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## ANNUAL REPORT

OF THE STATE'S  
OWNERSHIP STEERING





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# State claimed

## ITS PLACE AS AN ENABLER

True to its role as a responsible owner, the State enabled a number of projects during 2014 that could not have been accomplished without its involvement. All these projects were beneficial to Finland. More and more similar needs are most likely to arise in the future. This will pose new challenges to the management of the State's holdings in businesses. To achieve a high level of efficiency in operations, targeted organisation and allocation of resources are called for. Accordingly, the past year gave a demonstration of both the potential and the challenges of state ownership.

The subsea cable currently being laid from Finland to Germany shows that ownership does, in fact, make a difference. As the originator of the project, the State made the initial investment of EUR 20 million. Without this initial outlay, it would not have been possible to raise an equivalent amount of capital from private investors. As a result, we will have a fast, high-quality and cyber-secure optical fibre connection to European and global networks in 2016. It will restore Finland's ranking among the top actors in the world of the industrial internet. At the same time, the growth of the Finnish digital economy will have significant direct and indirect implications for the economy.

Access to and the price of energy is a hot topic among companies and citizens alike. To further secure access to vital resources and energy at competitive rates, the State bought Fortum's and E.ON's interests in Gasum, a natural and biogas company. Through this arrangement, steps are being taken to enable Gasum to develop the operation and infrastructure of the Finnish gas markets in an optimal fashion both in terms of

natural and biogas and liquefied natural gas (LNG). Today the State and the National Emergency Supply Centre hold a 75 per cent interest in the company.

As a country in the periphery of the world economy, we need international partners, foreign trade and the ability to export skills and expertise. Following endorsement by the Cabinet Committee on Economic Policy, Arctia Shipping's multi-purpose vessels are now able to sail the Polar seas to do exactly what they are the world's leading experts in – supporting economic activity in accordance with the principles of sustainable development. Aside from the icebreaking operations on the Baltic, this is what Finland needs – responsible business and exports of leading-edge expertise and know-how.

These three examples – among others – go to show that when properly exercised, ownership steering by the State helps achieve a substantial increase in shareholder value across companies, which is what this country sorely needs. In other words, state ownership is not an end in itself. This is why the State sold the entire share capital of



Owning  
is an art that cannot be  
outsourced.



Destia Ltd, an infrastructure and construction service company, to Ahlström Capital. Owning Destia was of no strategic importance to the State while the deal helped clarify competition in the infrastructure and construction sector. Once again, the State served as an enabler.

The corporate assets held by the State in addition to land and real estate property total EUR 30 billion divided between a little over 60 companies. Of this, the State received EUR 1.7 billion in revenues in 2014. One billion of this consisted of dividends and about half of profits distributed by Solidium.

The State of Finland is by far the biggest investor in listed equities in Finland. At the end of the year, the combined value of the State's holdings in Finnair, Fortum and Neste Oil amounted to EUR 11 billion while the combined value of Solidium's non-controlling interests in 12 listed companies was some EUR 7.5 billion. The market values of the share portfolios held by the largest Finnish pension insurance companies are around EUR 4–5 billion.

### **Management of state holdings needs to be developed**

All the issues discussed above underline the significance of state holdings. Using the tools available to shareholders, the State seeks to enable the

growth of shareholder value in all the companies in which it holds interests and thereby contribute to the Finland's economic growth and prosperity. However, it is important to realise that owning is an art that cannot be outsourced. It cannot be exercised without the right administration and resources necessary to respond to these needs. When all these aspects are organised as they should be, it is possible to both generate added value that exceeds the conventional rate of increase in shareholder value and to support the country by using the most effective tools and instruments available to a shareholder in a limited company.

This is what the reference in the Government resolution on the state ownership policy means when it says that the primary goal of the policy and ownership steering is to develop the



## The board

of directors must form a coherent entity that acts in the best interest of both the shareholders and the company.

companies and support long-term growth in shareholder value. Now, more effective support for this perspective of great national importance calls for a thorough analysis of the structures relied upon in the management of the State's corporate assets, the ways and means available for supporting potential growth and how to make more efficient use of the resources.

The existing mode of operation has been in place for some time now. In 2007, the management of the State's commercial corporate assets was concentrated in the Prime Minister's Office. By contrast, the assets held in special assignment companies are mostly managed by the various ministries. It is therefore right and proper to ask, after all these years, whether it would be advisable to further centralise the ownership steering exercised by the State in order to improve efficiency in the utilisation of the resources, and to gain better control of these companies and their capital reserves.

In practice, the current need for a reassessment has arisen from a certain degree of fragmentation. Not only is ownership steering in respect of commercial and special assignment companies exercised by different ministries, there are also independent organisations operating under their auspices (Solidium Oy, Governia Oy, Finnish Industry Investment Ltd, Finnvera plc, the Finnish Funding Agency for Innovation Tekes). They manage the State's assets or support business operations through debt instruments or equity infusion. Common to all these agencies is a shared mission and objective: to manage the State's corporate assets, develop the companies and increase shareholder value in the long term. I strongly believe that it would be better for all the parties involved to begin an analytic dialogue on how to improve efficiency in the management of the State's corporate assets and support growth through structural measures by pursuing further centralisation.

After all, state holdings are highly significant in terms of balancing the government budget

and earning revenues. Through active ownership, the State can also infuse capital to companies that generate economic growth. At the same time, the State can allocate funds to generate new business and support existing companies in the various development phases. With reference to all the foregoing arguments, it is advisable to explore the possibility of creating a centre of expertise to support the management of the State's assets by combining the operations of the existing individual actors.

### **Boards of directors face stiff challenges**

When the ownership base and infrastructure are sound, hands-on ownership steering may generate maximum shareholder value. As part of this, the State has traditionally underlined the importance of qualified directors. At the general annual meetings of shareholders held in spring 2015, we replaced one quarter of the board members appointed by the State, an exceptionally high number. The board of directors must form a coherent entity that acts in the best interest of both the shareholders and the company. In particular, chairs of boards play a very important part. Additionally, each individual board member is required, through his or her expertise, to make a genuine contribution to the company that also increases shareholder value. In the face of challenging periods of transition that many state-owned companies are currently undergoing, true commitment by the board members, and especially by the chairs, is of critical importance to the State in its capacity as a shareholder. A seat on the board of directors in a state-owned company is a position that calls for professionalism, time and resources. A person unwilling to make a full commitment to the task is not qualified to serve on the board of a state-owned company.

As an owner, the State needs to continue to be an enabler. To stay on the right track, the right framework, tools and resources are required to be able to influence developments. Last year, we succeeded in this but the requirements are growing. I wish to express my thanks to all the key stakeholders who made it possible for us to achieve our objectives in 2014. I believe that we will be able to put in an even better performance in the future.



EERO HELIÖVAARA  
DIRECTOR GENERAL

## AT THE INTERFACE OF

# business and political decision making

Ownership steering as exercised by the State operates at the challenging interface of private business and political control. It tends to put politicians in a difficult position.

During my brief term as minister, I have on several occasions been in a situation where I had to give a great deal of thought on how to combine my role as a politician with the principles underlying state ownership steering. Can a minister interfere with the collective bargaining talks a state-owned company is engaged in in order to stave off a strike that threatens to cause extensive damage to the export industry? To what extent should the minister consider the wider social implications when reviewing a proposal for an increase in board fees?

State-owned companies and ownership steering follow the logic of the private market because it has proved to be the most efficient approach for the companies. The political micro management of companies, even if at times highly attractive, would eventually lead to a less successful outcome. Accordingly, decision making on corporate affairs is to be exercised by the boards of directors.

At the same time, however, a political decision maker in charge of substantial assets belonging to the citizens and taxpayers cannot remain

idle and passive. In the final analysis, it is the politicians who are accountable to the voters for the actions of state-owned companies irrespective of whether they intervene in their operations or not. And rightly so, because it is ultimately up to the political decision maker to determine how state ownership steering is to be implemented.

Consequently, the State needs to have a clear vision of the broad outlines for steering the companies under its control. An owner is entitled and duty-bound to say to the companies clearly what is expected of them. The State and ultimately each citizen their capacity as an owner have the right to expect a lot. While seeking to ensure profitability, state-owned companies need to act responsibly and set an example by promoting the interests of the State of Finland and her citizens.



SIRPA PAATERO  
MINISTER RESPONSIBLE FOR  
OWNERSHIP STEERING

# Active measures

## TO SUPPORT GROWTH AND DEVELOPMENT

### Subsea cable from Finland to Germany

The State launched and invested EUR 20 million in a project to lay a subsea cable from Finland to Germany. The project is executed by Cinia Group Ltd, a company in which the State holds a control-

ling interest. A fast, high-quality and cyber-secure optical fibre connection to European and global networks will enhance international data communications between east and west. Due for completion in 2016, the cable will give a boost to the Finnish digital economy and the industrial internet.

### State acquires controlling interest in Gasum

The State strengthened Finland's access to vital resources and competitively priced energy by buying Fortum's 31 per cent and E.ON's 20 per cent stake in Gasum, a natural and biogas company. As a result of the transaction, the State's shareholdings increased to 75 per cent of which

26.5 per cent is held by the National Emergency Supply Agency. Through this arrangement, the State wanted to enable Gasum to develop the operation and infrastructure of the Finnish gas markets in an optimal fashion, both in terms of natural and biogas and liquefied natural gas (LNG).

### State shareholding

75 %



## New minority shareholder for Patria

The State is looking for a new industrial partner for Patria Plc after Airbus Group, a minority shareholder, announced that it will sell its stake in the company. As a result, Patria was temporarily transferred under full state control. Efforts to find a new industrial minority shareholder began in early 2015.

### Secure networks taken over by State Security Networks Ltd

In December, Parliament adopted the government bill for a new Security Act. As a result, the Command Centre of the Finnish Defence Forces will transfer all security networks operations to Suomen Turvallisuusverkko Oy, a subsidiary of State Security Networks Ltd. Ownership steering in respect of this company is exercised by the Prime Minister's Office.

### Arctia Shipping's icebreakers to Polar regions

In November last year the Cabinet Committee on Economic Policy voiced the State's support for Arctia Shipping's business strategy which foresees icebreaking operations on the Baltic and the replacement of the ageing fleet by increasing the utilisation rate. By doing so, for example through operations in the Polar regions, it is possible to improve cost-efficiency in icebreaking and the company's ability to finance the fleet investments outside the government budget. By raising the utilisation rate, the pressures to increase the charges for icebreaking services can be curbed. Otherwise, the billion euro investment would make it necessary to do so, which would have a major impact on the logistics costs of Finnish companies and consequently the competitiveness of the industry. Arctia Shipping's operations in the Polar regions will also give a boost to the Finnish sea cluster and allow full utilisation of Finland's unique expertise in managing difficult ice conditions.

### Finrail spun off from VR

The State split Finrail Oy from the VR Group. Finrail offers train traffic control, passenger information and design services. As of the beginning of 2015, the company has operated as an independent company on a commercial basis. Responsibility for ownership steering in respect of Finrail rests with the Ownership Steering Department in the Prime Minister's Office. The separation was carried out because traffic control services will be offered to all customers on an equal basis when rail traffic operations are deregulated over the next few years. Finrail is of strategic interest to the State in that it ensures the provision of rail traffic services on fair market terms.

### Government sold Destia to Ahlström Capital

The State of Finland sold the entire share capital of Destia Ltd, an infrastructure and construction service company, to Ahlström Capital. The purchase price of the shares was EUR 148 million including a capital repayment of EUR 42 million to the State. Owning Destia was of no strategic importance to the State while the deal clarified competition in the infrastructure and construction sector.

# State

## OWNERSHIP STEERING

The State's actions as an owner are governed by the State Shareholdings and Ownership Steering Act ('Ownership Steering Act') effective as of the beginning of 2008.

The key objectives and principles for the **ownership steering policy** are established in the Government Programme for the entire electoral period.

The key principles and operating procedures of **ownership steering by the State** are set out in the Government resolution on state ownership steering policy.

State ownership policy and steering

Primary objectives

Company development

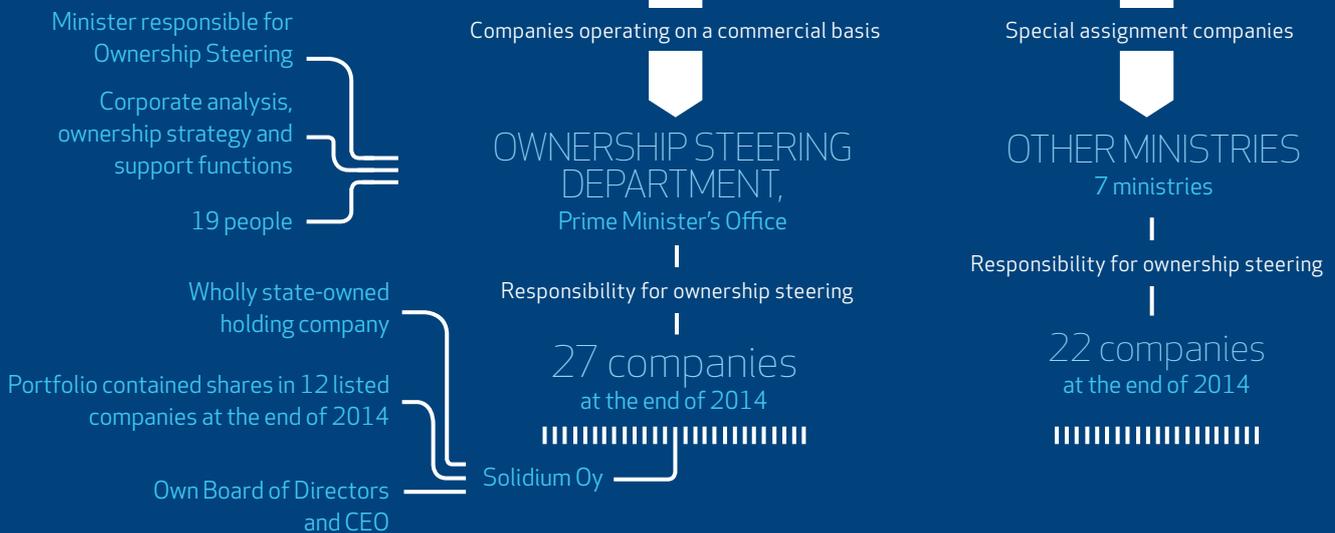
Promotion of sustainability and corporate responsibility

Support for long-term growth in shareholder value

## Main tools of ownership steering

- Meetings of shareholders
- Board appointments
- Investments in management resources and promotion of executive commitment by the owner
  - Promotion of good governance
  - Independent corporate analysis and ownership strategy
  - Promotion of sustainability and corporate responsibility

## Organisation of the State Ownership Steering



## PARLIAMENT

Regulates the scope of state ownership

Approves incorporations

Allocates budget funds

## Government

### PLENARY SESSION

Decides on acquisitions and divestments

Approves general principles

## CABINET COMMITTEE on Economic Policy

Issues the Government resolution on state ownership policy and the statement on executive remuneration, and addresses the issues presented to it

## OPERATION AND OBJECTIVES OF

# ownership steering

The 2014 annual report provides an overview of state ownership steering in companies that the State Ownership Steering Department in the Prime Minister's Office was responsible for in 2014.

Following the arrangements made during the reporting period, the State is a shareholder in a total of 63 companies of which 23 are special assignment companies and 40 companies operating on a commercial basis. Some of the companies are of special strategic interest as defined by the respective ministries, one such criterion being assurance of access to vital resources. Of the commercial companies, ownership steering was exercised by the Prime Minister's Office in respect of 24 companies and by the Ministry of Finance in respect of 4 companies. Solidium Oy, a wholly state-owned holding company, was responsible for 12 companies in which it held a non-controlling interest. All the commercial companies operate in a competitive environment under the same conditions as the competitors.

Ownership steering in respect of special assignment companies is exercised by the ministry or minister responsible for the company concerned. For these companies, the State has established specific social objectives designed to ensure that the special mission specified for them is successfully accomplished. However, business operations are managed on a market basis.

### Operation of ownership steering

Underlying state ownership steering and related policy is the government programme specifying the main objectives and policies for the government term. The government resolution on ownership steering policy outlines the key principles and operating practices of ownership steering by the State.

The State's actions as an owner are governed by the State Shareholdings and Ownership Steering Act (1368/2007, hereinafter 'Ownership Steering Act') enacted at the beginning of 2008. The Act regulates the State's role as an owner in all companies. No exceptions are made in the Act to the provisions of the Limited Liability Companies Act or any other laws relating to companies.

The state ownership policy and related norms and decisions apply, a priori, equally to listed and non-listed companies. In reality, all significant differences between listed and non-listed companies in the context of ownership steering are due to the securities market legislation governing listed companies. Another substantial difference exists between commercial companies and special-assignment companies. As the

latter perform a specific function assigned by the government, they may focus on fulfilling such a special function as efficiently as possible rather than aiming at maximum financial performance.

State ownership steering must be exercised in a manner that permits a dialogue between the companies and the State in its capacity as a major owner. All insider trading rules are complied with without exception; companies' plans and business secrets are treated in the strictest confidence; and non-disclosure of the State's business secrets concerning the management of its ownership policy is duly ensured. In terms of practical ownership steering, there is a fundamental distinction between listed and non-listed companies because the latitude given to the management of listed companies to inform a single shareholder is strictly limited.

In distinction to previous statements, the recent resolution places greater emphasis on corporate social responsibility. As an owner, the State calls for transparency in all corporate activities, respect for the employees, and responsible action with regard to the environment. When appointments are made to boards of directors and executive management, due consideration must be given to the attainment of equality objectives by ensuring that both genders enjoy equal opportunities for career advancement. Management incentives must aim at securing competitiveness using criteria based on long-term financial performance and overall success, and the principles of fairness and restraint. All wholly state-owned companies and non-listed companies with a state majority interest are required to prepare a specific corporate social responsibility report or include it in their annual reports as a clearly distinguishable section. It is hoped that other non-listed companies with state involvement do so as well.

The opinions issued by the Cabinet Committee on Economic Policy also include statements on executive remuneration at state-owned companies. Companies in which the State exercises majority control are to follow these opinions, while associated companies are encouraged to apply them where possible. Responsibility for the application of, and compliance with, this instruction in respect of the State rests with the boards of directors.

The primary channel of communication used by the Ownership Steering Department is its website at [www.valtionomistus.fi](http://www.valtionomistus.fi). The site provides information on the latest developments in state ownership steering, regulations and policies governing ownership steering and topical issues related to companies.

### **Objectives of ownership steering**

As an owner, the State seeks to maximise the overall financial and social benefit in the management of its assets. The financial benefit generated by the companies consists of dividends and potential extensions of the ownership base. The social benefit accrues as a result of the State's actions as an owner in a society where changing social needs have to be considered at every turn.

At the same time, the management of state assets must be subject to control and enjoy public confidence – the basis for this being that the State is a consistent and predictable owner whose holdings contribute to the long-term development of the companies and their shareholder value. The main tools of ownership steering include board appointments; the owner's focus on management resources and executive commitment; the promotion of sound governance; independent corporate analysis; and the preparation of the ownership strategy with due regard to corporate social responsibility.

As an owner, the State shall act as transparently and responsibly as possible. Its policies must enjoy confidence on the securities market in order to ensure that the State's involvement as a major owner will not diminish the value of the listed companies included in its investment portfolio. At the same time, the business associates and competitors of the commercial companies must be able to trust that such companies enjoy no special privileges because of state shareholdings. State-owned companies must operate in the marketplace in accordance with the principle of competitive neutrality.

■ STATE AS A SHAREHOLDER ONLINE

**Ownership steering:** [www.valtionomistus.fi](http://www.valtionomistus.fi)

**Prime Minister's Office:** [www.vnk.fi](http://www.vnk.fi)

# Remuneration

BASED ON THE ATTAINMENT OF AMBITIOUS

## business goals

State-owned companies are divided into listed companies, commercial companies and special assignment companies entrusted with a specific state-defined mission.

Listed companies include all state-owned listed companies (incl. Solidium companies); commercial companies include non-listed companies engaged in business operations on a commercial basis; and special assignment companies include other state-owned companies (incl. the companies

of the Technical Research Centre of Finland VTT). The information provided concerns Chief Executive Officers and all the figures released are median values. The comparative data are derived from companies listed on NASDAQ OMX Helsinki Ltd. The comparative data on non-listed companies are divided into large cap companies (sales exceeding EUR 500 million) and medium cap companies (sales less than EUR 500 million).

STATE-OWNED COMPANIES	Qty		Benchmark
Listed companies	15	State-owned listed companies	NASDAQ OMX Helsinki listed companies
Commercial companies	22	State-owned non-listed commercial companies	Non-listed large cap companies (sales over € 500m)
Special task companies	27	State-owned non-listed special task companies	Non-listed mid-cap companies (sales under € 500m)

Fixed basic salary means taxable monthly income, inclusive of all perquisites convertible into cash in addition to the regular salary. Fixed monthly salaries have been rounded up to the nearest thousand. Performance bonus means a bonus based on the annual financial result of the company. Long-term incentives include share-linked schemes, long-term cash bonuses or similar rewards requiring a commitment or earnings period exceeding

one year. Supplementary pension is a pension in addition to the statutory pension. In a defined benefit system, the amount of the pension benefit is predetermined based on pay history or part of it. In an accrual based system, the pension premium is pre-defined and the pension benefit determined by the premiums accrued and the return earned on the premiums.

## COMPONENTS OF REMUNERATION

Fixed salary	Taxable income including perquisites
Performance bonus	Bonus for annual financial result or performance
Max. performance bonus	Maximum bonus under performance bonus scheme
Target performance bonus	Bonus level based on attainment of objectives; typically half of the maximum
Long-term incentive	Cash and share-linked systems with an earning/commitment period of over one year
Supplementary pension	Defined-benefit or accrual-based supplementary pension in addition to statutory pension

### Movement in basic salaries

Generally, the fixed monthly salaries of CEOs in state-owned companies in 2014 were at par with the market levels. At listed companies, the medium monthly salary was EUR 52,000 (2013: EUR 52,000), which was equivalent to the companies of comparable size listed on NASDAQ OMX Helsinki Ltd. At commercial companies, the median CEO salary was EUR 18,000 (EUR 18,000) and at special assignment companies EUR 13,000 (EUR 14,000). At large cap companies included in the comparative statistics, the median monthly salary in 2014 was EUR 31,000 and at medium cap companies EUR 20,000. The fixed monthly salaries of the members of the executive management did not increase at state-owned companies relative to 2013. Similarly, the movement of salaries in the reference groups was 0 per cent.

### Performance-based bonuses paid

The boards of directors of state-owned listed companies had established a ceiling for bonuses equivalent to 60 per cent of the annual salary, as recommended in the statement on executive remuneration issued by the Cabinet Committee on Economic Policy. This corresponds to the policies pursued by non-state-owned listed companies. For commercial companies, the ceiling for performance-based bonuses is 40 per cent and for special assignment companies 24 per cent of the basic annual salary. The maximum performance bonus at large cap companies in the reference

group was 50 per cent and at medium cap companies 36 per cent of the basic annual salary. The maximum bonuses paid under the incentive schemes of state-owned companies in 2014 remained largely at the same level as in 2013. When the performance bonuses are compared to the basic annual salary, maximum bonuses or bonuses paid for the attainment of the company's financial objectives, executive remuneration at state-owned companies was either at par with the market median or below it.

As a percentage of the basic annual salary, performance-based bonuses earned in 2013 and paid out in 2014 were 11 percent (24 per cent) of the basic annual salary at state-owned listed companies, 16 per cent (8 per cent) at commercial companies, and 11 per cent (11 per cent) at special assignment companies. In 2014, the market median was 18 per cent of the basic annual salary for listed reference companies, 31 per cent for non-listed large cap companies, and 22 per cent for medium cap companies.

When compared to the maximum target amounts paid, performance-based bonuses were 18 per cent (41 per cent) of the maximum at listed state-owned companies, 42 per cent (20 per cent) at commercial companies, and 46 (52) per cent at special assignment companies. In 2014, the market median was 37 per cent of the maximum bonus for listed reference companies, 65 per cent for large cap companies and 64 per cent for medium cap companies.

When compared to the target bonuses (half of the maximum) paid, performance-based bonuses at listed state-owned companies were 59 per cent. The target bonus was 72 per cent for commercial companies and 91 per cent for special assignment companies. In 2014, the market median was 58 per cent for listed reference companies, 125 per cent for large cap companies and 142 per cent for medium cap companies.

### Long-term incentive rewards

Of the CEOs of listed state-owned companies, 100 per cent had long-term incentive plans while the corresponding figure for CEOs at commercial companies was over 30 per cent. By contrast, the CEOs of special assignment companies have no long-term incentive schemes in place. As the earnings periods under the schemes are long and the rewards are not paid out annually, the bonuses earned under them vary considerably from year to year. Consequently, the bonuses paid are not comparable year-on-year.

At the state-owned companies offering long-term incentives rewards, the target level median

was 43 per cent of the basic annual salary. The executive remuneration report released by the Ownership Steering Department every autumn provides detailed information on the long-term incentive rewards paid at state-owned companies.

### Supplementary pensions and other benefits

Of the CEOs of listed state-owned companies, some 70 per cent had supplementary pension plans while the corresponding figure for the CEOs of commercial and special assignments companies were over 30 per cent and about 25 per cent, respectively. Most of them are accrual-based plans with only one defined-benefit plan remaining at present. The annual premiums for the CEOs' supplementary pensions represent some 20 per cent of the fixed annual salary, which is consistent with the prevailing market level. Of the CEOs of the listed reference companies, over 60 per cent had supplementary pension plans; the corresponding figures for the CEOs of large and medium cap companies are approximately 80 per cent and 50 per cent, respectively.

CHIEF EXECUTIVE OFFICERS	STATE-OWNED COMPANIES		
	Listed companies	Commercial companies	Special task companies
Fixed monthly salary, €	52 000	18 000	13 000
Maximum performance bonus, % of salary	60	40	24
Performance bonus paid, % of salary	11	16	11
Performance bonus paid, % maxim	18	42	46
Performance bonus paid, % of target	59	72	91



# Rewards for performance gain in importance

Most market economies accept the argument that rewards paid to personnel and management should be based on the results achieved. Due to inflexible tax regimes and labour market structures, Finland is currently lagging behind the rest of the world, but a clear trend towards 'pay for performance' is gaining ground here too.



**Tarja Tyni**  
Senior Vice President  
Mandatum Life



**Leena Tyynilä**  
Partner  
Alexander Incentives Oy

Remuneration is highly specific to individual countries due to the local standard of living, pay rates, social security, taxation, labour legislation as well as cultural and value-based determinants. However, a number of universal trends are discernible.

Traditionally, the percentage of pay components linked to performance – incentive rewards, insurance policies and supplementary pensions, etc. – has been higher in the compensation plans applied in other western countries. Often, there is a range of perks offered to the various personnel groups that people can choose from. The cutbacks used by companies due to the current recession have further highlighted the importance of variable pay components.

In Finland, the use of such solutions has been hampered by taxation and inflexible labour market conventions. Often, the models originally developed to protect employees tend to undermine their original purpose: when there is no flexibility in the terms of employment, problems tend to be solved through redundancies. It would be very important for the whole of Finland to increase labour market flexibility where it is called for. "As it is, we're moving towards to a compensation system based on the required qualifications, personal competence, the results achieved and the prevailing market conditions," says Tarja Tyni of Mandatum Life describing current trends in employee compensation.

The same applies to executive remuneration. "Both internationally and in Finland, fixed executive pay levels have recently increased at a very conservative pace due to the financial crisis. Even if the rates of increase may have stayed at zero, the fixed salaries paid in Finland are more or less at par with international averages. However, it is not advisable to make comparisons based solely on salaries because the importance of variable pay components determined by success in business is clearly higher elsewhere. We too are moving towards international practices and boards of directors are increasingly focusing on flexible remuneration determined by individual performance and commercial success," says Leena Tyynilä of Alexander Incentives Oy.

### **Job satisfaction means success**

Globally, there has been a growing appreciation at companies of the type of remuneration policies that result in the best possible financial performance. Aside from first-hand experience, data are being accumulated suggesting that in the future winners and losers will be determined by how they treat the employees.

According to Tyni, material remuneration is today a basic fact of workplace hygiene that needs to be at an adequate level. "Even so, motivation and commitment are mostly affected by intangible factors such as career advancement opportunities, job satisfaction, the quality of management and corporate culture and values. Young people, in particular, value flexibilities in daily working hours and the pacing of job assignments. As working careers are prolonged, the need for a respite increases as well among the senior staff. It's clear that the ways of working will change radically over the next few years and decades."

### **Remuneration linked to long-term strategic objectives gains ground**

If anything, the financial crisis showed that it pays to prepare for risks. In executive remuneration systems, this is reflected in that the percentage of payments delayed by several years is becoming more common. "All share-linked compensation plans are structured to ensure that the shares given for the attainment of a certain objective cannot be cashed in right way. Instead, they have to be taken over a period of several years. Moreover, the indicators for long-term systems are increasingly being linked to the attainment of the core strategic goals instead of just the share price," explains Tyynilä.

The share saving plans available to all employees that are becoming increasingly popular around the world are also gradually taking in root in Finland. Under these programmes, the employees are offered the opportunity to use part of their pay to buy shares in the company which, in turn, will issue additional shares based on the specified years of service. Typically, some 15–20% of the staff members participate in these share saving plans designed to engage the key people who are willing to make a lasting commitment to the company and who feel that they have a say in how the company's strategy is implemented. In Finland, the

participation rates are often much higher and the people entering the programme represent a wider range of employees. The same goal is pursued by the personnel funds that are enjoying growing popularity. They are especially effective in Finland in engaging employees to benefit from the increase of the company's share price.

### **More transparency to remuneration**

Another important trend internationally speaking is the increasingly transparent manner in which the criteria for and the level of executive remuneration is addressed at the general annual meetings of shareholders. "This trend springs from the 2014 recommendation by the EU Commissions regarding the rights of shareholders stating that listed companies should prepare a remuneration policy, present it to the meeting of shareholders every three years and submit a remuneration report to the meeting on an annual basis. The objective is to clarify and justify the criteria and objectives of remuneration. Even though this directive has not yet taken effect, its requirements have been included in the national legislation in many countries such as Great Britain, Belgium and Sweden. Finland is also adopting 'say on pay' practices in a few years," says Tyynilä.

### **From defined-benefit to accrual-based pensions**

As the number of years people spend in retirement increases across the world, there is a trend away from defined-benefit pensions based on last pay to accrual pensions. As Tyni explains: "In an accrual-based system, the amount of the pension benefit is based on the aggregate of the premiums paid and the returns earned on said premiums. Globally, this means a major change, and the supplementary pension security offered by employers will also become more common in Finland".

Tarja Tyni is responsible for Mandatum Life's Corporate Department and serves as Chair of the Board of Innova Oy, a subsidiary specialising in consultation on remuneration.

Leena Tyynilä responsible for pay and fees analysis at Alexandra Incentives Oy.



# Board appointments

## – THE MAIN TASK OF OWNERSHIP STEERING

Under the Limited Liability Companies Act, the board of directors shall see to the administration of the company and the appropriate organisation of its operations. Additionally, the board of directors shall be responsible for the appropriate arrangement of the control of the company accounts and finances. It is further stipulated that the managing director is appointed and, if necessary, dismissed by the board of directors.

However, the role of the board of directors extends far beyond the duties and obligations imposed by law. For one thing, it determines the company's strategy, which must be up to date and capable of responding to the developments taking place in the operating environment. The board must act responsibly and be able to identify the changes in society that affect, say, the expectations of the stakeholders. Risk management must be forward-looking and the board of directors capable of identifying the most relevant risks affecting the business operations. All risk-taking must be calibrated to the company's risk-bearing capacity. When risks are realised, the company must take prompt and determined action to minimise losses. Consequently, the duties of the board include other long-term and forward-looking responsibilities in addition to mere control.

Generally, the board of directors seeks to increase the financial value of the limited company in the long run. When doing so, the Board is required to give equal consideration to the inter-

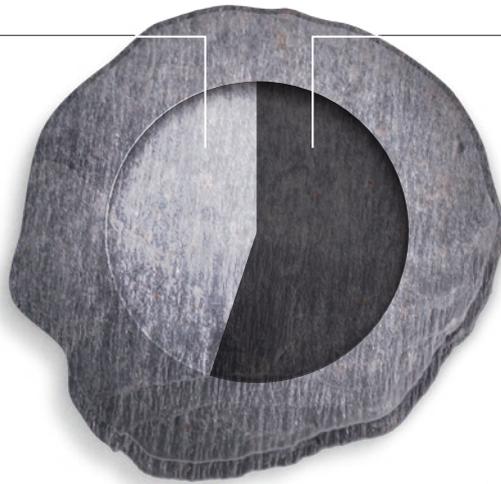
ests of all shareholders. Even if a single owner holds a clear controlling interest in the company, the board may not exclusively pursue the interests of such a majority shareholder.

The value added generated by the board of directors for the company is determined by its skills and experience and the ability to take dynamic action. Accordingly, the main task of the owners is to ensure that the board possesses sufficient diversified expertise and capabilities to provide maximum support for the executive management in running the business. The board's expertise must be wide-ranging and not just limited to the line of business that the company itself is engaged in. The boards of directors of companies operating in the world market must also have experience from international business.

A good board of directors is diversified not only in terms of its expertise but also composition. Both genders and people of different age groups should be equally represented. The State's objective is that neither gender should have less

# Board members appointed as state candidates

Women 44%



56% Men

than 40 per cent of the State's board appointments. When this objective is not met, it is usually due to the total number of members on the board or the number of members that the State is authorised to appoint, which may not be enough to achieve this goal.

As a shareholder, the State acts exactly in the same way as private owners. The State's expectations regarding the board of directors and its workings are identical to those of private shareholders with no extraordinary restrictions or requirements being imposed. Even in companies in which the State holds interest, the boards of directors are free to make decisions independently. In its exercise of ownership steering, the State complies with the division of duties and responsibilities between the various company organs and shareholders as provided in the

Limited Liability Companies Act.

One of the duties of the Ownership Steering Department is to prepare the general meetings of shareholders of the companies in respect of which ownership steering is exercised. The general meeting of shareholders – in which the State is represented either by the minister responsible for ownership steering or a person designated by the minister – appoints the members of the board of directors and often also the chair of the board. In wholly state-owned companies, the Ownership Steering Department proposes the candidates directly to the meeting of shareholders. At many of the companies in which the State is not the sole owner, the largest shareholders form a nomination committee to prepare the issues

related to the composition and remuneration of the board and to nominate candidates for board membership for the meeting of shareholders. Solidium Oy, the wholly



Women 21%

79% Men

# Boards chaired by

Statistics reflect the situation after the 2015 AGMs.

state-owned holding company, seeks to be active in the nomination committees of the companies in which it holds interests.

When identifying potential candidates for board membership, the State has access to a resource pool assembled and maintained by an external expert whose services are put out to open tender every four years. The Ownership Steering Department indicates to the expert managing the pool the sort of skills and expertise it wishes to find to complement it. Applications are also accepted for inclusion in the resource pool. Before any candidates are nominated, the Ownership Steering Department conducts extensive

interviews with the people recommended by the resource pool manager who are deemed to be suitable for the preferred profiles.

In 2014, the Ownership Steering Department proposed candidates for board membership to the annual general meetings (AGMs) of shareholders or the nomination committees of 26 companies. All in all, there were a total of 164 members on these boards, of whom the State had appointed 138. At the extraordinary meetings of shareholders held during the year, a new chair of the board of directors was elected at one company and a new member to replace a resigning member at another. Of all State-appointed members,

## Wide-ranging expertise needed on boards of directors

Over the past few decades, technological advancement and globalisation have impelled huge changes to both business models and the operating and competitive environment of companies. At the same time, swift changes in the financial markets have created a need for completely new financing solutions. Since the rate of change shows no signs of deceleration, the requirements being imposed on boards of directors in terms of expertise and ability to foresee trends is further highlighted.



**Leena Mörntinen**  
Executive Director at  
The Finnish Family Firms  
Association

Technological innovations shake up the ways in which companies make and offer products and services, communicate with stakeholders and compete with one another. There is no recourse to old, familiar patterns; instead, success calls for visionary ideas and innovative solutions. In the face of this turmoil of change, executive management needs sparring partners capable of identi-

fying the opportunities opening up in the marketplace as well as recognising the risks associated with the increasingly complicated operating environment and financial markets. Accordingly, the importance of boards of directors as agents staking out strategic lines of action is increasing.

### **Skills and expertise decisive**

While board appointments have traditionally represented a wide range of expertise, ever more diverse skills and knowledge of the field of activity, markets and financing are called for, including a better understanding of inter-dependencies. As an increasing number of Finnish companies are expanding to new markets all

women accounted for 44.2 per cent of the total in 2014. Four boards of directors, or 15 per cent of the total, were chaired by women. According to a survey carried out by the Finland Chamber of Commerce, women accounted for an average of 23 per cent of all the board members in companies listed on the Nasdaq OMX Helsinki Stock Exchange.

During 2015, the Ownership Steering Department has proposed or will propose candidates to the AGMs or nomination committees of 28 companies. All in all, these boards of directors have 172 members, of whom the State may appoint 146. At the AGMs held this spring, the duties of the chair of the board were transferred

to a new person at seven companies and a quarter of the board members proposed by the State were replaced. This figure does not include changes that have taken place among the government officials serving as board members. Of the new appointees, some 20 will begin their first term on the board of directors of a state-owned company. About 44 per cent of the state-appointed board members are women. The number of female chairs of board will increase from 2014 as the boards of directors of six companies are currently chaired by women after the AGMs already held. Four of them act as a chair first time in state-owned company.

over the world, expertise related to international business is in growing demand on the boards of directors. This means that efforts must be made to attract business talent from other countries as well.

As it is, boards of directors are facing a large number of major issues related to business structures, contents, geographical scope and risks, and so diverse expertise and an ability to respond in these new circumstances are sorely needed. Particularly in recent years, the ability to respond to the global economic crises has been highlighted. As the distributable wealth of western nations no longer grows at the same rate as before, competition intensifies.

Finding sufficient talent for board positions in these demanding conditions is often difficult. An additional challenge to Finland is that the people who are true experts in their respective fields tend to stick to their own specific sectors. For example, academics are rarely seen on the boards of directors. As future success calls for ever-expanding skills and expertise, these boundaries need to be broken down. Even though the supply of qualified board members remains scant, I think that the situation has gradually improved with the organisations of board professionals actively looking for and promoting new talent.

In recent years, major efforts have been made in many countries, including Finland, to increase the number of women on boards of directors. In my view, this is an excellent way of recruiting the best talent for these positions. Even here, the only criteria should be talent and ability, not gender.

### **Competent board deserving of proper compensation**

Recently, the level of board fees at state-owned and also at other companies has aroused a fair degree of public debate. In my opinion, the public outcry has been misguided in the sense that it is not the amount of fees but the board's success in its decision making that matters. If the board, through its strategic vision, helps outperform the competition, the fees paid are low in proportion to the potential achieved. Clearly, the higher the competence of the board members, the wiser the decisions and the greater the success achieved.

In my view, the fees paid to the board members of Finnish companies are not excessive considering the level of expertise required. Serving on a board of directors not only requires a lot of effort in terms of time but also involves a high degree of responsibility. Moreover, the level of fees also affects our international competitiveness. To be able to attract the necessary international expertise, Finnish companies need to be able to offer competitive fees. Therefore, state-owned companies may face additional challenges if the political decision makers thwart the increase in board fees or the recruitment of foreign professionals.

Board fees are compensation for sharing knowledge and competence and worth paying for. A board of directors deserves proper compensation, even if it appears high.

# Aiming at

A SOCIALLY AND FINANCIALLY SUSTAINABLE

# performance

As an owner, the State is a major player in society when measured in terms of the key financial indicator of its wholly or partly owned companies.

In 2014, the combined net sales of state-owned companies reached EUR 82 billion and they employed 88,000 people in Finland and 120,000 abroad. The State holds interest in the largest companies listed on the Nasdaq OMX Helsinki Stock Exchange. Of the ten biggest companies in terms of market capitalisation, the State holds shares in five, either directly or through Solidium.

State-owned companies are also of great importance to public finances. Total dividends paid by the companies out of their profits for 2014 amounted to EUR 4.9 billion, of which the State received around EUR 1.1 billion. The taxes paid and accounted for by the companies in 2014 totalled EUR 6.5 billion. Additionally, the State earns proceeds from the sale of its interests in the companies. Revenues from the sale of state-held shares were EUR 3.5 billion in 2007 and some EUR 1.14 billion in 2014. Most of the proceeds in 2014 were received via Solidium as a share of profits.

## **Ownership is not always right parallel**

When the performance of state-owned companies is assessed, it should be taken into account that they only share one common denominator – state ownership. Sometimes, state-owned companies are in the media compared to privately owned companies. Such comparison is ill-founded. As a category, state-owned companies differ widely in terms of type and size. They operate in different fields of activity, often have other owners, and some of them are listed. When this diverse group is lumped together, it does not do justice to the companies.

State-owned companies are engaged in certain lines of business, which provides a sounder basis for comparison. For example, a rough division can be made into energy and logistics companies. Solidium's portfolio includes companies engaged in the basic industry, engineering and information technology. Accordingly, state-owned

# Social impact of state-owned companies in 2014

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At present, the combined value of all state holdings is EUR 25–30 billion



Turnover in state-owned companies EUR 82 billion



State-owned companies employ about 208,000 people worldwide including some 88,000 in Finland



Total dividends from 2014 profits EUR 4.9 billion



Tax footprint total taxes payable EUR 6.5 billion (companies ownership-steered by the Department)



Total investments EUR 5.2 billion

companies should be compared to their peers in each field of activity, and not treated as a homogeneous group.

The performance of state-owned companies can be evaluated by more general criteria in terms of how they manage sector-independent issues, which include corporate governance, corporate social responsibility and the tax footprint. Responsibility for these issues falls to the board of directors at each company. However, at least at its wholly owned companies, the State can exert a measure of influence regarding these matters. In extreme cases, new legislation can be introduced to effect changes.

The main channel of influence available to owners is the annual general meeting of share-

holders and, in particular, the election of the board of directors at the meeting. There are also other ways of exerting influence. The State's representatives can discuss issues with the executive management, ask questions and propose ideas also at companies that have other shareholders. In this way, the company's management learns what at least one of the owners finds important. For example, questions can be asked about corporate social responsibility – This is what other owners or investors do.

Increased awareness of CSR issues among investors may guide investment decisions. An investor may consider a responsible company an attractive investment while shunning a poorly run one. Often, the State is a major owner and

seeks to influence companies using the tools available to shareholders, instead of just voting with its feet. Essentially, the State's ambition is to be a good owner.

### **Owner or investor?**

The distinction between owner and investor can sometimes be vague. After all, an investor holds shares in the company just like an owner. There are, however, a few distinctive features evident if we want to put a finer point to it. The difficulty in drawing a line between owner and investor is illustrated by the perception of the owner as a 'passive owner' and the investor as an 'active investor'. The idea is turned on its head when we realise that it is ownership that calls for an active approach. While investing too is an activity, the roles and objectives of owners and investors may diverge.

Today, owning is perceived as active engagement that calls for special skills and expertise. Investors also wield influence in companies but somewhat differently. One thing that these two groups share, however, is thinking in terms of shareholder value. Responsible owners focus on stakeholder thinking which, when properly exercised, leads to an increase in shareholder value. Consequently, these two approaches are complementary rather than mutually exclusive.

The roles of owners and investors display some general characteristics. Usually, an owner's stake in the company is relatively large whereas an investor's holdings are smaller. The interest held by the owner in the company may represent a sizeable portion of his/her assets, as in the case of old family firms. As investors tend to spread

risks, the target company, in all likelihood, represents a small percentage of their investment portfolio.

Similarly, the owners' and investors' objectives and roles may differ. An owner makes a long-term investment in order to earn a healthy return on the capital invested. An investor's investment horizon, on the other hand, is typically closer and he may primarily seek to beat the benchmark index. More often than not, an investor represents faceless market forces whereas an owner is an entity with a face who seeks to wield influence, for example through board appointments.

While both are interested in increasing the value of the company, the owner's role in the formation of value involves a greater degree of responsibility. Typically, an investor is constantly weighing various investment options. An owner, by contrast, seeks to earn a return on invested capital through long-term efforts.

In reality, the different roles of owners and investors are revealed when the company's profits fall or the trend turns downward. Alternatively, the company may be facing a crisis and thus the investor's most likely response is to sell. A responsible owner seeks to influence developments through the board of directors or otherwise while seeking to ensure favourable development in the long term. Skilful and active owners benefit all the parties involved.

In the foregoing, owning is presented as action while investors are characterised as more passive players. Yet investors play a highly significant role in the market, which is reflected through supply and demand. This sends a very powerful message to the companies involved.



# The role of state-owned companies in the labour market – Views of the employer and employee organisations

State-owned companies are a major employer: at the end of 2014, they employed 88,000 people in Finland and 120,000 abroad. **Ilkka Oksala**, Director, Confederation of Finnish Industries EK, and **Matti Tukiainen**, Director of Employment and Sustainable Growth, Central Organisation of Finnish Trade Unions SAK, discuss the social impact of state-owned companies in the labour market.



**Ilkka Oksala**  
Confederation of Finnish Industries EK, Director responsible for labour legislation, training and corporate security



**Matti Tukiainen**  
Central Organisation of Finnish Trade Unions SAK, Director of Employment and Sustainable Growth

The goal for the State's ownership steering policy in respect of companies operating on a commercial basis is to achieve continual profitable growth and increase shareholder value in the long term. How do you see this objective in terms of its impact on the labour market?

**IO:** From the labour market's point of view, both state-owned and privately owned companies should act in the same way, and the State's expectations as an owner should not be different from those of the other owners.

Of course, all owners have diverging expectations related to their own business and its development.

**MT:** I still think it's a proper objective for all companies. With state-owned companies, the importance of this long-term view is only highlighted. They should not just live in a quarterly economy trying to maximise short-term profits. Instead, the owners should be able to set their sights on more long-term developments.

Should state-owned companies, in your opinion, pursue objectives that differ from those of privately owned companies, for example regarding the structure of the economy or regional employment?

**MT:** Of course, state-owned companies bear a certain overall responsibility for employment. But the ownership policy is not the primary tool in promoting it. The idea that the State should guarantee employment even at companies that are doing poorly is not really sound given the state of the world today. If it was foreseeable that the State could save jobs or ensure the continuity of an otherwise viable field of activity through active measures, they are necessary and justified. The Turku

shipyard is a prime example of this. The State's long-term interest was secured by taking steps that helped retain internationally competitive expertise and know-how in Finland. The same logic also applies to support for regional employment. Any activity for which state aid is provided must be sustainable on market terms in the long run.

On the whole, new economic structures and companies should have more private investors. It would ensure the commercial viability of the operations.

Even though the State cannot run a business at a loss, I think it has a moral responsibility to consider options to redundancies when faced with major problems. Would it be possible, for example, to boost future competitiveness by providing training instead of dismissing people?

Similarly, the State should play an active role in promoting business. A part of the revenues received in the form of dividends or sales proceeds should be earmarked for facilitating the renewal of the industrial base and the structure of the economy.

**IO:** A wise owner, private or public, always seeks maximum return on its holdings. For this reason, employment cannot be the State's primary objective. Instead, it should aim at as profitable operations as possible. Profitable companies are in a position to offer work and create jobs through growth. Moreover, all must play by the same ground rules in an intensely competitive market. Looking at it in a historical perspective, I think that the State is today acting much more professionally in this respect than in the past.

Another reason why productivity is important to state-owned companies is that it uses the revenues received from the companies in which it holds interest to maintain public services. This way, productivity supports the attainment of a range of social goals.

In my opinion, it would clarify the situation if regional projects received funding from the government budget or through some other financing arrangements, and not through state-owned companies. When investment decisions are made based on social considerations, the provision of funding from sources other than state-owned companies would greatly increase the transparency of the operations.

**How do you see the role of state-owned companies in promoting skills and innovation?**

**IO:** I don't think that the State would have a role in this different to that of other companies. Innovation can be supported both in the public and private sector by a range of financing schemes; in this respect, state-owned companies have no special position or obligation.

**MT:** In my view, state-owned companies should assume a special role in promoting skills and innovation and set an example. After the collapse of Nokia's mobile phone business, research and innovation have sharply declined in Finland, leaving us far behind the objective of 4% of GDP. In a country with a high cost level like Finland, it is vital to invest in high-end expertise by expanding research and innovation activities and by updating the skills levels of all personnel groups.

**Do you find that state-owned companies share some special characteristics as a labour market party, for example regarding collective bargaining or personnel and executive remuneration?**

**MT:** Executive remuneration has got completely out of hand in Finnish business, including state-owned companies, in imitation of international trends. The problem here is not so much the big rewards paid to few individuals but the moral hazard. It's impossible to understand that anybody's contribution to a company would be worth the exorbitant sums paid. Moreover, the incentive schemes should apply to all personnel and be discussed and determined locally.

**IO:** Basically, I don't see any difference between state-owned and private companies in this respect, either. But it seems clear that the actions of state-owned companies are subject to greater pressures than others in the labour market. Efforts are made to influence these companies through the state-owner, especially in the course of difficult collective bargaining situations, which I find deplorable.



## WIN-WIN SITUATIONS IN THE CONTEXT OF

# corporate social responsibility

Already in 2011, the State announced its expectations and requirements regarding corporate social responsibility at state-owned companies. The government resolution on ownership policy obligates all wholly state-owned companies and non-listed companies with a state majority interest to prepare a specific corporate social responsibility (CSR) report or include it in their annual reports as a clearly distinguishable section. It is hoped that other companies will follow suit. Subsequently, the mere reporting requirement has been expanded to a call for a more strategic CSR policy. As an owner, the State's goal is to exercise its influence as a shareholder to promote responsible policies and so increase the shareholder value of the companies. In the owner's view, corporate social responsibility contributes to the companies' financial performance and so serves as an important tool in the efforts to increase shareholder value. In the face of dwindling natural resources, climate change and ever louder calls for responsible policies, only resource-efficient companies with a high standard of ethics and social responsibility are able to gain a lasting competitive advantage. Consequently, close attention to CSR issues is likely to improve competitiveness.

CSR issues are in a flux: stakeholders are voicing new requirements and companies making innovations in their management of these policies. In particular, the corporate tax footprint and human rights have been highlighted in recent years as CSR issues are increasingly being inte-

grated into business operations as part of risk management and other operational systems.

## **Corporate social responsibility as part of ownership steering – objective to increase shareholder value**

Corporate social responsibility issues have been integrated as part of the analysis and strategic efforts of the Ownership Steering Department. The State's approach to CSR is to formulate an independent view of the management of the key CSR issues by the individual companies in the portfolio in terms of opportunities, the standard of administration and management of CSR, and the overall level of CSR performance. Many CSR issues are often specific to the line of business the company is engaged in. Consequently, a corporate analysis also requires an analysis of the field of activity involved in order to be able to assess the strategy and performance of each individual company from the CSR perspective. The viewpoints to be considered in individual sectors may include legislative reforms, other regulation, the effects of megatrends and overall development in demand.

During 2014 further steps were taken to refine the method of analysis applied by the Ownership Steering Department by making it more concrete and tangible. The objective was to identify value drivers for CSR, monitor their development and so highlight the role of CSR as part of ownership steering. In the view of the Ownership Steering Department, the positive effects of corpo-

rate social responsibility on shareholder value are primarily achieved through the CSR and risk management systems. The CSR management system should be up to the standard required to manage the risks associated with CSR.

Aside from reduced risks, the benefits of CSR are felt in improved cost-efficiency and growth achieved through responsible innovations; new products and services; the business opportunities and market areas generated by megatrends; and improved customer satisfaction and loyalty. At the same time, corporate social responsibility is an important component of a company's reputation. Successes and failures in the management of CSR issues often materialise financially in reputation. A high standard of CSR performance is often reflected in reduced environmental impact and positive social consequences. These, in turn, often materialise in the form of lower costs and improved in-house efficiency. Sound management of CSR issues is also likely to reduce risk premiums and the cost of capital, both factors that very much affect the value of the company. This calls for an approach to CSR management that creates value and is part of the regular management system and corporate culture, and one that is fully integrated into all core functions.

In the view of the Ownership Steering Department, successful management of CSR issues manifests itself in genuine executive com-

mitment; the allocation of adequate resources for CSR purposes; a high level of expertise; high ranking on the board agenda; integration into the management system; clear and ambitious goals; monitoring and reporting of the progress made; and as part of the incentive remuneration system and corporate strategy and values. Additionally, the owner expects companies to identify and assess CSR-related risks and integrate CSR into their risk management systems. The opportunities offered by CSR should be recognised and have a direct link to strategy. The State relies on a range of indicators to actively monitor the companies' environmental, social and financial performance.

People from the Ownership Steering Department meet executives from state-owned companies on a regular basis to review CSR issues, among other things. The State seeks to maintain an on-going dialogue with the companies and so influence CSR issues based on the analyses made. They are carried out as part of the Ownership Steering Department's semi-annual corporate analyses, the results of which are also reported to the Cabinet Committee on Economic Policy. Other tools available to the owner aside from this active dialogue include the assessment of CSR expertise in connection with board appointments and remuneration schemes.

# Assessment of corporate social responsibility issues as part of corporate analysis



## High standard in CSR management

All wholly and partially state-owned companies report on corporate social responsibility in the form of a separate CSR report or as part of their annual report. On average, the standard of CSR management and administration among the companies was high in 2014 rated at 67 per cent out of a maximum of 100. Eighty seven per cent of the companies achieved a high or very high level. Corporate social responsibility was duly recognised in the strategies and values of state-owned companies and, as a rule, integrated into the management systems. Ethical business practices are a natural part of operations. Practically all companies had an ethical code of conduct in place. Clear, measurable and ambitious objectives are very important to the proper management of CSR issues. On average, the

companies displayed an excellent level of performance in setting objectives, defining indicators and launching action programmes.

A little over 50 per cent of the companies had recognised the essential CSR issues by engaging the relevant stakeholder groups. As the identification of the key CSR issues is instrumental to CSR management, materiality analysis and stakeholder interaction will be increasingly prioritised in the dialogue between the State and the companies. Similarly, there is room for improvement in the inclusion of CSR objectives in the executive remuneration schemes. While CSR requirements have generally been imposed on the supply chains, more efforts are required on the part of several companies to develop compliance monitoring and the auditing of key suppliers.



# Country-by-country reporting of taxes by state majority-owned companies

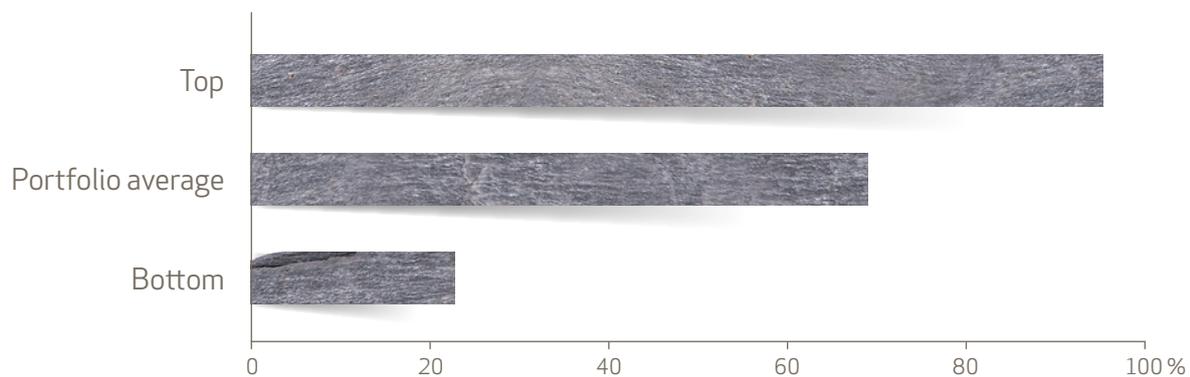
The Government's action programme to combat international tax evasion was given to Parliament on 8 May 2014. The Government's action plan "obligates state majority-owned companies to report taxes country-by-country." On 1 October 2014, the Ownership Steering Department issued guidelines for country-by-country tax reporting in order to provide a framework and minimum requirements for the contents of the report. A guiding principle was not to increase the reporting obligations to any significant degree. Nor are the reporting requirements designed to create hurdles for the business operations of the companies or undermine their competitiveness in the market place.

Of the total of 26 companies, 23 disclosed their taxes in 2014. All the companies disclosed more tax information than before; however, there were considerable differences in reporting between individual companies in terms of quality and scope. The companies chose to disclose tax information either in the annual report or in a separate corporate social responsibility (CSR) report.



Of the companies submitting the report, only one third provided a description of the organisation and management of tax issues. Most companies provided some outlines of their tax planning, tax strategy and its objectives. Most, however, just declared that they complied with the local laws and regulations. Majority explained their reporting policies and gave an account

## Standard of CSR management and administration (max 100%)



of the principle of materiality applied. Most of these companies determined materiality in terms of money. Only a few companies discussed materiality at length. One quarter provided a description of the information that was withheld. Some invoked the confidentiality of this information as the reason for exclusion from the report. Except for one, none of the companies gave any explanation of the information included on the basis of the assessment of materiality.

Of the tax-related key ratios, the companies mostly report the same key ratios used by the Ownership Steering Department in its previous reports, namely net sales, income before taxes and the number of personnel. Some reported no key ratios at all but they are available in the financial statements. Only a few companies presented own key ratios in addition to those mentioned above to describe their tax information. One quarter failed to report taxes by country or by type of tax; however, some of them did report the figures for Finland separately. Only a few companies disclosed the public subsidies received. One quarter provided information on operations in tax havens or reported that they had no such operations. About half of the companies also disclosed the figures for the reference year even though this is not included in the minimum requirements.

In 2014, the taxes paid and accounted for by the companies totalled EUR 6.5 (6.9) billion. Of the aggregate of taxes, they account for and pay to Finland some

EUR 4.8 (4.9) billion representing 74 (71) per cent of the total tax revenues. As far as the types of tax are concerned, it was noted that the actual business income tax accounted for only a small portion of all the taxes paid by the companies. Income taxes only account for some 5 (6) per cent of the total taxes paid by companies. The biggest sources of tax revenues were exercise duties and value added tax (net) followed by payroll taxes and employer contributions.

According to the reports, 70 (69) per cent of the total reported net sales of the companies is generated in Finland. Of the taxable income, 78 (43) per cent is reported in Finland. The change in taxable income is mainly due to a couple of companies' significant one-time non-taxable items. Of the companies' income taxes, 62 (60) per cent are paid to Finland. In total, 74 (74) per cent of the people employed by the companies work in Finland.

Of the combined net sales of all the companies, 22 (23) per cent is generated in countries on which no specific reports are provided. At the same time, these countries generate 17 (36) per cent of the aggregate taxable income and receive 9 (7) per cent of the aggregate income taxes. The change in taxable income is mainly due to increased taxable income in Finland due to a couple of companies' significant one-time non-taxable items.

# Categories

## OF STATE-OWNED COMPANIES

### STATE-OWNED COMPANIES

Centralised ownership steering by Prime Minister's office

#### COMMERCIAL COMPANIES

##### INVESTOR INTEREST

##### CATEGORY 1a

Altia Plc  
Art and Design City Helsinki Oy  
Ekokem Oyj  
Kemijoki Oy  
Nordic Morning Plc  
Raskone Ltd

##### SOLIDIUM'S HOLDINGS

Elisa Corporation	SSAB AB
Kemira Oyj	Stora Enso Oyj
Metso Corporation	Talvivaara Mining Company Plc
Outokumpu Oyj	TeliaSonera Finland Oyj
Outotec Oyj	Tieto Corporation
Sampo Plc	Valmet Corporation

##### STRATEGIC INTEREST

##### CATEGORY 1b

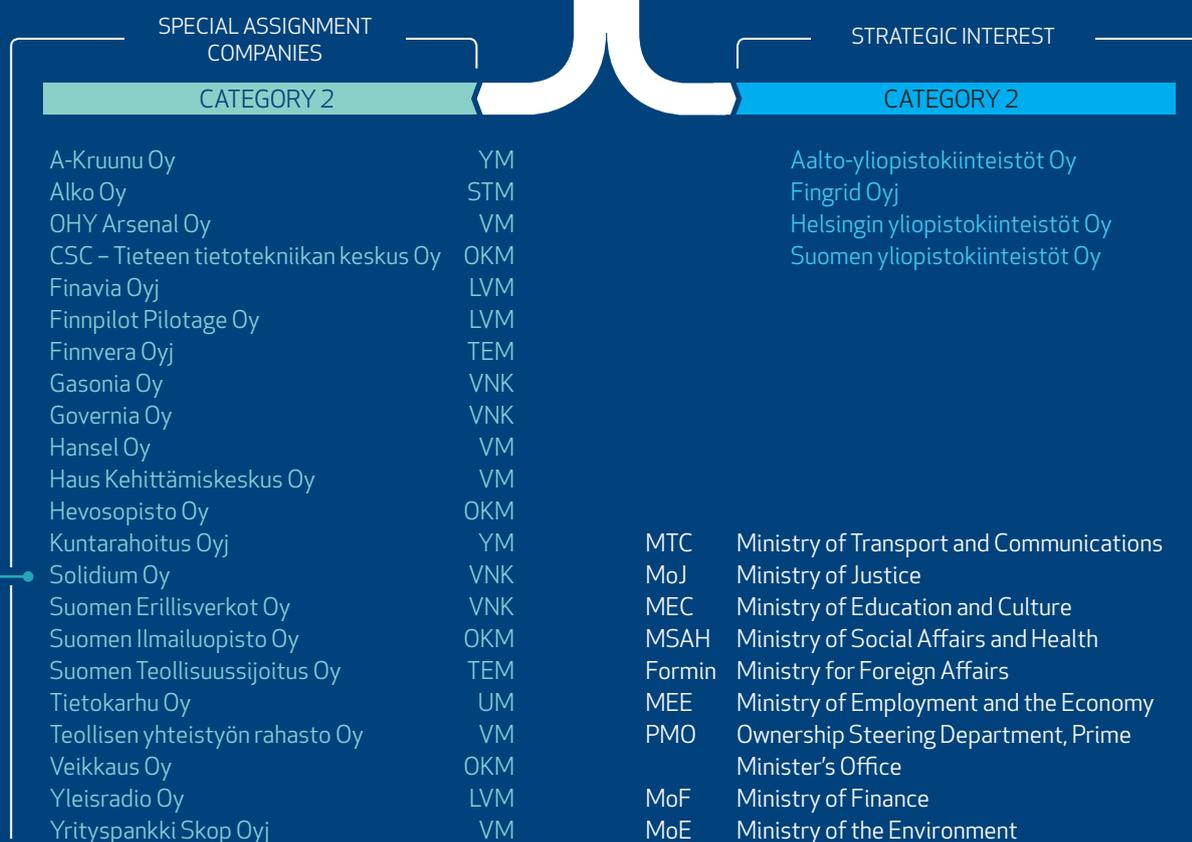
Arctia Shipping Ltd	Meritaito Ltd
Boreal Plant Breeding Ltd	Mint of Finland Ltd
Finnair Plc	Motiva Oy
Finnish Seed Potato Centre Ltd	Neste Oil Corporation
Fortum Corporation	Patria Plc
Gasum Corporation	Suomen Lauttaliikenne Oy
Itella Corporation	Suomen Viljava Oy
Leijona Catering Oy	Vapo Oy
	VR-Group Ltd

At the end of the reporting period, the Ownership Steering Department was responsible for the ownership steering in respect of 27 companies, three of which were listed companies (Finnair Plc, Fortum Corporation and Neste Oil Corporation) and four special assignment companies (Gasonia Oy, Solidium Oy, Governia Oy and State Security Networks Ltd). In 2014, the State sold Destia Oy's

entire share stock. Gasonia Oy was founded as part of Gasum Oy's ownership arrangement.

Solidium Oy, a wholly state-owned holding company, is one of the companies overseen by the Ownership Steering Department. At the end of 2014, Solidium held shares in 12 companies, all minority interests.

## Ownership steering by ministries



# Basic information

## ON PORTFOLIO COMPANIES

	Net sales, EURm	Operating income, EURm	Operating margin	Total assets, EURm
<b>LISTED COMPANIES</b>				
Finnair Plc	2,285	-72.5	-3.2%	1,885
Fortum Corporation	4,751	3,428	72.2%	21,375
Neste Oil	15,011	150	1.0%	6,494
<b>NON-LISTED COMMERCIAL COMPANIES</b>				
Altia	426.3	-18.6	-4.4%	501
Arctia Shipping	61.3	16.8	27.4%	186
Art and Design City Helsinki Oy	0.3	0.0	-5.4%	1
Boreal Plant Breeding Ltd	9.8	0.5	5.5%	11
Ekokem Corporation	200.8	35.2	17.5%	311
Gasum Corporation	1,079.0	5.1	0.5%	1,621
Kemijoki Oy	40.0	-2.6	-6.5%	469
Leijona Catering Oy	66.2	4.3	6.4%	24
Meritaito Ltd	31.2	0.4	1.3%	31
Motiva Oy	8.0	0.2	2.8%	4
Nordic Morning	106.6	3.4	3.2%	75
Patria Industries	462.4	56.0	12.1%	491
Finland Post Corporation	1,858.7	5.8	0.3%	1,291
Mint of Finland	76.2	-2.6	-3.4%	74
Raskone Ltd	82.4	-3.6	-4.4%	29
Suomen Lauttaliikenne Oy	49.0	11.7	23.9%	54
Finnish Seed Potato Centre Ltd	3.4	0.0	-1.1%	4
Suomen Viljava Oy	19.0	3.7	19.4%	24
VR-Group Ltd	1,367.2	90.4	6.6%	1,877
Vapo Oy*	847.4	50.1	5.9%	787
<b>SPECIAL ASSIGNMENT COMPANIES</b>				
Governia	99.6	6.8	6.8%	289
State Security Networks Ltd	40.9	0.2	0.6%	138
Solidium Oy	0	190.5		

\* Financial year 1.1.2013-30.4.2014



Equity ratio	Return on investment	Return on equity	Gearing	Number of personnel
27.7%	-6.1%	-13.9%	107.5%	4,981
51.2%	19.5%	30.2%	38.6%	8,592
41.0%	3.3%	2.1%	61.0%	4,833
28.7%	-3.5%	-11.6%	34.2%	987
72.7%	11.3%	10.0%	-15.6%	261
75.1%		-5.2%	-89.2%	3
78.3%	8.3%	7.3%	-25.9%	72
52.4%	17.1%	17.2%	13.8%	465
28.4%	0.7%	-0.4%	73.2%	281
18.1%	-0.6%	-3.0%	412.7%	78
73.3%	25.7%	21.0%	-76.3%	466
66.7%	1.7%	1.4%	13.4%	228
59.4%	9.1%	6.9%	-62.9%	70
51.8%	7.0%	9.8%	2.2%	660
45.3%	18.3%	18.4%	17.0%	2,546
45.3%	1.1%	-0.7%	19.0%	24,617
47.6%	-3.9%	-9.6%	69.5%	212
19.7%	-16.8%	-49.5%	160.0%	639
72.8%	33.9%	26.5%	-33.2%	318
41.5%	-1.4%	0.0%	50.3%	13
85.2%	16.6%	13.8%	-6.1%	91
82.5%	6.3%	4.5%	-21.6%	9,689
39.4%	3.9%	1.2%	110.3%	1,091
56.4%	2.4%	1.6%	28.4%	176
85.0%	0.4%	-0.1%	-12.9%	117
80%				12

# Movement

## IN THE VALUE OF THE STATE'S SHARE PORTFOLIO

The market capitalisation of the listed companies in which the State holds interests increased by 13.8 per cent in 2014. At the end of the year, the market capitalisation of the portfolio was EUR 10,543 million (EUR 9,543 million), clearly outperforming the market. In 2014, the general index of the Nasdaq OMX Helsinki Stock Exchange increased by 5.7 per cent. Total return on the portfolio during the reporting period was 21 per cent. In 2014, the gross index of the Nasdaq OMX Helsinki Stock Exchange went up by 10.7 per cent. The best performance was put in by Neste Oil, whose share price increased by 39.6 per cent.

The company's overall rate of return in 2014 was 45.4 per cent.

The return on Solidium's share portfolio reached 7.1 per cent in 2014, falling short of the benchmark index (OMX Helsinki Gap GI) which was 10.6 per cent.

The following table shows the movement in the market capitalisation of the State's holdings in listed companies.

An analysis of the returns over a five-year period reveals that Neste Oil's yields have also been substantial. Finnair's share price fell by 34 per cent over the five-year period, as reflected in

### MARKET CAPITALISATION OF STATE HOLDINGS 31 DECEMBER 2014 AND 31 DECEMBER 2013

	31.12.2014			31.12.2013		
	State shareholding	Market capitalisation, EURm	Weight in portfolio	Market capitalisation, EURm	Weight in portfolio	
Finnair	56%	177.4	2%	198	2%	
Fortum	51%	8,103.3	75%	7,499	79%	
Neste Oil	50%	2,576.9	24%	1,846	19%	
<b>Total</b>		<b>10,857</b>		<b>9,543</b>		
Solidium holdings, market capitalisation		7,616		8,172		
<b>Total</b>		<b>18,473</b>		<b>17,715</b>		

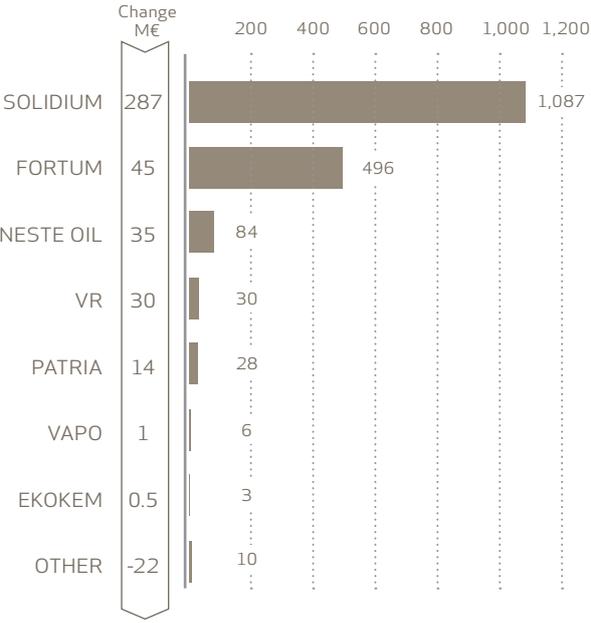
### MOVEMENT IN THE MARKET CAPITALISATION OF COMPANIES WITH DIRECT STATE HOLDINGS 2010-2014



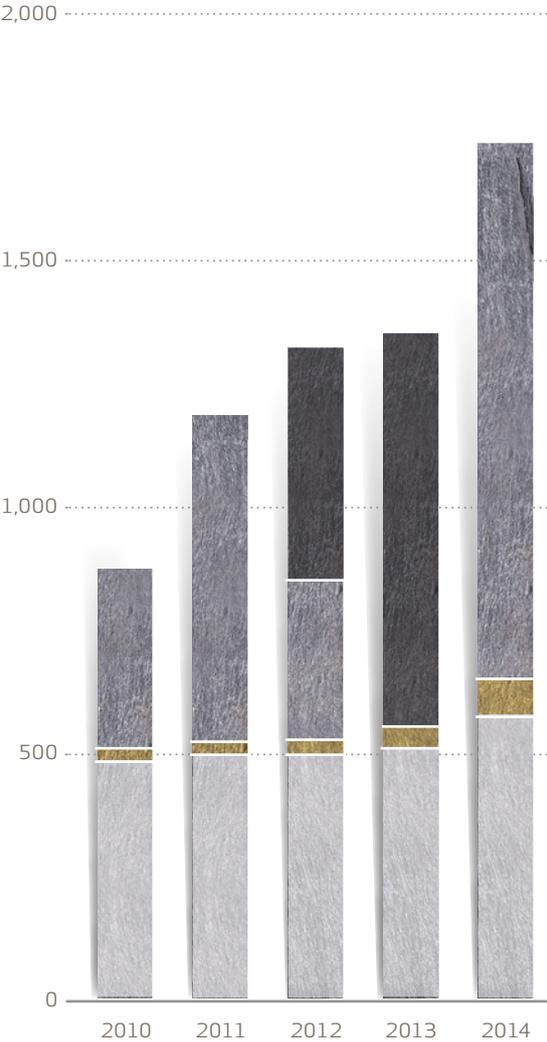
its poor financial performance. The average annual return on the whole portfolio during 2010–2014 is 6.2 per cent.

In 2014, the dividends paid to the State by the companies in respect of which ownership steering is exercised by the Ownership Steering Department in the Prime Minister’s Office totalled EUR 1,743 million as compared to EUR 1,352.8 million in 2013. This increase was partly due to the spending limit decisions regarding transfers of a total of approximately EUR 1 billion to the central government budget by the end of the government term. Of the companies in the State’s portfolio, both Neste Oil and Fortum increased dividends. Total dividends paid by non-listed companies reached EUR 77 (46) million. Of the non-listed companies, the biggest dividends were received from VR which paid EUR 30 (0) million, and Patria, which paid EUR 27.8 (13.9) million. As far as non-listed companies are concerned, the

PROFIT DISTRIBUTION RECEIVED BY THE PRIME MINISTER’S OFFICE IN 2014, EUR MILLION



PROFIT DISTRIBUTION RECEIVED BY THE PRIME MINISTER’S OFFICE DURING 2010–2014, EUR MILLION

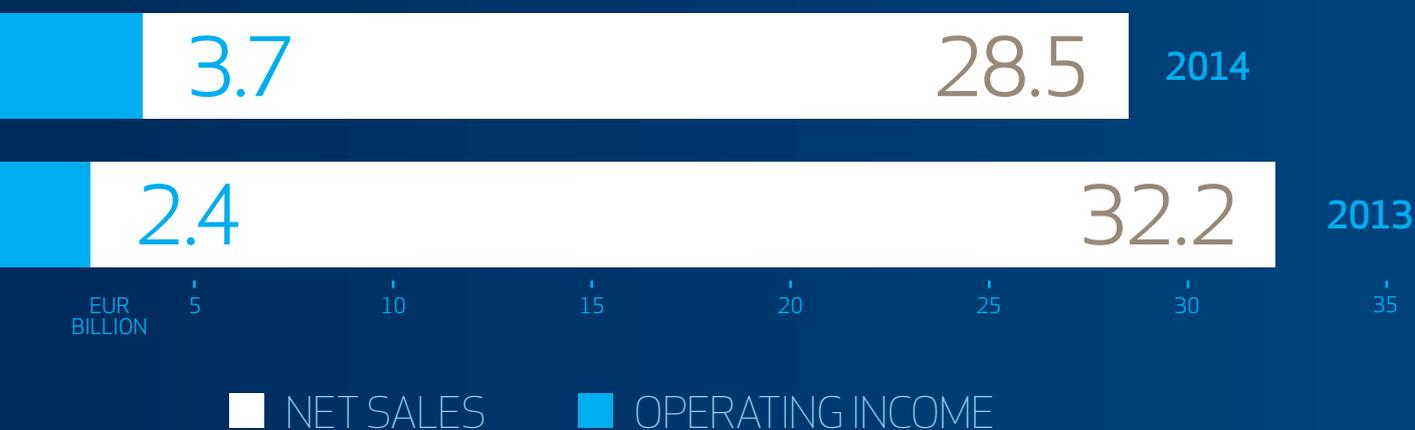


total dividends to be paid out of their financial result for 2014 are expected to continue to grow. This is mainly due to the increase of VR’s dividends to EUR 100 million.

The State’s total dividends from direct share-holdings in listed companies will reach EUR 669.7 (579.5) million due to the increase in dividends paid by Fortum. As the company will pay an additional dividend of EUR 0.2 per share, the total dividend will reach EUR 1.3 (1.1) per share. While the return on the portfolio increased to 6.2 (6.1) per cent, the payout ratio fell to 42.2 (65.8) per cent. An important contributing factor was Fortum’s improved net profit due to the non-recurring proceeds from the sale of the power transmission business. From the owner’s point of view, the State’s portfolio of direct holdings in listed companies continued to generate a healthy return on equities as compared to the OMX Helsinki Stock Exchange A list average of 4.7 per cent.

# Company reviews

At the end of the year 2014 the Ownership Steering Department was responsible of three listed companies, 20 non-listed companies operating on a commercial basis and four companies with special assignments. The infograph on this page illustrates key figures of commercial portfolio.



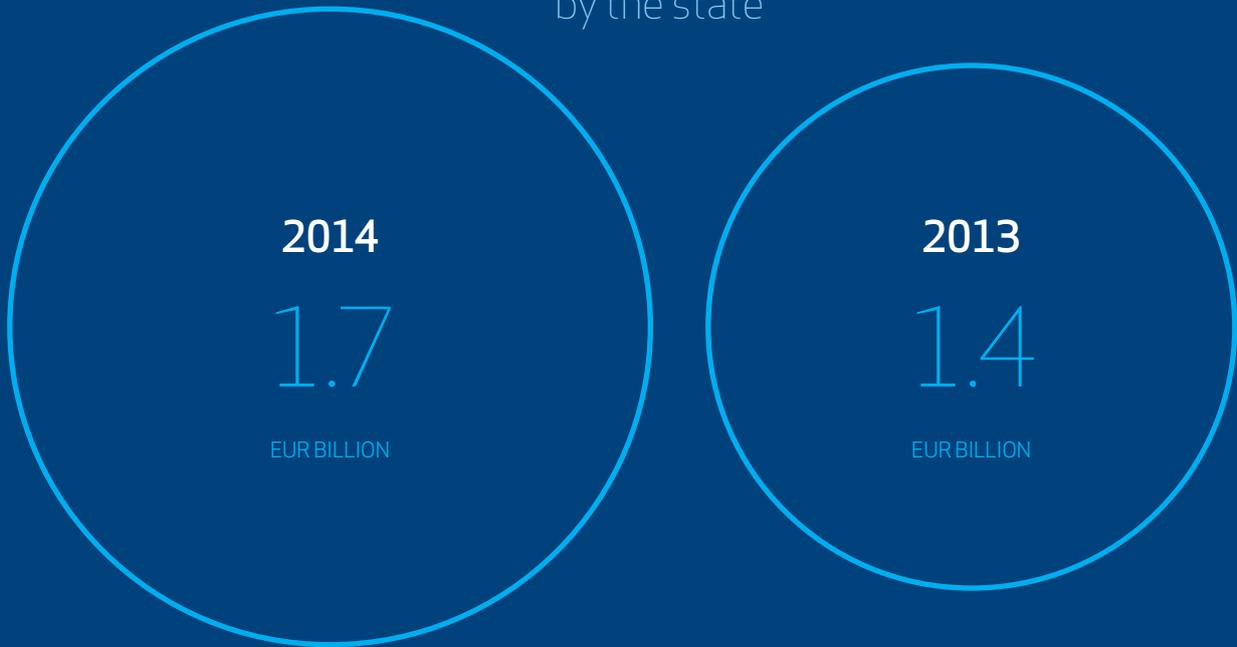
■ NET SALES ■ OPERATING INCOME



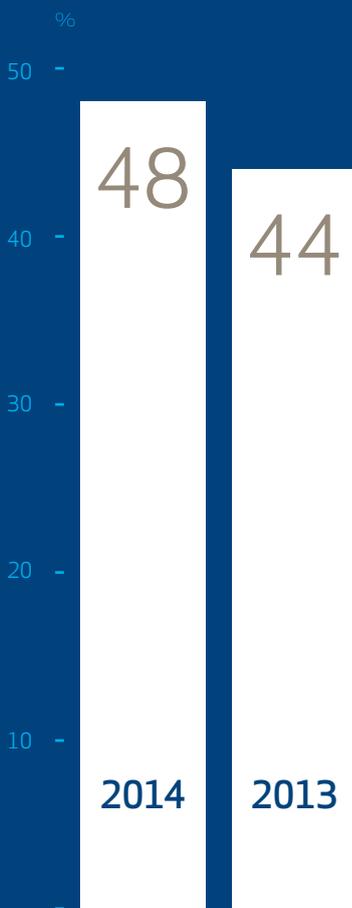
Total assets



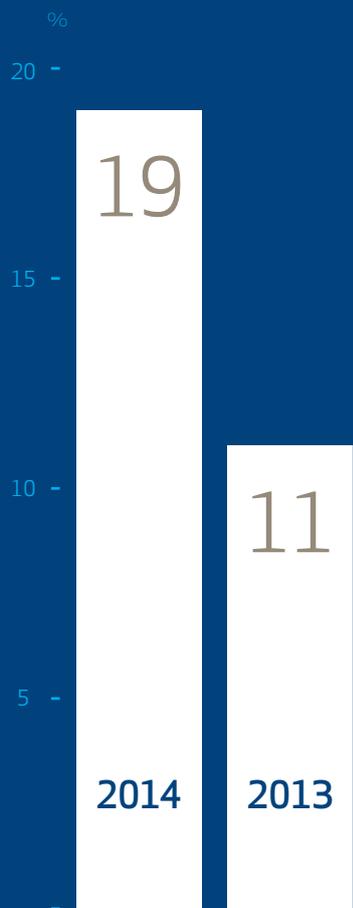
## Dividends received by the state



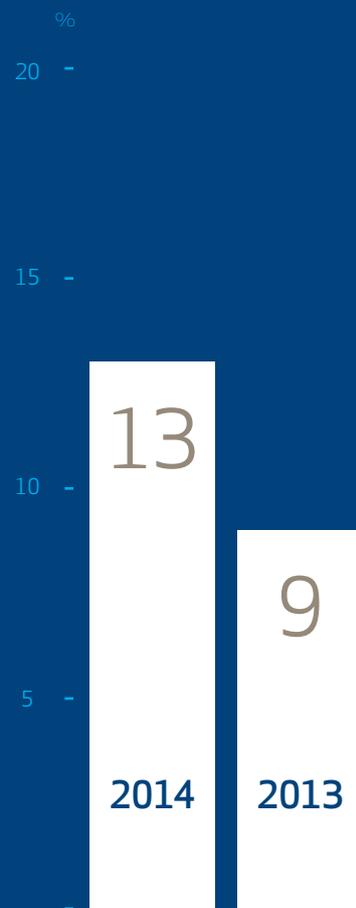
## Equity ratio



## Return on equity



## Return on investment



# Restructuring and cost-reduction programme completed

## AIMING FOR PROFITABLE GROWTH

### FINNAIR PLC

#### CHIEF EXECUTIVE OFFICER

Pekka Vauramo

#### CHAIRMAN OF THE BOARD

Klaus W. Heinemann

#### MEMBERS OF THE BOARD

Maija-Liisa Friman, Jussi Itävuori, Harri Kerminen, Gunvor Kronman, Jaana Tuominen, Nigel Turner

KEY FINANCIAL INDICATORS		2014	2013*
Net sales	EURm	2,285	2,400
Operating income**	EURm	-72.5	7.9
Operating margin	%	-3.2	0.3
Total assets	EURm	1,885	2,118
Equity ratio	%	27.7	32.6
Gearing***	%	107.5	79.2
Return on equity	%	-13.8	3.2
Return on investment	%	-6.5	3.6
Total personnel at 31 Dec.		4,981	5,803
Personnel, Finland (approx.)		4,305	5,093
Total dividends paid	EURm	0	0
Dividends received by the State	EURm	0	0
Investments	EURm	82	77

\* The comparative figures for 2013 have been restated due to due to a change in the accounting principle related to the treatment of overhauls, among other things.

\*\* The operating income reported by the State Ownership Steering Department includes changes in the value of derivatives, capital gains, etc.

\*\*\* Includes estimates of leasing payments over the next seven years.

### STATE SHAREHOLDING



### STRATEGIC INTEREST OF OWNERSHIP

To secure the functioning of the traffic system and sufficient international flight service with Helsinki-Vantaa Airport as the company's home airport

### INDUSTRY SECTOR

Airline company

### PRINCIPAL PLACES OF BUSINESS IN FINLAND

Vantaa



"Heading toward growth and the most modern long-haul fleet in Europe."

CEO  
PEKKA VAURAMO

Finnair is a travel industry group offering scheduled flight, travel agency and freight services in Finland and abroad. Central to Finnair’s strategy is traffic to Asia, where the company takes advantage of the short connection to the Far East from its home airport. The company operates on a weekly basis as many as 78 flights to various destinations in Asia and more than 800 flights to European and Finnish destinations. In 2014, the company carried more than 9.6 (9.3) million passengers and 149 (147) million kilograms of freight.

Finnair’s structural change and cost-reduction programme was brought to completion during 2014. With the accumulated annual cost savings totalling EUR 217 million, the company succeeded in exceeding the targeted permanent annual savings of EUR 200 compared to the cost level of 2010. During the programme, cost savings agreements were signed with all personnel groups. The measures taken to increase efficiency and reduce the cost level were necessary in terms of Finnair’s competitiveness. Cost-awareness must be maintained in the future as well. The effects of the cost-reduction programme are not yet fully apparent in the 2014 performance.

Another focus area in Finnair’s operations during 2014 was the practical implementation of the company’s renewed commercial strategy. The company launched product upgrades that were planned on the basis of an extensive customer survey. Customers now have more options to tailor the services to their specific needs by paying for the additional services they want. The customer experience has also been improved by developing the processes and offering new digital services. The choice of destinations was also expanded.



## Implementation of the new commercial strategy is a major priority.

Finnair’s cooperation in regional flights with the British airline company Flybe ends. Finnair is currently negotiating with its new partners the ownership arrangements of Flybe Nordic that was transferred to its ownership.

Following the completion of the cost savings programme, Finnair’s objective is to increase its net sales and turn the operations profitable. Even though the growth of air travel has slowed down in the current economic situation, passenger-kilometres are expected to continue to double worldwide every 15 years as they have done previously according to ICAO statistics. Large numbers of new passengers are expected to come from China, for example. Finnair’s objective is to double Asian revenues by 2020 from the 2010 level. The company’s Asian strategy provides Finns with better flight connections than what would otherwise be possible considering the size of the domestic market.

Finnair’s long-term objective is an operating income margin of 6 per cent. According to the company’s view, this level of profitability would enable the necessary investments in the expansion and development of operations, and the required return on the capital tied to operations.

### Low passenger and cargo traffic revenue

Finnair’s operational result in 2014 showed a loss of EUR -36.5 (11.9) million. Underlying the loss

SHARE PRICE 2010–2014





## 19 Airbus widebody aircraft ordered.

was a decrease in net sales of nearly 5 per cent, mostly due to a decline in unit revenue in passenger and cargo traffic, reduced sales of the subsidiary Aurinkomatkat Suntours and the loss of revenue resulting from restructuring. The capacity provided by Finnair decreased by around 1 per cent. In total, 44 per cent of the passenger revenue came from the Asian traffic.

Finnair's operational costs excluding fuel costs decreased slightly year-on-year as a result of successful cost-reduction measures. Fuel costs decreased as well due to the fall in the market price of fuel and the smaller capacity. Fuel is the company's largest single cost item, accounting for 28 per cent of the company's net sales. Personnel costs accounted for 15 per cent.

The net result was EUR -99.1 (26.8) million. Net cash flow from operating activities fell to EUR 24 (142) million. However, the company's financial position remained sound. The company's equity includes a hybrid bond of EUR 120 million issued in November 2012.

The number of Finnair's staff continued to strongly decrease and was 14 per cent less than the previous year. The reduction in the number of personnel was due to the restructuring carried out in the company.

### **Modernised fleet**

During the first half of 2014, Finnair's fleet was upgraded by two new narrow-body aircraft delivered by Airbus that replaced the two Boeing aircraft used for holiday traffic. The company now operates an all-Airbus fleet. However, the actual modernisation of the company's fleet still lies ahead: Finnair has ordered a total of 19 new A350 XWB model wide-body Airbus aircraft. Calculated at Airbus' list prices, the value of the purchase is nearly EUR 2 billion. The first four aircraft will be delivered to Finnair during the latter part of the current year; deliveries will continue up until 2023. Part of the new aircraft will replace the fleet currently in service. The passenger and cargo capacity of the new aircraft is higher than that of the present aircraft; however, the size of the fleet

used for long-haul traffic will also increase from the current 15 aircraft. In addition to the investments made in long-haul traffic, the company also needs to make decisions with regard to its narrow-body fleet over the next few years.

The fleet operated by the company comprises a total of 45 aircraft, in addition to which the company owns 25 aircraft operated by other companies. The company's policy is to own approximately half of the fleet it operates. The fleet investments have been financed with long-term loans and through finance leasing arrangements. During the year, the company concluded several aircraft sales and leaseback agreements, including the agreement on the first two A350 aircraft.

The new fleet is energy and cost efficient, and the fleet investments are of crucial importance in terms of Finnair's competitiveness. Operating a low-emission fleet also relates to the company's endeavours to emphasise corporate responsibility. At Finnair, responsible operations are linked to business goals and values. Its corporate responsibility strategy is an important part of the company's overall strategy.

Finnair prepares its Sustainability Report in accordance with the Global Reporting Initiative (GRI) guidelines. The Carbon Disclosure Project has awarded the company a position in the 'A List' of companies taking active measures to reduce their carbon footprint. Of the essential themes, passenger and employee safety, fuel efficiency and competitiveness are of greatest importance to stakeholders and the company's management. The development of managerial work and employee wellbeing are also important to the company. Finnair expects that all of its partners comply with its ethical guidelines and oversees that the prescribed safety and quality criteria are met.

Finnair was named Northern Europe's Best Airline for the fifth straight year. The award is based on a world-wide customer satisfaction survey where the customer service of more than 200 airline companies was assessed.



# Emission-free production a strategic priority

## HEALTHY PROSPECTS FOR GROWTH

### FORTUM CORPORATION

#### CHIEF EXECUTIVE OFFICER

Pekka Lundmark as of 1 September 2015;  
Timo Karttinen from 1 February to 31 August 2015;  
Tapio Kuula up to 31 January 2015,

#### CHAIRMAN OF THE BOARD

Sari Baldauf

#### MEMBERS OF THE BOARD

Minoo Akhtarzand, Heinz-Werner Binzel, Eva Hamilton,  
Kim Ignatius, Tapio Kuula Petteri Taalas, Jyrki Talvitie

#### KEY FINANCIAL INDICATORS

		2014	2013
Net sales	EURm	4,751	5,308
Operating income	EURm	3,428	1,508
Operating income	%	72.2	28.4
Comparable operating income	EURm	1,351	1,403
Total assets	EURm	21,375	23,348
Equity ratio	%	51	43
Gearing	%	39	77
Return on equity	%	30.2	12.0
Return on investment	%	19.5	8.9
Personnel, total		8,592	9,186
Personnel, Finland		2,040	n/a
Total dividends paid	EURm	1,155	977
Dividends received by the State	EURm	586	496
Investments	EURm	837	1,019

### STATE SHAREHOLDING



### STRATEGIC INTEREST OF OWNERSHIP

To secure undisturbed energy supply also in exceptional circumstances

### INDUSTRY SECTOR

Utilities

### PRINCIPAL PLACES OF BUSINESS IN FINLAND

Espoo, Loviisa, Meri-Pori, Oulujoki, Järvenpää, Joensuu, Imatra



"Fortum focused on increasing flexibility in its business operations and preparing for the next significant steps in the implementation of its strategy"

CEO  
TAPIO KUULA  
Up to 31 Jan 2015

### Divestments contribute to the implementation of the strategy aiming at emission-free production

The market conditions remained challenging, prompting efforts to improve efficiency and focus on the core business. Like other companies, Fortum carried out a number of divestments in 2014 when it sold its power transmission businesses in Finland and Norway, its interest in Gasum and a number of other holdings unrelated to the company's core business. In March 2015, Fortum announced that it had brought the sale of its Swedish power transmission operations to conclusion. The total proceeds from these sales were EUR 9.3 billion, of which the company booked a profit of EUR 6.3 billion. Of this, EUR 1.9 billion was recognised in 2014.

As a result of its efficiency-enhancing programme and significant divestments, Fortum's financial position is very good. Strategically, the company is well-placed to grow in its core business area – the generation and sale of low-emission electricity and heat – and increase the shareholder value in the long term through investments in new growth. At the same time, it is clear that the divestment of a regulated business yielding a steady return and the re-investment of capital reserves would increase Fortum's business risks. Where the potential investments in growth are made will have a major impact on Fortum's future prospects.

The number one priority in Fortum's strategy is emission-free generation. Fortum's strategy is based on three key drivers. The company builds on its strong Nordic core and generates growth in Russia while creating a platform for future growth. Aside from emissions-free hydro and nuclear power generation and resource-efficient

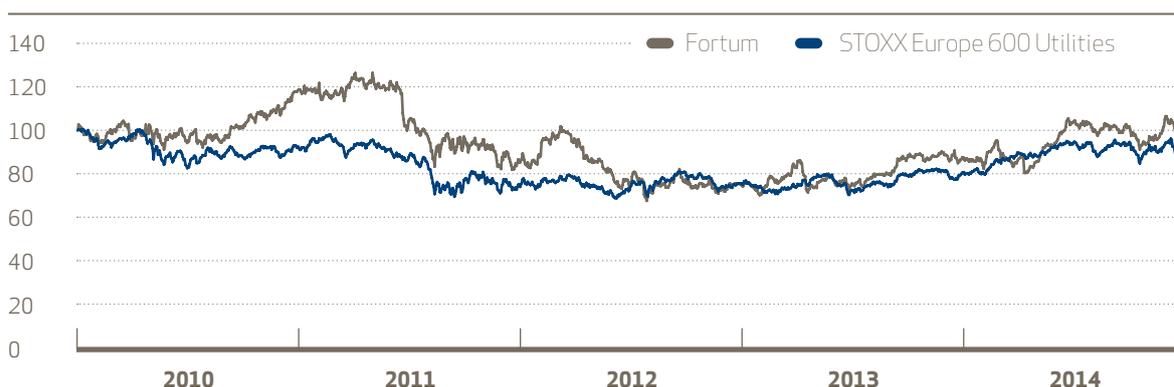
CHP production, Fortum is increasing the use of waste and biomass-based fuels as well as exploring the opportunities offered by solar and wave power. The company operates two small solar power plants in India.

### Challenges and growth potential in Russia

As a result of the weak rouble and economic crisis, Fortum's operating environment in Russia proved highly challenging. The operating income generated by the Russia segment was EUR 161 (156) million. The objective for 2015 is still to earn an operating profit of RBL 18.2 billion which, at the current exchange rates, is only EUR 340 million. Fortum's investment programme for Russia is drawing to a close with the last two units reportedly due for completion during the last half of 2015. Key factors affecting the business in Russia include economic growth, the exchange rate of the rouble, future regulation of the district heating sector and developments in the wholesale electricity market and generation capacity.

One of the projects supporting Fortum's strategy and growth is the potential acquisition of the TGC-1 hydroelectric capacity publicised last autumn. At the same time, Fortum announced a restructuring of the ownership of TGC-1's hydroelectric assets, and – upon successful completion of these arrangements – participation in Fennovoima's nuclear power plant project with a minority interest. This would expand Fortum's production portfolio in Russia, improve the potential for optimising production and reduce dependency on the price of gas. Following the completion of these arrangements, hydroelectric power would account for 40 per cent of Fortum's Russian business. Russia's foreseen heat reform would most likely offer major growth potential in the country.

SHARE PRICE 2010–2014





## Acquisition of TGC-1's hydroelectric generation capacity, if realised, would boost Fortum's growth.

### **Market situation remained challenging**

Aside from the fall of the rouble, the financial result for 2014 was affected by the decrease in the market price of electricity, falling commodity prices and the downswing in the economy, particularly in Russia. Power generation in the Nordic countries grew slightly thanks to electricity exports. In Russia, demand remained at the same level as in the previous year. The price of electricity in the Nordic market fell from EUR 38.1 to EUR 29.6 per MWh. The price of carbon credits remained low but increased slightly towards the end of the year.

Year-on-year, Fortum's comparable operating income fell slightly, mainly as a result of the decline in the comparable operating income generated by the Distribution segment which, in turn, was mostly due to the mild winter and the divestment of the Finnish power transmission business. Fortum achieved its ROE target for 2015. However, both the return on investments and return on equity were greatly affected by the proceeds from the sale of the power transmission operations in Finland and the power transmission and heat business in Norway. Capital gains from power transmission and reduced liabilities strengthened the balance sheet. The ratio of net debt to operating margin fell from 3.4 to 2.3. In spring 2015, Fortum announced new financial objectives. As expected, the target ratio of net debt to operating margin was lowered to 2.5, suggesting a riskier business profile. Fortum brought its efficiency programme to conclusion in the final quarter of 2014. Improved efficiency supports the efforts to maintain profitability in the face of the persistently challenging market conditions.

From the owner's point of view, Fortum yielded a healthy return. For 2014, the company paid an extra dividend of EUR 0.2 per share in addition to the regular EUR 1.1. At the share price at the end of 2014, Fortum's dividend yield was 7.2 per cent.

Fortum CEO, Tapio Kuula, retired at the end of January 2015 to be succeeded by Pekka Lundmark.

### **Efforts to mitigate climate change and improve resource efficiency affected business**

Fortum is an energy company with a strong commitment to sustainability. Sustainable development is one of the cornerstones in Fortum's strategy, and this approach to business gives it a competitive edge. At the same time, mitigation of climate change is a key priority in Fortum's strategy. Consequently, the company is well-placed in the energy sector in strategic terms. In 2014, 90 per cent of the electricity produced by Fortum in the EU was CO<sub>2</sub> emission-free.

In its operations, Fortum gives balanced consideration to economic, social and environmental responsibility both in its own operations and across the entire value chain. Sustainable development is fully integrated into Fortum's operating practices and management system.

The company has established clear-cut goals for the reduction of greenhouse gas emissions. However, as far as the environment objectives are concerned, the situation is somewhat challenging since the five-year average CO<sub>2</sub> emissions from energy production has been growing mainly due to production in Russia. For now, the company is still slightly in its target.

In the areas of corporate social responsibility, occupational health & safety were highlighted. However, the year was clouded by fatalities among contractors. Accordingly, contractor safety continues to be an issue to be addressed by the company and efforts to improve it will be prioritised in the objectives for 2015. Customer satisfaction improved and while Fortum's reputation was further enhanced in Finland, there is still room for improvement in this respect in Sweden. Fortum includes the evaluation of human rights in its assessment of investment projects, subcontractor audits and the requirements imposed on suppliers.

# Cleaner motor fuels

CORPORATE SOCIAL RESPONSIBILITY AT THE CORE OF THE STRATEGY

## NESTE CORPORATION

### CHIEF EXECUTIVE OFFICER

Matti Lievonen

### CHAIRMAN OF THE BOARD

Jorma Eloranta

### MEMBERS OF THE BOARD

Maija-Liisa Friman, Laura Raitio, Jean-Baptiste Renard, Willem Schoeber, Kirsi Sormunen, Marco Wiren

### KEY FINANCIAL INDICATORS

		2014	2013
Net sales	EURm	15,011	17,462
Operating income	EURm	150	632
Operating income %	%	1.0	3.6
Total assets	EURm	6,494	7,043
Equity ratio	%	41.0	41.6
Gearing	%	61.0	42.8
Return on equity	%	2.1	19.1
Return on investment	%	3.3	13.4
Personnel. total		4,833	5,049
Personnel. Finland	EURm	3,309	3,572
Total dividends paid	EURm	166	167
Dividends received by the State	EURm	83.5	83.5
Investments	EURm	272	214

## STATE SHAREHOLDING



## STRATEGIC INTEREST OF OWNERSHIP

To secure nationwide fuel supply in exceptional circumstances with due consideration given to the security of supply

## INDUSTRY SECTOR

Energy industry

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Espoo, Porvoo, Naantali



"Competitive capability arises from versatile development of the company and sustainable operations."

CEO  
MATTI LIEVONEN

Neste Oil is a refining and marketing company specialising in high-quality fuels for cleaner traffic. The company produces a comprehensive range of major petroleum products. With its production capacity of two million tonnes a year, Neste is the world's leading supplier of diesels made of renewable raw materials.



World's leading supplier of diesel made of renewable raw materials.

Company's oil refineries are located in Porvoo and Naantali, Finland, and their total production capacity is some 15 million tonnes per year. The company's two renewable diesel refineries are located in Singapore and Rotterdam in the Netherlands. Additional renewable diesel capacity is available at the Porvoo refinery. The company's renewable diesel production capacity is 2.4 million tonnes per year with the goal to increase capacity to 2.6 million tonnes per year by 2017.

Neste Oil is included in The Global 100 list of the world's most sustainable corporations and has been selected into the Dow Jones Sustainability World Index for several years in a row. CDP Forest has listed Neste Oil among the best performers in the oil & gas sector. Also, Neste monitors and measures greenhouse gas emissions across all its operations and reports on them in succession as part of the Carbon Disclosure Project (CDP).

Company's name is Neste Corporation as of 1 June 2015.

**Highlights of 2014**

Neste's vision is to be the preferred partner in cleaner motor fuel solutions. In 2014, Neste defined two strategic main targets: the company wants to be Baltic Sea downstream champion and to grow in the global renewable feedstock-based markets.

The Baltic Sea region is the company's home market where its competitiveness is based on its advanced production structure and excellent location considering its customer base and feedstock procurement.

Neste is world's largest producer of renewable diesel. The company is able to refine NExBTL diesel from over ten different renewable feedstocks. In autumn 2014, the company announced that it sees interesting growth opportunities in renewable products also outside the fuel market. In this outlook, bio-based chemistry products could be used to replace fossil ones.

In autumn 2014, Neste Oil decided to integrate its refinery operations in Naantali and Porvoo into an operating model managed as a single entity. The reform will be complete in early 2017. The company decided to invest over EUR 20 million in feed pre-treatment in Porvoo and some EUR 60 million in projects to make the process more efficient in Naantali as part of the arrangement. Additionally, through a joint venture, Neste is investing EUR 250 million in power plant units at the Porvoo refinery.

The changes in the company's operations also required reductions in the personnel. As a result of the statutory employer-employee negotiations carried out towards the end of the year, 203 employees will have to leave the company.

SHARE PRICE 2010-2014



Neste also brought to completion the project commenced in 2013 for outsourcing its shipping operations during the spring of 2014.

### **Marketing environment, financial performance and responsibility**

The key market drivers for Neste Oil's financial performance are refining margins; the price differential between Russian Export Blend (REB) and Brent crude; the USD/EUR exchange rate; the price differentials between different vegetable oils and between vegetable and mineral oils; and biodiesel margins.

Crude oil price changes, supply and demand balances together with uncertainties related to political decision making on biofuel mandates, the US Blender's Tax Credit and other incentives will be reflected in the oil and renewable fuel markets.

In 2014, Neste used 62 (52) per cent of the inputs coming from waste and residues as feedstock for Renewables production. The company's aim is to reach the capability of utilising 100 per cent waste and residues as feedstock by 2017.

### **Financial performance**

Neste's reported operating income declined in 2014 to EUR 150 (632) million. The decrease of the price of oil by 50 per cent during the second half of the year resulted in a decrease of the value of the inventory. The comparable operating income for 2014 reported by the company was EUR 583 (596) million, remaining nearly at the previous year's level.

The comparable operating income from Oil Products for 2014 was EUR 285 (275) million; from Renewable Products EUR 239 (273) million; and from Oil Retail EUR 68 (77) million.

Oil Products remained the company's greatest result generator. The Renewable Products business area accounted for around 41 per cent of the comparable result.

Oil Products' reference refining margins remained at the previous year's level. In Renewable Products, the sales volumes were up 9 per cent; however, the market conditions were otherwise less favourable than the previous year. The reintroduction of the US Blender's Tax Credit (BTC) had a positive impact on the result by EUR 89 million. Oil Retail's performance declined due to lower unit margins in Finland and Northwest Russia.

Neste's leverage ratio was 37.9 (30.0), meaning that it was within the target range of 25–50 per cent reported by the company.

The cash flow from operating activities totalled EUR 248 (839) million. The decline in cash flow was mainly attributable to the effect of the declining oil price. The inventory valuation loss amounted to EUR 492 million and a cash flow decrease of EUR 133 million resulted from changes in year-end working capital levels.

In its Financial Statements for 2014, the company issued a guidance that it expects the full-year 2015 comparable operating income to remain robust, although probably lower than that reached in 2014. The company issued a positive profit warning on 21 April 2015 and revised its full-year 2015 guidance. In the revised guidance, the company estimated the comparable operating income to be higher than that reached in 2014.

The eight-week turnaround at the Porvoo refinery in April–May had an approximately EUR -100 million effect on the Oil Products' result.

Investments in 2014 totalled EUR 272 (214) million. In 2015, the investments are expected to total approximately EUR 450 million, including EUR 100 million for a turnaround at the Porvoo refinery.

Sustainability is an essential part of Neste's strategy, being one of the company's four values and part of everything it does. Sustainability is part of the company's business and is crystallised in the Neste Oil Sustainable Way programme.

Neste's sustainability goals are: cleaner solutions, safety, our people, society, climate and resource efficiency, and a sustainable supply chain.

The key policies and principles covering sustainability at Neste Oil are: Neste Oil's Code of Conduct; Sustainability Policy; Sustainability Principles for Biofuels; Human Resources Policy; and the No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock.

Neste's Board of Directors monitors how the company performs in terms of sustainability and approves the policies covering sustainability. The company started a process to update its sustainability policy in 2014 to be finalised during 2015.

The company updated its materiality assessment during autumn 2014 and early 2015. In the new materiality assessment, themes related to economic responsibility and material efficiency are given a clearly greater emphasis than in the assessment made in 2012.

# ALTIA

ALTIA PLC

CHIEF EXECUTIVE OFFICER

Pekka Tennilä

CHAIRMAN OF THE BOARD

Sanna Suvanto-Harsaae

MEMBERS OF THE BOARD

Kim Henriksson, Minna Huhtaniska, Annikka Hurme, Jarmo Kilpelä, Kasper Madsen

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	426.3	475.8
Operating income	EURm	-18.6	0.7
Operating margin	%	-4.4	0.1
Total assets	EURm	501.5	577.7
Equity ratio	%	28.7	29.2
Gearing	%	34.2	65.4
Return on equity	%	-11.6	-1.7
Return on investment	%	-3.5	3.5
Personnel, total		987	1074
Personnel, Finland		498	504
Total dividends paid	EURm	0	0.0
Dividends received by the State	EURm	0	0.0
Investments	EURm	16.7	63.4

Altia is the market leader in spirits, wine and cognac in the Nordic and Baltic countries and the sixth largest cognac house in the world. Altia has a strong sales and logistics network in the Nordic countries. According to Altia's new strategy, the focus is on improving the business operations, competitiveness and profitability. Altia is no longer of any strategic importance to the State, and Parliament has approved the proposal to lift the requirement to sustain a qualified majority holding in Altia.

## Financial performance

In 2014, Altia's net sales declined by 10.4 per cent on the previous year. The net sales of Altia's own products fell slightly short of the comparison period. The market shares and the net sales of partner products declined, particularly in Sweden. The decline in net sales was mostly due to the termination of customer contracts as a result of the relocation of the wine and mulled wine production from the Svendborg plant to the Rajamäki plant. Even though the sales of fortified wine continued to decline, Altia's market shares increased in Finland and Norway. The net sales for 2015 will decline even further in compliance with the strategy.

STATE SHAREHOLDING



INDUSTRY SECTOR

The manufacture and import of, and logistic services for, alcohol beverages and the manufacture and sale of industrial products and services

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki, Koskenkorva, Rajamäki



"Altia's operative profitability was at the level of the previous year in 2014 despite the decline in net sales. In 2015 we will create platforms for sustainable growth in the long term."

CEO  
PEKKA TENNILÄ

Operating income exclusive of non-recurring items remained at the same level as in the comparison period, EUR 17.9 (17.4) million, as a result of the successfully executed efficiency enhancing programme and cost savings. Operating income inclusive of non-recurring items stood at EUR 18.6 (0.7) million mainly because of the write-downs made. The profitability of Altia's own products improved while the profitability of its partner products declined. The 2015 operating income exclusive of non-recurring items is expected to improve from that of 2014.

Net cash flow from operating activities totalled EUR -7.5 (46.1) million; however, the Group's liquidity was good. Capital expenditure totalled EUR 16.7 (63.4) million and was mainly related to the new biofuel power plant at the Koskenkorva plant.

## Corporate responsibility

Altia's corporate responsibility efforts are monitored and developed by an internal responsibility working group that reports to the Executive Management Team. The project to develop Altia's corporate culture continues. Environmental targets have been set for the years 2013–2015. The items monitored with regard to the environmental targets include the use of energy and water, the quality of wastewater, materials efficiency and a set of new key figures.

## ARCTIA SHIPPING OY

## CHIEF EXECUTIVE OFFICER

Tero Vauraste

## CHAIRMAN OF THE BOARD

Christer Granskog

## MEMBERS OF THE BOARD

Maire Laitinen, Ilpo Nuutinen, Antti Pankakoski,  
Päivi Söderholm

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	61.3	63.0
Operating income	EURm	16.8	17.5
Operating margin	%	27.4	27.8
Total assets	EURm	185.7	175.6
Equity ratio	%	72.7	70.7
Gearing	%	-15.6	-12.0
Return on equity	%	10.0	11.7
Return on investment	%	11.3	12.5
Personnel, total		261	267
Personnel, Finland		261	267
Total dividends paid	EURm	7.9	-
Dividends received by the State	EURm	7.9	-
Investments	EURm	15.6	17.8

The mild ice winter and the shortening of the summer chartering of multipurpose icebreakers resulted in a decreased level of net sales and profit in 2014. The total number of operating days in the Baltic Sea icebreaking only amounted to 350 (579). Arctia's client had its operation in Alaska suspended during the reporting year, but the effect on the 2014 performance remained minor. Fennica assisted in surveying the seabed in Greenland waters in the late summer. Arctia's contract portfolio remained solid, and the Finnish Transport Agency exercised the option contracts for Nordica and Fennica for 2017–2018.

### Focus in increasing the utilisation rate

The company's strategy was clarified during the reporting period. Accordingly, Arctia seeks to safeguard icebreaking in the Baltic Sea and the replacement of the ageing icebreaker fleet needed for the purpose in a manner that is effective in terms of public finances while simultaneously increasing the utilisation rate of the vessels. According to the strategy, the increased utilisation rate is achieved by means of increasing the company's Polar operations. Consequently, the

## STATE SHAREHOLDING



100%

## STRATEGIC INTEREST OF OWNERSHIP

To secure the functioning of shipping operations through the provision of icebreaking services

## INDUSTRY SECTOR

Specialised shipping company

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki



"Icebreaking in the Baltic Sea must be safeguarded by increasing the fleet's utilisation rate and improving competitiveness."

 CEO  
TERO VAURASTE

development of the Polar market has a major impact on the company's performance and investment capability. Success in the Baltic Sea icebreaking and in the Polar market will also require improved cost competitiveness. The falling price of oil poses further challenges to the profitability of oil industry projects and may affect the development of the Polar market.

Arctia Shipping operates in particularly sensitive sea areas requiring special protection. For this reason, environmental responsibility is of essential significance in terms of business. The quality and safety of ice management services is therefore highly critical in terms of the environment. For Arctia, safety – both occupational and environmental safety – is the starting point for all operations. The number of occupational accidents increased in 2014, which means that efforts must be continuously made to promote safety thinking. The significance of oil-spill response expertise has also increased in the operation of icebreakers. In 2014, Arctia made special efforts in securing the sustainability of the subcontracting chain by setting corporate responsibility standards and auditing the subcontractors.



ART AND DESIGN CITY HELSINKI OY

CHIEF EXECUTIVE OFFICER

Kari Halinen

CHAIRMAN OF THE BOARD

Nyrki Tuominen

MEMBERS OF THE BOARD

Chandika Chandras, Jan-Erik Krusberg, Markku Löytönen, Sinikka Mustakari, Päivi Paltola- Pekkola, Pekka Saarela

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	0.3	0.4
Operating income	EURm	-0.017	0.018
Operating margin	%	-5.6	3.9
Total assets	EURm	0.5	0.5
Equity ratio	%	84.4	86.3
Gearing	%	-89.2	-103.5
Return on equity	%	neg.	4.1
Return on investment	%	neg.	3.8
Personnel, total		3	3
Personnel, Finland		3	3
Total dividends paid	EURm	0.0	0.0
Dividends received by the State	EURm	0.0	0.0
Investments	EURm	0.0	0.0

Art and Design City Helsinki Oy's (ADC) mission is to contribute to the creation of the applied arts centre to be developed in Arabianranta by providing services in support of the project. To accomplish this, the company produces marketing, training and other services, and is involved in implementing a range of development and other projects.

### Development of the Arabianranta district brought to completion

ADC coordinates the efforts to develop Arabianranta as a future residential district, an innovative environment for new companies and a campus for seven universities and institutes of education. Since 2001, ADC has operated a virtual media portal – Helsinki Virtual Village – and has provided displays in the Arabia shopping centre and schools. Additionally, ADC has been responsible for developing the local optical fibre network and services.

Nearly 20 different development projects have been brought to completion at Arabianranta

STATE SHAREHOLDING



INDUSTRY SECTOR

Urban planning

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki



"Art and Design City Helsinki Oy is a highly skilled city district developer"

CEO  
KARI HALINEN

with the city district portal used as a research tool. In 2007, ADC commenced the 'Helsinki Living Lab' project that was subsequently expanded to cover the entire metropolitan area.

The company's original mission and operations are nearing completion. Arabianranta is due for completion in 2015.

To a large extent, the company's operations are based on a service production agreement concluded with the City of Helsinki that specifies the services and functions to be provided by the company for the City. Of significance in terms of the company's operations is that the value of the service production agreement has reduced to a fraction of the preceding years' level.

### Good flow of information and resource efficiency maintained in corporate responsibility

According to ADC's strategy, the company conducts its operations in an environmentally responsible manner.



BOREAL PLANT BREEDING LTD

CHIEF EXECUTIVE OFFICER

Markku Äijälä

CHAIRMAN OF THE BOARD

Kaj Friman

MEMBERS OF THE BOARD

Jukka Hollo, Pekka Hurtola, Jyrki Lepistö,  
Taina Vesanto

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	9.8	9.4
Operating income	EURm	0.5	0.7
Operating margin	%	5.5	7.9
Total assets	EURm	10.5	10.2
Equity ratio	%	79.9	77.5
Gearing	%	-25.9	-53.7
Return on equity	%	7.3	5.3
Return on investment	%	8.3	10.6
Personnel, total		72	72
Personnel, Finland		72	72
Total dividends paid	EURm	0.3	0.2
Dividends received by the State	EURm	0.2	0.1
Investments	EURm	1.7	0.2

Boreal Plant Breeding Ltd breeds and markets varieties of field crops for the growing conditions prevailing in Finland and other northern regions. In Finland, Boreal's market position remained strong in 2014. The company's market share was 57 (58) percent of cultivated land in cereal and oil plants. For grasses, the market share was more than 70 per cent. The company seeks growth from the export markets. The development of the export of crop varieties was supported by the agreed cooperation with Limagrain. Export markets showed positive development in Sweden and Estonia in particular.

#### Purchase of fields securing the preconditions for the company's operations

In 2014, the company's net sales grew by 4.1 per cent and stood at EUR 9.8 million. The growth in net sales was due to the increase in seed sales and increased sales of plant breeding services to the National Emergency Supply Centre. The 2014 operating income declined to EUR 0.5 (0.7) million, which amounted to 5.5 (7.9) per cent of net sales. The return on investment decreased. The

STATE SHAREHOLDING



STRATEGIC INTEREST OF OWNERSHIP

To ensure food security and security of supply

INDUSTRY SECTOR

Breeding and marketing cultivated plants

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Jokioinen



"Strong research and development operations to serve plant breeding."

CEO  
MARKKU ÄIJÄLÄ

company's balance sheet continued to remain strong. The equity ratio was 79.9 (77.5) per cent.

The company purchased 130 hectares of fields from the State that are suitable for plant breeding operations and are located in Jokioinen.

#### Sustainable development and resource efficiency as priority areas in corporate responsibility

Plant breeding is a sustainability-promoting business. Plant breeding improves the preconditions for crop cultivation in a sustainable manner and promotes the sustainable use of natural resources. Climate change, the increased demand for global food production and the improvement of protein self-sufficiency are examples of the challenges the company seeks to address by means of its breeding operations. Key corporate responsibility aspects include the personnel as well as honest and ethical operating practices. The company's goal is to improve the energy and materials efficiency of its operations.

# EKOKEM

EKOKEM CORPORATION

CHIEF EXECUTIVE OFFICER

Timo Piekkari

CHAIRMAN OF THE BOARD

Juha Vanhainen

MEMBERS OF THE BOARD

Leena Karessuo, Pia Björk, Karri Kaitue, Jukka Ohtola, Tiina Tuomela

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	200.8	195.2
Operating income	EURm	35.2	29.6
Operating margin	%	17.5	15.2
Total assets	EURm	310.5	303.3
Equity ratio	%	55.9	52.9
Gearing	%	20.6	40.3
Return on equity	%	17.1	16.4
Return on investment	%	16.2	14.6
Personnel, total		465	479
Personnel, Finland		324	326
Total dividends paid	EURm	11.3	9.9
Dividends received by the State	EURm	3.8	3.4
Investments	EURm	16.6	22.0

Ekokem is the leading provider of comprehensive environmental services in Finland. Its strengths include close understanding of its clients and personalised customer service. Ekokem's core expertise comprises the handling of hazardous waste; waste recovery; energy production; the remediation of contaminated soil and groundwater; and environmental construction.

## Business operations expanded to the other nordic countries

Ekokem's net sales in 2014 grew by 2.9 per cent year-on-year to EUR 200.8 million. Similarly, the operating income increased on the previous year to the level of EUR 35.2 (29.6) million. The growth mainly came from business operations in Finland. The weakening of economic conditions in Sweden and the industry's decreasing volumes had a lowering effect on the performance of the Swedish Sakab unit, due to which a new programme to enhance productivity was commenced.

Ekokem Group's net sales and financial performance over the next few years will be affected by the development of Sakab's net sales

STATE SHAREHOLDING

34.08%

INDUSTRY SECTOR

environmental business, energy production

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Riihimäki



"Ekokem's aim is to become the leading environmental company in the Nordic countries."

CEO  
TIMO PIEKKARI

and profitability, in particular. Ekokem also aims to introduce service concepts in Sweden that were developed in Finland. In early 2015, Ekokem also expanded to Denmark by acquiring the Nord Group, which will strengthen Ekokem Group's water treatment technology and expertise, in particular.

The transition to a circular economy will create new business opportunities to Ekokem.

## Corporate responsibility themes

The essential themes of Ekokem's corporate responsibility are the preservation of natural resources and waste recovery; the environmental impact of operations; safety; economic responsibility; responsibility for employees; and the company's role in society.

# Gasum

## GASUM CORPORATION

### CHIEF EXECUTIVE OFFICER

Johanna Lamminen

### CHAIRMAN OF THE BOARD

Johanna Lamminen

### MEMBERS OF THE BOARD

Björn Ahlnäs, Aleksei Novitsky, Christer Paltschik, Ari Suomilammi, Kristiina Vuori

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	1,079.0	1,147.5
Operating income	EURm	5.1	40.5
Operating margin	%	0.5	3.5
Total assets	EURm	1,621.1	822.8
Equity ratio	%	28.4	52.3
Gearing	%	73.2	41.3
Return on equity	%	neg.	8.1
Return on investment	%	0.7	6.3
Personnel, total		281	273
Personnel, Finland		275	273
Total dividends paid	EURm	0	17.9
Dividends received by the State (Prime Minister's Office)	EURm	0	4.3 (2.2)
Investments	EURm	51.5	21.6

Gasum's business operations comprise the import, transmission and wholesale of natural gas. Customers include industry, power-generation plants and small properties.

The total length of the gas transmission network at the end of 2014 was 1,287 km.

The State of Finland acquired a majority holding in Gasum on 3 November 2014 by purchasing the 31 per cent stake held by Fortum Corporation and the 20 per cent stake held by E.ON. The other owner, the Russian OAO Gazprom, holds a 25 per cent stake in Gasum.

### LNG and biogas as drivers of growth

The Finnish consumption of natural gas in 2014 decreased by around 12 per cent on the previous year to 29.3 (33.2) TWh. The sale of natural gas decreased in combined heat and power production, in particular, where natural gas was mostly replaced by coal. The decrease in sales was due to the poor competitiveness of natural gas.

Gasum is also engaged in the development of biogas production and distribution. In 2014, a

## STATE SHAREHOLDING



75%

## STRATEGIC INTEREST OF OWNERSHIP

To secure domestic control in the gas transmission network

## INDUSTRY SECTOR

Transmission and wholesale of natural gas

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Espoo, Valkeala



"Gasum to become a Nordic Gas company."

CEO  
JOHANNA LAMMINEN

total of 33,877 (31,721) MWh of biogas was fed into Gasum's network

In 2014, annual trading by the Gasum subsidiary Gas Exchange Ltd amounted to 1,891 (2,035) GWh, which corresponds to 6.4 per cent of the natural gas consumption in Finland.

In early 2014, Gasum acquired a 51 per cent ownership in Skangass, a company engaged in the storage and sale of LNG in the Baltic Sea region. Skangass made an investment decision on the Pori LNG terminal, which is due for completion in the autumn of 2016. Manga, Skangass' joint venture, also made an investment decision on the construction of an LNG terminal in Tornio.

Gasum and the Estonian AS Alexela Energia conducted a feasibility study on a large LNG terminal serving Finland and the Baltic States. However, the project did not prove commercially viable. Gasum continued with the development of its proprietary terminal project with the aim of improving the availability of LNG in southern Finland.

### Environmental friendliness and supply security prioritised in corporate responsibility

Gasum's corporate responsibility priorities are innovations and the future; active cooperation with society; supply security and safety; and an effective and responsible value chain.



## POSTI GROUP CORPORATION

## CHIEF EXECUTIVE OFFICER

Heikki Malinen

## HALLINTONEUVOSTON PUHEENJOHTAJA

Mauri Pekkarinen

## CHAIRMAN OF THE BOARD

Arto Hiltunen

## MEMBERS OF THE BOARD

Petri Järvinen, Petri Kokko, Jussi Kuutsa, Kirsi Nuotto, Päivi Pesola, Marja Pokela, Suvi-Anne Siimes

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	1 858,7	1 976,8
Operating income	EURm	5,8	9,9
Operating margin	%	0,3	0,5
Total assets	EURm	1 291,3	1 415,6
Equity ratio	%	45,3	47,2
Gearing	%	19,0	21,0
Return on equity	%	-0,7	1,1
Return on investment	%	1,1	1,4
Personnel, total		24 617	27 253
Personnel, Finland		19 391	21 603
Total dividends paid	EURm	0,0	0,0
Dividends received by the State	EURm	0,0	0,0
Gross investments	EURm	57,5	61,1

Itella changed its name to Posti Group Corporation on 1 January 2015. The company is an international corporation whose business operations are divided into four groups: Postal Services, Parcel and Logistics Services, Itella Russia and Opus-Capita. In Finland, the company operates under the name Posti Group and in other countries of operation under the name Itella. In Russia, the company is the market leader in warehousing. Itella Logistics Oy merged with Itella Posti Oy on 1 January 2015. At the same time, the name was changed to Posti Ltd.

Posti Group's net sales in 2014 amounted to EUR 1,859 million, a decrease of 6 per cent on the previous year. The decline in the volume of mail accelerated as digital communications became more common. Transport volumes in heavy traffic continued to decrease in Finland for third year in a row. Businesses and organisations generate 96 per cent of Posti Group's total net sales. The key customer industries are the media, trade and service industries.

## STATE SHAREHOLDING



100%

## STRATEGIC INTEREST OF OWNERSHIP

The provision of postal services subject to the universal service obligation

## INDUSTRY SECTOR

Postal services

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki, Jyväskylä, Kuopio, Lahti, Lappeenranta, Oulu, Seinäjoki, Tampere, Turku, Vantaa



"The year 2014 has been a time of major changes for us. We were in implementing our new strategy, which aims to adapt our business operations to the profound transformation in the postal and logistics industry."

CEO  
HEIKKI MALINEN

The operating income exclusive of non-recurring items amounted to EUR 50.8 (50.5) million. The reported result was impaired by structural arrangements and non-recurring items related to personnel restructuring. In the spring of 2015, the company announced that it will sell its real estate properties for EUR 120 million. The company also announced its plans to renew its service point network.

**Industry transformation and vision**

Due to the difficult economic situation and the transformation of the industry, Posti Group had to make changes that also entailed personnel reductions. The company achieved the targets of its EUR 100 million performance improvement programme on schedule. The improvement of operational efficiency will be continued with a new EUR 75 million programme. The renewal of the service network will also result in adjustment needs.

## KEMIJOKI OY

## CHIEF EXECUTIVE OFFICER

Tuomas Timonen

## CHAIRMAN OF THE BOARD

Matti Ruotsala

## MEMBERS OF THE BOARD

Risto Andsten, Elina Engman, Tapio Jalonen,  
Tapio Korpeinen, Pekka Manninen, Jukka Ohtola

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	38.6	36.5
Operating income	EURm	-6.2	-4.6
Operating margin	%	-16.1	-12.6
Total assets	EURm	452.9	457.8
Equity ratio	%	17.0	19.0
Gearing	%	476.2	400.5
Return on equity	%	-12.5	-7.9
Return on investment	%	-1.4	-1.0
Personnel, total		78	218
Personnel, Finland		78	218
Total dividends paid	EURm	0.7	0.7
Dividends received by the State	EURm	0.4	0.4
Investments	EURm	14.4	12.6

Kemijoki Oy engages in hydropower generation and has a total of 20 power plants located on the River Kemijoki, the River Kymijoki and the River Lieksanjoki. The electricity produced by the company is sold at cost to its shareholders in proportion to the number of hydroelectric power shares held. In the new operating model, the company purchases a substantial part of its operations as services from its contracting partners.

### Refurbished machinery guarantees cost-effectiveness and high availability

In 2014, Kemijoki Oy generated a total of around 4.1 TWh of hydropower, which falls short of the average hydropower production (approx. 4.4 TWh) by about 7 per cent. The River Kemijoki accounts for around 90 per cent of the electricity produced and the Rivers Lieksanjoki and Kymijoki for the remaining 10 per cent. The company's power production in 2014 represented around 31 per cent of the hydropower electricity produced in Finland. The total availability of power plants remained good.

The company's financial status remained stable. As in the previous years, the parent com-

## STATE SHAREHOLDING



## INDUSTRY SECTOR

Electricity production

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Rovaniemi



"Kemijoki Oy has transferred to a partnership-based operating model!"

CEO  
TUOMAS TIMONEN

pany's result for the financial year 2014 more or less equals the total amount of dividends payable under the Articles of Association.

Kemijoki Oy's total output currently amounts to around 1150 MW. The majority of Kemijoki Oy's power plant units were refurbished in 1990–2010, during which time the power upgrades were also made. New water power output of 14 MW was provided in 2014.

The machinery of the Taivalkoski power plant will be refurbished during 2015–2017. The licensing process concerning the Sierilä power plant has been delayed, which will affect the construction timetable. The total output of the company's power plants at the end of 2017 would total around 1,200 MW.

### Corporate responsibility focused on the quality of watercourses and the development of fish stocks

In 2014, the company took part in several fish stock development projects. The ongoing efforts to improve landscapes and watercourses were continued in the form of shore protection, landscaping and clearing.

## LEIJONA CATERING OY

## CHIEF EXECUTIVE OFFICER

Ritva Paavonsalo

## CHAIRMAN OF THE BOARD

Riitta Laitasalo

## MEMBERS OF THE BOARD

Anne Gullsten, Hannu Kuusela, Sinikka Mustakari, Teemu Penttilä, Kari Rimpi

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	66.2	65.3
Operating income	EURm	4.3	4.0
Operating margin	%	6.4	6.1
Total assets	EURm	24.4	21.3
Equity ratio	%	73.3	72.8
Gearing	%	-76.3	-79.0
Return on equity	%	21.0	22.9
Return on investment	%	25.7	27.5
Personnel, total		466	521
Personnel, Finland		466	521
Total dividends paid	EURm	1.2	1.2
Dividends received by the State	EURm	1.2	1.2
Investments	EURm	0.5	0.5

The Defence Forces Catering Service Centre was incorporated as a new company at the end of 2011 and the newly established Leijona Catering Oy commenced its operations at the beginning of 2012. During its first years of operation, the company focused on developing its strategy, revising its organisation and management model, and on sales and marketing. The company's largest client is the Finnish Defence Forces. During 2014, Leijona Catering opened four new restaurants: staff canteens in Tikkakoski and Helsinki, and student canteens in Utti and Kuopio. Additionally, Leijona Catering operates the staff canteen located in the new main building of the National Institute for Health and Welfare in Helsinki that was brought to completion in February 2015.

### Financial performance

In 2014, net sales increased by 1.3 per cent on the previous year. Operating income accounted for 6.4 (6.1) of the net sales. Cash in hand and at banks comprised 55.8 per cent of the balance sheet total. The net working capital does not tie up capital to any major extent. Liquidity is good and the equity ratio was 72.9 per cent. The company has no debt.

## STATE SHAREHOLDING



## STRATEGIC INTEREST OF OWNERSHIP

Provision of catering services for the Finnish Defence Forces

## INDUSTRY SECTOR

Restaurant services

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Kuopio, restaurant operations in 50 locations



"We are building staff and student canteen operations to supplement the catering services provided for the Finnish Defence Forces."

CEO  
RITVA PAAVONSALO

In 2015, the net sales are expected to increase and the operating income is expected to decline. The pressure for increase is moderate as far as the costs of food are concerned.

Total investments in 2014 amounted to around EUR 1.5 million and in 2015 will total approximately EUR 3.1 million. In 2015, replacement investments will be made in the equipment at five garrison restaurants; in addition, the first stage of the refurbishment of the Santahamina facilities will be carried out. Three garrison restaurants will also be refurbished in 2015–2017.

### Corporate responsibility

The corporate responsibility efforts of Leijona Catering are focused on its personnel, supply chain and environmental performance. Responsible procurement, the safety and transparency of the supply chain, and the reliability of partners are of pronounced significance in the food sector. Leijona Catering maintains a high degree of domestic origin in its purchases.

In environmental matters, the company's operations are guided by a detailed environmental programme and in issues related to cooperation by its code of conduct. Leijona Catering draws up reports in accordance with the applicable Global Reporting Initiative (GRI) guidelines.



MERITAITO LTD

CHIEF EXECUTIVE OFFICER

Jari Partanen

CHAIRMAN OF THE BOARD

Matti Puhakka

MEMBERS OF THE BOARD

Taru Keronen, Eeva Niskavaara, Jukka Ohtola, Mats Rosin

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	31.2	26.9
Operating income	EURm	0.4	-2.7
Operating margin	%	1.3	-10
Total assets	EURm	30.6	29.3
Equity ratio	%	67	70
Gearing	%	13.4	11.2
Return on equity	%	1.4	-13.1
Return on investment	%	1.7	-10.9
Personnel, total		228	227
Personnel, Finland		228	227
Total dividends paid	EURm	-	-
Dividends received by the State	EURm	-	-
Investments	EURm	2.2	1.5

Meritaito has undergone a significant change process since the waterways maintenance and hydrographic surveying market was opened to competition during 2010–2012. Meritaito’s business operations are divided between its core business that consists of waterways maintenance and hydrographic surveying, and the environmental technology business that is conducted under the SeaHow brand. During the reporting period, the company succeeded in attaining its net sales and profitability improvement targets and saw the result turning positive from the previous year’s dismal negative figures. The net sales of the products sold under the SeaHow brand increased markedly, but they still only account for a small portion of the total net sales. Despite the improved financial performance, the return on equity remained modest. The considerable decline in waterways maintenance contract prices was reflected in Meritaito’s business operations; however, the company nevertheless succeeded in retaining its position as the market leader in Finland.

The development of net sales under the SeaHow brand is highly critical in terms of the company’s future; indeed, Meritaito is seeking

STATE SHAREHOLDING



STRATEGIC INTEREST OF OWNERSHIP

Provision of hydrographic surveying services in Finland’s territorial waters

INDUSTRY SECTOR

Waterways maintenance and hydrographic surveying

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki, waterway maintenance stations around Finland



“Our objective was to improve profitability and to seek growth from new customer groups and business that draws upon environmental technology.”

CEO  
JARI PARTANEN

significant growth from this line of business. In hydrographic surveying, the competitive situation is made even more stringent by the vessel subsidies granted to Swedish hydrographic surveying vessels. As the contracts ordered by the Finnish Transport Agency account for 70 per cent of the company’s net sales, success in competitive tendering is very important.

**Growth from business based on environmental technology**

The SeaHow business is based on the business opportunities arising from sustainability. It is based on the need to protect the environment and to manage the environmental risks. The market for Seahow products is global. In effect, corporate responsibility matters will gain in significance following the increase of international business. Anti-corruption policies, human rights issues and risks as well as local conditions must be taken into consideration more extensively than before. Safety is an integral part of Meritaito’s business and a very essential aspect of corporate responsibility. Meritaito has made considerable investments in the development of occupational safety, which is also reflected in the good results achieved.



MOTIVA OY

CHIEF EXECUTIVE OFFICER

Jouko Kinnunen

CHAIRMAN OF THE BOARD

Salla Vainio

MEMBERS OF THE BOARD

Heli Arantola, Pekka Kettunen, Jarmo Muurman,  
Arto Rajala

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	8.0	8.6
Operating income	EURm	0.2	0.5
Operating margin	%	2.8	6.1
Total assets	EURm	4.4	4.4
Equity ratio	%	59.4	63.6
Gearing	%	-62.9	-46.6
Return on equity	%	6.9	16.3
Return on investment	%	9.1	21.8
Personnel, total		70	68
Personnel, Finland		70	68
Total dividends paid	EURm	0.3	0.3
Dividends received by the State	EURm	0.3	0.3
Investments	EURm	0.0	0.1

Motiva Oy is an expert company that offers services for using energy and materials more effectively and sparingly, and for promoting the effective and sustainable use of renewable energy. Motiva plays an important role in the endeavours to improve the profitability of administration and production by way of increased cost-effectiveness. Motiva provides resource efficiency advisory services both for the public sector and for businesses and consumers.

The company operates as an in-house entity within the meaning of the Act on Public Contracts (348/2007). Its principal customers include ministries and other central government agencies. The company's subsidiary, Motiva Services Oy, operates on market terms and provides services for companies and municipalities, among others.

In 2014, Motiva Group's net sales fell around 6 percent year-on-year and the parent company's net sales around 8 per cent. The decline in net sales was due to the weak economic situation and the scarcer government appropriations for promoting resource efficiency. The selling times of projects became longer due to the recession. Around 87 per cent of net sales came from Finland. The majority

STATE SHAREHOLDING



STRATEGIC INTEREST OF OWNERSHIP

To promote energy and materials efficiency, and renewable energy

INDUSTRY SECTOR

Consulting in the energy sector and material functions

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki



"There is immense potential both for new business and for improving the profitability of existing companies in the effective and environmentally friendly use of materials."

 CEO  
JOUKO KINNUNEN

of the rest consisted of exports to Europe, mainly to other EU countries. Consolidated operating income fell over 50 per cent short of the previous year's level. The Group's solvency and liquidity remained good during the financial period.

### Energy efficiency to be improved

The need to improve energy and material efficiency is widely recognised. For the purpose of implementing the EU Energy Efficiency Directive, the Energy Efficiency Act was enacted in Finland effective as of the beginning of 2015, requiring large companies to carry out an energy review every four years. The Energy Authority, a major customer of Motiva, coordinates the energy efficiency agreements that play a key role in the due fulfilment of the efficiency obligations. Motiva seeks an important role in the implementation of the agreements.

The companies' interest in responsible, resource-effective operations is an important driver for Motiva. Motiva seeks to reduce the environmental impacts of its customers' operations. The company's own operations do not give rise to any significant environmental load.

NORDIC MORNING PLC

CHIEF EXECUTIVE OFFICER

Timo Lepistö

CHAIRMAN OF THE BOARD

Jussi Lystimäki

MEMBERS OF THE BOARD

Carina Brorman, Maritta Iso-Aho, Anni Ronkainen,  
Petri Vihervuori, Anne Årneby

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	106.6	121.3
Operating income	EURm	3.4	4.0
Operating income %	%	3.2	3.3
Total assets	EURm	75.1	89.3
Equity ratio	%	51.8	42.3
Gearing	%	2.2	16.8
Return on equity	%	9.8	11.9
Return on investment	%	7.0	8.0
Personnel, total		660	668
Personnel, Finland		286	319
Total dividends paid	EURm	2.0	1.5
Dividends received by the State	EURm	2.0	1.5
Investments	EURm	4.0	3.6

Nordic Morning is the leading communications group in the Nordic region. The Group employs 750 communications experts working in 15 companies that operate in Finland, Sweden, Denmark, Norway, Ukraine and India.

### New service strategy and group structure

Nordic Morning revised its service strategy in 2014 and organised its business accordingly in three business areas: Visibility & Service Design, Content, and Campaigns & Dialogue. The Group has transformed from a traditional printing house into a modern communications group by way of acquisitions, among other actions. In autumn 2014, the company acquired the Finnish digital loyalty marketing specialist Seed Digital Media, and at the beginning of March 2015, the company acquired the Swedish digital communications company Ottobon.

The Group's net sales for 2014 fell by 12 per cent and stood at EUR 106.6 (121.3) million. The decline in net sales was mainly due to the decrease of third-party invoicing in the Klikki Group and the depreciation of the Swedish krona.

STATE SHAREHOLDING



100%

INDUSTRY SECTOR

Graphics industry and marketing communications

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki



"The Circles of Success comprise five interlinked service areas: Insights, Content, Service Design, Visibility, and Campaigns. All five of these areas are needed to build successful interaction in a rapidly changing business environment that is increasingly focused on online activities."

 CEO  
TIMO LEPISTÖ

Consolidated operating income was EUR 3.4 (4.0) million. Operating income exclusive of non-recurring items was EUR 1.0 (4.0) million.

Company's equity ratio rose by 9.5 percentage points during the financial year 2014. The company's gearing fell by 14.6 percentage points.

### Corporate responsibility

Supported by the Group's values of renewal, respect and responsibility, the corporate responsibility programme is firmly integrated within Nordic Morning's strategy. Corporate responsibility at Nordic Morning is directed by the CEO, while the Communications Director assumes responsibility for its development and the related communications and reporting together with the CRI team. Nordic Morning's associate companies are included in the consolidated financial statements; however, Nordic Morning does not manage their corporate responsibility issues. Reporting is based on the corporate responsibility programme established originally in 2010 that is updated annually if required.

# Patria

PATRIA PLC

CHIEF EXECUTIVE OFFICER

Heikki Allonen

CHAIRMAN OF THE BOARD

Christer Granskog

MEMBERS OF THE BOARD

Sari Helander, Marko Hyvärinen, Kirsi Komi, Kari Rimpi

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	462.4	589.5
Operating income	EURm	56.0	87.8
Operating margin	%	12.1	14.9
Total assets	EURm	491.3	680.3
Equity ratio	%	45.3	55.3
Gearing	%	17.0	-6.3
Return on equity	%	18.2	21.1
Return on investment	%	18.4	23.7
Total personnel (on average)		2,546	2,612
Personnel, Finland		2,445	2,500
Total dividends paid	EURm	13.9	38.0
Dividends received by the State	EURm	13.9	27.8
Investments	EURm	8.1	17.0

\* Nammo Group has been consolidated using the equity method starting from 1 January 2014 instead of the proportionate method line by line used earlier. The comparative information of the year 2013 has been restated to be in line with the new consolidation method.

Patria Plc is an international provider of defence, security and aviation life-cycle support services and technology solutions. Defence materiel and maintenance accounted for 89 (93) per cent and the civilian sector for 11 (7) per cent of net sales in 2014. Exports accounted for 50 (54) per cent of net sales.

## Millog assigned a larger role as a partner of the Finnish Defence Forces

For Patria, one of the highlights in 2014 was the new partnership agreement signed between Millog and the Finnish Defence Forces that enters into force as of the beginning of 2015. The services related to the Army maintenance were expanded and the Navy maintenance centres were brought under Millog's responsibility. The agreement will significantly increase Millog's net sales. Millog accounted for 26 per cent of the consolidated net sales for 2014. The Group's consolidated net sales fell as expected. The consolidated net sales no longer include the net sales of the associated company Nammo due to the change in

STATE SHAREHOLDING



STRATEGIC INTEREST OF OWNERSHIP

National defence

INDUSTRY SECTOR

Defence equipment industry, aviation equipment industry

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki, Hämeenlinna, Halli



"In the course of the financial period, our operations were developed further, and were geared in a more cost-effective and flexible direction."

CEO  
HEIKKI ALLONEN

Nammo's consolidation method. Patria's relative profitability remained good.

Thanks to the contract awarded to Millog, the value of new orders received, EUR 876 (377) million, was a clear improvement over the previous year. The year-end order stock stood at EUR 1.2 (0.8) billion. Also, the Aviation Business Unit exhibited an increase in the number of new orders. By contrast, the order intake of the Land Business Unit continued to decrease.

## State searching for a new minority shareholder for Patria

Patria's minority shareholder, Airbus Group NV, exited from its holdings in the company in December 2014 with Patria redeeming the majority of the shares held by Airbus Group and Governia Oy acquiring a part of them. Patria cancelled a part of the redeemed shares. Following the arrangement, Patria is under full State control. The State has initiated measures to find a new industrial minority shareholder.

During the year, Patria developed its corporate responsibility management and signed the UN Global Compact initiative to combat corruption.

# RASKONE

RASKONE LTD

CHIEF EXECUTIVE OFFICER

Timo Seppä

CHAIRMAN OF THE BOARD

Juho Lipsanen

MEMBERS OF THE BOARD

Anniina Bergström, Jukka Ohtola, Klaus Sundström,  
Tiina Tuomela, Helena Walldén

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	82.4	91.5
Operating income	EURm	-3.6	1.8
Operating margin	%	-4.4	2.0
Total assets	EURm	29.0	35.9
Equity ratio	%	19.7	26.7
Gearing	%	160.0	65.7
Return on equity	%	-49.6	15.5
Return on investment	%	-17.8	9.5
Total personnel (on average)		639	749
Personnel, Finland		639	749
Total dividends paid	EURm	0	0
Dividends received by the State	EURm	0	0
Investments	EURm	0.9	0.7

Raskone provides its customers with life-cycle services for utility vehicles. Raskone, the Group's parent company, is Finland's leading company specialising in the servicing and maintenance of utility vehicles and work machinery with a nationwide network of repair shops. Over the past few years, a unified chain has been built up of individual repair shops in 21 locations. The Group's subsidiary, Pajakulma Oy, designs and implements refitting solutions for utility vehicles and work machinery. Pajakulma is Finland's leading supplier of suspension systems for heavy-duty vehicles.

### Difficult market situation continued

The market situation in Raskone's sector was difficult in 2014 as it has been for the past several years. Vehicle mileages decreased for the fourth year running owing to the weak development of the economy. As the truck servicing market correlated with vehicle mileages, the demand for repair shop services was low.

Raskone's consolidated net sales for 2014 fell nearly 10 per cent short of the previous year and the Group's operating income showed a loss.

STATE SHAREHOLDING



85%

(Governia Oy 15%)

INDUSTRY SECTOR

Repair and servicing of utility vehicles

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Vantaa; repair shops in various parts of Finland



"Raskone carried out thorough strategy work year last year. The successful implementation of the strategy depends on the competence and motivation of the personnel!"

CEO  
TIMO SEPPÄ

The net sales of the reference year are increased by non-recurring items related to the sale of business operations and investments. The parent company's net sales decreased by around 15 per cent and stood at EUR 62 (73) million. Operating loss stood at EUR 2.8 million despite the adaptation measures and successful reduction of costs in accordance with the goals set in the cost-reduction programme. The number of personnel had to be reduced to reflect the current demand for services.

### Corporate responsibility developed

Even though corporate responsibility has not yet become a major competitive factor in Raskone's sector, the company is convinced that its significance in terms of business will increase. Raskone strives to be a forerunner in its sector and wants to make responsibility an integral part of its strategic management. The stakeholder survey pinpointed factors related to social responsibility, such as education, management skills and occupational safety, as the most essential aspects of responsibility. In environmental responsibility, the optimisation of distribution and logistics, and the handling of waste were deemed the most important.



## SUOMEN LAUTTALIIKENNE OY

## CHIEF EXECUTIVE OFFICER

Mats Rosin

## CHAIRMAN OF THE BOARD

Pertti Saarela

## MEMBERS OF THE BOARD

Lauri Ojala, Virpi Paasonen, Matti Pajula, Minna Pajumaa

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	49.0	47.1
Operating income	EURm	11.7	8.2
Operating margin	%	23.9	17.5
Total assets	EURm	53.9	43.0
Equity ratio	%	72.8	70.6
Gearing	%	-33.2	-17.5
Return on equity	%	26.5	20.3
Return on investment	%	33.9	27.9
Personnel, total		318	330
Personnel, Finland		318	330
Total dividends paid	EURm	5.0	1.0
Dividends received by the State	EURm	5.0	1.0
Investments	EURm	9.1	0.5

Suomen Lauttaliikenne is responsible for the State's cable ferry and ferry services as part of the public road network. The company holds around 80 per cent of the total market in Finland. All but one cable ferry locations on Finland's lakes, which are part of the public road network, are operated by Suomen Lauttaliikenne. The ferries transport around ten million passengers and five million vehicles annually.

### Financial performance

Net sales for 2014 were up 4 per cent on the previous year. Operating income rose by 42 per cent. Thanks to the contracts won in competitive tendering, the company's order stock is at a good level. The company's financial position remained solid. The net sales for 2015 are expected to remain unchanged or fall slightly short of the previous year's level. Operating income is also expected fall clearly short of the 2014 level.

Suomen Lauttaliikenne operates a total of 13 ferryboats, 62 cable ferries, 8 commuter ferries and 1 tugboat. The oil recovery and commuter vessel Otava, ordered from Uudenkaupungin Työvene, was received in August 2014 and started operating on the Kotka-Pyhtää route.

## STATE SHAREHOLDING



## STRATEGIC INTEREST OF OWNERSHIP

To secure cable ferry and ferry services as part of the public road network

## INDUSTRY SECTOR

Ferry and water transport services

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Turku, Savonlinna and 43 ferry sites around Finland



"The encouraging results of our customer survey indicate that the shipping company's journey to a customer serving business was the right solution."

CEO  
MATS ROSIN

Net investments in 2014 totalled EUR 9.1 million. The company's principal risk is its ageing fleet. Slightly over 25 per cent of the repair backlog has been addressed to date. Investments during the next 2–3 years will total EUR 25–28 million.

Suomen Lauttaliikenne's largest client is the Centre for Economic Development, Transport and the Environment for Southwest Finland; the other clients comprise private road maintenance associations. The total number of clients is 13, but 95 per cent of the orders are received from the Finnish Transport Agency and the Centres for Economic Development, Transport and the Environment. The Centre for Economic Development, Transport and the Environment seeks to increase the number of service providers and so promote competition in the sector.

### Corporate responsibility

The company's values, jointly defined with the personnel, are safety, service-mindedness and profitability. Suomen Lauttaliikenne maintains and develops a safety and environmental management system for vessels that is based on the ISM Code. The reduction of fuel consumption is one of the environmental promises made by the company.



MINT OF FINLAND LTD

CHIEF EXECUTIVE OFFICER

Paul Gustafsson

CHAIRMAN OF THE BOARD

Hanna Sievinen

MEMBERS OF THE BOARD

Pekka Hurtola, Pekka Leskinen, Harry Linnarinne, Riitta Mynttinen, Anna Maija Wessman ja Ari Viinikkala

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	76.2	97.3
Operating income	EURm	-2.6	-6.4
Operating margin	%	-3.4	-6.6
Total assets	EURm	74.4	76.6
Equity ratio	%	47.6	51.2
Gearing	%	69.5	59.3
Return on equity	%	-9.6	-17.3
Return on investment	%	-3.9	-8.9
Total personnel (on average)		212	230
Personnel. Finland		61	73
Total dividends paid	EURm	0	0
Dividends received by the State	EURm	0	0
Investments	EURm	0.5	12.4

Mint of Finland Group is the leading mint in Scandinavia and the Baltics. Its business is to design, market and mint money, and produce coin blanks. In addition to circulation coins, its products include commemorative and special coins, coin sets and coin blanks. Mint of Finland is one of the few operators in the industry capable of offering a complete service to its customers, from the production of coin blanks to tool manufacturing and the minting of coins. Exports accounted for 90 (95) per cent of the company's net sales. The circulation coin market is global. Mint of Finland has built up its presence in new market areas. These measures have increased awareness about the company in South and Middle America, and in Africa in particular. On the whole, the demand for coins is increasing.

### Financial performance

In 2014, Mint of Finland's net sales fell by around 20 per cent. The result remained negative, but the loss was smaller than the year before. The operating margin was positive with financial performance improving in all business sectors. Although

STATE SHAREHOLDING



STRATEGIC INTEREST OF OWNERSHIP

General money supply and securing of the sufficient amount of coins in circulation

INDUSTRY SECTOR

Metals

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Vantaa



"The unhealthy competition in the circulation coin market has chafed at the industry for a long time. It also has a negative impact on the development of the whole sector."

CEO  
PAUL GUSTAFSSON

demand for circulation coins remained quiet in early 2014, the Group's prospects took a positive turn in early autumn when Mint of Finland won several circulation coin contracts. Selling collector coins remains challenging. The blank factory posted a good result for 2014.

The restructuring carried out in order to crystallise the Group's business model was a success; its circulation coins, blanks and collector's products will all be sold from Finland from now on. Material acquisitions have also been concentrated in Finland.

Mint of Finland's ambition is to become the world's most respected operator in the world of coins. Responsible action is seen as an integral part of the company's business strategy. Being proactive and having influence send a positive message to customers and build trust in the future. Mint of Finland seeks to build a competitive advantage through product quality and reliable and responsible operations, in addition to offering a competitive price.



FINNISH SEED POTATO CENTRE LTD

CHIEF EXECUTIVE OFFICER

Paula Ilola

CHAIRMAN OF THE BOARD

Ossi Paakki

MEMBERS OF THE BOARD

Kauko Matinlauri, Antti Lavonen, Jouko Lähteenoja  
Jorma Mäkelä, Jyrki Siira

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	3.2	3.9
Operating income	EURm	-0.036	0.4
Operating margin	%	-1.1	9.0
Total assets	EURm	3.6	3.3
Equity ratio	%	41.0	47.4
Gearing	%	50.3	21.1
Return on equity	%	0	15.5
Return on investment	%	-1.4	10.5
Personnel, total		13	13
Personnel, Finland		13	13
Total dividends paid	EURm	0	0.075
Dividends received by the State	EURm	0	0.017
Investments	EURm	0.13	0.07

The Finnish Seed Potato Centre Ltd (SPK) is a Finnish seed potato-producing enterprise whose field of activity comprises the cleaning and maintenance of seed material as well as the production, packaging and marketing of basic and certified seed grades. The operations are based on the basic seed maintenance and production agreements signed with Finnish variety owners or representatives. SPK also maintains and produces seed potatoes from the so-called ‘free varieties’. During the financial period, the company had a total of 25 potato varieties in production for the domestic market, all of which were maintained by the company in greenhouse-based production. Additionally, the company has more than 20 varieties in production for export markets.

**Research and development as a guarantee of quality**

The company’s net sales in 2014 fell by 18 per cent year-on-year, reaching EUR 3.2 million. The operating income showed a loss due to the decreased volume and falling of market prices. The company’s equity ratio remained at a good

STATE SHAREHOLDING



STRATEGIC INTEREST OF OWNERSHIP

Security of supply and plant health

INDUSTRY SECTOR

The maintenance, production and marketing of potato varieties

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Tyrnävä



“We promote plant health in Finland.”

CEO  
PAULA ILOLA

level. The company did not pay out any dividends for the financial year 2014.

The aeroponic method developed by SPK increases the number of tubers per plant up to tenfold compared to before. Thanks to the new method, new and promising potato varieties are introduced faster onto the Finnish market from domestic seeds, thus reducing the dependency on foreign registered seeds. The unit costs of production are also considerably reduced. The company continued with the development of the method during the financial year.

The company also continued its involvement in regional and nationwide research concerning potato planting and plant diseases.

**Plant health and security of supply as priority areas in corporate responsibility**

SPK does not have actual corporate responsibility reporting in place. The company may be regarded as indirectly making a strong contribution to the attainment of corporate responsibility through the prevention of plant diseases and the promotion of supply security.



## SUOMEN VILJAVA OY

## CHIEF EXECUTIVE OFFICER

Seppo Koponen (Pasi Lähdetie from 1 August 2015)

## CHAIRMAN OF THE BOARD

Petri Alava

## MEMBERS OF THE BOARD

Michael Hornborg, Pekka Kettunen, Helena Tammi, Tanja Viljanen

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	19.0	16.7
Operating income	EURm	3.7	2.6
Operating margin	%	19.0	15.9
Total assets	EURm	23.8	25.2
Equity ratio	%	85.1	81.2
Gearing	%	-6.1	5.4
Return on equity	%	13.8	8.8
Return on investment	%	16.6	10.9
Personnel, total		91	88
Personnel, Finland		91	88
Total dividends paid	EURm	3.0	3.0
Dividends received by the State	EURm	3.0	3.0
Investments	EURm	2.0	2.3

Suomen Viljava's main field of activity is the handling and storage of cereals and cereal-type raw materials. The company operates in 19 central locations in Finland near the areas where cereal is produced. Nearly half of the cereals eventually sold in Finland go through the company's storages. In effect, Suomen Viljava plays an important role to play not only in the emergency stockpiling of cereals, but also in the entire food chain as the provider of cargo handling and storage services related to the export and import of cereals. The company contributes to ensuring the functionality of the cereal production chain and logistics, from primary production to processing, distribution and consumption.

During 2014, Suomen Viljava received and dispatched a total of 2.2 (1.8) million tonnes of cereal. The amount of cereal contained in the company's silos increased. At year-end, the company had 825,000 (760,000) tonnes of cereal in its stocks.

The company's operations are affected by fluctuations in cereal prices. There is an oversupply of feed cereal in particular both in the Finnish and in the international markets. As a result of low

## STATE SHAREHOLDING



## STRATEGIC INTEREST OF OWNERSHIP

To influence the functioning of the cereal storage and handling market and the security of supply, and to secure the undisturbed execution of tasks related to EU intervention operations

## INDUSTRY SECTOR

Cereal handling and storage services

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Vantaa, Naantali, Rauma, Kokemäki, Turenki



"The need for cereal storage will increase, and we will respond to this demand."

CEO  
SEPPÖ KOPONEN

world market prices, the trade in cereals slowed down during the early part of the year and the amount of cereal in the company's stock remained high. The previous year's cereal was received in the company's stock prior to the new crop season, and as the autumn's crop was good, the stocks became rapidly full. The amount of cereal received for export is expected to be high in the current year, which may pose a challenge to the storage and ship loading capacity of port stocks.

**Growth in new sales and improved performance**

Because of the large handling volumes, the net sales for 2014 increased by around 14 per cent on the previous year, and the company's financial performance improved. The company sold its stock in Kuopio because of the decreasing need for its use. The company's balance sheet was reduced and the equity ratio rose.

The company's investments mainly consisted of repair and refurbishment investments. Part of the investments were targeted at grain dust recovery and briquetting. In line with its environmental policy, the company seeks to increase the use of renewable energy. Grain dust is utilised in cereals drying and heat production at the company's own stocks.



VAPO OY

CHIEF EXECUTIVE OFFICER

Tomi Yli-Kyyny

CHAIRMAN OF THE BOARD

Juho Lipsanen

MEMBERS OF THE BOARD

Perttu Rinta, Risto Kantola, Minna Pajumaa,  
Hannu Linna, Pirita Mikkanen

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	847.4	652.9
Operating income	EURm	50.1	9.2
Operating margin	%	5.9	1.4
Total assets	EURm	786.9	801.7
Equity ratio	%	39.4	36.9
Gearing	%	110.3	123.4
Return on equity	%	1.2	2.1
Return on investment	%	3.9	1.4
Personnel, total		1,091	1,154
Personnel, Finland		759	770
Total dividends paid	EURm	0	10.0
Dividends received by the State	EURm	0	5.01
Investments	EURm	65.0	48.0

Vapo's business operations include the production of peat and wood-based fuels, pellets, district heat production, sawmills and the environmental business.

Vapo's special ambition is to reduce the burden on water bodies arising from peat production, to which end the company has invested a total of EUR 30 million in water treatment and responsible peat production over a three-year period.

Vapo commenced a new line of business: the design and construction of natural water cleaning and treatment structures. The order stock of the new cleantech business has been solid.

### Improved solvency

Vapo's net sales for the financial year 1 January 2013–30 April 2014 totalled EUR 847.4 million and operating income came to EUR 50.1 million. The relatively favourable economic development resulted in the equity ratio increasing to 39 per cent during the financial year; at the same time, gearing decreased significantly, which was the company's principal target.

Good-quality energy peat was sufficiently available in the heating season of 2013/2014. The

STATE SHAREHOLDING



STRATEGIC INTEREST OF OWNERSHIP

The diversity of domestic energy production

INDUSTRY SECTOR

Energy production, sawmill industry, environmental business

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Jyväskylä, Mänttä, Nurmes, Lieksa



"Vapo's high-quality water expertise available to general use."

CEO  
TOMI YLI-KYNYN

profitability of peat, wood-based fuels and pellets as well as district heat improved during the financial year. Additionally, the losses made by sawmill operations were reduced. Vapo sold its Hankasalmi sawmill in early 2014.

During the financial year, Vapo's Swedish subsidiary Neova AB and another significant pellet producer in the Swedish market, Lantmännen Agroenergi AB, merged their pellet production businesses. The arrangement is aimed at achieving synergies in production, marketing and logistics, thereby creating preconditions for an increase in pellet demand.

### Corporate responsibility improving the condition of watercourses

Vapo's environmental promises have been met in such a way that in 2014, best available technologies (BAT) are used in all water treatment processes, automatic water measurements are performed every hour and the mires are inspected every two weeks. Additionally, bogs in their natural state are sold or exchanged for conservation purposes.

VR-GROUP LTD

CHIEF EXECUTIVE OFFICER

Mikael Aro

CHAIRMAN OF THE SUPERVISORY BOARD

Kari Rajamäki

CHAIRMAN OF THE BOARD

Hannu Syrjänen

MEMBERS OF THE BOARD

Riku Aalto, Heikki Allonen, Jarmo Kilpelä,  
Roberto Lencioni, Liisa Rohweder, Tuija Soanjärvi,  
Maija Strandberg

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	1,367.2	1,421.2
Operating income	EURm	90.4	70.6
Operating margin	%	6.6	5.0
Total assets	EURm	1,876.8	1,808.8
Equity ratio	%	82.5	83.5
Gearing	%	-21.6	-17.7
Return on equity	%	4.5	4.5
Return on investment	%	6.3	5.1
Personnel, total		9,689	10,234
Personnel, Finland		9,109	9,720
Total dividends paid	EURm	100.0	0
Dividends received by the State	EURm	100.0	0
Gross investments	EURm	120.3	185.2

VR Group has three core business sectors: VR, providing passenger services; VR Transpoint, providing logistics services; and VR Track, specialising in infrastructure engineering. Passenger services include rail passenger services operated by VR and the bus and coach services provided by Pohjolan Liikenne. While VR's main market area is Finland, a substantial share of its freight transport operations is international. More than half of its net sales are generated by rail transport.

### Financial performance

In 2014, net sales fell in all business sectors. The total decline was 3.8 per cent from the previous year's level. However, operating income increased thanks to improved cost-effectiveness. Logistics and infrastructure engineering improved their operating income and passenger traffic reached the previous year's level. The 2015 net sales are expected to reach the previous year's level at most while the operating income is expected to decline from the

STATE SHAREHOLDING



STRATEGIC INTEREST OF OWNERSHIP

To promote rail traffic and its functioning

INDUSTRY SECTOR

Railway and road transport including track  
construction and maintenance

PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki, Kouvola, Oulu and Tampere



"We have made considerable investments in improving VR Group's competitiveness. Our efforts have delivered results, as they indeed should"

CEO  
MIKAEL ARO

previous year's level. The company's financial position remains strong. VR will pay EUR 100 million in dividends to the state owner for 2014.

Securing funding for investments by way of improved performance will guide VR's operations in the next few years. Total capital expenditure in 2014 amounted to EUR 120.3 million, of which leasing agreements amounted to EUR 48.7 million. Investment in rolling stock totalled EUR 102.9 million. VR's level of capital expenditure during the next 10 years amounts to a total of around EUR 1.5 billion. Principal foreseen investments in rolling stock amount to approximately EUR 100 million a year. Other maintenance investments range from EUR 60–80 million a year.

### Corporate responsibility

At VR, responsibility is integrated as part of the Group strategy. VR's most significant goals relate to the reduction of greenhouse gas emissions, increasing the use of renewable energy and the improvement of energy efficiency. VR has set five new environmental pledges for the years 2013–2020. An environmental programme has also been created to support the environmental pledges, in which each of the VR's separate business operations have recorded their own measures to be taken to fulfil the promises.



## GOVERNIA OY

## CHIEF EXECUTIVE OFFICER

Timo Kankuri

## CHAIRMAN OF THE BOARD

Jarmo Kilpelä

## MEMBERS OF THE BOARD

Rita Linna, Ilkka Salonen, Taina Susiluoto,  
Petri Vihervuori

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	99.6	124.6
Operating income	EURm	6.8	12.2
Operating margin	%	6.8	9.8
Total assets	EURm	289	473.3
Equity ratio	%	56.4	29.0
Gearing	%	28.4	168.8
Return on equity	%	1.6	3.5
Return on investment	%	2.4	4.4
Personnel, total		176	253
Personnel, Finland		176	253
Total dividends paid	EURm	-	0.9
Dividends received by the State	EURm	-	0.9
Investments	EURm	18	130.6

Governia Oy is a wholly state-owned special assignment company whose balance sheet is actively used for special ownership arrangements and for the development of the companies in its ownership. Governia's most important subsidiaries are Kruunuasunnot Oy, Cinia Group Ltd and Turun telakkakiinteistöt Oy. The holdings also include C-Lion 1 Oy, a subsidiary of the Cinia Group, in which Governia holds a direct 33.3 per cent equity investment. The State injected EUR 20 million into Governia at the end of 2014 for the implementation of the sub-sea cable project. During the reporting period, Governia was involved in the ownership arrangements of both Patria Plc and Gasum Corporation.

In June 2014, Governia sold the entire share capital of Easy Km to ALD Finland Oy. Under Governia's ownership, the company had been developed in a profit-driven and sustainable manner. A capital gain of EUR 7.5 million was recognised on the sale.

At the end of 2014, Cinia (former Corenet) was restructured into a group of companies and the business operations incorporated as subsidiaries – Cinia One Oy and Cinia Cloud Oy. Cinia

## STATE SHAREHOLDING



## SPECIAL ASSIGNMENT

to serve as a state investment company that can be used for special ownership restructuring purposes

## INDUSTRY SECTOR

investment operations

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki



"The year 2014 was an exceptionally active one for Governia. As an agile operator, we were involved in several structural arrangements carried out by the state owner"

CEO  
TIMO KANKURI

Cloud Oy's subsidiary C Lion 1 Oy will serve as the developer and owner company for the sub-sea cable to be constructed between Finland and Germany. Cinia's ownership base was expanded towards the end of 2014 when the employment pension company Ilmarinen and the insurance and pension entities of the financial services group OP joined Governia as additional owners.

Governia's consolidated net sales totalled EUR 99.6 (124.6) million. The decline in net sales was mostly due to the sale of Easy Km. Cinia Group's net sales increased to EUR 37.9 (35.7) million while Kruunuasunnot's net sales fell to EUR 23.3 (28.7) million. The profitability of both companies declined. The sale of Easy Km improved Governia's financial position.

Governia partakes in the management and monitoring of corporate responsibility matters within the Group through its duties as a board member. Governia seeks to influence and manage the companies it owns with a view of securing ethical operating practices and monitoring the operation and effectiveness of the risk management system, compliance, management incentives, and the wellbeing and development of the personnel.



## SOLIDIUM OY

## CHIEF EXECUTIVE OFFICER

Kari Järvinen

## ACTING CHAIRMAN OF THE BOARD

Heikki Bergholm

## MEMBERS OF THE BOARD

Eero Heliövaara, Markku Hyvärinen,  
Marketta Kokkonen, Anni Vepsäläinen

“Solidium is committed to the long-term and responsible ownership of companies of national importance.”

 CEO  
KARI JÄRVINEN

## STATE SHAREHOLDING



100%

## SPECIAL ASSIGNMENT

Special assignment to reinforce and consolidate domestic ownership in companies of national significance, and increase the economic value of the assets in the long term.

## INDUSTRY SECTOR

Investment operations

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki

KEY FINANCIAL INDICATORS		1.7.-31.12.2014	1.7.-31.12.2013	1.7.2013-30.6.2014
Net sales	EURm	0.0	0.0	0.0
Operating income	EURm	190.5	123.9	400.3
Profit for the financial year	EURm	-348.5	164.5	1,449.9
Return on investments at fair value	%	-4.8	17.6	31.3
Dividends and capital repayments received	EURm	0.0	0.0	350.0
Administrative cost ratio	%	0.08	0.05	0.07
Net asset value	EURm	6,642.3	7,228.5	8,094.4
Shareholders' equity	EURm	3,965.2	4,115.3	5,400.7
Interest-bearing debts	EURm	950.0	600.0	950.0
Equity ratio	%	80.0	86.8	83.9
Personnel, total		12	12	11
Personnel, Finland		12	12	11
Profit distribution*	EURm	1,527	800	0
Profit distribution received by the state*	EURm	1,527	800	0

\*) A total of EUR 1,527 million was paid in profit distribution for the financial year ended on 30 June 2014 on 26 August 2014, 16 December 2014 and 4 March 2015.

Solidium is a wholly state-owned limited liability company with a mission to reinforce and consolidate domestic ownership in companies of national significance and to increase the economic value of its assets in the long term. Solidium's investment activities are based on financial analysis. The basis and key objective of Solidium's investment strategy is to manage the existing portfolio with due care and to increase its value. Solidium's portfolio includes twelve listed companies in which it holds a non-controlling interest. The number of companies grew by one when Metso was demerged to form Metso and Valmet at the turn of 2013.

Solidium's financial year is from 1 July to 30 June. During the first half of the current financial year, the merger of Rautaruukki and SSAB was carried out on 29 July 2014. Solidium announced that it supports the merger of Rautaruukki and SSAB on 29 January 2014. Following the completion of the arrangement, Solidium became the largest owner of the combined company with its 16.8 per cent holding in total shares and the second largest in terms of votes with its 10 per cent holding in total votes.

During the calendar year, Solidium acquired shares for a total of around EUR 42 million. In February, the company acquired shares in Outokumpu from ThyssenKrupp for approximately

EUR 9 million. Solidium's holding in Outokumpu increased from 21.8 per cent to 29.9 per cent. Solidium acquired shares in Outotec for a total of around EUR 11 million during the calendar year. Following the acquisitions, Solidium's holding in Outotec increased from the present 10 per cent to 11 per cent. In June 2014, Solidium acquired shares in Metso for a total of approximately EUR 42 million. As a result, Solidium's holding increased from the present 11.2 per cent to 11.7 per cent.

Solidium participated in Outokumpu's rights issue in March by around EUR 199 million in proportion to its current holdings in the company.

During the calendar year 2014, Solidium sold shares for approximately EUR 996 million.

In February 2014, Solidium placed Sampo A shares and bonds exchangeable into Sampo A shares. The company placed 2.3 per cent of Sampo's outstanding shares. The placing price of the shares was EUR 449 million and the value of the bonds EUR 350 million.

In November, the company placed 2.3 per cent of TeliaSonera's outstanding shares on the market. Solidium's holding decreased from 10.1 to 7.8 per cent. The proceeds from the sale received by Solidium were around EUR 547 million.

During the calendar year 2015, Solidium acquired further shares in Outotec for EUR 17 million and in Metso for EUR 27 million. Following the acquisitions, Solidium's holding in Outotec was 12.8 per cent and in Metso 12.3 per cent.

In February 2015, Solidium sold shares in TeliaSonera for a total of EUR 1,069 million. Following the sale, the company's holding in TeliaSonera decreased to 3.2 per cent. In February 2015, Solidium sold shares in Outokumpu for a total of EUR 95 million. Solidium's holding in the company decreased to 26.2 per cent.

Talvivaara's operating subsidiary Talvivaara Sotkamo was filed for bankruptcy on 6 November 2014.

During the half-year period, Solidium paid EUR 1,087 million in profit distribution to the State. Additionally, the company paid EUR 440 million in profit distribution to the State in March.

A reversal of impairment of EUR 805 million on the Outokumpu and Rautaruukki shares was recognised in the financial statements of the pre-

vious financial year. An impairment of EUR 23 million was recognised on the shares of Talvivaara. In the half-year report of 31 December 2014, an impairment totalling EUR 500 million was recognised, of which EUR 320 million relates to shares in Outokumpu, EUR 157 million to shares in SSAB and EUR 22 to shares in Talvivaara.

### Solidium's portfolio at 31 December 2014

TOTAL INVESTMENTS	EUR	weight, %
Elisa	379,870,610	5%
Kemira	255,982,820	3%
Metso	435,579,195	5%
Outokumpu	593,012,928	7%
Outotec	88,334,040	1%
Sampo	2,587,638,715	32%
SSAB	414,226,359	5%
SSAB A	126,738,888	
SSAB B	287,487,471	
Stora Enso	724,287,439	9%
Stora Enso A	415,857,609	
Stora Enso R	308,429,830	
Talvivaara	9,645,369	0%
TeliaSonera	1,796,869,012	22%
Tieto	159,505,641	2%
Valmet	170,625,833	2%
<b>Total investments in shares</b>	<b>7,615,577,961</b>	<b>94%</b>
<b>Money market placements</b>	<b>482,560,237</b>	<b>6%</b>
<b>Total investments</b>	<b>8,098,138,198</b>	<b>100%</b>

TOTAL INVESTMENTS IN SHARES	EUR	weight, %
Elisa	379,870,610	5%
Kemira	255,982,820	3%
Metso	435,579,195	6%
Outokumpu	593,012,928	8%
Outotec	88,334,040	1%
Sampo	2,587,638,715	34%
SSAB	414,226,359	5%
SSAB A	126,738,888	
SSAB B	287,487,471	
Stora Enso	724,287,439	10%
Stora Enso A	415,857,609	
Stora Enso R	308,429,830	
Talvivaara	9,645,369	0%
TeliaSonera	1,796,869,012	24%
Tieto	159,505,641	2%
Valmet	170,625,833	2%
<b>Total investments in shares</b>	<b>7,615,577,961</b>	<b>100%</b>

Investments in shares accounted for about 94 per cent of Solidium's investment portfolio at the end of the reporting period on 31 December 2014. In share investments, the greatest weight is on

Sampo, which accounts for 32 per cent of the whole portfolio. Sampo and TeliaSonera make up substantial weights in Solidium's portfolio.

Solidium's money market investments stood at EUR 483 million on 31 December 2014 (EUR 1,116 million on 30 June 2014). The amount of money market investments during the reporting period was affected by profit distribution, taxes and the sale of TeliaSonera shares.

The total yield of Solidium's share portfolio fell short of the weight-limited OMX Helsinki Cap GI gross index both during the reporting period and over the past 12 months.

### Return on investments

	1.7.2014- 31.12.14	1.1.2014- 31.12.14
Total yield of share portfolio	-5.2%	7.1%
Money market investments	0.1%	0.3%
Return on investments	-4.8%	6.2%
OMX Helsinki Cap GI gross index	2.0%	10.6%

The yield from TeliaSonera, Solidium's second largest company in terms of weight (31 December 2014), remained negative and fell short of the reference index, which also decreased the yield from Solidium's entire portfolio. Outokumpu's large percentage is explained by the low initial level. The yield from Solidium's entire portfolio fell short of the reference index.

### Share yields, 1.1.-31.12.2014

Outokumpu	108%
Valmet*	57%
Tieto	38%
Elisa	25%
Sampo	13%
SSAB	10%
Metso	6%
Stora Enso	6%
TeliaSonera	-6%
Kemira	-15%
Outotec	-41%
Talvivaara	-60%

\* Valmet 2.1.2014 lähtien

The dividend yield from Solidium's share portfolio calculated at 2014 year-end share prices and the dividends proposed in the financial statements was 5.5 per cent and the payout ratio 108 per cent. The corresponding figures for the Helsinki Stock Exchange are 4.7 per cent dividend yield and 79 per cent payout ratio.

## STATE SECURITY NETWORKS LTD

## CHIEF EXECUTIVE OFFICER

Timo Lehtimäki

## CHAIRMAN OF THE BOARD

Jarmo Väisänen

## MEMBERS OF THE BOARD

Lea Jokinen, Ilkka Korkiamäki, Harri Martikainen, Sohvi Rajamäki, Esa Rautalinko, Elina Selinheimo

KEY FINANCIAL INDICATORS		2014	2013
Net sales	EURm	40.9	38.5
Operating income	EURm	0.2	-0.8
Operating margin	%	0.6	-2.1
Total assets	EURm	138.4	135.6
Equity ratio	%	85.0	85.7
Gearing	%	-12.9	-18.5
Return on equity	%	0.4	-0.4
Return on investment	%	-0.1	-0.6
Personnel, total		117	110
Personnel, Finland		117	110
Total dividends paid	EURm	-	-
Dividends received by the State	EURm	-	-
Investments	EURm	7.1	11.9

State Security Networks Group is a state-owned company with a special assignment to secure the critical leadership of our society and the information society services in all conditions. The parent company, State Security Networks Ltd, is a non-profit company. The Group also comprises the subsidiaries Suomen Virveverkko Oy, Virve tuotteet ja palvelut Oy, Suomen Turvallisuusverkko Oy and Leijonaverkot Oy. In 2014, the company made major investments in secure and reliable communications networks and developed its operations to address the future needs of the security authorities.

### Year characterised by the preparations made in view of security network operations

Dominant in the Group's operations in 2014 were the preparations made in view of the transfer of security network operations. The State Security Network Act was adopted in December 2014 and at the beginning of 2015, the network and infrastructure services related to public administration security network operations and the related production of services were transferred to State Security Networks Ltd.

## STATE SHAREHOLDING



## SPECIAL ASSIGNMENT

Construction and operation of communications networks used by public administration authorities that are critical to the nation's security as well as other security networks and the provision of related services and consulting

## INDUSTRY SECTOR

Operation of communications networks

## PRINCIPAL PLACES OF BUSINESS IN FINLAND

Helsinki



"Previously, we mainly focused on various crisis situations and the actions of the authorities; in the future, society at large will also be included."

CEO  
TIMO LEHTIMÄKI

The preparations made in view of security network operations also affected the Group's financial performance because the operations will only start to generate net sales in 2015. Nevertheless, the net sales grew by 6.3 per cent and stood at EUR 40 (38) million. Consolidated operating income rose to EUR 0.2 (-0.8) million. The growth in net sales was mostly due to the good performance of the Products and Services as well as the Telecommunication Facilities business operations.

The security and reliability of communications services are the most essential aspects of State Security Networks' corporate responsibility. The challenges related to the security of the information society will emphasise this point of view in the future as well. Consequently, the recognition and management of corporate responsibility risks will continue to be of pronounced importance. The management of corporate responsibility is based on the strategy and values of State Security Networks. Another key responsibility theme is responsible and motivated personnel. In reducing environmental impacts, special emphasis is put on improving energy efficiency with regard to machine rooms, in particular.

## SOURCES OF DATA

The data provided in this annual report are based on the information that is publicly available. An attempt has been made to select information on the companies and the share portfolio held by the State that is essential in the eyes of the State Ownership Steering Department. The Ownership Steering Department carries out independent analyses of the companies to formulate its own view of their status and performance. Valuatum

Oy's equity analysis platform is used for the analysis work. The key financial indicators presented in the report are ratios calculated by the State Ownership Steering Department using the following formulae. Consequently, the key indicators may differ from those calculated by the companies themselves. One of the reasons for the differences is the items included in the companies' comparable profit.

$$\text{Operating income \%} = \frac{\text{operating income}}{\text{net sales}} \times 100$$

$$\text{Equity ratio \%} = \frac{\text{shareholders' equity} + \text{minority interest}}{\text{total assets} - \text{advances received}} \times 100$$

$$\text{Return on investment \%} = \frac{\text{profit before taxes} + \text{interest and other financial cost}}{\text{average capital employed}} \times 100$$

$$\text{Return on equity \%} = \frac{\text{net profit}}{\text{shareholders' equity (average for the financial period)}} \times 100$$

$$\text{Gearing \%} = \frac{\text{interest bearing net debt}}{\text{shareholders' equity}} \times 100$$

$$\text{Dividend yield \%} = \frac{\text{dividend/share}}{\text{share price}} \times 100$$

$$\text{Payout ratio \%} = \frac{\text{dividend/share}}{\text{net earnings/share}} \times 100$$

# Yield

Compound aggregate growth rate

$$\text{CAGR} = \left( \frac{KA_{t+n} + \sum \text{cash flows}_{n...t}}{KA_t} \right)^{1/n} - 1$$

where,

KA = State's proportion of the carrying value of equity

# Return on portfolio

$$\text{Day yield } d = \frac{MA_e - MA_b - C}{MA_b}$$

$$\text{Cumulative yield} = ((1+d_1) \times (1+d_2) \times (1+d_3) \dots (1+d_t) - 1)$$

where,

MA<sub>e</sub> = market capitalisation of the portfolio at day-end

MA<sub>b</sub> = market capitalisation of the portfolio at previous day's end

C = cash flows during the day

31.12.2014

LISTED COMPANIES	Ownership steering	Group	State shareholding	Minimum level of shareholding
Elisa Corporation	Solidium	1a	10.0%	0.0%
Finnair Plc	VNK	1b	55.8%	50.1%
Fortum Corporation	VNK	1b	50.8%	50.1%
Kemira Oyj	Solidium	1a	16.7%	0.0%
Metso Corporation	Solidium	1a	11.7%	0.0%
Neste Oil Corporation	VNK	1b	50.1%	50.1%
Outokumpu Oyj	Solidium	1a	26.2%	0.0%
Outotec Oyj	Solidium	1a	11.0%	0.0%
Sampo Plc	Solidium	1a	11.9%	0.0%
SSAB	Solidium	1a	17.1%	0.0%
Stora Enso Oyj	Solidium	1a	12.3%	0.0%
Talvivaara Mining Company Plc	Solidium	1a	15.2%	0.0%
Telia Sonera AB	Solidium	1a	7.8%	0.0%
Tieto Corporation	Solidium	1a	10.1%	0.0%
Valmet Corporation	Solidium	1a	11.1%	0.0%
<b>Total</b>		<b>15</b>		

## UNLISTED COMMERCIAL COMPANIES

Altia Plc.	VNK	1a	100.0%	0.0%
Arctia Shipping Ltd	VNK	1b	100.0%	100.0%
Art and Design City Helsinki Oy Ab	VNK	1a	35.2%	0.0%
Boreal Plant Breeding Ltd	VNK	1b	65.0%	50.1%
Ekokem Oy	VNK	1a	34.1%	0.0%
Fingrid Oyj	VM	1b	53.1%	0.0%
Finnish Seed Potato Centre Ltd	VNK	1b	22.0%	0.0%
Gasum Corporation	VNK	1b	75.0%	0.0%
Itella Corporation	VNK	1a	100.0%	100.0%
Kemijoki Oy	VNK	1a	50.1%	50.1%
Leijona Catering Oy	VNK	1b	100.0%	100.0%
Meritaito Oy	VNK	1b	100.0%	100.0%
Mint of Finland Ltd	VNK	1b	100.0%	50.1%
Motiva Oy	VNK	1b	100.0%	100.0%
Nordic Morning Plc	VNK	1a	100.0%	0.0%
Patria Plc	VNK	1b	90.4%	50.1%
Raskone Ltd.	VNK	1a	85.0%	0.0%
Suomen Lauttaliikenne Oy	VNK	1b	100.0%	100.0%
Suomen Viljava Oy	VNK	1b	100.0%	100.0%
Vapo Oy	VNK	1b	50.1%	50.1%
VR-Group Ltd	VNK	1b	100.0%	100.0%
<b>Total</b>		<b>21</b>		
<b>Total of commercial companies</b>		<b>36</b>		

COMPANIES ENTRUSTED WITH SPECIAL STATE ASSIGNMENTS	Ownership steering	Group	State shareholding	Minimum level of shareholding
Aalto University Properties Ltd	VM	2	33.3%	..
A-Kruunu Oy	YM	2	100.0%	100.0%
Alko Oy	STM	2	100.0%	100.0%
OHY Arsenal Ltd 1)	VM	2	100.0%	100.0%
CSC Scientific Computing Ltd	OKM	2	100.0%	100.0%
Finavia Corporation	LVM	2	100.0%	100.0%
Finnish Aviation Academy Ltd	OKM	2	49.5%	0.0%
Finnish Fund for Industrial Cooperation Ltd (Finnfund)	UM	2	90.4%	50.1%
Finnish Industry Investment Ltd	TEM	2	100.0%	100.0%
Finnpilot Pilotage Ltd	LVM	2	100.0%	100.0%
Finnvera Oyj	TEM	2	100.0%	100.0%
Gasonia Oy	VNK	2	99.0%	0.0%
Governia Oy	VNK	2	100.0%	100.0%
Hansel Ltd	VM	2	100.0%	100.0%
Haus Kehittämiskeskus Oy	VM	2	100.0%	100.0%
Helsingin yliopistokiinteistöt Oy	VM	2	33.3%	..
Horse Institute Ltd	OKM	2	25.0%	0.0%
Municipality Finance Plc	YM	2	16.0%	0.0%
Solidium Oy	VNK	2	100.0%	100.0%
Suomen Erillisverkot Oy	VNK	2	100.0%	100.0%
Suomen yliopistokiinteistöt Oy	VM	2	33.3%	..
Tietokarhu Oy	VM	2	20.0 2) %	50.1%
Veikkaus Oy	OKM	2	100.0%	100.0%
Yleisradio Oy	LVM	2	100.0%	100.0%
Yrityspankki Skop Oyj1)	VM	2	95.2%	0.0%
<b>Total</b>		<b>25</b>		
<b>Total (number)</b>		<b>61</b>		

\* The State's share of votes 70.9%

\*\* 48.5% Gasonia Oy, 26.5% National Emergency Supply Agency and State of Finland 1 K-stock.

1) In receivership, 21.05% ownership through Government Guarantee Fund

2) The State's share of votes 80%

3) In receivership, ownership through Government Guarantee Fund (52.9%) and through companies in which the State has direct controlling interest based on shareholding (42.3%)

LVM = Ministry of Transport and Communications

OKM = Ministry of Education and Culture

STM = Ministry of Social Affairs and Health

TEM = Ministry of Employment and the Economy

UM = Ministry for Foreign Affairs

VM = Ministry of Finance

VNK = Ownership Steering Department in the Prime Minister's Office.

YM = Ministry of the Environment

**Company Group 1a:** The State as an owner has only or almost exclusively a strong shareholder interest. In arranging the ownership steering, the following aspects must be taken into consideration: direct controlling interest or authority relating to the State's shareholding; relating owner's risk; and participation in the company's decisionmaking on the basis of ownership.

**Company Group 1 b:** Besides a strong shareholder interest, the company is connected with strategic interests owing to which the State is to remain so far a strong shareholder or to safeguard in other ways the strategic interests concerned, if the shareholding is reduced or relinquished.

**Company Group 2:** The State as an owner has a special interest related to regulation or official duties: the company has an industrial, societal or other political mission defined by the State or some other special role.







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