Nice and clean?

Does EPH meet Sweden’s and Vattenfall’s ethical standards?
1. Summary

When Swedish state property is sold, the buyer’s efforts regarding sustainability must be considered by the seller. The Czech EPH, which wants to acquire Vattenfall’s German lignite operation, shows no sustainability effort at all. PPF Investments Ltd, EPH’s financial partner in the deal, does not even have an annual report and both companies are owned by four billionaires registered in tax havens. Nevertheless, Vattenfall suggests that they take over one of the most climate-damaging businesses in Europe.

Vattenfall’s sale of its lignite operations in Germany to the Czech EPH and PPF Investments is one of the most controversial state corporate transactions in Sweden since the Nuon affair, and it risks becoming a similar political sinker for the Government. The potential environmental and climate effects are vast and well known, but the deal also raises questions regarding how Vattenfall’s Board of Directors and the Government view sustainable business, responsibility and their own ethical principles.

Do EPH and PPF Investments meet the Government’s guidelines regarding the sale of state property, where the buyer’s work with sustainable business should be a factor?

Vattenfall’s CEO, Magnus Hall, thinks so and has called EPH and PPF “a very good owner”. But he is referring to companies that:

- are devoid of all forms of policies and reporting on corruption, environmental and sustainability issues,
- lack annual reports (PPF),
- do not meet the OECD Guidelines for Multinational Enterprises or the UN Global Compact,
- aim to increase the use of lignite in Europe,
- withdraw large profits from subsidiaries who then decrease investment in recultivation of land,
- are owned by letterbox companies in tax havens,
- have been convicted by the European Commission for obstructing an antitrust investigation,
- have a senior manager who is under investigation for tax fraud and/or corruption.

Greenpeace’s investigation shows that EPH and PPF do not even have the most basic components of sustainable business practice in place. That their sustainability record would be accepted by the Government is precluded by all parameters. The mere fact that Vattenfall even collaborates with these companies is a breach of Vattenfall’s Code of conduct.

2. Nice and clean

Vattenfall has signed an agreement on the transfer of the company’s lignite operations in Germany to EPH (Energetický a průmyslový holding) and its financial partner PPF Investments Ltd. The deal needs to be approved by the Government, but Vattenfall is responsible for making sure that the buyer meets the Government’s requirements for the sale of state property, demanding that the buyer’s performance in sustainability should be considered, and it is in opposition to Vattenfall’s Code of Conduct. The proposal belongs in the Government office’s trashcan.

The process is informally called “hel och ren”, translated as “nice and clean”, and is intended to ensure that the buyer is acceptable from a number of perspectives, including sustainability. It should also make sure that Vattenfall’s handling of the deal meets the requirements of the law, the Governmental Ownership Policy and other regulations, such as the OECD Guidelines for Multinational Enterprises.

So how nice and clean is the prospective buyer of some of Europe’s largest lignite power plants and mines? At the press conference where Vattenfall’s CEO Magnus Hall presented the deal, he described EPH and PPF Investments as “a very good owner”.

Greenpeace believes that Hall’s opinion is misleading for the Government, but it is uncertain whether the Government will make its own assessment. Communication from the Ministry of Enterprise
and Innovation suggests that this will not happen. Instead, the Government seems to accept Vattenfall’s judgement on the whole, only examining the financial settlement, i.e. making a “fairness opinion”.

3. Sustainability efforts

For a company to be considered as making a systematic effort in sustainability, the following elements should be in place:

- Identification of the company’s impact on the environment, people and society
- Risks and opportunities linked to the impact
- Policies and goals for managing impacts and risks
- Strategies and action plans linked to the goals
- Clear division of responsibilities within the organisation
- Clear evaluation model of the efforts
- Accounts of results and possible improvements

3.1 Impact, risks and possibilities

Identification of the impact shall be achieved through a clear process, where the company’s stakeholders are involved. Impact through the entire value chain of the company should be considered, from extraction of raw materials to the impact arising in customer segments and end-of-life stage of a product. What should be identified is the actual effect, not the possible impact or the disposition. Environmental, ethical and social risks should be identified and managed. For proactive measures, possibilities must also be identified.

3.2 Governance and goals

To handle the actual impacts on people, the environment and society that arise, or are likely to arise, throughout the entire value chain, the company needs to address issues of corporate governance, with clear processes as a result. Policies need to be in place. Long- and short-term goals need to be in place and strategies linked to the goals are needed, as well as a defined division of responsibilities. The results need to be followed up, and identification of the improvement opportunities should be noted and implemented.

3.3 Reporting and transparency

Companies are expected to include stakeholders’ views regarding the issues that are essential for the company and the information they need in order to evaluate the company’s performance. An EU directive on mandatory sustainability reporting was established in 2015, and Sweden’s legislation linked to the directive is expected to take effect 2016.

4. Governance of state companies

The Government’s control over state-owned companies is largely based on setting principles, guidelines and objectives for the companies, and then placing responsibility with the companies’ Boards of Directors. Apart from the Swedish legal framework for companies, the Companies Act, which applies to all companies in Sweden, control is implemented through the state’s Ownership Policy and the business section in the bylaws, where Parliament describes what the company’s activity should be.

In addition, the Government can issue special instructions to the companies, so-called owner’s instructions. Finally, the control is effected by decisions of the Annual General Meeting (AGM). In addition to this, the Government and the Board of Directors have an ongoing dialogue with the management.

**Figure 1: The principle of governance**

In Vattenfall’s assessment of the buyer’s sustainability efforts, the Government’s Ownership Policy is the key document that defines which guidelines the seller’s management should use.

4.1 Ownership Policy

The Ownership Policy is formulated by the Government and consists of a set of principles and guidelines to be followed in state-owned companies which the companies’ Boards of Directors are responsible for implementing. The most recent policy was adopted by the Government in 2015 and states that the aim of the document is to clarify to the companies how they should “act exemplary” by working on issues such as trust and sustainable business. Sustainable business has a chapter of its own in the policy and the Government stresses that state ownership is based on integration of sustainable business.

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6 The guidelines of GRI and ISO 14001:2015 highlight the importance of communication with stakeholders.

7 State Ownership Policy and guidelines for companies with state ownership (Swedish only), Government Office, 2015
In the Ownership Policy, the section on “exemplary behaviour” begins with a general description where the Government indicates how companies should approach environmental issues (see box). More specifically, sustainable business is said to include human rights, labor, environment, anti-corruption and business ethics, as well as equality and diversity. The state requires that a strategic effort on sustainable business should exist. The effort should include:

- **Working strategically, integrating the issues into the business strategy and defining strategic sustainability goals**
  There must be a considered and accepted policy and established strategic goals. The goals should be relevant to the company’s business. The goals must also be long-term, ambitious and possible to follow up.

- **Act transparently in matters relating to significant risks and opportunities and pursue an active dialogue with stakeholders in society**
  Efforts regarding sustainable business must be communicated internally and externally. Companies should report their work according to the guidelines of GRI (Global Reporting Initiative), including publishing them on the company’s website.

- **Collaborate with stakeholders**
  Active efforts in the area of sustainability should be conducted with business partners, customers, suppliers and other stakeholders.

- **Comply with international guidelines**
  International guidelines on the environment, human rights, labor, anti-corruption and business ethics must be followed. Examples of guidelines identified as significant are the ten principles of the UN Global Compact, the UN Guiding Principles for Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

4.2 The business section of the Bylaws

Vattenfall’s articles of association, or bylaws, are decided by the Parliament and have long been a topic of political debate. The National Audit Office has repeatedly criticised the design of the bylaws as they are considered to be unclear in several aspects. This has mainly concerned the question of whether economy or sustainability has priority.

The wording was changed in 2010 and the relevant part of the business section now reads: “The object for the Company’s activities is to generate a market rate of return by, directly or indirectly through subsidiaries and associated companies:

  a) operating a commercial energy business that enables the company to be among the leaders in developing environmentally sustainable energy production”.

Legal experts still consider the wording unclear. In Swedish, the paragraph can be read as if the commercial approach is superior, but also the opposite: creating a market rate of return within the limits of being a leader in the energy transition. Unfortunately this opens up for the Board, Government and anyone else to make their own interpretations.

4.3 UN Global Compact

The Ownership Policy identifies the ten principles of the UN Global Compact as important to follow in the sustainability efforts of state owned companies. The principles are general and highly flexible, yet they do provide guidance. According to the Global Compact, companies should:

- Support and respect international human rights within the sphere of corporate influence.

“State-owned companies should set a good example in the field of sustainable business and otherwise act in a way so that they receive public confidence. The government’s efforts with sustainable business is based on the Brundtland Commission’s original definition of sustainable development from 1987: Sustainable development is development that meets the needs of today without compromising the ability of future generations to meet their own needs. Sustainable business includes the areas of human rights, labour, environment, anti-corruption and business ethics, along with equality and diversity. The companies’ responsibility in the field of sustainable business contributes to their competitiveness. An integration of sustainability issues in business is therefore a natural part of a long-term business strategy and business development.”

Ownership Policy 2015
• Ensure that their own companies are not complicit in human rights violations.
• Uphold freedom of association and the right to collective bargaining.
• Eliminate all forms of forced labour.
• Abolish child labour.
• Eliminate discrimination in recruitment and task assignment.
• Support a precautionary approach to environmental challenges.
• Take initiatives to promote greater environmental awareness.
• Encourage the development of environmentally friendly technologies.
• Oppose all forms of corruption, including extortion and bribery.

4.4 OECD Guidelines
The OECD Guidelines for Multinational Enterprises\(^8\) must also be followed by state owned companies in their work with sustainability. Sweden is one of the 42 nations behind the guidelines for corporate responsibility developed within the OECD.

The guidelines contain a series of recommendations for companies regarding labour, the environment, corruption, transparency, etc. Among other things, the guidelines state that companies should establish and maintain an environmental management system, set measurable goals and benchmarks for improved environmental performance and regularly monitor and control progress in these matters.

Explicitly, the guidelines recommend that companies “provide the public and workers with adequate, measurable and verifiable (where applicable) and timely information on the potential environment, health and safety impacts of the activities of the enterprise, which could include reporting on progress in improving environmental performance”.

In the sections on corruption and competition it is recommended that companies “co-operate with investigating competition authorities by, among other things and subject to applicable law and appropriate safeguards, providing responses as promptly and completely as practicable to requests for information, and considering the use of available instruments, such as waivers of confidentiality where appropriate, to promote effective and efficient co-operation among investigating authorities.”

Furthermore, companies should “enhance the transparency of their activities in the fight against bribery, bribe solicitation and extortion. Measures could include making public commitments against bribery, bribe solicitation and extortion, and disclosing the management systems and the internal controls, ethics and compliance programmes or measures adopted by enterprises in order to honour these commitments.”

5. Vattenfall’s sustainability efforts
In 2007, it became mandatory for public companies to report their sustainability efforts according to the guidelines of the Global Reporting Initiative (GRI). The guidelines\(^9\) set clear requirements on corporate reporting of sustainability initiatives, such as the company’s positions in policy documents, sustainability targets and action plans, as well as a clear presentations of the results.\(^10\)

Since 2013, the Board also has the responsibility to define and establish relevant sustainability goals and overall strategies for achieving these goals. Each company has its own specific business opportunities and risks linked to the areas defined in sustainable business. The goals should be few, strategic, challenging and possible to follow up.

5.1 Sustainability goals and strategy
Vattenfall’s annual and sustainability report for 2015 initially describes how the company’s long-term strategy developed during the year for Vattenfall to take a leading role in, and benefit from, the transition to renewable energy, which occurs at an increasing pace.\(^11\) The company’s CEO, Magnus Hall, makes it clear that the ambition is to be a leader in this transition and that sustainability permeates Vattenfall’s four strategic goals:

• A leader in sustainable consumption
• A leader in sustainable production
• Efficient operations
• Motivated and committed employees

In December 2015 Vattenfall’s Board of Directors adopted six new strategic long-term goals for 2020, reflecting the four strategic ambitions. The objectives...

\(^{10}\) Guidelines for external reporting for state-owned companies, the Government offices
are, among other things, that carbon emissions must be reduced and that the company will more than double its wind power capacity by 2020. Vattenfall’s vision is to be climate neutral by 2050, and by 2030 in the Nordic countries, involving a gradual phase-out of fossil-based fuels for Vattenfall to be able to achieve its climate and sustainability ambitions.

To sell the German lignite operation is, ironically, part of the strategy to reduce emissions for the company, even though it does not reduce emissions in the outside world. This has been heavily criticized by many stakeholders and demonstrates the importance of developing sustainability goals that are relevant and well considered.

5.2 Guidelines and Code of Conduct
Vattenfall supports a number of international guidelines and standards for sustainability in their operation. For example, the company supports the UN Global Compact principles and through these it takes a clear stand on issues of human rights and social and environmental responsibility. The company also complies with the OECD Guidelines for Multinational Enterprises and the Global Reporting Initiative.

In their own words, Vattenfall strives to continuously improve its supply chain and its suppliers’ work. The aim is to engage in a business with a great focus on sustainability throughout the value chain. The company also strives to act responsibly, and require that the company’s business partners do the same by following Vattenfall’s Code of Conduct for suppliers.

The code reflects the ten principles of the UN Global Compact, which relate to human rights, labour, environment and corruption. Vattenfall therefore asks all suppliers, through its Code of Conduct, to support these ten principles.

The Code states that Vattenfall “only work with others who commit to do business in an appropriate and ethical manner, as evidenced for example in their own Code of Conduct, Ethical Policy or other company guidelines. This applies to all suppliers and other business partners, including brokers, agents, joint venture partners and other third parties with whom Vattenfall has business relationships.”

The code also applies to employees, describing how they are required to act in their daily work. It describes an essential need to act in accordance with the highest standards of integrity, in particular by preventing corruption and anti-competitive behaviour.

6. The buyer
The main party in the transaction, the Czech energy company EPH, was formed as part of the group J&T in the 1990s. It has gradually broken off to become an independent holding company for some 30 companies operating within a wide range of energy-related businesses. The basis has been distribution of gas from Russia to the EU, but in recent years the company has expanded significantly into energy production through the acquisition of power plants and energy companies. Primarily the expansion has taken place in eastern Europe, but also in Italy and the United Kingdom.

According to Vattenfall, EPH has a financial partner in the proposed deal: PPF Investments. The company is registered on the island of Jersey, a known tax haven in the English Channel. The company has no public annual report and unclear links to PPF Group in the Czech Republic.

6.1 Ownership structure
EPH Group is still tied to J&T, which owns 66.6 percent of the shares, while EPH’s Chairman and former top manager of J&T, Daniel Křetínský owns the rest. Ownership is achieved through companies based in tax havens and offshore companies.
According to the annual report of 2014, EPH is owned by three companies: Milees Ltd., Biques Ltd. and EP Investments SARL.

The report also shows that Milees Ltd and Biques Ltd are in turn owned by the companies J&T Partners I and J&T Partners II. All four of these companies are registered in the same office in Nicosia in Cyprus: Akropoleo nr. 59-61, Savvides Center, 1st floor, apartment 102. Many other companies are registered in the same apartment. See Figure 2.

When Greenpeace visited the office in May 2016, it was apparently leased by a company called Interquick, specialists in company registration, tax schemes and similar (see interquick.eu). Staff in the office acknowledged that the companies in question were registered there, but would not give any further information. In Cyprus’ Registry of Companies, there are no public documents for any of the four company’s owners, directors, operations or finances.

The four letterbox firms in Cyprus are probably far from the only ones owned by J&T. Jarmina Jánošová, who was included in the company’s management team for many years, said in an interview that she has registered at least a thousand companies for J&T.14

The third owner, EP Investment SARL, is registered in another tax haven, Luxembourg, and is owned ultimately by EPH’s chairman Daniel Křetínský.15 PPF Investments Ltd is described by Vattenfall as EPH’s financial partner in the deal. The company is registered in the tax haven of Jersey in the English Channel. There is no public information about the company’s business, owners, management or finances.

On the company’s website16 there is very limited information, but it indicates that their business is mainly done through two subsidiaries: PPF Investments China and PPF Investments Russia. The activity of the company is described as follows: “PPF Investments is an independent, international private equity group with a specific focus on transitional economies such as those found in Central and Eastern Europe or Asia. Our goals are to achieve superior, risk-adjusted returns for our Investors by investing into assets/projects with significant growth potential.”

According to an excerpt from the company registry in Jersey (see Figure 3) the company is owned entirely by the Czech citizen Tomas Brzobohaty, but evidently there are links to the PPF Group, a financial group owned by Czech Petr Kellner. PPF Group CFO Katerina Jiraskova states that the PPF Group is behind the proposed deal.17 According to PPF Investments’ website, the company has permission from PPF Group to use the trademark and name.

6.2 Owners and transparency

All companies included in the ownership chain are, by all appearances, owned by a few very resourceful individuals who fully control the business through Boards and management.

Daniel Křetínský is among the ten wealthiest people in the Czech Republic and his fortune is estimated to be approximately € 400 million. Owners of the J&T Group, Ivan Jakabovič and Jozef Tkáč, are among the ten richest persons in Slovakia.18 Petr Kellner, who owns PPF Group, is the Czech Republic’s wealthiest person. According to Forbes, he has a fortune of eleven billion US dollars.19

The concentration of ownership to a few wealthy individuals is problematic for many reasons. It means that the dynamics found in companies with many shareholders are missing, and that decisions are entirely in the hands of a small group of very wealthy people, subject to their interests.

EPH is registered in the Czech Republic where there are disclosure requirements, and therefore it is the only one of the companies involved where there is even basic insight.

Czech authorities require that the annual reports and accounts of the general meetings shall be made public. The latest annual meeting was called only eight days in advance. The records show that present were

Figure 3: Extract from the Company Register in Jersey

14 http://bit.ly/1XJB01
15 EPH Annual Report 2014
16 http://www.ppfinvestments.com/ 2016-05-15
17 Czech private groups EPH, PPF join forces to bid for Vattenfall’s German power plants, Reuters, 2015-10-13, http://www.reuters.com/article/vattenfall-eph-idUSKCN0Q002720151013
19 http://www.forbes.com/profile/petr-kellner/?list=billionaires
the company’s management and representatives of the three owner companies Milees Ltd, Biques Ltd and EP Investment SARL. However, the officials are not named. The company publishes annual reports with the information required by Czech law, but lacks even basic sustainability components such as environmental policy and reporting.

For the offshore-based owner companies there is zero transparency. There are no public documents such as annual reports, financial reports, tax payments, Board structure, sustainability reports, protocols of annual meetings, environmental policies, etc.

At the end of 2015 and during the winter of 2016, EPH announced plans for an IPO, but the plans was cancelled in the spring of 2016. Instead a part of the company is being sold to the finance and investment company Macquaire, which also has been a stakeholder in the bids to buy Vattenfall’s coal mining operations.

This means that the company will avoid demands for greater transparency, which otherwise are required by listed companies. The news agency Reuters commented as follows: "Some industry insiders have said the company could prefer to remain a closely and flexibly managed business through a sale to a single investor, if it received a strong enough offer, over becoming publicly traded firm listed in Prague and London." 20

6.3 Anonymity
An important factor in a market economy is the ability for consumers and citizens to demand accountability and make choices. Competition is eliminated when suppliers of goods or services are anonymous and unknown. Compared to most energy companies, there is no face to EPH.

- **There is no brand.** Customers of Vattenfall and many other utilities can demand accountability if they are not satisfied, or choose another supplier. EPH sells its electricity to other suppliers and do not have their own retail customers to take into consideration.

Mailboxes at the entrance to Akropoleo nr. 59-61. EPH's parent companies are registered with Interquick in apartment 102.
minority shareholders who could influence the company’s direction.

- There is no democratic influence. Vattenfall is owned by the Swedish people and its direction is determined by the Parliament and the Government, which means that there is a social interest and responsibility at the basis. This is lacking at EPH, which is owned by offshore companies and three Czech oligarchs with great influence over the Czech Government.

Vattenfall motivates the transfer to EPH and PPF by claiming that the company wants to reduce its CO₂ emissions in line with its sustainability goals and the Parliament’s decisions. But the goal is not consistent with the parliamentary decision, as pointed out by the National Audit Office, since it does not contribute to emission reduction at the EU level.

The result is probably the opposite, increased emissions in the EU. EPH has no ambition to reduce emissions and its owners are not interested in a long-term European climate policy. In fact, the company hopes for a renaissance of lignite in Germany, which probably means a longer lifetime for facilities and consequently to greater emissions.  

6.4 Criminal investigations

EPH has, despite its short history, occurred in a series of police investigations about corruption and tax evasion. One of these concerns alleged irregularities in the purchase of the German utility Mibrag in 2009. The investigation was closed for lack of evidence and the head of the anti-corruption agency regretted that several of the people involved had suddenly lost their memory.  

- On November 24 2009, the European Commission raided the premises of three Czech energy companies as part of an antitrust investigation. Two of the companies raided were EPH and their principal owner J&T. The commission suspected that the companies were engaged in a cartel conspiracy.

During the investigation of EPH, the Commission requested access to all computers, but officials were informed by EPH staff that all computers were new and lacked content. The commission later gained access to the old computers, but they had been cleared of all information. As a step in the investigation, the EU Commission also blocked staff access to e-mail accounts by setting new passwords. The intention was to secure all the information contained in the emails and to prevent that old and incoming messages were deleted or manipulated. When the Commission

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Total amount: 23 978 543

+65 292 368

Vattenfall power plant

Source: EU database for emissions in the trading scheme ETS


Nice and clean? Does EPH meet Sweden’s and Vattenfall’s ethical standards? Greenpeace, May 2016
opened the account the next day, they noticed that the passwords had been changed and at least one email account had been tampered with and blocked for incoming mail.

The European Commission accused EPH for obstructing an antitrust investigation. The company pleaded guilty and was sentenced in March 2012 to €2.5 million in fines. Afterwards it was noted that EPH had known that a raid would take place several days in advance.

During the fall of 2014 a raid was conducted at the offices of Götzpartners in Berlin. The company owner Stephan Götz had acted as financial advisor when EPH bought the German utility Mibrag in 2009, and was an old friend of Mibrag CEO Joachim Geisler. After the purchase, Götz continued as an advisor and received two million euros per year in compensation. Geisler became CEO of the energy section of EPH, EP Energy.

After a tip from a whistleblower at Mibrag, German authorities began to suspect that the remuneration of Götz was a case of corruption, tax evasion and kickbacks, where Geisler in fact has received some of the fees paid by Mibrag to his good friend Götz. Geisler was arrested and detained on suspicion of bribery, corruption and tax evasion and is now “suspended” but retains his managerial position within EP Energy.

6.5 Climate change and the future

EPH owns and currently operates 27 power plants in five countries, the majority in the Czech Republic. Emissions of carbon dioxide from the plants amounted to 24 million tonnes in 2015, about 2.5 percent of the emissions in Europe.

If the company acquires Vattenfall's lignite power plants, the company’s emissions will increase to about 90 million tonnes per year, almost twice as much as the annual emissions of Sweden. EPH will then become the third largest emitter of carbon dioxide in Europe, after RWE and ENEL.

Since neither EPH, EP Energy, PPF Investments or any of its parent companies have even basic reporting on environment, climate and sustainability policies, it is not possible to determine with certainty how the companies relate to sustainability issues. From PPF Investments there are no public documents at all, while the annual reports from EPH and EP Energy mainly mention environmental issues as a factor that can reduce profitability and hamper company growth. The annual report of the J&T group mentions the word environment three times – all of them referring to the business environment in certain countries.

This is a clear indicator in itself. The complete absence of a sustainability perspective in the companies’ public documents – when such documents even exist – strongly suggests that the perspective is also missing in the leadership and management.

Evidence that supports this assumption, at least regarding EPH, is that the company’s chairman Daniel Křetínský in several interviews has said that the background for his interest in acquiring Vattenfall’s operations, is a calculation and hope that lignite will get a boost – a renaissance – in Germany.

The potential for continued mining and burning of lignite is great. The Lausitz Field, where Vattenfall presently is the only company mining lignite, is one of the largest lignite reserves in Europe and contains about twelve billion tons of recoverable lignite (which produces equivalent amounts of CO₂ emissions when burned).

There are currently plans for five new mining areas that Vattenfall’s Board of Directors has decided not

| Table 2: Policies, goals, guidelines and reporting by EPH and PPF Investment |
|---------------------------------|-----------|-----------|
|                                  | EPH       | PPF       |
| Annual report                    | Yes       | No        |
| Environmental report             | Fragments | No        |
| Sustainability policy            | No        | No        |
| Sustainability report            | No        | No        |
| Sustainability goals             | No        | No        |
| CO₂ report                       | No        | No        |
| CO₂ reduction target             | No        | No        |
| Renewable energy target          | No        | No        |
| Fossil free target               | No        | No        |
| Anti-corruption policy           | No        | No        |
| Code of Conduct                  | No        | No        |

Source: Annual reports, websites, company registers etc.

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25 Jede Menge Kohle, Manager Magazin, januari 2016
27 Who are EPH? s, Sandbag 2016
to invest in,\textsuperscript{29} but for a company aiming to achieve a lignite renaissance they are undoubtedly a great asset. The planned mines include approximately 1.2 billion tons of lignite. If it is burned the emissions will equal the amount released by Sweden in 24 years.

Czech energy companies generally have strong ties to Czech political parties, and both EPH's and PPF's owners have good relations with the Czech Government. It seems likely that the companies will try to influence Czech politicians to work against both German and European policies that may threaten their economic interests. Also, if the companies own a large part of the German electricity production, they will have substantial influence over the German energy politics.

6.6 Liability and land recultivation

Lignite mining has extensive impact on the landscape and groundwater as it occurs in open-pit mines, covering many square kilometers. Under German law, the companies have an obligation to restore the land after mining, which is a major cost for the business. For example, Vattenfall has allocated nearly €1.4 billion for restoration of the land that the company has used since the early 2000s.

Energy companies are free to decide the pace at which they want to make financial reserves for this purpose. RWE and Vattenfall, the largest lignite companies, devote continuously large amounts to provide for future restoration. So did the smaller company Mibrag until 2009 when it was acquired by EPH. After the acquisition, these provisions were cut drastically.

A comparison of the provisions made by the three largest lignite companies in Germany, RWE, Vattenfall and Mibrag, shows that RWE and Vattenfall have set aside a large portion of the estimated costs for restoration of mines, while Mibrag has only reserved thirteen percent.

Table 3: Lignite companies' provisions for land restoration, € million, 2015, aggregate

<table>
<thead>
<tr>
<th></th>
<th>Hectare</th>
<th>Cost</th>
<th>Allocated</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>RWE</td>
<td>24 400</td>
<td>2 538</td>
<td>2 527</td>
<td>99,6</td>
</tr>
<tr>
<td>Vattenfall</td>
<td>23 009</td>
<td>2 393</td>
<td>1 375</td>
<td>57,5</td>
</tr>
<tr>
<td>EPH/Mibrag</td>
<td>9 830</td>
<td>1 022</td>
<td>129</td>
<td>12,6</td>
</tr>
</tbody>
</table>

At the same time EPH extracts big profits from Mibrag. In 2013, Mibrag had sales of €421 million, while €82 million were charged as profit to EPH through its subsidiary JTSD, a subsidiary to EPH which is the formal owner of Mibrag. This represents a profit of 19 percent of sales. The year before, JTSD took out €83 million, in 2011 the profit was €67 million, in 2010 €70 million and in 2009, when JTSD only owned the company for half of the year, it was €33 million. Since EPH acquired Mibrag, the owner has taken out a total of €415 million in profits, compared with the price EPH paid for the company in 2009: €400 million.\textsuperscript{30}

In Germany, Vattenfall's agreement with EPH has led to a debate about the responsibility for the restoration of mining areas. There is a fear that EPH will want to maximize profits in the operation by cutting down on provisions to recultivate the vast areas that have been mined.

Vattenfall's reserves for recultivation will be transferred to the new owner and according to Vattenfall, the agreement with EPH and PPF contains clauses ensuring that the buyer can not take profits out of the company during the first three years, and during the following two years the opportunities for profit withdrawal are limited. This aims to build the company's reserves for restoration of land and Vattenfall's CEO Magnus Hall believes that Vattenfall is thus relieved of all future liability.\textsuperscript{31}

The question is whether such a clause is legally binding (the agreement has not been published), and

\textsuperscript{29} Former chairman of the board Lars G Nordström, Inquiry in Standing Committee on Constitutional Affairs, Swedish Parliament, April 2015


\textsuperscript{31} Vattenfall's press conference 2016-04-18
even if it is, EPH has every opportunity to access the company’s capital after five years.

If EPH’s owners choose to extract as much money as possible, close down the company and put it into bankruptcy, German taxpayers will have to bear the cost for restoration of the land. If Vattenfall’s lawyers have been smart, Sweden can perhaps escape legal responsibility, but in the worst case, the damages can be extensive. In any case, the moral responsibility of the Swedish Government would be immense.

Another possibility is that EPH chooses to sell the entire business or parts of it to other investors, even outside Europe. The Czech analyst Petr Hlinomaz at BH Securities, believes that this would be in line with EPH’s strategy.\(^\text{32}\) The analysis was strengthened when EPH in the spring of 2016 chose to sell parts of its gas and heating business to finance giant Macquaire.

### 7. Conclusions

Greenpeace and other environmental organisations are highly critical of Vattenfall’s lignite operations. To reach the climate targets the world has agreed to in Paris, the operations must be shut down as soon as possible, but no later than by 2030. In terms of local environmental pollution, water use, emissions of heavy metals, etc. much remains to be done. But none of this will be improved by selling the operation to someone else – on the contrary.

Vattenfall’s ownership has been appreciated by the staff, the authorities and politicians. The company has a very good reputation among those concerned, and is considered to be a good partner. Annual reports, sustainability reports and objectives are transparent and the company adheres to relevant guidelines for sustainable business practices and ethics. Although the Swedish state should do more and the Government needs to steer the company more actively, the state is still a democratically based owner with the possibility to demand accountability.

When Vattenfall announced its intention to sell the business, the leader of the German Social Democrats, Sigmar Gabriel, expressed his concern. An internal memo expressed fears that jobs in the region may be threatened by a sale. Later Gabriel travelled to Sweden for a meeting with Swedish Prime Minister Stefan Löfven.\(^\text{33}\)

#### 7.1 Vattenfall’s choice

Vattenfall has been considering a sale for a long time, but finding any serious company that wants to acquire the lignite operation can not be easy. All major energy companies are reluctant to get involved, either because of the financial risk or political judgments. However, difficulty in finding a buyer with ethical guidelines and aiming for reduced environmental impact, must not lead to Vattenfall selling its operation to any company that wants to acquire it.

It is uncertain how many prospective buyers participated in the bidding, but only a few have admitted their participation. How and why Vattenfall finally has chosen to proceed with EPH and PPF is unknown, but according to Vattenfall this was financially the best offer they received. And Vattenfall apparently wants to get rid of the business at all costs.

The option that the Board of Directors of Vattenfall has brought forth and is asking the Government to accept, should leave sustainability experts astonished. It concerns an owner that:

- is devoid of all forms of basic policies and reporting on corruption, environmental and sustainability issues,
- lacks annual reports (PPF),
- does not meet the OECD basic guidelines for multinational companies or the UN Global Compact,
- aims to increase the use of lignite in Europe,
- withdraws large profits from subsidiaries while decreasing their provisions for recultivation of lignite mines,
- is owned by letterbox companies in tax havens,
- has been convicted by the European Commission for obstruction of antitrust investigations,
- has a senior manager suspected of tax fraud and/or corruption.

The absence of objectives, policies, and reporting, and the recognised offenses in the EU investigation into the antitrust case, means that EPH does not live up even to the OECD Guidelines for Multinational Enterprises which Sweden has endorsed, or the UN Global Compact. It also means that EPH is a company that Vattenfall should not even cooperate with according to its own Code of Conduct.

A simple comparison of the various reporting and the policies published by the companies shows what risks such a deal gives with regards to sustainability issues (table 4).

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\(^{33}\) Germany wants to dissuade Vattenfall from selling lignite assets, Reuters, 2014-11-11 http://www.reuters.com/article/germany-sweden-vattenfall-idUSL6N0T112620141111
business partners who are committed to doing business in an appropriate and ethical manner, as evidenced for example in their own code of conduct, ethical guidelines or other guidelines.

This applies to all suppliers and other business partners, such as brokers, agents, joint ventures and other third parties with whom Vattenfall has business relationships (see section 5.2).

7.2 The Government’s choice

The fact that Vattenfall compromises its principles is not acceptable, but perhaps not surprising given their historic performance and the context. But how is it possible that the Swedish Government, internationally renowned for its dedication to sustainability, is even considering the proposal?

The planned transfer of the German lignite power plants and mines to the Czech EPH and PPF starkly highlights the shortcomings in the governance of state owned Swedish companies, issues that have been known and criticised, e.g. by the National Audit Office.

The Government’s corporate governance is largely based on designing principles and guidelines to ensure that the Boards of publicly owned companies behave

<table>
<thead>
<tr>
<th>Table 4: Comparison of goals, policies and reports</th>
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<tbody>
<tr>
<td>Vattenfall EPH PPF</td>
</tr>
<tr>
<td>Annual report</td>
</tr>
<tr>
<td>Environmental report</td>
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<tr>
<td>Sustainability policy</td>
</tr>
<tr>
<td>Sustainability report</td>
</tr>
<tr>
<td>Sustainability goals</td>
</tr>
<tr>
<td>CO2 report</td>
</tr>
<tr>
<td>CO2 reduction target</td>
</tr>
<tr>
<td>Renewable energy target</td>
</tr>
<tr>
<td>Fossil free target</td>
</tr>
<tr>
<td>Anti-corruption policy</td>
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<tr>
<td>Code of Conduct</td>
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</table>

Source: Annual reports, websites, company registers etc.

It’s a mystery how Vattenfall’s Board of Directors can propose its lignite operations to be transferred to such companies, and how the CEO Magnus Hall can call them “a good owner”. How is this possible? Aside from all ethical judgments, it is obviously contrary to the company’s own Code of Conduct, which clearly states that Vattenfall only works with suppliers and
lead to emission reductions, to follow up and clarify the interpretation of the company’s mission as a whole, and to continuously acquire knowledge and make independent analyses to be able to affect the company’s competitiveness and return of profit to the state."

In short, Vattenfall does not follow the guidelines and demands set by Parliament and Government, but the Government does not see it and does nothing about it. The responsibility is everyone’s and no one’s. Probably, it is exactly this method of governance that creates a loop-hole in the process.

In the lignite affair, the Government once again relies on the assessments and considerations made by Vattenfall and supplied by the Board, despite previous failures and miscalculations. The ambitious Ownership Policy is a paper tiger, the wording of the articles of association is unclear, and the internal process called “nice and clean" seems arbitrary.

Guidelines are clearly not enough to prevent the most horrific misjudgements by Vattenfall’s management and Board of Directors.

There are many indications that the proposed deal may become a new Nuon affair, this time brought about by the Social Democrats and the Green Party. The alarms are ringing loudly. Will the Government listen? Will they allow or stop one of the biggest scandals ever in the management of Swedish state-owned companies? And one of the most important climate decisions in Swedish history.

7.3 Greenpeace demands

To sell Vattenfall’s lignite operations to EPH and PPF is impossible if the Government’s and Vattenfall’s own guidelines are followed. It is contrary to the Government’s requirement that the buyer’s sustainability efforts should be factored in, and it is contrary to Vattenfall’s own Code of Conduct.

Greenpeace demands that the Swedish Government cancels the proposed deal and takes responsibility by phasing out the lignite operations in a socially and environmentally sustainable manner before 2030.

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34 http://stefanschroeter.com/1209-vattenfalls-komische-compliance.html
35 Regeringen bör bli mer aktiv i styrningen av Vattenfall, Riksrevisionen, 2015-04-23 http://www.riksrevisionen.se/sv/OM-RIKSREVISIONEN/Pressrum1/Nyheter1/2015/Regeringen-bor-bli-mer-aktiv-i-styrningen-av-Vattenfall/
The entry phone on Akropoleo nr. 59-61 in Nicosia, Cyprus, where four of EPH’s five parent companies rent mailboxes at the offices of Interquick (bottom left button). Staff at Interquick have confirmed that the owners of EPH are registered there.
To Vattenfall

20 April 2016

Dear Sir/Madam

Project Odin

In relation to the contemplated sale of Vattenfall Europe Generation AG and Vattenfall Europe Mining Aktiengesellschaft (together the Target Companies) to a consortium of EPH and PPF Vattenfall has taken various measures to verify that EPH and PPF meet the compliance standards of the Swedish State and the standards of good business practice. These measures encompassed (i) a compliance questionnaire which had to be filled out by EPH and PPF, (ii) a compliance due diligence in relation to EPH and PPF conducted by an external specialist firm on the basis of publicly available sources, (iii) additional enquiries in relation to potentially problematic findings of the compliance due diligence of the specialist firm (iv), written statements by EPH in relation to such additional enquiries, (v) enquiries specifically addressing the mentioning of Daniel Kretinsky, the CEO and majority shareholder of EPH, and Petr Kellner, the ultimate owner of PPF, in the Panama Papers and (vi) written statements of Daniel Kretinsky and the general counsel of PPF regarding the facts revealed in the Panama Papers. In addition, Vattenfall has investigated the circumstances of criminal proceedings against a (former) managing director of a German subsidiary of EPH involving allegations of bribery, tax evasion and embezzlement. All relevant oral statements of EPH regarding its involvement in this case were confirmed in writing by Daniel Kretinsky and the general counsel of EPH who is also a board member of EPH. All measures described in this paragraph are hereinafter referred to as Due Diligence.

In our opinion the Due Diligence was conducted diligently. The Due Diligence did not provide concrete evidence for any wrongdoing or business practices of EPH, PPF their management and their (ultimate) shareholders which are not in line with the standards of good business practice. This includes the revelations of the Panama Papers. Holding interests in British Virgin Island based companies as such is legal and no indications were given that these structures are used for tax evasion or other unlawful purposes.

Against this background we are of the opinion that none of the findings of the Due Diligence
disqualifies EPH and PPF as purchaser of the Target Companies.

Yours faithfully

[Signature]

Annedore Streyf
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<thead>
<tr>
<th>Question</th>
<th>Yes / No</th>
<th>If Yes, please provide further information</th>
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<tbody>
<tr>
<td>1  Will the Buyer or any Associated Company(^24), in connection with the financing or consummation of the Transaction, commit any violation of applicable Swedish tax legislation or use arrangements with the result that the tax base of the Company is transferred from Sweden to low taxed jurisdictions (with a corporate income tax below 10%)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2  Has the Buyer or any Associated Company during the last 10 years been in violation of, or is under investigation regarding alleged violation of, any applicable tax legislation in any material respect [,, or is the Buyer or any Associated Company otherwise using arrangements with the result that the tax base of the Buyer or any Associated Company is transferred from its home jurisdiction to low tax jurisdictions (with a corporate income tax below 10%)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3  To the Buyer’s Best Knowledge(^25), has any present member of the board of directors or of the senior executive management of the Buyer or of any Associated Company during the last 10 years, committed tax fraud or tax evasion(^26)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4  Will the Buyer or any Associated Company, in connection with the financing or consummation of the Transaction, commit any serious violation against applicable laws and regulations regarding money laundering, bribery, terrorist financing or, according to applicable laws and regulations, any other form of illegal transfers?</td>
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\(^{24}\) Any legal entity which, directly or indirectly, has a controlling influence (either by ownership, agreement or otherwise) over the Buyer and/or any legal entities under direct or indirect common control of the Buyer which are considered material to the Buyer or the Buyer group (e.g. entities that conduct material business).

\(^{25}\) The actual knowledge of the members of the board of directors and the senior executive management of the Buyer and, if so required or advisable in order to answer the question truthfully and accurately, after due inquiries with the board of directors and the senior executive management of Associated Companies.

\(^{26}\) Tax fraud or tax evasion means efforts to evade taxes by illegal means, whether or not a criminal offence.
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<tr>
<th>Question</th>
<th>Yes / No</th>
<th>If Yes, please provide further information</th>
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<tbody>
<tr>
<td>5 To the Buyer's Best Knowledge, has any present member of the board of directors or of the senior executive management of the Buyer or of any Associated Company ever been under investigation concerning, committed or participated in decisions resulting in personal liability or complicity in or resulting in the Buyer or any Associated Company becoming or deemed responsible for, any serious violations of applicable laws and regulations concerning money laundering, bribery, terrorist financing or other forms of illegal transfers?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 To the Buyer's Best Knowledge, has any present member of the board of directors or of the senior executive management of the Buyer or of any Associated Company ever been under investigation concerning, committed or participated in decisions resulting in personal liability or complicity in or resulting in the Buyer or any Associated Company becoming or deemed responsible for, any serious violations of international law (including genocide, war crimes, crimes against humanity or serious or systematic violations against human rights)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Has the Buyer or any Associated Company during the last 10 years been in violation of, or is or has during the last 10 years been under investigation regarding alleged violation of, any applicable labor legislation or other regulations or international labor standards, such as OECD Guidelines for Multinational Enterprises, in any material respect?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Has the Buyer or any Associated Company during the last 10 years been in violation of, or is or has during the last 10 years been under investigation regarding alleged violation of, any applicable environmental legislation in any material respect?</td>
<td></td>
<td></td>
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</tbody>
</table>

Nice and clean? Does EPH meet Sweden's and Vattenfall's ethical standards? Greenpeace, May 2016
### Phase Description of the action in the review process

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description of the action in the review process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phase 1:</strong> The first process letter</td>
<td>In this process letter the state's expectations are clarified regarding the potential purchasers in respect of ethical behavior and the potential buyers that progress to the second phase of the sales process will be subject to review. Compliance Questionnaire is attached to the process letter. The potential buyers are informed that they will be requested to submit their replies to the questions before the submission of final bids. These answer form the basis for the state's evaluation of the potential buyers.</td>
</tr>
<tr>
<td><strong>Phase 2:</strong> The second process letter</td>
<td>In this process letter the buyers are urged to submit the answers to the Compliance Questionnaire no later than ten days before the submission of final bids. On the basis of equality, the same questions are asked to all potential buyers, where the questionnaire is regards to the potential buyer with the highest risk profile.</td>
</tr>
</tbody>
</table>
| **Phase 2:** The share transfer agreement | The remaining potential buyers then take part the states share transfer agreement in which comprehensive safeguards are required by the buyer, with respects to the ethical areas included in the Compliance Questionnaire. In brief this means:  
  - The buyer guarantees to function as “dislosure”; a buyer that gives guarantees regarding, for example, the absence of the state’s unacceptable tax planning, is expected to reveal any shortcomings in connection with the abandonment of such guarantees.  
  - The buyer guarantees that the answers to questions in the Compliance Questionnaire are correct and complete. This occurs at two instances; both on the day of the share transfer agreement and on the day that the buyer gains access to the shares in the target company.  
  - The buyer’s breach of warranty gives the state right to cancel the contract between the time of the agreement and the access to the shares. This gives the state an additional safety valve regarding the possibility that breach of warranty is discovered after the share transfer agreement is signed. |
| **Phase 3:** Control and follow up | Additional background checks on certain conditions are conducted parallel to the transaction process, such as requests to Swedish courts and the Swedish tax authority as well as inquiries through Swedish media. Depending on the circumstances of the individual case, the corresponding requests can also be made through foreign courts and tax authorities, in addition to inquiries through foreign media. In such cases, requests and searches may be conducted by external advisors. Depending on the answers, background check and potential buyers risk profile; an evaluation is made regarding to which potential buyers need further investigation in phase 4. |
| **Phase 4:** additional questions if necessary | No additional questions are needed on the basis that the evaluation in phase 1-3 yielded no risk indicators or information that indicate a lack of ethics within the areas in the Compliance Questionnaire. Additional questions asked to the potential buyer if phase 1-3 indicated risk or information that indicate a lack of ethics within the areas in the Compliance Questionnaire. |

Translated from original document in Swedish