

# CORPORATE GOVERNANCE WITHIN VATTENFALL

Vattenfall is 100 per cent owned by the Swedish State. The Swedish State exercises long-term active ownership and administration. The Swedish government has value creation as a paramount goal. Companies exposed to competition shall operate under the same demands and terms as market actors. This means that the Swedish State places market requirements on profit and returns, based on the companies' risk profiles.

The Swedish government has established a separate division for state enterprises within the Swedish Ministry of Industry, Employment and Communications, and, like other owners, works with a number of tools. The composition of the Board of Directors, the auditors and transparency are three such important tools. In order to clarify the Swedish State's view on certain questions, and to attain unity among the administered companies, the Swedish government has determined guidelines for external financial reporting and terms of employment for senior management. In addition, the Swedish government has identified certain crucial policy issues, in which companies owned by the state shall act in a socially responsible manner. This applies to such areas as equality, the environment, diversity, a healthy workplace and the company's role in society.

With the purpose of promoting clarity and unity in questions of responsibility and information between company bodies, the Swedish Ministry of Industry, Employment and Communications has drawn up guidelines to support boards of directors in drawing up and revising the Rules of Procedure and for managing certain issues regarding information.

Management and control of the Vattenfall Group is divided between the shareholder, the Board of Directors and the CEO in accordance with the Swedish Companies Act, the Articles of Association and the Board of Directors' Rules of Procedure.

The Board of Directors appoints the CEO and deputies. The CEO handles day-to-day administration, in accordance with the Board of Directors' guidelines and instructions.

## Annual General Meeting

The Annual General Meeting shall be held no later than six months after the closing of the annual accounts. At the proposal of the owner, the Annual General Meeting appoints the Board of Directors and adopts the income statement and balance sheet, and deals with other issues that arise in

accordance with the Swedish Companies Act or the Articles of Association.

## The nomination process

For 100 per cent state-owned companies, standardised and common principles apply for a structured nomination process. The purpose is to ensure the effective provision of expertise to company boards. The Swedish Minister of Industry and Trade has been assigned responsibility for board nominations in all state-owned companies. The nomination process is run and coordinated by the Division for State Enterprises within the Swedish Ministry of Industry, Employment and Communications.

Prior to the annual general meeting, a preparatory group is formed and appointed the task of analysing competency needs based on the board's composition and the company's operations and position. Thereafter, recruitment needs are reviewed and, if necessary, recruitment work is initiated. When the process is complete, the nominations are made public in accordance with the guidelines.

This standardised and structured working method ensures the quality of the nomination work and a broad recruitment base from which the nominated board members are chosen.

## Members of the Board

Vattenfall's Board consists of ten Board Members appointed at the Annual General Meeting, and three Board Members and three Alternate Board Members appointed by the employee organisations. From company management, the CEO, Lars G Josefsson, is included in the Board of Directors. Of the eight Board Members, two are women and also foreign citizens. The average age of the board members is 51. At the 2004 Annual General Meeting, Dag Klackenbergh, Maarit Aarni, Christer Bådholm, Peter Fallenius, Jan Grönlund, Lars G Josefsson, Peter Lindell, Hans-Olov Olsson, Lone Fønss Schrøder and

## From the Chairman

Dear Reader,  
Vattenfall has undergone extensive expansion while continuing to report considerably improved financial performance. In 1992, Vattenfall's first year as a limited liability company, sales amounted to about SEK 22 billion, operating profit totalled SEK 5.6 billion and return on equity was 12.3 per cent. In 2004, Vattenfall's net sales topped SEK 113 billion and operating profit totalled SEK 19.6 billion. Return on equity was 22.4 per cent.



At the beginning of the 1990s, Sweden was in a deep financial crisis. A strong desire to revive the Swedish economy began to develop. There was much discussion on the role to be played by the companies created through the reorganisation of traditional public service enterprises, among them Vattenfall. It was decided that these companies should operate just like any other company – with the primary objective of managing State capital in an effective manner. Vattenfall was transformed from a public utility to a limited liability company with an international market as its base of operations. Prior to Vattenfall's incorporation in 1992, the proposal to the Swedish Parliament emphasised that:

"It is the task of the company's board to establish goals and strategies for Vattenfall AB's operations. If Vattenfall AB is to conduct its business in a reasonable manner and without competitive disadvantages, the board and group management must be able to utilise the company's resources under the same conditions as are prevalent in the non-governmental sector."

In 1997, a three-party agreement was reached on energy policy. This formed the basis of a bill entitled "A Sustainable Energy Supply". Regarding Vattenfall, reference was made to the guidelines contained in earlier bills, with the amendment that:

"Vattenfall AB is an important resource in the changeover process. Within the bounds and requirements of sound business principles, Vattenfall shall pay special attention to the development of new electricity generation techniques and thereby contribute to a Swedish

electricity supply that is ecologically and financially sustainable. Vattenfall shall remain in the hands of the Swedish State."

State-owned limited liability companies are independent corporate entities subject to the Swedish Companies Act. This legislation has been developed for companies operating in order to make profits. In a limited liability company, there are clear divisions of responsibility between the owners, the board and company management, as well as rules governing how this responsibility can be expected to be exercised. The Swedish State, as sole shareholder, exercises its control over the company through the annual general meeting.

Vattenfall operates in a public and political arena with the associated discussions about the company's undertakings. Ultimately, it is the Swedish people that own the company, represented by the Swedish Parliament. Responsibility for managing this interest is held by the Swedish Parliament, acting through the Swedish Ministry of Industry, Employment and Communications.

Vattenfall's Board must weigh up different demands and requirements. The operational framework and guidelines provided by the Board shall be in agreement with applicable legislation and in line with the owners' requirements on returns. At the same time, policies concerning the development of new electricity generation techniques and renewable energy sources shall be taken into consideration. Reliable deliveries at reasonable prices must be provided. The most recent widespread storm in Sweden, Gudrun, clearly illustrated the need for security of supply. All of these requirements must be taken into account in a manner that is justifiable in the long term, and which is also in the best interests of the company.

Vattenfall's development in value in recent years has been most impressive. Five years ago, when major acquisitions were made in Germany and Poland, Vattenfall's assessed market value was EUR 5–6 billion. Today, this figure is estimated at EUR 15–17 billion. The Vattenfall of today is a large Swedish group with sales, total assets and financial performance in the same league as Sweden's largest groups. By combining larger volumes and increased profitability, Vattenfall has created a strong resource base for future-oriented investments.

Dag Klackenber  
Chairman of the Board

Anders Sundström were elected. The employee organisations have appointed Board Members Carl-Gustaf Angelin, Johnny Bernhardsson, Ronny Ekwall and Alternate Board Members Lars Carlsson, Stig Lindberg and Per-Ove Lööv.

### Independent Board Members

Of the Board Members, Dag Klackenber, Maarit Aarni, Christer Bådholm, Peter Fallenius, Hans-Olov Olsson, Lone Fønss Schröder and Anders Sundström are independent, both in relation to the company and to the owner.

### The Chairman's duties

The Chairman's duties follow both the Swedish Companies Act and the Rules of Procedure. The Chairman leads the work of the Board and is responsible for ensuring that other Board Members receive adequate information.

The Chairman participates when necessary in important external contacts and represents the Company in ownership issues.

### Rules of Procedure, duties and areas of responsibility

The Board establishes its Rules of Procedure annually, based on the rules of procedure which the Division for State Enterprises of the Ministry for Industry, Employment and Communications has issued. The Rules of Procedure regulate such things as the Chairman's duties, information to the Board and the frequency and form of Board Meetings, as well as evaluation of the Board's work and of the CEO.

Matters dealt with within the Board are primarily treated in accordance with the Swedish Companies Act and the Board's Rules of Procedure. The main tasks of the Board,

apart from appointing a CEO and deputies, are to establish strategic direction, approve major investments and substantial organisational changes to the Group, and to establish central policies and instructions. In addition, the Board must follow the company's financial development and the Board has ultimate responsibility for internal control and risk management functions.

### Frequency of Board Meetings

Board Meetings follow a plan established in the Rules of Procedure. These rules specify that seven Ordinary Meetings shall be held each year. In addition to the Ordinary Meetings, the Board is summoned to further meetings if required. According to the Rules of Procedure, one meeting per year must be held at a place other than the head office. In 2004, one meeting was held in Helsinki. In conjunction with that meeting, the Board received comprehensive information about the Vattenfall Group's Finnish operations.

### The work of the Board of Directors during 2004

During 2004, the Board met nine times including the statutory meeting. The following issues are among those to which special attention was given:

- Vattenfall's strategy and vision.
- Investments in wind power operations.
- The board has evaluated possible acquisitions in Denmark and Poland.
- The implementation of a group-wide system for gathering employee opinions (My Opinion).
- The issue regarding the closing of the Barsebäck 2 nuclear reactor.
- The Group's risk exposure.
- Integration of the German subsidiaries.

### Evaluation of the Board's work

The Board evaluates the work of the Board of Directors once a year. This evaluation is headed by the Chairman and is conducted as stipulated in the Rules of Procedure.

### Board fees

At the Annual General Meeting of 2004, the Meeting determined a sum of SEK 2 million in Directors' remuneration to the Board Members appointed by the Meeting who were not employed by Vattenfall and this sum was to be allocated

by the Board (for information regarding how the Board allocated the remuneration, see the table on page 95). In addition, the Meeting decided to allocate SEK 240,000 for committee work, to be allocated by the Board. The Board also decided that Board Members elected at the Annual General Meeting who are not employed by Vattenfall and who participate in committee work should receive SEK 50,000 each in annual remuneration, in addition to the Directors' remuneration. In total, SEK 150,000 of the SEK 240,000 reserved has been paid out. For further information regarding remuneration and personnel costs in Vattenfall, see Note 35 of the consolidated accounts.

### The Audit Committee

In 2004, the Board appointed the following three Board Members as members of the Audit Committee: Peter Lindell, Christer Bådholm and Peter Fallenius. Alternate Board Member Per-Ove Lööv participated in the Audit Committee as a union representative. Internal audits at Vattenfall are headed by the secretary of the Audit Committee. For details concerning remuneration, see Note 35 of the consolidated accounts.

The Board has established rules of procedure for the Committee. The committee reports its work to the Board by submitting the minutes to the Board and, when requested, by presenting its work at Board Meetings. No mandate to pass decisions has been delegated to the committee.

The Audit Committee has been formed in order to increase knowledge of, insight into and control over the company's accounting, financial reporting and risk management. The company auditors have reported their observations at Audit Committee meetings in conjunction with audits. The Audit Committee held four meetings during the year. The auditors reported at an Ordinary Board Meeting in February and on one other occasion.

### Nomination Committee

There is no Nomination Committee in Vattenfall AB, as the Company has only one owner.

### Remuneration Committee

There is no permanent Remuneration Committee in Vattenfall AB.

During the year, the Board assigned a working party with the task of preparing a new system for remuneration

to company management. The Committee included Day Klackenborg, the Chairman, Peter Lindell and Anders Sundström. The Committee has presented its work to the Board. Further information about the new system can be found on page 97 and in Note 35

**Ordinary auditors**

The elected auditors for Vattenfall for the financial year 2004 are Ernst & Young AB, represented by Authorised Public Accountant Lars Träff as auditor in charge, and Authorised Public Accountant Per Redemo, appointed by the Swedish National Audit Office.

The auditors are present and report at the meeting in which the Board examines the annual accounts and meet Vattenfall's CEO and CFO on a number of occasions throughout the year. In addition, the auditors have ongoing contact and meetings with the Board's Audit Committee.

When more extensive consultancy input is required from the elected auditors, the assignment shall first be examined and approved by the Audit Committee. The Group's audit costs are described in more detail in

Note 38 of the consolidated accounts and Note 37 of the parent company accounts.

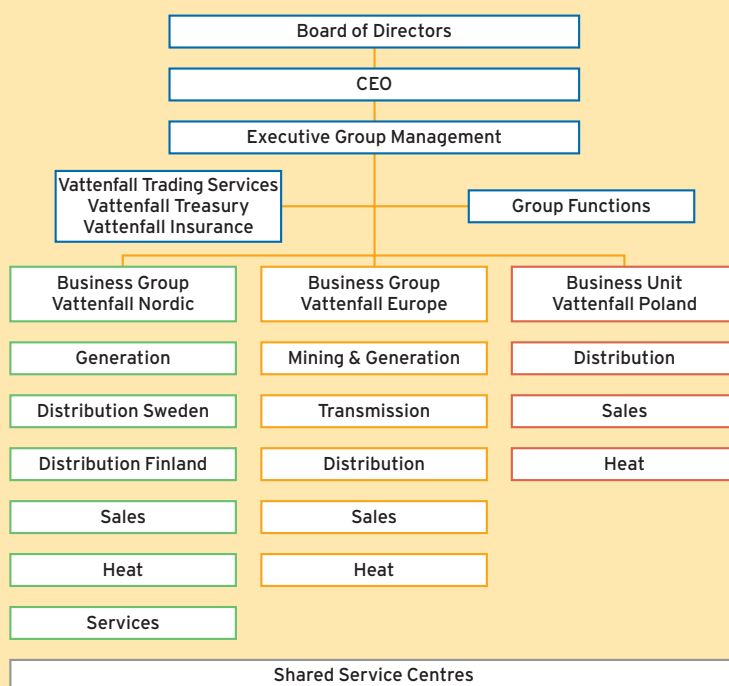
**Management group and organisation**

Vattenfall's management model is based on a value chain comprised of generation, electricity trading, distribution, sales, heat and services.

The CEO has the task of managing the Group's business operations and administration in accordance with the Swedish Companies Act and the Board's instructions. The CEO is supported by the Group's Executive Group Management (EGM). As of 1 January 2004, there are three categories in the organisation:

- Business Groups and Business Units with overall responsibility for operations within their respective areas.
- Group functions which support company management. These are staff functions and cost centres.
- Shared services which aim to reduce costs for their customers. These are run in accordance with the full cost principle.

**Organisation**



As of 2004, the Group is organised into two Business Groups; one for the Nordic countries and one for Continental Europe. Poland remains a separate business unit. Business operations are primarily organised in accordance with the electricity business value chain. This structure means that business units have long-term and independent assignments to develop their own operations within the framework of the Group's long-term goals.

### Decision-making processes and management

The CEO, together with the EGM, heads Vattenfall with a focus on value creation and establishes long-term overall goals and requirements for the Business Units and Business Groups. The Business Groups propose short-term goals for each Business Unit, which are subsequently approved by the CEO and EGM.

Since 2004, the CEO and EGM hold monthly Financial Meetings and more thorough quarterly Business Group Reviews in order to follow up on financial and business developments.

Group functions have centralised responsibility for their respective areas within the entire Group and support the CEO and EGM by:

- Preparing, issuing and following up on Group policies.
- Identifying improvements and initiating necessary measures within areas of key importance to Vattenfall.
- Ensuring that the EGM has access to the competence required.
- Offering advice on important issues to Business Units and other companies within the Vattenfall Group.

Vattenfall's operations are carried out in Business Units with full transparency in accounting, control, profitability and value creation. The Head of a Business Unit has ultimate responsibility for the activities under his or her charge, and reports to the Head of the Business Group to which the Unit belongs. Business Unit Heads are appointed by the CEO on the recommendation of the respective Business Group Heads.

Business Group Heads are appointed by the CEO and report to the CEO. The task of these managers is primarily to coordinate their Business Units so that each provides value within their geographical area.

The management model has not yet been fully implemented in Vattenfall in Poland, and for this reason Business Unit Poland is managed by a management group, with the Chairman being a member of the Group's Executive Group Management (EGM). The Chairman of the steering group appoints the other members of the steering group in consultation with EGM.

Vattenfall's CEO also identifies a number of processes of importance to the Group. The process owners are usually members of the EGM and are responsible for ensuring that

processes develop in the right direction. All governing documents are scrutinised with respect to their environmental aspects and must be approved by the Head of Environmental Affairs in order to be valid. At present, the following Group processes exist:

Process	Process owner
Strategy and business planning	Group Strategy Manager
Following up of business planning	Finance Manager
Risk management	Finance Manager
Mergers & Acquisitions	Legal Affairs and M&A Manager
Investments	Finance Manager
Communications	Communications Manager
Managerial development	Human Resources Manager

### Preparatory and decision processes

The Board of Directors determines remuneration to the CEO in accordance with the Chairman's proposal. For other members of management, the Chief Executive Officer decides on remuneration following consultations with the Chairman of the Board and after informing the Board.

For information regarding remuneration to the CEO, see Note 35 of the consolidated accounts.

### Remuneration to executive management

Additional information about taxable remuneration, benefits and pension costs for Board Members, the CEO and other executive management can be found in Note 35 of the consolidated accounts.

### Incentive programmes

For the period 2002–2004, variable salary was directly connected to value creation, as outlined in Note 35 of the consolidated accounts. For group management, heads of group functions and business unit managers, an annual variable salary was paid, as was a 'long-term incentive' (LTI). The latter shall not exceed two annual variable salaries and will be paid after 2004 if the Group's financial targets are exceeded. This 'long-term incentive' does not provide a basis for pensions.

The Chief Executive Officer has had a contractual right to a separate performance-based variable salary equal to a maximum of 33 per cent of the fixed salary per year, plus an LTI equal to two annual bonuses for the three-year period 2002–2004, as detailed above.

For other members of Group Management and Group

Function Managers, a variable salary of a maximum of 25 per cent of fixed salary plus an LTI as detailed above could apply. For certain managers/key personnel within the staff, a maximum of 10–15 per cent.

For business unit managers a variable salary of a maximum of 20 per cent of the fixed salary plus an LTI.

For business unit management groups, primarily CEOs of larger companies and heads of larger operating units, a maximum of 15 per cent applies. For staff personnel in management groups, a maximum of 8–10 per cent.

For managers of service companies a maximum of 15 per cent and for heads of management groups a maximum of 8 per cent.

The above applies to a total of about 100 managers.

In other countries, Finland, Poland and Germany, the same value creation goals apply in agreements on variable salary for senior managers.

For more information about personnel costs in Vattenfall, see Note 35 of the consolidated accounts.

### Incentive programme for other employees 2004

Within the Swedish part of the Group, there have been different types of incentive programme in most business units and companies. These programmes are designed to suit each unit's goals and needs. The maximum level averages about SEK 15 thousand per year.

### New incentive programme 2005

Against the background of the Swedish government's new guidelines on remuneration to executive management and incentive programmes, the Board has approved the development of a programme in line with the stated principles and which as of 2005 will apply in the Swedish segments of operations and covers all employees in Sweden.

In line with the guidelines, the CEO no longer receives any variable salary. Regarding other managers and employees, variable salary may not exceed the equivalent of two monthly salaries a year, or 16.7 per cent of the normal fixed salary.

The reasoning for incentive programmes continues to be the Group's long-term value creation. The Group goal is common to all. Further, the performance of each unit and individual is measured.

### Business ethics

Vattenfall has, within a separate set of Group instructions, formulated rules regarding the way in which questions of a legal and ethical character shall be handled within the entire Group:

- All employees are responsible for ensuring that Vattenfall's activities are conducted in an ethically acceptable manner, and that Vattenfall's assets shall not be used for illegal or inappropriate purposes. Anyone who finds that a Group Unit is not fulfilling the ethical and legal requirements has both the right and the obligation to report such behaviour to a superior.
- Personal information shall be handled with respect for personal integrity.
- Each company within the Vattenfall Group is responsible for legal obligations concerning the Annual Report, the Annual General Meeting etc. being managed in a correct manner.
- Good marketing practice shall be followed in marketing activities.
- When negotiating contracts and the like, Vattenfall shall act correctly and fairly towards its counterpart.
- No employee may give or receive inappropriate benefits or benefits which can be considered to be unacceptable remuneration or which fall outside accepted business practice.
- Vattenfall follows the Stockholm Stock Exchange registration contract and with it the insider rules that apply to listed Swedish companies. There are specific German insider trading rules that apply to the shares in Vattenfall Europe AG.
- Vattenfall shall only use sound competitive methods. If Vattenfall should have a dominant position in any market, this shall not, among other things, be utilised to force unreasonable agreement terms onto a counterpart.
- Vattenfall may not have a lower ethical standard in any specific country simply because that country lacks legislation in a certain area.
- The legal departments have within their area of responsibility the authority to internally stop such measures that violate applicable laws or the like or which are not in keeping with the Vattenfall Group's management system.

## BOARD OF DIRECTORS



**Dag Klackenborg**  
Chairman of the Board



**Maarit Aarni**



**Carl-Gustaf Angelin**  
Employee board member



**Johnny Bernhardsson**  
Employee board member



**Christer Bådholm**



**Lars Carlsson**  
Employee board member



**Ronny Ekwall**  
Employee board member



**Peter Fallenius**



**Jan Grönlund**



**Lars G Josefsson**



**Stig Lindberg**  
Employee board member



**Peter Lindell**



**Per-Ove Lööv**  
Employee board member



**Hans-Olov Olsson**



**Lone Fønss Schrøder**



**Anders Sundström**

**Dag Klackenborg** Born 1948  
Chairman of the Board since 2001.  
President of the Swedish Federation of  
Trade. Board member of Handelsbanken  
Regionbank Mellansverige. Board  
member of LjungbergGruppen AB.

**Maarit Aarni** Born 1953  
Board Member since 2003. Deputy  
CEO with responsibility for the Phenol  
business unit in the Borealis Group  
based in Finland (Borealis Polymers Oy).  
Formerly Deputy CEO with responsibil-  
ity for the Olefins business unit in the  
Borealis Group based in Denmark  
(Borealis A/S). Board assignments:  
Borealis Polymers Oy Finland and  
Rautaruukki Oy in Finland.

**Carl-Gustaf Angelin** Born 1951  
Board Member since 2003. Employee  
board member, CF.

**Johnny Bernhardsson** Born 1952  
Board Member since 1995. Employee  
board member, Sif.

**Christer Bådholm** Born 1943  
Board Member since 2002. Board

member of Green Cargo AB, Icomera  
AB and Metronet Rail Ltd, UK. Chair-  
man of Bombardier Transportation  
Sweden AB.

**Lars Carlsson** Born 1951  
Alternate since 1991. Employee  
board member, Sif.

**Ronny Ekwall** Born 1953  
Board Member since 1999. Alternate  
1998. Employee board member, SEKO.

**Peter Fallenius** Born 1951  
Board Member since 2001. Resigned  
as Board Member on 16 February  
2005.

**Jan Grönlund** Born 1960  
Board Member since 2002. Alternate  
since 2000. Under-Secretary at the  
Swedish Ministry of Industry, Employ-  
ment and Communications 1999–  
2004. Board member of the Afa  
insurance company.

**Lars G Josefsson** Born 1950  
Board Member since 2001. President  
and Chief Executive Officer of

Vattenfall AB. Chairman of Vattenfall  
Europe AG. Board member of Böhler-  
Uddeholm AG. Board member of the  
Royal Swedish Academy of Engineer-  
ing's (IVA) Industry Committee. Board  
member of ESKOM Holdings Ltd.  
Chairman of the Board of the  
Swedish–German Chamber of Com-  
merce.

**Stig Lindberg** Born 1946  
Alternate since 1998. Co-opted  
1992–1998. Employee board  
member, Ledarna

**Peter Lindell** Born 1972  
Board Member since 2002. Under-  
secretary at the Swedish Ministry of  
Industry, Employment and Commu-  
nications. Member of the boards of  
SOS Alarm Sweden AB and AB  
Svensk Bilprovning.

**Per-Ove Lööv** Born 1961  
Alternate since 1999. Employee  
board member, SEKO.

**Hans-Olov Olsson** Born 1941  
Board Member since 2004. CEO of

Volvo Car. Other board assignments:  
Lindab AB, Teknikföretagen, Swedish  
American Chamber of Commerce, Swe-  
den- Japan Foundation, West Sweden  
Chamber of Commerce and Industry.

**Lone Fønss Schrøder** Born 1960  
Member since 2003. Formerly Deputy  
President of A.P. Møller-Maersk A/S  
with responsibility for the Gas Tanker  
Division and subsequently for the  
Global Procurement Pilot, Bulk and  
Car Carrier Division (PCTC). Chairman  
of the board of Kværner ASA, vice  
chairman of Aker ASA. Other board  
assignments: DSB, Yara ASA, Leif  
Hoegh & Co. Ltd, Bioneer A/S.

**Anders Sundström** Born 1952  
Board Member since 2004. Positions  
in parliament: Minister of Labour  
1994–96, Minister of Industry and  
Trade 1996–98, Member of Parliam-  
ent 1994–98, 2002–2004. CEO  
of Folksam Liv and Folksam Sak. For-  
merly CEO of Sparbanken Nord 1999–  
2002. Member of the board of Boliden  
2002–, chairman of Luleå Technical  
University 2003–.

## EXECUTIVE GROUP MANAGEMENT



Lars G Josefsson



Matts P Ekman



Klaus Rauscher



Hans von Uthmann



Lennart Billfalk



Ann-Charlotte Dahlström



Mats Fagerlund



Magnus Groth



Knut Leman



Alf Lindfors

**Lars G Josefsson** Born 1950  
CEO and Group President.

**Matts P Ekman** Born 1946  
First Senior Executive Vice President  
and Chief Financial Officer.

**Klaus Rauscher** Born 1949  
Senior Executive Vice President  
Vattenfall AB and Head  
(Vorstandsvorsitzender) of  
Vattenfall Europe AG.

**Hans von Uthmann** Born 1958  
Senior Executive Vice President  
and Head of Vattenfall Nordic.

**Lennart Billfalk** Born 1946  
Executive Vice President,  
Group Function Strategies.

**Ann-Charlotte Dahlström** Born 1952  
Senior Vice President, Group Function  
Human Resources.

**Mats Fagerlund** Born 1950  
Executive Vice President, Group  
Function Legal Affairs and M&A and  
Head of Distribution and Transmission  
within Vattenfall Europe.

**Magnus Groth** Born 1963  
Executive Vice President and  
Head of Group Function Business  
Development.

**Knut Leman** Born 1950  
Senior Vice President, Group  
Function Communications.

**Alf Lindfors** Born 1946  
Executive Vice President and  
Head of Nordic Generation.

### Auditors

**Ernst & Young AB**  
**Lars Träff**  
Authorised Public Accountant

**Per Redemo**  
Authorised Public Accountant  
Swedish National Audit Office

Alternate:  
**Göran Selander**  
Authorised Public Accountant  
Swedish National Audit Office