

**Government Decision-in-Principle on the State's Ownership Policy**

The Government's Decision-in-Principle on the State's Ownership Policy is directed to the ministries and civil servants in charge of the State's ownership policy. Its purpose is to guide the State's ownership steering and the related decision-making in all State-owned companies and the State's associated companies.

The Government outlined the ownership policy targets last in 1999 in a decision-in-principle on the State's ownership policy. After this, considerable changes have taken place in the operating environment of ownership policy. Industrial structures have developed, the international functions of Finnish companies have become more important and companies utilise efficiently the funding provided by the international capital markets. The majority of the changes are purely based on the competition factors of the market economy. The domestic discussion on the State's ownership policy and the OECD's international evaluation has contributed to the need to renew the objectives and principles of the State's ownership policy. In addition, it has been taken into account in the revision work that the earlier principles and their formulation partly date back to the 1980s, when the companies' capital supply relied on the owners and the significance of the State's corporate holding, and otherwise the operating environment of ownership steering, were essentially different from what they are today.

The State is the owner of very different types of companies. Part of the companies carry out special duties that are closely connected with tasks of public administration, whereas the majority of the companies practice business fully based on market terms. A company operates on market terms, when it carries out its business even partly in a competitive operating environment and seeks profit with its operations. Always when a company operates even partly in a competition environment, its ownership steering must be kept apart from regulation and duties of authorities, so that the company's finance and operations would be transparent and that the owner would not cause market failures in the operating environment of the company. *The first and most important general principle of ownership policy is effective separation of regulation and ownership steering*, so that in the case of companies operating on market terms the State's ownership function is performed in an independent and consistent manner and clearly separate from any regulatory tasks. The special duties must be carried out effectively, but the administration and reporting of the companies tending to these duties must be organised according to the same general principles as those of the companies operating on market terms.

Part of the companies operating on market terms are publicly listed. This requires that the securities market and its regulation be taken into account in connection with ownership steering and ownership arrangements as well. Furthermore, it is to be kept in mind that when even one minority shareholder joins a limited company, it essentially changes the bases of ownership steering. When a company has other shareholders besides the State, the equality of the owners and protection from creditors must be considered. *Another general principle of ownership policy is that the*

*State as an owner acts in compliance with the Companies Act and the Securities Market Act, exercises its shareholder power at the shareholders' meetings and does not require nor demand exemptions or rights that deviate from those of the other owners.*

The powers related to the State's shareholding between Parliament and the Government are regulated by the Act on the State's exercise of its partnership authority in certain limited companies engaging in economic activities (740/1991). It provides especially for issues regarding renunciation of the State's shareholdings and ownership arrangements, administration of the holdings and the criteria of exercising the State's partnership authority. The need for revising this so-called State-Owned Company Act is assessed and the necessary revisions are implemented. In decision-making concerning ownership policy, clear-cut allocation of powers in line with the State-Owned Company Act is emphasised and *the third general principle of ownership policy is clear allocation of work between Parliament and the Government in accordance with the State-Owned Company Act*, in which Parliament decides on the State's shareholding within relevant limits in terms of the Companies Act (in the current Act a 2/3 majority, simple majority or a 1/3 minority) and the Government implements the possible ownership arrangements in the economically best and the most appropriate manner in each particular situation.

The differences between various companies described above have been taken into account in this Decision-in-Principle. This Decision clearly addresses the authorities in charge of ownership policy and not the companies. *The fourth general principle of ownership policy is clear allocation of work between the owners and the management: decision-making related to ownership policy belongs to the State and business-related decision-making to the various bodies of the companies.*

Based on the above-stated principles, the Government has today, after the handling by the Cabinet Committee on Economic Policy and the Cabinet Finance Committee, decided to adopt the following Decision-in-Principle on the objectives and principles of the State's ownership policy.

#### 1. Significance of State-owned companies and the State's associated companies

The State's corporate funds represent a considerable part of our national assets. In managing these assets, the State seeks to achieve an economic and societal overall result that would be as good as possible.

The major companies engaged in business and under the State's authority (State-owned companies) amount to 36. The total number of the State's associated companies in which the State is an important minority owner (at least 10%) is 18. In addition, the State is either directly or indirectly a shareholder in several other companies. The number of business enterprises, included the subsidiaries and sub-groups of the groups of State-owned companies and the State's associated companies, amounts to over 1,000, and with real-estate companies included, to more than 2,000. A major part of the group companies are foreign companies.

Since the beginning of the past decade, the State has privatised many companies either in full or so that the State is still a minority shareholder in the company. New

State-owned companies have been established, when functions that previously belonged to public administration have been transferred to State enterprises and these have been spun off further. The State-owned companies and the State's associated companies have been involved in numerous domestic and international restructurings, which have resulted in essential changes in the State's object and share of its holdings.

In 2002 the State-owned and associated companies employed approximately 200,000 persons. The majority of the staff was employed by the State's associated companies. The proportion of the staff of the State-owned companies has been on a constant decrease, when companies have been privatised either partly or in full.

## 2. Companies tending to the State's special duties and companies operating on market terms

Some State-owned companies carry out the State's special duties. In these companies the State as an owner has primary societal targets, although a concurrent general aim is profitable activity. Certain companies are governed by a special Act, which provides for the State's company-specific ownership policy and steering.

Due to the societal objectives set for the companies, the companies tending to the State's special duties must remain in the State's monopoly or at least under its authority. In these companies, the State's ownership policy objectives are based on an overall result that is socially and economically as good as possible. This is primarily assessed on the basis of how and how efficiently the company concerned implements the goals and duties that the ministry responsible for the administration of the particular branch has set, i.e. how it fulfils its service function in society.

The majority of State-owned companies and the State's associated companies operate on market terms. This means that the companies must be comparable to those of the other companies operating in the sector.

Strategic interests or interests related to maintaining and safeguarding the infrastructure of the State as an owner, or basic service obligations, can also be connected with companies operating on market terms, but they operate according to explicit business principles. In these companies, ownership steering aims to achieve the best economic overall result possible at a given time. This is assessed based on profitability and the sustained rise of the shareholder value. When evaluating ownership, the State's strategic interests, and maintaining the authority needed to ensure them, are taken into account. When renouncing ownership in full or in part, the effects on the operating conditions of companies are also taken into consideration, besides the sales revenue.

Companies operating on market terms always function with normal objectives of profitability and competitiveness. If one owner sets other targets for a State-owned company operating on market terms, all owners must approve this, and the additional costs incurred to the company must be compensated based on decisions made in advance. The State must, however, then act in such a manner that does not distort competition nor breach the obligations derived from Finland's EU membership.

When deciding upon the State's general support measures, the companies operating on market terms must be treated in the same way as other comparable companies.

The State's guarantees are granted to companies operating on market terms under the same conditions as to other companies and they do not have any special role or special rights. The State is not liable for the debts or other commitments of the companies without guarantee decisions to be made separately. When deciding upon the financing and guarantee arrangements of companies carrying out the State's special functions, the obligations set for the company and the needs arising from them for the company's financing, as well as the obligations deriving from Finland's EU membership, are to be taken into account.

The target of the companies tending to the State's special duties must be profitable business. If the State is the sole owner of a company carrying out a special duty, its societal service function can, however, be taken into account when setting its profitability objectives. If such a company has other owners, deviating from the normal profitability targets is, however, possible under jointly accepted conditions only.

Expanding companies by acquisitions and by establishment of subsidiaries is part of normal business, and the decisions relating to it are made in the companies. In companies wholly owned by the State, the contacts between the owner and the company must be effectuated in such a way that the unit in charge of ownership steering is informed in advance of major decisions affecting the sector and strategy. In companies with other owners, this is ensured within the framework of contacts between the management and the major owners, so that primarily the Chairman of the Board of Directors and the Managing Director keep in touch with the owners. In companies tending to the State's special duties, it must be ensured that carrying out the special duties is not compromised, when assessing the changes in the sector and company arrangements.

### 3. Bases for ownership steering

The prime goals of the State's ownership policy and ownership steering are developing the companies and supporting the sustainable rise in the shareholder value. Among the central bases are the owner's open and consistent behaviour, proposing responsible and highly skilled members for the Boards of Directors of the companies, the owner's inputs in the management resources of the companies and commitment of the management, as well as considering the interests of all owners and other stakeholders. The most important tools of the owner are independent drafting of the ownership strategy and development of corporate governance.

The State as an owner participates in business-related decision-making at the annual general meetings. The executives and the administrative bodies making operational decisions in compliance with the Companies Act and the articles of association are responsible for the company's result.

In companies tending to the State's special duties, the State's role as an owner is different from that of the companies operating on market terms.

In companies tending to the special duties, the State is an active owner that defines the special duty's contents and its significance for the objectives to be set for the company. The company's management and administrative bodies determine the business strategy for the company. Coordinating the business strategy and the special duty calls for collaboration between the responsible ministry and the company's

management and administrative bodies. The responsible ministry decides on the relation between the profit target and other targets on the basis of statements by the Cabinet Committee on Economic policy, when necessary.

The starting point in the ownership steering of companies operating on market terms is equality of the owners. Ownership steering is based on owner-strategic follow-up and preparation based on which the State takes a stand, as necessary, to the strategic and economic issues of a company. The Board of Directors and executives of a company check *a priori* the standpoints of the major owners at least when the actions planned in the company would require the use of the company's shares as a means of payment or other company arrangement that is decided on at the annual general meeting. In practice, strategic issues and restructurings have to be discussed with the major owners, although the power of decision would be vested with the company's Board of Directors. Then the representatives of the responsible ministry discuss with the management and Chairman of the Board of Directors of the company. Correspondingly, the State as an owner should inform the company's Board of Directors of its plans.

In organisation of the administration and decision-making of companies, the general aim is development and upkeep of corporate governance. The State as an owner supports high-standard reporting on the financial status and activities of a company, which is to be as open as possible. The companies are expected to be familiar with both domestic and international corporate governance recommendations and to implement the best practices in accordance with them. Such best practices include the secured position of the staff representation and possibilities of influence on the company's administrative bodies at least within the framework laid down in the Act on staff representation. The underlying principle is that the representative(s) of the staff is/are appointed to the company's Supervisory Board or Board of Directors, unless it is not justified to arrange their briefing or presence on the decision-making bodies otherwise, e.g. for reasons related to the company's business or structure of ownership.

The company's Board of Directors, to which experts independent of the company are appointed, is a central decision-making body in terms of ownership steering. When proposing Board members, among key criteria are the candidates' experience and expertise, cooperation capability and versatile know-how. If the company has a Supervisory Board, its tasks and power of decision must be defined so as to take the company's special duty or strategic interest connected with it into account. In publicly listed companies, the Supervisory Boards must have such tasks focused on supervision that are in line with the domestic best practices and the guidelines and recommendations of HEX Plc.

Safeguarding the competitiveness of companies, as far as it can be influenced with the owner's actions, is one of the cornerstones of ownership steering. This also implies to wages and salaries and the rewarding schemes. The State is to support arrangements that guarantee the companies' possibilities of competing for skilled and committed managers and other staff. Then the rewarding schemes of the management must take note of the objectives deriving from the sustainability of the State's shareholdings and the sufficiently long personal commitment periods implementing them. Motivation of the entire staff must be taken into account in the rewarding, which is realised either through staff funds or otherwise. In companies tending to the State's special duties,

incentives must be planned so as to also consider the meaning of the objectives related to the special duty and economic targets of the company concerned.

#### 4. Ownership policy targets to be set for the operations of companies

The State's ownership policy is based on increasing the shareholder value, which takes all the interest groups into account. Combining the company's profitability and growth targets requires that the statutory obligations be met in an exemplary manner. The staff's position must be taken into account and the activity must be responsible in view of the environment.

The staff policy of companies is based on best practices, fulfilling agreements concluded and active development of the staff policy. The State as an owner is ready to promote creation of new jobs and it values sustained staff policy in which the continuity of employment and the competence capital of the employees are taken into account. In companies fully owned by the State, the contacts between the owner and the company must be realised so that the owner is beforehand aware of measures having an impact on the staff's position.

The environmental policy of companies aims at responsible behaviour, which is based on respecting legislation, international agreements and the justified expectations of the various stakeholders. The State as an owner is ready to enhance arrangements by which companies seek to coordinate productive, economic and environmental aspects in a manner that promotes the company's competitiveness.

The dividend policy of companies is essential for the State. The State values high a predictable dividend policy that takes the owner's interests into account and that is based on a comparable and even flow of dividends in the sector. The State's dividend expectations are annually evaluated so that the company's self-sufficiency needs and development potential are taken into account.

#### 5. Changes in the ownership base and ownership arrangements

Decisions related to changes in the ownership base of companies are made within the powers authorised by Parliament. The decision-making system related to implementing ownership arrangements is streamlined and utilisation of the procedural alternatives allowed by company law is enabled by revising the Act on State-owned Companies.

Companies tending to the State's special duties must remain in the State's monopoly or under its authority. Extension of their ownership base is mainly relevant when the significance of the special duty is either decreasing or ending, or when tending to the special duty can be expected to become more efficient along with participation of other owners or growth of the proportion of shareholding.

In the case of a change in the ownership base, companies operating on market terms can be divided into two groups: companies in which the State mainly holds an investor's interest and companies in which the State has an ownership-related strategic interest (e.g. ensuring functions that are important for certain infrastructures and security of supply). If the State has mainly an investor's interest in a company, the State can relinquish its holding in full or in part, and the State's majority holdings or retaining the statutory minority subject to the Companies Act has no independent

meaning. If the State has a special strategic interest in a company, it is taken into account in estimates and decisions concerning the company's ownership.

Achievement of the best economic overall result is the basis for ownership arrangements. The most important criterion is the selling price of the company or its shares. Safeguarding the sectoral operating conditions and competitiveness of domestic industry and economic life, upkeep of competence and the arrangements' effects on competition and employment also have an impact on the overall estimate.

Ownership arrangements and share issues aim to ensure an ownership base that is as stable as possible. The possibilities of domestic institutions and small-scale investors and company staff to become shareholders and participate in share issues are promoted in connection with share issues.

## 6. Arranging ownership steering

The State's ownership policy must be open, predictable and consistent. The State-owned companies operating on market terms and the State's associated companies must operate following the same rules and conditions as their competitors. The State should not award benefits that other companies do not have, but the companies must be in the same position as other companies. If the State imposes special obligations on companies partly operating on market terms, the compensations paid for them must be public and based on cost correlation.

The ministries and the Cabinet Committee on Economic Policy are in charge of ownership steering. Major decisions related to the State's ownership policy or ways of implementing ownership policy require the handling of the Cabinet Committee on Economic Policy.

The State as an owner operates actively when forming and evaluating Boards of Directors of companies. In the case of each company, a representative of the State other than a Board member represents the State in matters related to the owner. Ownership steering is based on the State's direct representation on Boards of Directors of such companies that are fully owned by the State, in which the State is a majority shareholder or in which the State is a minority shareholder exercising actual authority. The representation is organised taking the disqualification provisions of the Administrative Procedure Act into account.

The functioning of civil servants on Boards of Directors is organised so that board memberships do not jeopardise efficient and independent tending to ownership steering duties. A representative of the State who is a Board member shall not participate in the drafting and decision-making related to the company's ownership steering.

A representative of the State appointed to the Board of Directors represents in this task the company and all of its shareholders. A representative of the State appointed to the Board of Directors acts in his or her task within the framework laid down by the Companies Act, Securities Market Act and the related guidelines, as well as other private law pertaining to the company. In the case of a publicly listed company, the contacts between a Board member and civil servants carrying out ownership steering duties are realised so that the restrictions arising from possession of information

known to an inner circle only and imposed on decision-making concerning ownership policy are taken into account.