

GOVERNANCE AND CSR MANAGEMENT

The parent company of the Vattenfall Group, Vattenfall AB, is a Swedish public limited liability company with its registered office in Stockholm, Sweden. Vattenfall AB is subject to the provisions of the Swedish Companies Act (Aktieföretagslagen). This means that the company has a board of directors that is appointed by the Annual General Meeting and which consists of non-executive directors. According to law, the board also includes employee representatives. The board of directors in turn appoints the CEO, who is also the President of Vattenfall AB and responsible for attending to the day-to-day management of the company pursuant to guidelines and instructions issued by the board of directors.

The Group's corporate governance is based on applicable Swedish and foreign laws and regulations as well as the companies' Articles of Association and other documents, such as the Vattenfall Management System. Where applicable, Vattenfall also complies with the rules and regulations for companies with shares listed on Nasdaq OMX Stockholm (the Stockholm Stock Exchange).

Vattenfall adheres to the Swedish Code of Corporate Governance and considers it as one of several important sets of governing regulations for external reporting and communication. Vattenfall also adheres to the Swedish state's ownership policy. The departures that Vattenfall makes from the Code are mainly due to the company's ownership structure – Vattenfall has only one owner, while the Code is written primarily for listed companies with broad ownership.

Governance and direction of CSR

Vattenfall does not have a separate CSR organisation. CSR issues are governed at the Group level as an integrated aspect of all other business matters. The overall strategic direction is set at Group level, and the Business Groups are managed through the strategy planning and business planning processes, in which requirements are formulated, and through the Group steering documents. The day-to-day running of operations is decentralised.

Overall CSR responsibility at the Group level rests with Vattenfall's CEO. The Group Functions shall monitor the Business Groups with regard to the Group Functions' respective areas of functional responsibility. Each Group Function has been assigned authority and responsibility throughout the entire Vattenfall Group within its area of expertise and responsibility. As concerns financial compliance, the Compliance Officer within Group Function Finance has specific responsibility for compliance in relation to accounting and to parts of the Vattenfall Management system. The Compliance Officer thereby requires representation letters from the line organisation. The line organisation reports all major disputes to the Legal Affairs Group Function regularly and on specific cases.

In 2008, work was started on implementation of a Group-wide whistle blowing system. A whistle blowing system has been implemented in the German organisation and will be fully implemented in the other parts of the Group in 2009. The concept of the system is that all employees, managers, consultants, contractors and suppliers who want to report a violation of law or a breach of certain internal regulations can contact one of Vattenfall's external ombudsmen. Such local ombudsmen will consist of lawyers acting according to professional discretion, and will exist in all of Vattenfall's core countries. To the extent the informant gives his/her consent, the ombudsman will forward information to the local compliance steering group. At the Group level, a Group Compliance Committee has been established and is responsible for communication and co-ordination of compliance issues, identification of necessary actions, recommendations for better practice and analysing whistle-blowing cases.

A comprehensive disclosure of how Vattenfall is governed (with respect to GRI-indicators 4.1–4.3, 4.5, 4.7–4.8, 4.10) can be found in the 2008 Annual Report and on the corporate governance section on www.vattenfall.com.

Recommendations to highest governance body (4.4)

The shareholder's direct influence over the company is exercised at the Annual General Meeting, which is the highest decision-making body in the company. Since 2005, Vattenfall AB holds open Annual General Meetings. The reason for this is to offer not just the owner's representative but also the general public the opportunity to attend and pose questions to company management directly.

The Swedish government has established a separate division for state enterprises within the Swedish Ministry for Industry, Employment and Communications that, like other owners, governs and issues recommendations by different means, such as:

- Nomination of the Board of Directors, which is the highest governance body;
- Adoption of the Articles of Association, which stipulate the framework for Vattenfall AB's operations;
- Nomination of auditors;
- Approval of principles for compensation and other employment terms and conditions for board members and senior executives.

In order to clarify the Swedish state's view on certain issues, and to attain unity among the administered companies, the Swedish government has established a State ownership policy, which forms part of the Swedish government's annual report on state-owned companies (a link to this policy can be found in the corporate governance section of www.vattenfall.com). The policy regulates the Annual General Meeting, the board nomination process, the composition of the board, assessment of the board's work, directors' fees, committee work, the appointment of auditors and the responsibility of the board, among other things. The policy requires Vattenfall AB to apply the Swedish Code of Corporate Governance, however with some exceptions, as described in Vattenfall's Corporate Governance Report.

The Swedish government has furthermore established guidelines for external reporting, guidelines for terms of employment for senior executives, rules of procedure for the board and for managing certain information-related issues. In addition, the Swedish government has identified certain crucial policy issues concerning social responsibility that state-owned companies shall adhere to. This applies to such areas as equality, the environment, diversity, the work environment and the company's role in society.

Board processes to ensure conflicts of interest are avoided (4.6)

No specific processes exist, however, the rules on conflicts of interest in the Swedish Companies Act apply. For further information, see Vattenfall's 2008 Annual Report and www.vattenfall.com.

Board procedures for management of sustainable performance (4.9)

As stated in the board's rules of procedure, the board must annually discuss the Group's strategic plan and the Group's total risk exposure. At board seminars held each year, the board receives more detailed information about and discusses Vattenfall's long-term development, strategy, competitive scenario and risk management.

Antitrust issues and major disputes are reported annually to the board. The most important policies and instructions relating to finance, risk, the environment, etc. (including the Code of Conduct) are to be approved by the board.

The board also has an audit committee which assists the board on issues regarding financial risks and reporting as well as external auditing. The committee is thereby responsible for preparation of the board's work

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to ensure the quality of Vattenfall's financial statements. Furthermore, the audit committee is responsible for the application of the Code of Corporate Governance. The board's risk management process is further described in the Corporate Governance Report and on the corporate governance pages at www.vattenfall.com.

Precautionary principle (4.11)

Vattenfall has established an enterprise risk management (ERM) process. The ERM process aims to create transparency and risk awareness and to support management in business decisions and in business planning within the Group. The ERM process is defined as a process applied in strategy setting across the company. This process is designed to identify and manage potential events and developments that may affect the achievement of objectives, according to the enterprise risk appetite.

The Chief Financial Officer (CFO) has overall responsibility for the Group's financial activities and risk management, and ensures compliance with the Group's policies and instructions in this area. A Group risk committee has been established to support the CFO in these issues. The risk committee is chaired by the CFO and is primarily tasked with ensuring qualitative risk management in the Group by, for example, approving risk management methods, ensuring standardised routines for risk management and risk reporting, and proposing mandates and limits. The Group also conducts an annual environmental risk evaluation. The results of this evaluation are presented to the Executive Group Management and to Vattenfall's risk committee. Environmental risk management is co-ordinated with other risk management.

More information about Vattenfall's risks and risk management is provided in Vattenfall's 2008 Annual Report.

CSR initiatives and principles endorsed (4.12)

In June 2008, Vattenfall joined the UN Global Compact initiative. However, since June 2002 Vattenfall has participated in "Globalt Ansvar" (Swedish Partnership for Global Responsibility). By participating, Vattenfall has undertaken to support and respect the UN Global Compact initiative and to follow the OECD guidelines for multinational companies.

In February 2005, Vattenfall endorsed the Partnering Against Corruption Initiative of the World Economic Forum (PACI) and the PACI Principles for Countering Bribery. PACI is driven by the private sector with the mission to help consolidate industry efforts in fighting bribery and corruption and shaping the evolving regulative framework.

Principal memberships in associations and organisations (4.13)

Vattenfall AB participates in a number of associations of various kinds. These include, among others, the Combat Climate Change (3C) initiative, the Global Roundtable on Climate Change, the European Energy Forum and the Centre for European Policy Studies (CEPS).

Furthermore, the company is a member of various standardisation associations and stakeholder organisations, such as the International Standards Organisation (ISO) and GRI Organisational Stakeholder.

Vattenfall AB also holds various positions in a number of industry and member organisations. An example is the Union of European Electric Industry (EURELECTRIC), which is chaired by Vattenfall's CEO, Lars G. Josefsson, who was elected in June 2008 for a term of 2 years. In addition, Vattenfall is a member of national and international chambers of commerce, national energy associations, and generation-specific associations, such as the World Association of Nuclear Operators (WANO), the European Wind Energy Association (EWEA), the British Wind Energy Association (BWEA), as well as heat associations, such as Svensk Fjärrvärme ("Swedish District Heating").

Stakeholders and identification (4.14–15)

Vattenfall has identified its stakeholders by mapping the impact Vattenfall has on certain groups, or the impact that these groups have on the company. The following major stakeholder groups have been identified through impact assessment:

- Society: Neighbours, citizens, media, politicians, authorities, non-governmental organisations, potential employees, sub-contractors and competitors
- Customers: Private customers, business and industrial customers
- Internal: Employees, employee representatives, unions and managers
- Financial: The owner (the Swedish state), capital providers

The characteristics of stakeholder relations are described on the opposite page, and stakeholder dialogue is described in 4.16–17.

Stakeholders and identification (4.14–15), cont.

Main group	Stakeholders	Attributes and description
Society	Neighbours	Neighbours are people living close to Vattenfall plants and operations who are directly affected by the company's activities. It is very important for Vattenfall to keep an open dialogue with neighbours, since they influence public opinion. Vattenfall meets its neighbours in face-to-face meetings with the purpose of providing information and taking neighbours' needs into account in decision-making processes.
	Citizens	Vattenfall has an effect on citizens in all countries in which it operates, mainly as a provider of electricity and heat, but also as an employer and taxpayer. Vattenfall is owned by the Swedish state, which makes Swedish citizens stakeholders in the sense that they can be regarded as indirect owners of the company. Vattenfall paid SEK 6.9 billion in dividends to the Swedish state for 2008.
	Potential employees	Vattenfall's long-term business planning involves analyses of the company's future competence needs. Mostly, the company needs people with a technical background and good commercial knowledge to work in the core business. But there is also need for people with knowledge and skills in such areas as environment, IT, project management and general management. Vattenfall's company philosophy and core values are the foundation for the corporate culture. It is important that potential and current employees share this mind set.
	Media	Energy is high up on the media's agenda. As one of the largest players in the European energy industry, Vattenfall is in focus. The national media in all markets – including tabloids, daily newspapers, business newspapers, radio and TV – monitor Vattenfall's development very closely. Local media has a particular interest in Vattenfall, especially in areas in which the company conducts its operations. Recently, Vattenfall has also attracted growing interest from international business media. Media coverage is of utmost importance for Vattenfall, since independent media have a substantial influence on public opinion. Vattenfall maintains an open and constant dialogue with key media to update them developments within the company while also being available as a knowledgeable partner in energy-related issues.
	Politicians	Vattenfall interacts with politicians on at the local, national and European levels. The purpose of these contacts is to increase general knowledge about Vattenfall and the energy industry and thereby enhance the quality of decision-making by mutual support in terms of expertise and knowledge. Relationships are based on respect, trust and openness.
	Authorities	Vattenfall maintains an ongoing open dialogue with authorities involved in the energy sector. This is of great importance since authorities in a wide sense set the rules of the electricity market. Vattenfall has a need to understand how authorities want the energy sector to develop, and it is in the company's interest to increase the authorities' knowledge about Vattenfall and the rationale behind company actions. The dialogue is based on openness and respect for the fact that the authorities monitor the electricity market.
	Non-governmental organisations (NGOs)	It is of utmost importance for Vattenfall to build relationships with NGOs based on mutual understanding and respect. Vattenfall conducts dialogues at European, national and local levels, for example regarding the Carbon Capture and Storage (CCS) project.
	Customers	
Retail customers		Vattenfall offers a variety of electricity and heat services to households in Finland, Germany, Poland and Sweden. A wide range of fixed, variable and tailored pricing options enables customers to choose the most suitable solution. In many markets, electricity with declaration of origin is also available. Vattenfall has made a number of improvements in recent years, such as the introduction of a Customer Ombudsman and taking the lead in installing remote meters and issuing disruption guarantees. Many initiatives have subsequently come to be regarded almost as the industry standard.
Business and industrial customers		Vattenfall provides the public and private industry sectors with electricity and heat, and also offers a variety of energy-related services. Vattenfall caters to the specific needs of each industrial operation. Electricity purchases can be combined with energy solutions and operation and maintenance services to increase efficiency and lower costs. Vattenfall is a long-term partner in large-scale energy projects.
Internal	Employees	Vattenfall has more than 34,000 employees in total, of whom 62% are located in Germany, 30% in the Nordic countries and 8% in Poland.
	Employee representatives	Vattenfall has employee representatives in representative bodies such as the European Works Council (EWC–Vattenfall), local co-determination bodies, supervisory boards and commissions. Vattenfall's board of directors includes three employee representatives.
Financial	Owner (the Swedish state)	For information about the owner, see the Corporate Governance section on www.vattenfall.com .
	Capital providers	These include bond investors, such as insurance companies, pension funds, hedge funds and asset managers, and other lenders, such as banks and credit institutions. Vattenfall's total net debt in 2008 was SEK 66 billion.

Stakeholder engagement (4.16–17)

Working in the energy sector is a great responsibility, and providing energy without any environmental and social impact would be impossible. By listening to its stakeholders, Vattenfall can more easily distinguish challenges, opportunities and weaknesses related to its vision to be a leading European energy company. Stakeholder information makes Vattenfall better understand what actions to take and what priorities to make. Information provided by stakeholders includes, for example, concerns regarding climate change, renewable energy sources, security of supply, energy efficiency and equality policies.

Stakeholder communication is a part of daily business. Every day numerous meetings take place between Vattenfall employees and people with an interest in the company's business and activities. Examples of regular stakeholder communication include one-to-one meetings with customers, business partners, governmental representatives, local authorities and NGO representatives, dialogues with permit-issuing

authorities, consultations regarding environmental impact assessments, investor meetings, annual general meetings, employee dialogues and negotiations. Vattenfall's stakeholder interactions rely on four basic principles: to listen, to focus on issues instead of solutions, to make stakeholder consultation a part of the day-to-day business, and to make sure to respond to the feedback received from stakeholders regarding information practices.

Vattenfall's stakeholder dialogue involves all stakeholders. See also EU18 and SO1, EU19, EU21.

Vattenfall's approach to stakeholder consultation is best exemplified in the company's Code of Conduct, which states "Our actions should always be understandable in the eyes of others around us, and we should always make an extra effort. We should listen and hold an open dialogue with those affected by our activities. Meeting us should be easy."

Examples of Vattenfall's Stakeholder Consultation during 2008 are shown below.

Stakeholder group	Central level (Group)	Local level (Business Groups, business units)
Society	<ul style="list-style-type: none"> • Participation in numerous international dialogues on climate change, including the G8 roundtable on climate change, Globe and World Economic Forum. • Ongoing dialogue with a broad spectrum of stakeholders in the EU, such as European institutions, various non-governmental organisations, trade associations and think-tanks. • The Annual General Meeting, which is open to the general public. • Direct dialogue with opinion-makers in Sweden that have an impact on or are impacted by Vattenfall. • Group-wide Brand Reputation Index measurement. • Publication of the CSR Report. Materiality analyses and rankings, and stakeholder expectations. 	<ul style="list-style-type: none"> • Contacts with affected stakeholders regarding acceptance for the construction of new plants and infrastructure. For example, the Lillgrund wind farm and resettlement in Lausitz. • Student relations are handled locally with well defined key universities, colleges and other schools and with specific messages for the defined target groups. Special emphasis is put on encouraging women to choose a technical education. • A series of debates with Polish politicians and industry representatives about issues such as foreign investment in Poland and restructuring of the energy sector. • "Vattenfall replies" – a dialogue forum in local newspapers for the local community in Silesia, Poland. • Contacts with local NGOs, such as regarding the new hard coal-fired plant in Moorburg, Germany. • Co-operation with local communities, such as by financing technically oriented schools and education, for example in Jokkmokk in northern Sweden. • A number of dialogues have been carried out with local stakeholders, residents, etc. in the area surrounding the Nordjylland power plant (Nordjyllandsværket) in Denmark, in an effort to inform about the future CCS plant that will be installed in 2013. • In November 2008 a municipal referendum was held for the residents of Vilhelmina in northern Sweden on co-operation with Vattenfall to develop the existing hydro power flow downstream in order to extract more energy. The residents voted no and Vattenfall closed the pre-study.
Customers	<ul style="list-style-type: none"> • Group-wide Brand Reputation Index measurement. 	<ul style="list-style-type: none"> • Customer Satisfaction Index measurements. • Customer events.
Internal	<ul style="list-style-type: none"> • The annual My Opinion employee survey. • European Works Council – dialogue with employee representatives. • Group-wide Brand Reputation Index measurement. • Continuation of CEO employee dialogue meetings – 6 meetings with a total of 170 employees were held during the year. • Annual management conference gathering 250 executives. 	<ul style="list-style-type: none"> • Continued implementation of company philosophy, core values and Code of Conduct. • Annual individual development dialogues between managers and their employees. • Discussion of My Opinion results and action planning in all work teams.
Financial	<ul style="list-style-type: none"> • Group-wide Brand Reputation Index measurement. • Annual General Meeting – open to the public. • Capital Markets Day, an event that gathers analysts, investors, bankers and financial journalists in a dialogue with Vattenfall's senior management on the strategic direction of the company. • Conference calls (webcasts) with capital providers and journalists with the opportunity to ask questions. Investor presentations and one-to-one meetings with capital providers. • Annual review meetings as well as ad hoc meetings with rating agencies (Standard & Poor's and Moody's). • Publication of annual and quarterly reports. 	

Other contribution to society – Voluntary contributions and investments

Vattenfall strives to be a good corporate citizen, which is manifested through various sponsorship and support activities. According to Vattenfall's Group Instruction on sponsoring, all sponsoring projects should include activities that are of benefit to society, and priority is given to projects with extensive positive social impact. The most important contributions are collected and aggregated at the Group level.

In 2008 Vattenfall spent SEK 195 million on voluntary contributions, including donations. Vattenfall sponsors a variety of projects within the areas of humanity and ethics, the environment, culture and sports, and community. Following are some examples:

Humanity and ethics

- The World Childhood Foundation – Through the support of more than 100 projects in 14 countries, the World Childhood Foundation works to create a brighter future for the world's most at-risk children – street children, children living in institutions, young mothers and sexually abused children. Vattenfall is one of the World Childhood Foundation's major partners.
- Donations of coal to centres for the sick and homeless in Poland.
- In Sweden Vattenfall has a sponsorship agreement with Fryshuset, a Stockholm-based foundation working with young people.

The environment

- The "Combat climate change!" school competition. In co-operation with the National Geographic Society, Vattenfall supports this sustainable energy competition for European students aged 14–19.
- Heureka's Vattenfall Planetarium in Finland is one of the most modern digital planetariums in Europe. The shows consist mainly of animated planetarium films based on the newest technology, and the theatre has been fully renovated. Vattenfall Planetarium and Heureka give Vattenfall a unique opportunity to communicate about the environment, climate change and energy efficiency in a creative way. The planetarium hosts approximately 285,000 visitors per year, of whom many are children and youths.
- In Hamburg, Vattenfall has provided support since 1994 through Vattenfall's environmental foundation. To date support has been provided to more than 90 projects related to environmental care while providing social value.
- Through the German foundation Stiftung Lausitzer Braunkohle, Vattenfall provides support to projects on research and development, education and environmental protection in the Lausitz region.
- Vattenfall is a sponsor of "Clean Up the World" in Poland, a community-based environmental campaign that inspires and empowers communities from every corner of the globe to clean up, fix up and preserve the local environment. In collaboration with the primary partner – the United Nations Environment Programme (UNEP) – Clean Up the World brings together businesses, community groups, schools and governments in a range of activities and programmes that are making improvements to local environments.

Culture and sports

- Vattenfall sponsor a variety of sports activities, including sponsorship of regional ice hockey, basketball and football teams and the Berlin half-marathon in Germany, national ski teams and the Swedish Olympic Committee in Sweden, and local football clubs in Denmark.
- Since 2004, in Germany Vattenfall has been an exclusive partner of the Brandenburger Tor in Berlin, one of the most famous historical-cultural monuments in Germany.
- Vattenfall sponsors the historical Forsmark Bruk ironworks, thereby contributing to the preservation of this 16th century works and its surroundings.
- Vattenfall sponsors West Swim Esbjerg in Denmark. West Swim Esbjerg is one of the largest swimming competitions in northern Europe, and 1,800 competitors ranging from children to elite swimmers.

Community

- Vattenfall subscribes, through Vattenfall Inlandskraft, substantial financial credit for small and medium-sized enterprises in the inner regions of Norrland, a remote and sparsely populated region in the northernmost part of Sweden where Vattenfall has many hydro power plants.
- Vattenfall supports the German Quadriga award. Quadriga is awarded to four personalities from political, business, social and cultural life who through their commitment set an example for new departures, rejuvenation and pioneering spirit.
- Vattenfall was the main sponsor of Tällberg Forum, an organisation aiming to support world leaders on issues related to sustainable development by arranging an annual forum in Tällberg, Sweden, and other activities.
- In the Lausitz region, Vattenfall provides occupational training to apprentices in its in-house training centre and participates in a local citizen contact group, while a co-operation agreement has been signed with a science college in Leipzig (Hochschule für Wissenschaft).
- Many of Vattenfall's power plants have visitors' centres, which provide information to the public about the plant's operations and promote dialogue between the local communities and Vattenfall.