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Vattenfall takes further steps to ensure compliance with government guidelines

Against the background of the attention aroused by the severance payments in spring 2011, Vattenfall has carried out a survey that shows certain divergences in its practice for terms of conditions. The relevant procedures for senior managers were changed to comply with the government guidelines. The background is an inventory of contracts for 16 senior executives and 228 senior managers carried out on behalf of the Board. Steps have been taken and will continue to be taken to ensure that all contracts comply with the guidelines.

“The company will of course comply with the government guidelines. As the new Chairman, I note that there have been divergences. To ensure that the guidelines are followed, Vattenfall has taken a number of steps within the scope of the applicable legislation and collective agreements to correct these divergences. Vattenfall is determined to work in an environment characterised by a healthy culture for terms of conditions,” says Lars G. Nordström.

The following measures are being taken to ensure compliance with the government guidelines:

- All terms and conditions in conflict with the guidelines are being renegotiated to the extent permitted by the applicable laws and collective agreements.
- Procedures relating to terms and conditions have been centralised.
- Joint principles for compensation have been developed.
- Joint principles for benefits have been developed.
- The decision making process for terms and conditions for senior executives and senior managers has been strengthened.
- The roles and responsibilities of the Board, the remuneration committee and the company management have been clarified.

The remaining divergences relate to the renegotiation of pension schemes and clauses for giving notice and severance payments for senior managers in Germany. This will be done within the applicable legislation and collective agreements.

The government guidelines, which came into force in 2009, stipulate that total remuneration to senior executives shall be competitive, with a set ceiling and appropriate for its purpose, as well as contributing to high ethical standards and a good corporate culture. Remuneration shall not be leading in relation to comparable companies but be characterised by moderation.

An analysis of terms and conditions for the 16 senior executives and 228 senior managers was carried out on behalf of Vattenfall's Board. Remuneration levels and conditions at Vattenfall were compared for comparable roles at companies of the same size and complexity in Sweden, Germany and the Netherlands. External partners were engaged for the analysis: Roschier Law Office, Freshfield's Law Office, Towers Watson, and Mercer.

“After the Board's decision, an analysis of terms and conditions for the 16 senior executives and 228 senior managers at Vattenfall was carried out with the aid of external partners. The government guidelines which state that the remuneration shall not be leading in relation to comparable companies but be characterised by moderation will apply throughout the organisation,” says Øystein Løseth, Vattenfall's CEO.

The existing divergences are due either to older agreements concluded before 2009, to changed job assignments or to compensation structures adapted to the conditions and legislation of other countries.

Presentation of the key results:

- The wages of 14 of the 16 senior executives are within the market interval.
- The wages of one of the 16 senior executives are below the market interval. This executive was promoted at the beginning of 2011 to play a greater role in the organisation.
- The wages of one of the 16 senior executives exceed the market interval. This is because the person concerned used to play a greater role in the organisation.
- The wages of 169 out of 228 senior managers are within the market interval.
- The wages of 25 out of 228 senior managers are below the market interval.
- The wages of 34 out of 228 senior managers exceed the market interval. The majority (24 persons) of these cases are due to the fact that the executive in question now plays a less impactful role in the organisation, was recruited internationally, is a management board member or a managing director.
- None of the senior executives have variable compensation.
- All senior managers within Vattenfall have variable compensation like other Vattenfall employees. The total compensation for senior managers in Sweden is at the lower end of the market interval and is within the interval in Germany and the Netherlands.
- Within Vattenfall's trading operations, both short and long-term variable incentive programmes are in place for managers and certain key employees. A market comparison shows that these programmes correspond to those found for comparable activities in comparable companies and that Vattenfall's programme is not a market leading. In addition to that, the company will carry out an in-depth review of the organisation and extent of its trading operations in autumn 2011 with external support on behalf of the Board.
- There are different kind of defined benefit pension schemes in Germany which means, for example, that a senior manager can retire at an age below 62. The defined benefit pension scheme is now discontinued in Germany. Vattenfall will renegotiate existing divergences within the applicable legislation and collective agreements.
- There are Temporary contracts in Germany without any arrangements for giving notice to quit or for severance payments. These have been renegotiated within the applicable legislation and collective agreements. This means, for example, that clauses relating to giving notice to quit and severance payments will be introduced in any extensions to temporary contracts and for new recruitments in Germany.

The market interval extends from 20 per cent below and up to 20 per cent above the market mean, which is defined by the pay level for comparable roles at companies of the same size and complexity in Sweden, Germany and the Netherlands.

Senior executives are defined by their influence on the Group result. The Board identified 16 positions within the company as senior executives, and this was confirmed by the 2010 Shareholders Meeting. Vattenfall has additionally carried out an extended examination of the conditions and pay of a group of 228 senior managers closely to the top executives.

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