

# THE BOARD'S REPORT ON INTERNAL CONTROL FOR THE 2005 FINANCIAL YEAR

This report on internal control concerning the Vattenfall Group's financial reporting has been prepared in accordance with sections 3.7.2 and 3.7.3 of the Swedish Code for Corporate Governance (the Code). The report follows COSO's\* framework for internal control and encompasses control environment, risk assessment, control activities, information and communication and monitoring.

## Description

### Control environment

The framework surrounding the Board is comprised of, in addition to applicable legislation, the Swedish state's ownership and administration policy and the Code. The control environment comprises the foundation for internal control at Vattenfall and includes, among other things, the company culture. In 2005, the Board approved Vattenfall's joint Group Code of Conduct, which expresses the expectation that all employees agree to follow Vattenfall's company philosophy, codes of conduct, core values, policies and rules.

The formal division of authority in the Group is based on the division of responsibility between the Board and the CEO established by the Board in the Rules of Procedure. The Group's management system is decided by the Board of Vattenfall AB and includes, among other things, Group instructions for decision making, delegation and authorisation, management of subsidiaries, risk management and internal control. The rules governing and the outcome of the Group's risk assessment and risk management process are reviewed by the Board each year. The accounting and reporting instructions are documented separately.

The Board has appointed an Audit Committee assigned with the task of, among other things, assessing the scope and direction of the Group's risk management. The Committee also reviews the auditors' opinions on the Group's financial reporting and initiates any follow ups deemed necessary.

### Risk identification and risk management

The Board has given Vattenfall's management a risk mandate, which in turn has delegated this to Vattenfall's units in accordance with a delegation structure. Unit results are continually followed up and reported to executive management by Vattenfall's risk control function, which is also responsible for the supervision of the Group's overall risk mandate. The risk control function is also responsible for mapping out risks in the organisation and developing appropriate models and measurement methods for managing these risks. The Group's risk management and reporting is coordinated by a Risk Committee headed by Vattenfall's Chief Financial Officer. The Risk Committee's task is to scrutinise policies and mandates and to approve the risk instructions and risk models applied within the Group. The utilization of risk mandates is reported and presented at each Board meeting.

### Control activities

In addition to auditing the annual accounts, Vattenfall's auditors also review the six-month accounts. The proposed report is presented to the Audit Committee along with the opinions provided by Vattenfall's external auditors.

Throughout the last financial year the Group conducted special controls concerning IFRS requirements.

Each Business Group and Business Unit has controllers who, among other things, are responsible for ensuring that appropriate internal control routines exist, Group control processes are implemented and any risk exposure is reported. Special controllers also exist within the areas of communication, risk management and IT. There is a limited group of signatories authorised to sign on behalf of the company.

### Information and communication

Executive Group Management's internal communication channels mainly consist of the intranet and management conferences, together with regular follow-up meetings with each Business Group. Information and discussions about issues concerning internal control are held regularly by the Audit Committee. The minutes from Committee meetings are submitted to Vattenfall's Board.

### Management and following up

Financial follow-ups are conducted monthly through Business Group Financial Reviews, preceded by detailed controller meetings.

Vattenfall's internal audit unit is charged with a number of tasks, including participation in the review of internal control for financial reporting. Important observations are reported to the Audit Committee.

The Board receives monthly financial reports and the financial positions of the parent company and the Group are reviewed at each Board meeting.

All legal units provide monthly and quarterly reports in accordance with standardised reporting routines. In addition to the consolidated accounts for the Vattenfall Group, information is also prepared to enable profitability and different Key Performance Indicators to be measured at Business Area and Business Unit level.

### Statement

The Swedish Corporate Governance Board has decided that the board of a limited liability company following the Code for 2005 need not make a statement on how well the control process has worked as the reports for 2005 are not reviewed by auditors. The Board of Vattenfall AB considers the internal control for financial reporting to be organised in an appropriate manner. In 2006, the Board plans to introduce a process to allow an annual evaluation of how internal control works.

Stockholm, 22 February 2006

Board of Directors

\*) COSO – abbreviation of The Committee of Sponsoring Organizations of the Treadway Commission