

THE STATE'S ASSOCIATED COMPANIES AND THE STATE AS A MINORITY SHAREHOLDER

This audit concerned state holdings in companies in which the state controls 50% of shares or less, i.e. the state is a minority shareholder, and the managing of these holdings. In this connection the state means both the Government as a whole and individual ministries and subordinate units and agencies. Shares owned by the Social Insurance Institution, the Bank of Finland, unincorporated state enterprises or off-budget funds have not been included in state holdings.

The audit surveyed the state's minority holdings and examined the classification of companies, the value of corporate assets and earnings, and the state's ownership policy and ownership strategy in minority holdings.

The state's associated companies and other minority holdings are a significant part of national wealth. The value of the state's minority holdings in listed companies was about 8.6 billion euros at the end of December 2005. The total

value of the state's minority holdings in other companies was about 160 million euros at the end of 2004.

The current Act on the State's Exercise of Its Partnership Authority in Certain Limited Companies Engaging in Economic Activities does not define associated companies. The State Audit Office recommends that a definition of associated companies should be added to the Act or at least to the Government's Decision-in-Principle on the State's Ownership Policy so that holdings would be classified as a significant minority holding or associated company if the state controls at least 10 per cent of the votes conferred by all shares.

The audit showed that since the Working Group on Ownership Steering began activities, the management of state ownership has sharpened and harmonized the financial monitoring and evaluation of companies as well as ownership steering practices. There is still

room for improvement in the setting of ownership strategy and other objectives for the state's holdings, reporting on the achievement of objectives and analysing and reporting any deviations, however.

In the opinion of the State Audit Office, since the state is not looking for quick profits from its holdings and does not actively trade its portfolio, the role of long-term ownership steering which promotes companies' success is essential to increase the value of the state's holdings and ensure good dividend yields. Since the state cannot freely trade its portfolio or sell "bad" shares and buy "good" ones, managing existing holdings is of key importance. Developing companies and increasing the value of holdings over the long term, which are the primary objective of the state's ownership policy and owner control, should thus be the guiding principles for state ownership.

On the basis of the audit the State Audit Office also recommends that the list of the state's associated companies should be updated annually, for example by reviewing Note 8 in agencies' accounts, concerning shares and participations in companies and other securities comparable to shares. This would ensure that the ownership steering unit is aware of every associated company even when ownership control is the task of an individual agency.