Statement by the Cabinet Committee on Economic Policy on 8 September 2009

GUIDELINES BY THE STATE OWNER ON MANAGEMENT REMUNERATION AND PENSION BENEFITS

These guidelines deal with the remuneration payable to the executive management of state-owned companies against the background that the remuneration has to meet both requirements: reasonable compensations and the companies' ability to compete for the highest-skilled executives.

Remuneration is based on a fixed salary duly adjusted to fit both the company-specific salary structure and the remuneration level applied by competitors. Any remuneration on top of the fixed salary must be based on such performance that brings profit to the company and its owners. The remuneration criteria set by board of directors must be well thought-out, unambiguous and transparent, taking account of the effects of business cycles on management remuneration the best possible way. The set criteria need to produce clear results which promote the company's success in the long run.

The entire staff should have an opportunity to benefit from the company's good performance. A fair share of the company's good results must be guaranteed to its staff by performance-based remuneration and bonus schemes. In the remuneration of the staff, the main rewarding tools are result-based bonuses and staff funds. The State considers staff funds a good solution especially when remuneration schemes aim at harmonising the interests of the staff, executive management and owners.

The State's ownership steering and its functions as an owner are based on a clear-cut determination of responsibilities between the shareholders, board of directors and executive management. The shareholders specify the company's sphere of operations and the key aims of its activities. They also appoint a board of directors to implement the objectives they set, and monitor and evaluate the attainment of these objectives. In compliance with the Limited Liability Companies Act, owners exercise their shareholder power by making concrete decisions at general meetings' or the shareholders' meetings. The State as an owner complies without exceptions with the provisions concerning the equality of shareholders in the Companies Act and the provisions concerning the company's objectives and line of business as specified in its Articles of Association.

The board of directors is responsible for the company's governance and the appropriate arrangement of its operations. The managing director is responsible for the daily running of operations in accordance with the instructions supplied by the board of directors. Communication between the owners and the company mainly takes place via the chairman of the board of directors.

The running of business and the company's success depend on the skills and performance of the staff with a special weight on the management's input. The key staff of a company usually comprises a wider group besides the executive management, and the company's success requires a highly-skilled and committed staff. It is in the shareholders' common interest that a company has a

proficient and motivated management working in line with its shareholders' objectives and that it can both recruit and retain professionals needed for successful performance.

Therefore, the state owner, for its part, must provide the company with opportunities to compete for executives and other key employees under competitive and reasonable terms, while ensuring that remuneration does not lead to excesses jeopardising, for example, the targets set for remuneration schemes by the owner. Attention must also be paid to the fact that the success of companies does not rest, or is not due to, solely on their management or board of directors. Considering that highly-skilled and motivated staff form one of the cornerstones of business success, it is necessary to provide all staff with a fair opportunity to benefit from the company's good profit performance.

The composition of the board of directors, board members' proficiency and ensuring their commitment form other key elements for the owners. Therefore, shareholders must see to it that board compensations are commensurate with the chairman's and members' level of commitment and time spent on their duties. The role and responsibilities of chairmen of the boards of directors, in particular, have been increasingly highlighted in recent years.

Regardless of whether the State is a sole shareholder, majority shareholder or an important minority shareholder, it has a special interest in ensuring that remuneration applying not only to the management, key staff and board members but also the staff as a whole contributes to securing and improving companies' business opportunities and competitiveness. However, it is also essential for shareholders that, instead of short-sighted risk-taking, remuneration be based on results which have benefited the shareholder(s). For this reason, the Cabinet Committee on Economic Policy has adopted the following guidelines on

- salaries and other remuneration applying to state-owned companies' executive management and other key employees;
- remuneration applying to members of state-owned companies' administrative bodies; and
- responsibility of the companies' boards of directors in complying with the management remuneration guidelines.

1. Decision-making procedure and the role of the guidelines in various companies

1.1. The board of directors makes decisions concerning management remuneration. Shareholders participate only if the decisions require, under the Companies Act, the consent of the shareholders' meeting. Preparation of any remuneration schemes must be charged with the chairman of the board of directors and possibly a remuneration committee. Only board members who are independent of the company can participate in making remuneration decisions. At the shareholders' meeting, the chairman of the board of directors is to describe to the shareholders the current management remuneration schemes and their implementation, and to assess the function and role of the schemes.

1.2. The boards of directors of these companies are responsible for the application and compliance of these guidelines before the State as an owner. The guidelines have no influence on the statutory obligations of the board of directors or its responsibilities towards other shareholders, investors and the contracting partners of the company. Therefore, these guidelines have different roles in various types of company:

- In companies wholly owned by the State, no deviations are accepted without prior approval by the owner.
- Unlisted state majority-owned companies must follow the guidelines unless otherwise required by the common interest of shareholders.
- In listed state majority-owned companies, the board of directors is expected to recognise the guidelines in respect to the Corporate Governance Code of listed companies issued by the Securities Markets Association and included in the Companies Act and Securities Markets Act and the regulations of the Helsinki Stock Exchange.
- As far as unlisted associated companies and the listed associated companies transferred under the ownership of Solidium are concerned, the guidelines provide an opinion of one major shareholder on good and acceptable remuneration principles. As such, the boards of directors are to take these guidelines into account in their decision-making.

1.3. The guidelines apply to new service and employment contracts and decisions to be taken after the adoption of the guidelines. When earlier remuneration schemes and individual contracts are updated or complemented, the company should aim at introducing practises presented in these guidelines.

1.4. The guidelines have been drafted for remuneration in companies operating on market terms and for this reason, they cannot be fully applied in state-owned companies entrusted with special assignments or in the ownership steering of such companies. Each company must elaborate company-specific remuneration criteria, giving due consideration to the company's special assignment, success in its performance and economic efficiency of the company operations. At the same time, the company needs to pay attention to the risk-free yields accrued from its special assignment, including any exemptions, exclusive rights and amendments to legislation. Such yields are not grounds for management performance-based compensations.

1.5. The guidelines observe the European Commission recommendation on the remuneration of directors in charge of financial undertakings in listed companies (latest issued on 30 April 2009) and the Finnish Corporate Governance Code of listed companies published in 2008 by the Securities Markets Association. At the time the guidelines are issued, the Corporate Governance Code is under review as to remunerations in particular. In case of conflicting instructions, listed companies must comply with the Corporate Governance Code.

2. Remuneration components and maximum levels applied to management and key staff

The key remuneration element is a fixed salary which reflects to the amount of other remuneration. Attention must be paid to the fact that basic salaries are reasonable and scaled to those of other similar companies.

2.1. The key objectives in the development of remuneration and remuneration schemes include enhancements of their explicitness, motivational power and sustainability. Every scheme must (i) be consistent with the State's role as a shareholder, (ii) contribute to improved shareholder value and motivate staff on a long-term basis, and (iii) have reasonable terms and be predictable in a way which prevents unreasonable remuneration. The State requires boards of directors to take these aspects into consideration to ensure long-term commitment.

2.2. When developing remuneration systems, special attention must be paid to the relationship between the eligible person's input and the amount of his/her remuneration. The input of key staff rewarded through remuneration schemes must be measurable and the indicator must not allow manipulation of the result. In addition, it is necessary to pay attention to the motivating effect required of remuneration schemes, which may not be used for the sake of the remuneration level alone. For this reason, aiming to optimise the size of the target group entitled to remuneration is justified to maintain the effect. Those rewarded via the remuneration schemes applied to management and key employees should not be offered staff funds or other remuneration schemes applied to the entire staff.

2.3. Shareholders expect the board of directors to monitor developments in remuneration practices and ensure competitive remuneration. At the same time, however, the board of directors must ensure that decisions on remuneration will not lead to exorbitant benefits under any circumstances. The underlying principle is that basic salaries must be competitive and that additional staff remuneration is based on measurable profitability and good performance. When analysing a company's performance, it is necessary to use such criteria which demonstrate the company's better performance vis-à-vis its competitors in an impartial way and which also takes account of the creation of the company's long-term growth potential.

2.4. Executive management's and key staff's remuneration must be treated as a larger whole comprising a person's salary along with the terms concerning pensions and fringe benefits included in the executive or employment contract. The total salary may consist of a variety of elements, namely the basic or fixed salary defined as an annual or monthly pay (including any taxable fringe benefits), a profit-based compensation based on annual evaluation and a long-term incentive based on an evaluation covering at least three financial years. Costs to the company arising from any supplementary pensions must be incorporated in the total remuneration.

2.5. The remuneration system must, in a fair and verifiable way, be based on the company's success and the creation of the prerequisites for long-term growth. The basic salary level must be sized so as to be reasonable and all bonuses must be tied to profit performance. The annual profit-based compensation and the long-term incentive may not be based on the same criteria – the latter must be built on criteria and benchmarks extending over the course of many years.

2.6. Remuneration must be predictable and transparent so that everyone involved can assess its efficiency. Multi-annual schemes are agreements to which both the company and those involved are committed. It is necessary in the general formulation of the remuneration terms to prepare for situations and circumstances in which changes that are beyond the company's control could lead to harmful or unreasonable results. In such situations, it must be possible to cut compensations agreed in remuneration schemes or at least postpone their payment to a later date that better suits the company. It must also be possible to cancel or recollect any compensation received through manipulation of indicators or other illegal or unethical procedures.

2.7. A profit-based compensation may not account for more than 40 per cent of the basic salary paid during the year of evaluation, unless there are special grounds for deviation. If the earlier maximum profit-based compensation has been less, the raise compensates any simultaneous increases in the basic salary.

2.8. The minimum duration of long-term incentives is three years and the maximum remuneration is 100 per cent of the basic salary paid during a scheme. If three-year schemes are launched each year, the maximum total sum of such roll-over schemes per annum may not exceed 100 per cent of the basic salary paid that year.

2.9. Remuneration schemes in which the recipient is required to make a significant investment in the company can also be used within the maximum levels specified in the guidelines. Any value rise in the investment will not be taken into account in the application of the maximum limits.

3. Payment of remuneration and payment terms

3.1. Annual profit-based compensations are primarily paid in the form of money. In listed companies, long-term incentives are primarily compensated as a combination of the company's own shares and money so that the proportion of shares is about 40 per cent. In shareholders' meetings, the State will not approve the use of option schemes in remuneration.

3.2. When compensation in the form of shares is used, the recipient will become the owner of the shares, and ensuing taxes will be paid at the end of the remuneration period after the amount of remuneration has been confirmed. Relinquishment of the shares is forbidden for the duration of three years. Any deviation from this provision can be authorised by the board of directors only on special grounds. The maximum remuneration rule prescribed in item 2.8 is applied at the time of payment. Thereafter, any rise in share value will benefit the recipients and a downturn will be their loss.

3.3. In unlisted companies, long-term incentives are paid in the form of money. The aim is to introduce remuneration terms that increase sustainability of the schemes and correspond to the objectives of the share-based remuneration schemes. As the relinquishment of shares in share-based remuneration schemes is forbidden for a period of three years, 40 per cent of the remuneration in the form of money can also be transformed into a three-year loan from the recipient to the company. The loan interest is to correspond to the company's return on equity as shown in the financial statements adopted and there is no impact caused by one-off payments. The loan period can only be shortened through a decision made by the board of directors on special grounds.

3.4. One key objective in long-term incentives is to harmonise the interests of remuneration recipients and shareholders. In listed companies, the executive management should own an amount of company shares equivalent to their annual fixed gross salary at minimum throughout the entire term in the position, at least when the possession of shares has been gained through share-based remuneration schemes.

3.5. The deviation clause and possibility of recollecting compensations referred to in item 2.6 must, in accordance with the scheme terms, be valid throughout the entire period of the relinquishment prohibition of shares and the loan contract on compensations paid in the form of money. If the recipient of a compensation resigns or his/her service or employment contract is terminated due to financial obscurities or any suspicion of malpractice before the relinquishment prohibition or loan contract ends, the remuneration returns to the company without any compensation to the recipient.

4. Pension agreements, terms of dismissal and ensuing expenses

4.1. Terms permitting exorbitant pension benefits and retirement before the general retirement age, i.e. 63 years at the time the guidelines are issued, must not be accepted in the service contracts of managing directors and other executives.

4.2. Pension expenses must be treated as part of total salary in all cases when agreement is to be reached on supplementary pensions deviating from employees' standard pension and when relating payments are to be made by the employer. In new pension agreements, terms guaranteeing a minimum level of pension (the so called defined benefit) must not be applied. Instead, an additional pension (the so called defined contribution) paid by the employer can be settled. The amount of such contribution must be disclosed.

4.3. Total expenses arising from the remuneration of the managing director and other key staff, including pension expenses, must conform to the company's general salary and remuneration policy. Exceptionally high pension expenses can be approved only in special cases, for example, when a key employee is recruited to Finland from abroad.

4.4. With respect to the salary payable to managing directors and other executive management during the term of notice and their severance pay, the aim must be to find solutions in line with the general practices or close to them. As concerns the managing director, the maximum compensation should be a one-off remuneration equivalent to the salary of a 12-month term of notice and a 12-month salary. The maximum compensation payable to key employees under an employment contract should be clearly lower.

5. Remuneration of boards of directors and supervisory boards

5.1. Remuneration applying to the chairmen and members of the boards of directors must remain commensurate with that of the competitors and other similar companies. Determination of the remuneration applied to the chairman needs to take account of the extent of his/her role and duties in the company.

5.2. In listed companies, remuneration proposals and State opinions presented at the shareholders' meetings are based on evaluations made on the basis of a comparison material covering, at minimum, all Finnish listed companies. For the determination of remuneration, unlisted companies are categorised according to their size, type of business and other company-specific grounds.

5.3. Remuneration applied to the members of boards of directors can be paid in the form of shares in listed companies if this is the common practise in typical competitor companies or if there are other company-specific grounds. Option schemes for boards of directors may not be applied, and board members cannot be rewarded via the remuneration schemes applied to management and key employees.

5.4. Compensation payable to chairmen and members of supervisory boards must primarily be assessed on the basis of their tasks and responsibilities.

6. Transparency and publicity

6.1. The same degree of transparency and availability of information on remuneration is required of a company in which the State is a major owner as of listed companies under the Corporate Governance Code applied to them.

6.2. In order to achieve the necessary degree of openness, the company is required to disclose – either in its printed annual report, or in default of such a report, in some other, appropriate way – relevant information on its remuneration system. At least the realised benefits of the managing director and the board of directors must be disclosed yearly by the end of April.

6.3 The State as a shareholder will ensure that the information regarding wholly state-owned companies and state majority-owned companies can be found via one web address (valtionomistus.fi).

The web pages on ownership steering will provide direct links to the web pages of listed state-owned and associated companies. Information available on unlisted companies will include:

1. Company name and the State's shareholding and votes.

2. The article of the line of business appearing in the Articles of Association.

3. The income statement, or the summarised income statement, and the balance sheet for the previous financial year.

4. The managing director's name, total remuneration paid to him/her during the previous calendar year, and a description of his/her remuneration components.

5. The retirement age of the managing director, the formation of his/her pension, and information on any supplementary pension schemes and their expenses.

6. The managing director's term of notice, salary of the term of notice and information of any other compensation to be paid on the grounds of giving notice.

7. Information on the size of the board of directors and of any group of key staff, as well as on the decision-making procedure and principles of remuneration schemes applying to them, such as the division into fixed and variable parts of salary and other compensation, key data on the determination of the variable parts of salary and other compensation, shares and share-based compensation schemes and supplementary pension schemes.

8. The name of the chairman, vice-chairman and members of the board of directors, and their total remuneration, including the criteria for its determination. If the board of directors has received any share-based compensation, the number of shares must be noted.

9. Information on performance-based and profit-based bonuses, staff funds and any other remuneration mechanisms within the remuneration system applying to other staff.