A briefing by
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The State Pension Fund

"Better Regulation in EU Company Law, Process and Substance"
Conference in Helsinki on 5th October 2006.

Questions

Q1:
A. What type of shares companies and investors will need?
B. Are regulations or recommendations at EU level necessary?

Q2:
A. Dual-class shares: a major or minor problem?
B. Are dual-class shares’ voting difference a problem or their price difference?
B. If legislation, what level?
Background – An investor’s view

- Different structures and circumstances vs potential fair treatment in conflicts
  - Voting difference
  - Dividend difference
  - Bondholders/shareholders
  - Large shareholders / small shareholders
  - Long term owners (family, the state etc) / short term investors or "speculators"
  - Inside shareholders / outside shareholders
  - Current shareholders / new shareholders
  - Institutional shareholders / private investors
  - Industrial owners / portfolio investors
  - Bidder / other target shareholders

=> Conflicts of interest arise in various instances … but voting differences are only a proportionally minor aspect in normal financial markets

An example of risks of extreme prices

- An example of risks of extreme price differences and changes in those
- Finland 1985->

<table>
<thead>
<tr>
<th>YEAR</th>
<th>1986</th>
<th>1989</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price difference of A/B shares</td>
<td>+25 %</td>
<td>&gt; 100 %</td>
<td>0-5 %</td>
</tr>
</tbody>
</table>

1. Mergers, bids, equity issues
2. (Mergers, bids, equity issues)

… but not estimated to repeat itself again due to better minority treatment
Examples of potential dual-class voting problems

A listed company with 2 share classes, but equal dividend: A/B shares, A=20*vote, B=1*vote

<table>
<thead>
<tr>
<th>Action</th>
<th>1) Prices are equal</th>
<th>2) 50 % price difference</th>
<th>A comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal governance</td>
<td>Normal agency problems</td>
<td>Normal agency problems</td>
<td>*A normal agency problem</td>
</tr>
<tr>
<td>Normal trading</td>
<td>No problem</td>
<td>Extra price risk</td>
<td>*A minor problem</td>
</tr>
<tr>
<td>Major ownership change with strategy change</td>
<td>Problematic</td>
<td>Problematic</td>
<td>*Bid regulation</td>
</tr>
<tr>
<td>Bid (cash, shares etc.)</td>
<td>No problem (same price)</td>
<td>Price risk + Bid price risk</td>
<td>*Bid regulation *Minority protection</td>
</tr>
<tr>
<td>A formal merger</td>
<td>No problems (same price)</td>
<td>Price risk + Merger price risk</td>
<td>*Regulation *Minority protection</td>
</tr>
<tr>
<td>Capital structure decisions (issues, buybacks, combining sh.)</td>
<td>Potential problems</td>
<td>Problematic</td>
<td>*Regulation *Minority protection</td>
</tr>
</tbody>
</table>

“Regulation” refers to a need for fair treatment and fair process. Various models may be solutions to the problems.

Why voting differences are not a problem?

- An example of a private equity fund
  - Limited partners have no voting power and would not like to have

A close alignment of economic interests

- Principal = limited partners (investors)
- Agent 1 = General partners (managers of the fund)
- Agent 2 = Company managers

- Principals use votes only in potential conflicts of interest situations
- One agreement for appr. 10 years

=> Conclusions for public companies: The smaller the price differences or relative price changes the larger alignment of economic interests! Corporate transactions magnifies the potential conflicts if economic interests differ. Voting equality as such is not a solution.
Conclusions

- Dual-class shares are only one feature in multiple of potential agency issues and conflicts.
- Requirements for one-share one-vote structures are not necessary.
- Minority protection, fair treatment rules and bid regulation/take-over code, however, are the right path to solve potential arising problems of dual-class shares.

Appendix: Distribution of domestic share ownership

Largest 50 companies by market cap

<table>
<thead>
<tr>
<th>Domestic controlling owners</th>
<th>Number of firms</th>
<th>%</th>
<th>1 class of shares</th>
<th>2 share classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% - 20%</td>
<td>15</td>
<td>30 %</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>20% - 40%</td>
<td>15</td>
<td>30 %</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>40% - 60%</td>
<td>14</td>
<td>28 %</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>60% -</td>
<td>6</td>
<td>12 %</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Sum</td>
<td>50</td>
<td>100 %</td>
<td>43</td>
<td>7</td>
</tr>
</tbody>
</table>

*Domestic controlling owners refers to Finnish ownership and is measured by the cumulative amount of domestic shareholders holding a minimum of 5% voting power.*