



17 February 2004

Statement by the Cabinet Committee on Economic Policy

NOMINATING BOARD MEMBER CANDIDATES TO THE STATE-OWNED COMPANIES AND THE STATE'S ASSOCIATED COMPANIES

The Government Decision-in-Principle on the State's Ownership Policy emphasises decision-making at the Shareholders' Meetings as one of the central means of exercising the State's shareholder power. It also stresses that a company's Board of Directors is an important decision-making body in terms of ownership steering. Hence the election of the members to the company's Board of Directors is also a key task in the State's ownership steering.

The current practice is that the State systematically seeks to find highly skilled Board member candidates ("pool of Board members") and prior to the Shareholders' Meetings discusses unofficially the proposals for the Board compositions with the other major owners, which are to be made to the Shareholders' Meeting.

In the election of the Board member candidates, the role of the major owners now risks to essentially weaken in listed companies, when the new Corporate Government Recommendation of the Helsinki Exchanges, which was completed in the autumn of 2003, the so-called HEX Guidelines ("Recommendation for the Corporate Governance of Listed Companies") will come into force as from 1 July 2004. Most listed companies aim to already operate according to these guidelines at the Shareholders' Meetings to be held this spring.

The HEX Guidelines have been incorporated into the listing rules of the stock exchange, so that their actual binding force is considerably stronger than the corporate governance guidelines of the Confederation of Finnish Industry and Employers and the Central Chamber of Commerce. Thus the HEX Guidelines are to be followed at listed state-owned companies and the State's associated companies, and their observance will be on the responsibility of the companies' Boards of Directors.

The State's principle is that the HEX Guidelines are followed as a minimum standard in all listed state-owned companies and the State's associated companies. In the case of one individual issue, the State, however, considers it recommendable that such practices be developed that take, better than the HEX Guidelines, the typical Finnish ownership structure into account, as well as the fact that appointing a company's Board of Directors is an important decision based on exercising the shareholder power. The Board of Directors must enjoy the owners' trust and major shareholders must participate in nomination of the Board member candidates as well, and not just in decision-making at the Shareholders' Meetings.

To guarantee this, a consistent and open procedure is to be introduced in order to ensure that the owners can contribute to the assessment of the activities of the Board and its members and to nomination of the member candidates.

The 13th recommendation of the HEX Guidelines requires that the member candidates are named in an invitation to a Shareholders' Meeting, if the proposal is made either by the Board's Appointment Committee or if the candidate is supported by shareholders with at least 10% of the number of votes brought by the company shares. Considering the large share of the State's holdings, this means that the candidates nominated by the State must always be named in an invitation to a Shareholders' Meeting.

The main rule according to the HEX Guidelines is that the Appointment Committee of the company's Board of Directors would prepare for the election of the Board. Such a "the Board completes itself" model has been adopted from the Anglo-American practices in which the model is applied to companies with decentralised ownership. In Sweden, for instance, it has been noted in general that the appointment of the Board of Directors must not be left for the Board itself to



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prepare, if the company has centralised ownership and known owners. In such companies, assessing the Board and appointing the member candidates are central issues for both exercising the shareholder power and the responsibility of the major owners: the owners must supervise the Board and ensure that it operates particularly in their common interest.

Mr Matti Vuoria, the evaluator of the State's ownership policy, has in his report clearly brought up both the problems related to the Recommendation and the need of the State as an owner to actively participate in the preparations for the election of the Board and for nomination of the Board member candidates (Section 2.4):

"The recommendation will result in a significant improvement of the transparency of Board election procedures in listed companies. The future preparation of Board elections will more clearly take place in the companies. The recommendation assumes that Board committees are formed from Board members. The main task of Appointment Committees of companies is to prepare proposals on Board members presented to the Shareholders' Meeting. The Board's internal preparation is not automatically the best solution in companies that have big, active and known owners, as it is the owners' confidence that the Board must always enjoy. The composition of the Committee may therefore prove to be problematic in terms of revising the Board composition and changing its members. For this reason, it is important that the unit responsible for the State's ownership steering ensure that in a company in which the State has a significant shareholder interest, the Appointment Committees hear the State's representatives as well as other significant owners when preparing proposals on Board composition and on individual Board members."

As the Board of Directors is elected especially on the basis of the owners' trust and as the Board is to operate in the interest of the shareholders, the preparations related to the election of the Board must remain in the hands of the owners.

The State as an owner considers that the owners' possibilities of exercising influence must always be secured in an efficient and open manner. One possible practice is that the Shareholders' Meetings decide on the preparations for the election of Boards of Directors. Then the starting point should be that representatives of the major owners and the Chairman of the Board participate in the preparations. The participation of the Chairman of the Board is important because development of the Board's working methods and implementation of assessments of the Board and its members lie on his or her responsibility. In the case that the representatives of the owners assess the role of the Chairman, the Chairman may not participate in the preparations.

Referring to the afore-said, the Ministry of Trade and Industry proposes for the Cabinet Committee on Economic Policy's approval that, to ensure the owner's possibilities of exercising influence, the ministry performing ownership steering could make proposals to the Shareholders' Meetings of publicly listed state-owned companies and the State's associated companies, according to which:

1. The Shareholders' Meeting decides to set up an Appointment Committee to draft the proposals for decisions on the Board members and Board fees to the next Shareholders' Meeting.
2. Representatives of the few major shareholders and the Chairman of the Board as an expert member are usually elected to this so-called Appointment Committee. The right of nomination of these representatives is vested with the shareholders with the largest holdings based on their voting power on 1 December preceding the Shareholders' Meeting.
3. The Chairman of the Board summons the Appointment Committee, and the Committee elects a Chairman from among its members.



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4. The Appointment Committee is to make its proposal to the Board of Directors of the company on 1 February preceding the Shareholders' Meeting at the latest.

The Appointment Committee elected by the Shareholders' Meeting can, as necessary, be replaced by other such preparatory mechanisms that sufficiently guarantee the owners' possibilities of exercising influence and that ensure that the shareholders receive advance information on issues related to important decisions to be made at the Shareholders' Meeting.