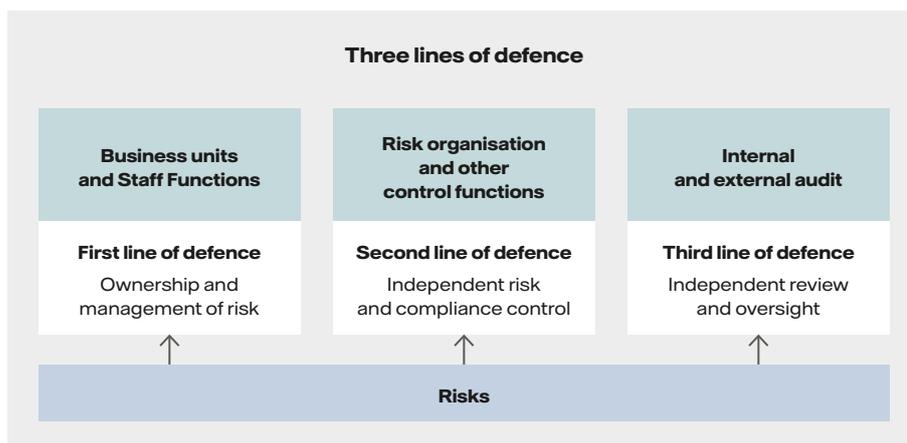
are approved by the Board of Directors of Vattenfall AB. The VMS is an integrated management system that applies for the entire Vattenfall Group, with the limitations that may arise from legal requirements, such as regarding the unbundling of the electricity distribution business. Special routines are in place to ensure adherence to the management system also by subsidiaries.

The policies lay out the company’s direction and exist in the areas of

- remuneration,
- dam safety,
- nuclear safety and
- risk

as well as in the area of Sustainability, where Vattenfall’s governance is based on the sustainability policy along with a number of other policies:

- The environmental policy. This was updated during 2018 and now clearly states Vattenfall’s commitment to become climate neutral, to protection of nature and biodiversity and to sustainable use of resources. The environmental policy also states the principles for how Vattenfall shall perform its business within these areas.
- The health and safety policy.
- The human rights policy, which was approved in 2018 and addresses Vattenfall’s commitment to respecting human rights. The policy identifies Vattenfall’s salient human rights risks and describes how the company identifies, assesses, and manages its human rights risks.
- The Code of Conduct and Integrity, which is described above.
- The Code of Conduct for Suppliers, which addresses issues such as human



rights, work conditions, the environment and anti-corruption, based on the UN Global Compact. Vattenfall recognises its growing importance as an actor in a global value chain. With millions of customers, 25,000 suppliers and countless other stakeholders, Vattenfall's activities have impacts far beyond the boundaries of the Vattenfall organisation. Therefore, Vattenfall takes responsibility throughout the value chain. The Code of Conduct for Suppliers forms part of this work.

- Also, since 2017, the Board issues a general statement on Vattenfall's tax policy. The Board of Directors approves all policies except the policies on dam safety, nuclear safety and health and safety. However, within these areas, regular reporting takes place to the EGM or to the Board of Directors. The policies are accessible to employees on the intranet and are also communicated externally. Vattenfall does not require any acknowledgement by employees or management that they have read the policies.

The content of the company's policies is concretised in instructions within the VMS, such as in special instructions for matters concerning competition law and for countering bribery and corruption. For instance, during 2018, work was ongoing on concretising issues concerning the environment, health and safety, and the work environment based on the updated policies. Instructions in the VMS can also include concretisations of the content of the Board's Rules of Procedure, such as with respect to the issuance of information as well as allocation of responsibilities and risk mandates. Instructions shall be

implemented in the relevant organisation and acknowledged by the defined target group. Implementation and adherence to the instructions is regularly followed up, and identified issues are addressed.

Vattenfall's Environmental Management System is integrated in the VMS. At year-end 2018 nearly 100% of Vattenfall's production and distribution portfolios had certified environmental management systems in accordance with ISO 14001. In addition, all the Group's business units are certified for occupational health and safety in accordance with OHSAS 18001 or ISO 45001, and six business units have certified energy management systems in accordance with ISO 50001.

In 2018 continuing updates of the VMS were conducted. The evaluation with respect to knowledge about and compliance with the VMS has continuously been in focus, for instance through the annual survey and Subject Area Review, which is a self-assessment within certain areas of the VMS. Results from this evaluation are reported to the EGM and to the Audit Committee. In addition, self-assessments are conducted via the Staff Functions for certain stipulations within the VMS, including matters concerning integrity and competition law. During 2018 a routine was established to ensure that all VMS content is reviewed and updated at least every other year.

Organisation

Vattenfall's organisational structure comprises six Business Areas: Heat, Wind, Customers & Solutions, Generation, Markets and Distribution. The Business Areas are organised in five operating segments,

where Generation and Markets make up a single operating segment. The central Staff Functions support and direct the business activities. The organisational structure has been formed to reflect Vattenfall's overall strategy for the coming years. For further information see pages 18–23.

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

Integrity organisation

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

Integrity work at Vattenfall is organised according to the three lines of defence principle:

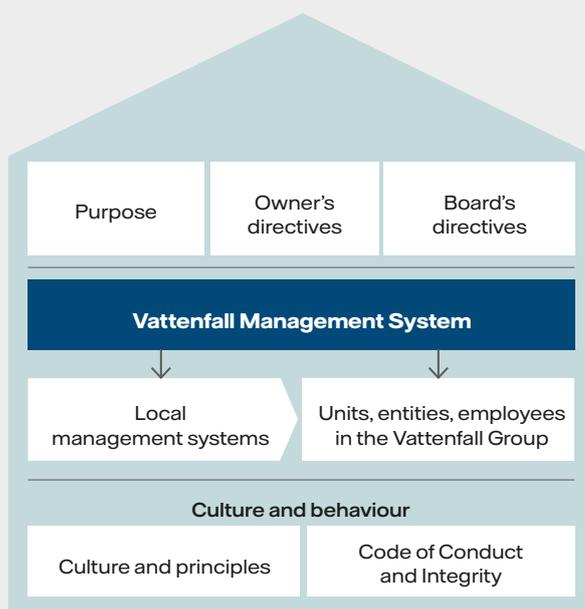
1. Ownership: The line organisation, which is responsible for compliance with laws and regulations within the unit
2. Control and advice: The integrity organisation, with reporting to the Group's General Counsel
3. Quality assurance: The Internal Audit unit

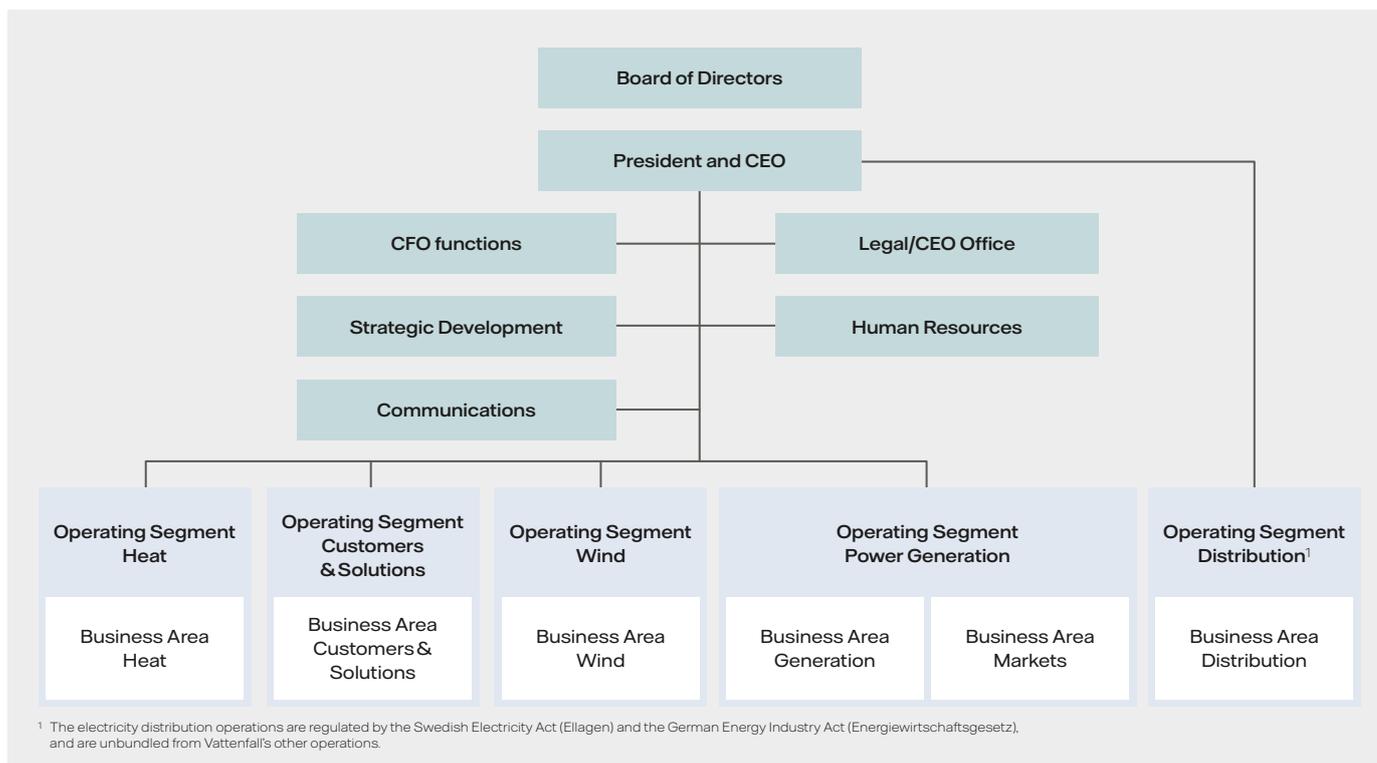
The Integrity organisation's area of responsibility covers competition matters, bribery and corruption, conflicts of interest, inside information, awareness of Vattenfall's Code of Conduct and Integrity, and coordination of Vattenfall's whistleblowing function.

Within its area of responsibility, the Integrity organisation supports Vattenfall in identifying, avoiding, managing and monitoring the risk for non-compliance with laws, other legal stipulations, regulations, norms and codes of conduct that are relevant for operations. Work within the Integrity organisation is carried out in accordance with an annual plan, which is approved by an Integrity Committee consisting of EGM members and others. The day-to-day work is aligned at meetings within the Integrity organisation and via regular follow-ups. The annual integrity work is summarised in an integrity report to the Board.

Current integrity issues in 2018 are described in more detail in the Annual and Sustainability report on pages 60–61.

Structure for the VMS and other governing rules





Guidelines for remuneration of senior executives

Vattenfall AB applies the Swedish Government Offices' "Guidelines for remuneration and other terms of employment for senior executives in state-owned companies", decided by the government on 22 December 2016. These guidelines are available on the Government Offices' website: regeringen.se.

In line with previous years, the 2018 AGM approved Vattenfall's application of the guidelines with the deviation that instead of the definition of senior executive in the Swedish Companies Act, senior executives shall be defined on the basis of whether they have a significant impact

on the Group's earnings, through use of the International Position Evaluation (IPE) model. Managers with positions of IPE 68 and higher are to be considered as senior executives. The Board's explanation for this deviation is stated in the 2017 Annual and Sustainability Report, on page 84.

Based on the AGM's definition, in 2018 a total of 12 persons, excluding the President, were covered by the stipulations on contracts with senior executives. Actions taken with respect to agreements with these executives were continuously reported to the Remuneration Committee and the 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 42 to the consolidated accounts, Number of employees and personnel costs.

The Board and Remuneration Committee's report on compliance with the guidelines for remuneration of senior executives set by the AGM is posted on vattenfall.se (English translation is available on vattenfall.com). The proposed guidelines ahead of the 2019 AGM are shown on page 84.

Internal control over financial reporting

This section describes the most important elements in Vattenfall's system of internal control and risk management in connection with financial reporting, as prescribed by the Swedish 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. Vattenfall's risks and risk management are further described in the Annual and Sustainability Report on pages 62-69.

Control environment

The control environment is based on the allocation of authority between the Board and the President, which is set forth in

the Board's Rules of Procedure, along with the reporting requirements made by the Board. The Board has also adopted Vattenfall's Code of Conduct and Integrity, which lays out the overarching rules governing employee conduct.

The Board of Directors has overarching responsibility for internal control over financial reporting, according to the Swedish Companies Act and the Code. In this context the Board shall ensure that the company's organisation is structured in such a way that the bookkeeping, treasury management and the company's financial conditions in general are controlled in a satisfactory manner.

The Board's audit committee conducts drafting work for the Board on matters

related to internal control over financial reporting and makes recommendations and proposals to ensure the reliability of reporting. The committee also informs the Board about the results of the audit and about the ways in which the audit contributed to the reliability of the financial reporting and about which function the committee has had.

The VMS (described on page 76) contains steering rules for all identified material areas, including roles and responsibilities, authority and risk mandates, decision-making processes, risk management, internal control, and ethics and integrity issues. The VMS lays out the "grandfather principle" and "four eyes principle" for decision-making. The VMS also stipulates

which decision-making, oversight and advisory bodies exist within the Group, on top of those required by law.

Vattenfall has an internal financial control (IFC) process, organised in Group Finance and whose overall purpose is to ensure that controls are in place in the financial reporting but also in certain non-financial reporting.

Risk assessment

The Board addresses the Group’s risk assessment and risk management process for the financial reporting 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.

A continuous Enterprise Risk Management (ERM) process makes it possible to quantify and compare both financial and non-financial risks. The risk department reports the findings in the ERM process to the Executive Group Management, to the Vattenfall Risk Committee and ultimately to the Audit Committee and the Board.

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

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

Control activities and monitoring

The Board monitors and addresses the Group’s financial situation at every regular

board meeting, with a starting point from the financial report submitted by the President and the Chief Financial Officer.

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

The Executive Group Management holds regular follow-up meetings with the heads of the Business Areas and Staff Functions regarding the financial outcome. Operations are followed up on a quarterly basis via Business Performance Meetings.

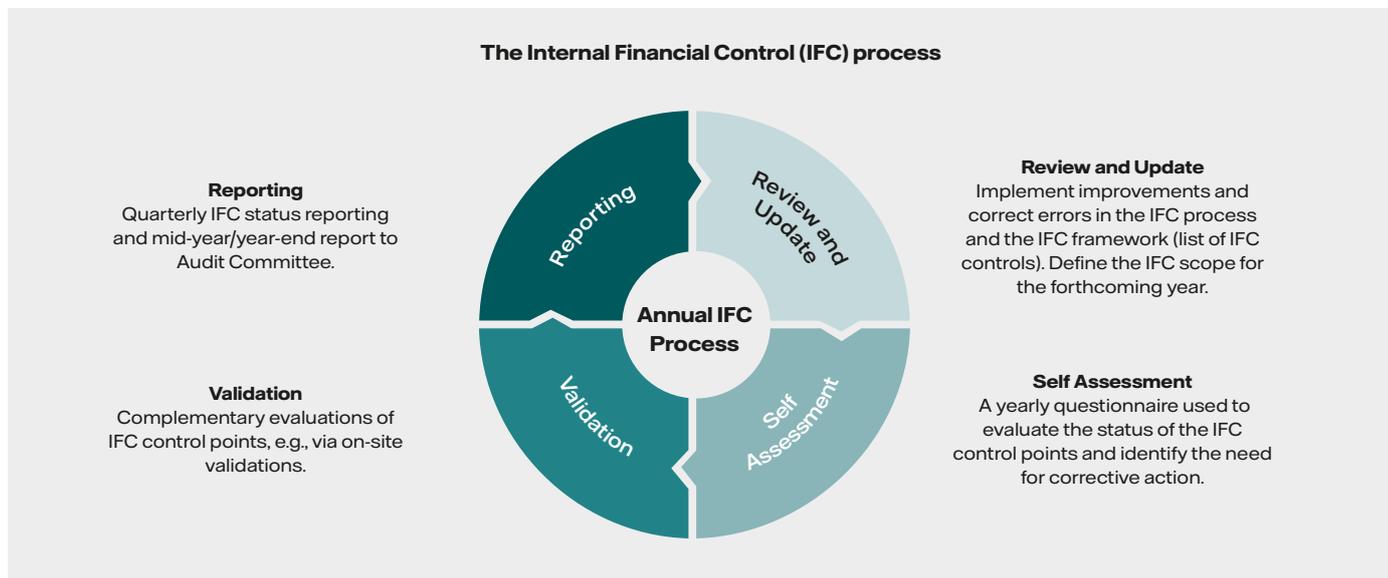
Internally, Vattenfall applies the “three lines of defence” model (described on page 76) for internal control over financial reporting. In this context, the second line of defence includes the Group Internal Financial Control Officer (IFCO), who is responsible for monitoring and control of risks in the financial reporting. The Group IFCO is responsible for the IFC process, which aims to strengthen the governance structure and effectiveness of controls. Continuous improvements to the IFC process are ensured through an annual evaluation and updating process. Information about ineffective controls is provided to internal and external audit. Each incidence of ineffectiveness is risk-assessed in consultation with the first line of defence. Information about these risks is provided to the risk organisation.

The internal framework for internal control includes processes for self-assessments, monitoring, reporting and improvement of control activities in order to prevent, discover and correct errors in the financial reporting. Written confirmation of adherence to internal and external stipulations is part of these processes. This is done in particular through internal Representation Letters to management.

Information and communication

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

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



Board of Directors



LARS G. NORDSTRÖM (1943)

Chairman of the Board

Education: Law studies

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

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

Elected: 2011

Committee assignment: Member of the Remuneration Committee

Board meeting attendance: 10/10

Committee meeting attendance:

Remuneration Committee: 3/3



FREDRIK ARP (1953)

Board member

Education: B. Sc. Econ., Honorary Doctor of Economics

Other assignments: Chairman of Nolato AB and Bravida Holding AB. Board member of Swedfund

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

Elected: 2014

Committee assignment: Audit Committee chair

Board meeting attendance: 9/10

Committee meeting attendance:

Audit Committee: 5/5



VIKTORIA BERGMAN (1965)

Board member

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

Other assignments: Chairman Galber AB. Board member of Trianon AB

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

Elected: 2015

Committee assignment: Member of the Remuneration Committee

Board meeting attendance: 10/10

Committee meeting attendance:

Remuneration Committee: 3/3



HÅKAN ERIXON (1961)

Board member

Education: B. Sc. International Business Administration and Economics

Other assignments: Chairman of Capacent Holding AB and Hemnet Group AB. Board member of Alfvén & Didrikson Invest AB and Opus Group AB

Previous positions: Chairman of Orio AB (publ) (formerly Saab Automobile Parts AB) (2012-2017). Member of the Nasdaq OMX Stockholm AB Listing Committee (2010-2016). 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) and Vasakronan AB (2007-2008). Various positions with UBS Investment Bank Ltd, London (1997-2007), including Vice Chairman of the Investment Banking Division. Various positions with Merrill Lynch International Ltd, London (1992-1997). Kansallis-Osake-Pankki, London (1991-1992). Citicorp Investment Bank Ltd, London (1989-1991)

Elected: 2011

Committee assignment: Member of the Audit Committee

Board meeting attendance: 10/10

Committee meeting attendance:

Audit Committee: 5/5



TOMAS KÅBERGER (1961)

Board member

Education: M. Sc. Engineering Physics. Ph. D. Physical Resource Theory. Associate professor (Docent), Environmental Science

Other assignments: Industrial Growth Executive InnoEnergy. Executive Board Chairman of Renewable Energy Institute, Tokyo. Board member of Sustainable Energy Angels AB and The Research Council of Norway. Senior Advisor GEIDCO, Beijing. Affiliate professor at Chalmers University of Technology

Previous positions: Professor, Chalmers University of Technology, Industrial Energy Policy (2012-2018). Director General, Swedish Energy Agency (2008-2011). Professor, Lund University, International Sustainable Energy Systems (2006-2008)

Elected: 2015

Committee assignment: Member of the Audit Committee

Board meeting attendance: 10/10

Committee meeting attendance: Audit Committee: 5/5



JENNY LAHRIN (1971)

Board member

Education: Master of Laws. Executive MBA

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

Other assignments: Board member of AB Göta kanalbolag

Previous positions: Board member of SOS Alarm Sverige AB (2015-2016). Swedavia AB (2012-2015) and 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)

Elected: 2013

Committee assignment: Member of the Audit Committee

Board meeting attendance: 10/10

Committee meeting attendance: Audit Committee: 5/5



FREDRIK RYSTEDT (1963)

Board member

Education: M. Sc. Business and Economics

Current position: Executive Vice President and CFO, Essity Aktiebolag (publ)

Other assignments: Board member of Vinda International Holdings Limited

Previous positions: Executive Vice President and Chief Financial Officer, Country Senior Executive, Nordea Sweden (2008-2012). Chief Financial Officer Electrolux Group (2001-2008). Chief Financial Officer (2000-2001) and Head of Business Development (1998-1999) Sapa Group. Various positions in the Electrolux Group (1989-1998), including as Vice President and Head of Mergers & Acquisitions (1996-1998), Director of Mergers & Acquisitions (1995-1996) and Managing Director of Svensk Inkassoservice, an Electrolux finance company (1992-1994)

Elected: 2017

Committee assignment: Member of the Audit Committee

Board meeting attendance: 9/10

Committee meeting attendance: Audit Committee: 5/5



ÅSA SÖDERSTRÖM WINBERG (1957)

Board member

Education: B. Sc. Economics

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

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

Elected: 2013

Committee assignment: Remuneration Committee chair

Board meeting attendance: 9/10

Committee meeting attendance:

Remuneration Committee: 3/3



ROBERT LÖNNQVIST (1979)
Employee representative
Education: 3-year upper secondary degree in electrical installation. Further education in project management, labour law and health & safety
Current position: Employee representative for SEKO Facket för Service och Kommunikation. Vattenfall employee since 2007, currently as Project manager at Vattenfall Services Nordic AB
Other assignments: Member of the European Works Council. Assignments for Seko
Elected: 2017
Board meeting attendance: 10/10



ROLF OHLSSON (1961)
Employee representative
Education: Mechanical M. Sc., KTH Royal Institute of Technology
Current position: Employee representative for Akademikerrådet at Vattenfall. Employed at Forsmarks Kraftgrupp AB since 1998, currently as full-time representative for Akademikerna
Other assignments: Employee representative on Forsmarks Kraftgrupp AB's board. Chairman of Akademikerrådet at Vattenfall
Elected: 2017
Committee assignment: Member of the Audit Committee
Board meeting attendance: 10/10
Committee meeting attendance: Audit Committee: 3/3



JEANETTE REGIN (1965)
Employee representative
Education: Secondary school diploma and two-year education in healthcare
Current position: Employee representative for Unionen. Currently head of customer service/office services for Gotlands Energi AB
Elected: 2011
Board meeting attendance: 9/10



LENNART BENGTSSON (1958)
Employee representative (deputy)
Education: Two-year secondary school degree in mechanics and network technology training in IT
Current position: Employee representative for SEKO Facket för Service och Kommunikation. Vattenfall employee since 1979, currently as IT technician
Elected: 2018
Board meeting attendance: 8/8



JOHNNY BERNHARDSSON (1952)
Employee representative (deputy)
Education: Engineering studies with supplementary coursework in economics
Current position: Employee representative for Unionen. Vattenfall employee since 1970, currently in Human Resource Service at Vattenfall Business Services
Other assignments: Chairman of the European Works Council
Elected: 1995
Board meeting attendance: 10/10



CHRISTER GUSTAFSSON (1959)
Employee representative (deputy)
Education: Four-year education in technology
Current position: Employee representative for Ledarna (the Association of Management and Professional Staff). Vattenfall employee since 1986, currently in the staff function for the engineering department, Forsmarks Kraftgrupp AB
Other assignments: Representative for Energy & Technology, Confédération Européenne des Cadres (for energy issues)
Elected: 2013
Board meeting attendance: 10/10

Directors who left the Board in 2018:
 The employee representative Ronny Ekwall, elected in 1999, resigned in connection with the Annual General Meeting on 25 April.

Executive Group Management



MAGNUS HALL (1959)

President and CEO

Vattenfall employee since: 2014

Education: M. Sc. Industrial Engineering and Management

Previous positions: President and CEO of the forestry group Holmen

Other assignments: Chairman of NTM AB and Vice President of Eurelectric

In 2018 Magnus Hall did not have any significant shareholdings in companies with which Vattenfall has business relations.



KERSTIN AHLFONT (1971)

Senior Vice President, Human Resources

Vattenfall employee since: 1995

Education: M. Sc. Eng.

Previous positions: Head of Finance Region Nordic (2014-2015), Vice President Controlling (2012-2013), Acting HR Director (2011-2012), Head of Project Management Office (2010-2011), Business Group Pan Europe (2009-2010), various positions and manager positions within Vattenfall (1995-2009)



ANNA BORG (1971)

Senior Vice President, Chief Financial Officer

Vattenfall employee since: 2017 and 1999-2015

Education: Master's in Economics and Political Science

Previous positions: Senior Vice President, Business Area Markets, Vattenfall (2017); Senior Vice President, Nordic Klarna (2015-2017); Vice President, Marketing and Sales Nordic, Vattenfall (2013-2015); Vice President B2C Sales Europe, Vattenfall (2011-2013); Vice President, Sales Nordic, Vattenfall (2009-2011). Various management positions in Strategy, Business Development and Project Management, Vattenfall (2003-2009). Head of Strategy and Business Development, Vattenfall Trading (1999-2003)

Other assignments: Board member of Gunnebo AB



GUNNAR GROEBLER (1972)

Senior Vice President, Head of Wind Business Area

Vattenfall employee since: 1999

Education: Mechanical Engineering

Previous positions: Vice President, Business Unit Renewables, Region Continental/UK, Vattenfall (2014-2015). Head of Business Unit Hydro Germany, Vattenfall (2011-2013). Head of Corporate Development & M&A, Business Group Central Europe, Vattenfall Europe AG (2009-2010). Head of Mergers & Acquisitions, Business Group Central Europe, Vattenfall Europe AG (2008-2009). Head of Corporate Restructuring, Vattenfall Europe AG (2007-2008). Head of Purchasing, Vattenfall Europe Hamburg AG (2005-2007)



ANNE GYNNERSTEDT (1957)

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

Education: LL. B.

Vattenfall employee since: 2012

Previous positions: General Counsel, Secretary to the Board and member of executive management of SAAB AB (2004-2012). General Counsel and member of executive management of the Swedish National Debt Office (2002-2004). Corporate Legal Counsel, SAS (1987-2002)

Other assignments: Board member of Swedish Space Corporation



MARTIJN HAGENS (1971)

Senior Vice President, Business Area Customers & Solutions

Vattenfall employee since: 2003

Education: M. Sc. Industrial Engineering and Management

Previous positions: Head of Heat Continental/UK, Vattenfall (2014-2015). Head of Customer Service, Vattenfall (2011-2013). Head of Customer Care Centre, Nuon (2008-2010). Program Director Unbundling, Nuon (2006-2007). Nuon Consultancy Group & Lean Competence Center, Nuon (2005-2006). Head of Customer Care B2B, Nuon (2003-2004). Management Consultant, Accenture (1996-2002)

Other assignments: COO Nuon Netherlands



TUOMO HATAKKA (1956)

Senior Executive Vice President, Business Area Heat

Vattenfall employee since: 2002

Education: B. Sc. Economics, MBA

Previous positions: Head of Business Division Production (2010-2013). Head of Business Group Central Europe (2008-2010). Head of Business Group Poland (2005-2007)

Other assignments: Board member of PKP Energetyka S.A.



NIEK DEN HOLLANDER (1973)

Senior Vice President, Business Area Markets

Vattenfall employee since: 2014

Education: Master's in Financial Econometrics, MBA

Previous positions: Head of Business Unit Trading, Vattenfall Energy Trading GmbH (2014-2017). Head of Trading, Statkraft Markets GmbH (2008-2014). Head of Long-term Energy Management, Statkraft Markets B.V. (2006-2006). Head of Asset Management, Statkraft Markets B.V. (2005-2006). Various trading positions, Statkraft Markets B.V. (2002-2005). Various trading positions in the financial sector (1997-2002)



KARIN LEPASOON (1968)
**Senior Vice President,
Group Communications**
Vattenfall employee since: 2016
Education: LL.M. in Swedish law and an LL.M. in EU law
Previous positions: Director of Sustainability, Communications and HR, Nordic Capital (2015–2016). Executive Vice President and member of the Group Senior Executive Team (full member since 2008), Skanska (2006–2015), Vice President Group Communications, Gambro (1999–2006)
Other assignments: Board member of Energiföretagen Sverige – Swedenergy – AB



ANDREAS REGNELL (1966)
**Senior Vice President,
Strategic Development**
Vattenfall employee since: 2010
Education: B. Sc. Econ.
Previous positions: Head of Nordic Business Strategy (2014–2015), Head of Strategy and Sustainability (2010–2013), Senior Partner and Managing Director, Managing Partner of Nordic Region, The Boston Consulting Group (1992–2010), Analyst and Account Manager, Citibank (1989–1992)
Other assignments: Board member of Svevia AB, Northvolt AB and Hybrit AB



TORBJÖRN WAHLBORG (1962)
**Senior Executive Vice President,
Business Area Generation**
Vattenfall employee since: 1990
Education: M. Sc. Eng.
Previous positions: Head of Business Region Nordic (2014–2015), Head of Business Division Nuclear (2012–2013), Head of Business Division Distribution and Sales (2010–2012), Head of Business Group Nordic (2010), Positions in Vattenfall's Polish operations (1997–2010), including as country manager (2008–2009)
Other assignments: Board member of the Confederation of Swedish Enterprise, Chairman Energiföretagens Arbetsgivareförening (EFA) AB

AGM proposal

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

The Annual General Meeting resolved on 25 April 2018 to adopt the Board's proposed guidelines for compensation of senior executives. The Board proposes that the 2019 Annual General Meeting resolves to adopt the Board's proposal which corresponds to the government's guidelines for terms of employment for senior executives of state-owned companies, adopted by the government on 22 December 2016 (www.regeringen.se), with the deviation set out below.

In accordance with a resolution by the Annual General Meeting on 25 April 2018, Vattenfall deviates from the definition of senior executive of a subsidiary. Instead of using the definition of senior executive set forth in the Swedish Companies Act, senior executives shall be defined based on whether they have significant influence on the Group's earnings. Through application of the International Position Evaluation (IPE) model, executives with positions of IPE 68 and higher shall be considered to be senior executives.

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 2018 Annual General Meeting entails use of a generally accepted ranking model instead of the definition of senior executive of a subsidiary in the Swedish Companies Act. The Board is of the opinion that the following, special reasons exist for deviating from the guidelines.

Like other international groups, Vattenfall governs its operations from a commercial perspective and not according to the legal company structure. For commercial and legal reasons, the Vattenfall Group has approximately 300 subsidiaries. Through application of the government's guidelines for subsidiaries, a very large number of executives would be considered to be senior, without them having any significant influence on the Group's earnings.

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

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

Proposed distribution of profits

The Annual General Meeting has at its disposal retained profits, including the profit for the year, totalling SEK 48,617,698,593.

The Board of Directors and President propose that the profits be distributed as follows:

| | |
|---------------------------------------|--------------------|
| To be distributed to the shareholder: | SEK 2,000,000,000 |
| To be carried forward: | SEK 46,617,698,593 |

The proposed distribution corresponds to a dividend of SEK 15.19 per share. The dividend is proposed for payment on 25 April 2019.

Statement by the Board of Directors pursuant to the Swedish Companies Act, Chapter 18, Section 4

Based on the Parent Company's and Group's financial position, earnings and cash position, the Board of Directors is of the opinion that the proposed distribution of profits will not lead to any material limitation of the Parent Company's or Group's ability to make any necessary investments or to meet their obligations in the short and long term. In view of the above, the Board of Directors finds the proposed discretionary dividend, totalling SEK 2,000,000,000, to be carefully considered and justified, and that the proposal adheres to the principles of the adopted dividend policy (page 11).

The Board of Directors' and the President's assurance upon signing the Annual and Sustainability Report for 2018

The undersigned certify that the consolidated accounts and the Annual Report have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Commission, for application within the EU, and generally accepted accounting principles, respectively, and give a true and fair view of the Parent Company's and the Group's financial position and earnings, and that the Administration Report for the Parent Company and the Group presents a fair overview of the development of the Parent Company's and the Group's operations, financial position and earnings and describes significant risks and uncertainties that the companies in the Group face. In addition, the undersigned certify that the sustainability data and the statutory sustainability report according to the Swedish Annual Accounts Act Chapter 6 11§, as defined in the GRI Index on pages 164–167, has been prepared in accordance with the GRI Standards, and has been adopted by the Board of Directors.

Solna, 19 March 2019

Lars G. Nordström, Chairman of the Board

Fredrik Arp

Viktoria Bergman

Håkan Erixon

Tomas Kåberger

Jenny Lahrin

Robert Lönnqvist

Rolf Ohlsson

Jeanette Regin

Fredrik Rystedt

Åsa Söderström Winberg

Magnus Hall, President and CEO

Our auditor's report was submitted on 19 March 2019

Ernst & Young AB

Staffan Landén, Authorised Public Accountant

Auditor's Report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Vattenfall AB (publ) except for the corporate governance statement on pages 70–84 for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 2–5, 8–11, 62–147 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 70–84. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

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

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

Key Audit Matters

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

Key audit matters, the Group

Valuation of Tangible and Intangible assets

| Description of the matter | How this matter has been reflected in the audit |
|--|--|
| <p>In the Group's statement of financial position as per December 31, 2018 reported value of fixed tangible and intangible assets amounts to SEK 256,883 million, which equals 55.5 % of the Group's total assets. Of the carrying value, SEK 13,791 million was goodwill. As described in note 9 the Company is making assessments throughout the year for any indication that an asset may have decreased in value. If there is an indication of this kind, the asset's recoverable amount is calculated in order to determine whether there is any need for impairment. For goodwill the recoverable amount is calculated at least annually or as soon as there is an indication that an asset has decreased in value.</p> <p>The Company has grouped its individual assets to the smallest group of assets that generates cash inflows that are largely independent from cash inflows from other assets. Recoverable amount is determined by calculating value in use and in Note 9 the main assumptions, such as future market prices of electricity, fuel and CO₂ emission allowances used when calculating the value in use, are described. Further, in Note 9 it is described that the calculation of value in use for cash-generating units with finite useful lives are based on forecasts of the useful life of the respective asset. Cash flow projections for cash-generating units with infinite useful lives are based on the business plan for the coming five years. Cash flows after the five year-period are calculated based on a growth factor of 0–0.5 %. Future cash flows have been discounted to value in use using a discount rate as described in Note 9.</p> <p>Goodwill impairment is never reversed. Impairment of other assets is reversed if there has been a significant and lasting change in the assumptions used to calculate the recoverable amount.</p> <p>In 2018, the company wrote down a total of SEK 136 million in Business Area Wind. No write-down reversals have occurred during the year.</p> <p>Changes in assumptions may have a significant impact on the calculation of value in use which imply that the determination of assumptions is of significant importance to the calculation. Hence, we have assessed the valuation of tangible and intangible assets as a key audit matter in the audit.</p> | <p>In our audit we have evaluated the Company's process to develop and perform impairment tests. We have assessed how cash-generating units, based on established criteria's, are identified and compared to how the Company internally monitors its business. We have involved valuation specialists to assist us in the assessment of the Company's valuation and calculation methods, assessment of reasonableness in used assumptions, sensitivity analysis of changed assumptions, comparisons with historical results and the accuracy in previous forecasts. Each cash-generating units' discount rate and long-term growth have been evaluated through comparisons with other companies within the same industry and current market rates. We have also assessed whether the information disclosed is appropriate.</p> |

Provision for future expenses of nuclear power operations

| Description of the matter | How this matter has been reflected in the audit |
|---|--|
| <p>In the Group's statement of financial position as per December 31, 2018 the provisions for future expenses of nuclear power operations amounts to SEK 77,688 million. As described in note 31 the provisions pertain to future obligations for handling the decommissioning of the Company's nuclear power plants in Sweden and Germany as well as for handling nuclear waste. The provisions are based on forecasts for future expenditures that cover a period of up to 50 years. These forecasts include assessments with significant uncertainties, such as for expenditures for the disposal of nuclear fuel and radioactive waste as well as for the decommissioning of reactor plants. The estimated expenditures have thus been calculated based on a discount rate.</p> <p>Calculation of future expenses for decommissioning of nuclear power operations include a number of assumptions determined by the Company and changes in these assumptions may have a significant impact on the provision amount. Hence, we have assessed the recognition of provisions for future expenses of nuclear power operations as a key audit matter in the audit.</p> | <p>In our audit we have evaluated the Company's process to calculate the amount of the provisions. We have evaluated the Company's calculation methods, obtained assessments by third parties, assessed the reasonableness in used assumptions and sensitivity analysis of changed assumptions and performed comparisons with historical results and the accuracy in previous forecasts. The reasonableness of used discount rate has been evaluated through comparisons with other companies within the same industry and current market rates. We have also assessed whether the information disclosed is appropriate.</p> |

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1, 6-7, 12-61 and 153-181. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty

exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

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

Report on other legal and regulatory requirements Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Vattenfall AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor 's responsibility

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

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

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

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

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

The auditor 's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 70-84 has been prepared in accordance with "The State's Ownership Policy and guidelines for companies with state ownership" ("the Ownership Policy").

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

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-7 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, 19 March 2019
Ernst & Young AB

Staffan Landén
Authorized Public Accountant