

Getting the message across: building a bridge to global investors



Richard Davies, Managing Director of RD:IR

Welcome to the the first RD:IR Finnish Equities Newsletter! We plan to publish this Newsletter three times a year and we welcome your comments or suggestions regarding its content. The purpose of the Newsletter is to provide Finnish companies and their advisors insight into the equity market in Finland as seen from the international investor perspective and to highlight the increasingly international flavour of Finnish corporate investors.

It is clear that Scandinavian public companies are going through a profound change in terms of their ownership. The sell-off of Scandinavian equities by domestic pension funds is matched by increasing interest from international investors, attracted by the high quality of companies and management in the region. The statistics show that the flow of money into

Finnish and other Scandinavian equities is becoming stronger year on year.

Whilst Scandinavia in general provides international investors with excellent investment opportunities, we believe Finland in particular contains very high quality companies with superb management in both traditional and non-traditional sectors.

The outlook for the Finnish market is very encouraging. The economic indicators for the country are positive in both the medium and long term. Whilst globalisation presents a challenge to business in all developed markets, it seems that Finnish companies are well-placed to benefit from

the upside of this scenario.

We are keen to help public companies in Finland deliver their positive messages effectively to new and existing international investors. We do this by offering IROs company-specific tools including analysis, investor contact information and consultancy which allow them to manage the IR process on their terms and use senior management time to best advantage.

We look forward to helping Finnish companies spread their message to the right investors in the right way – we believe strongly this is the right time to do so.

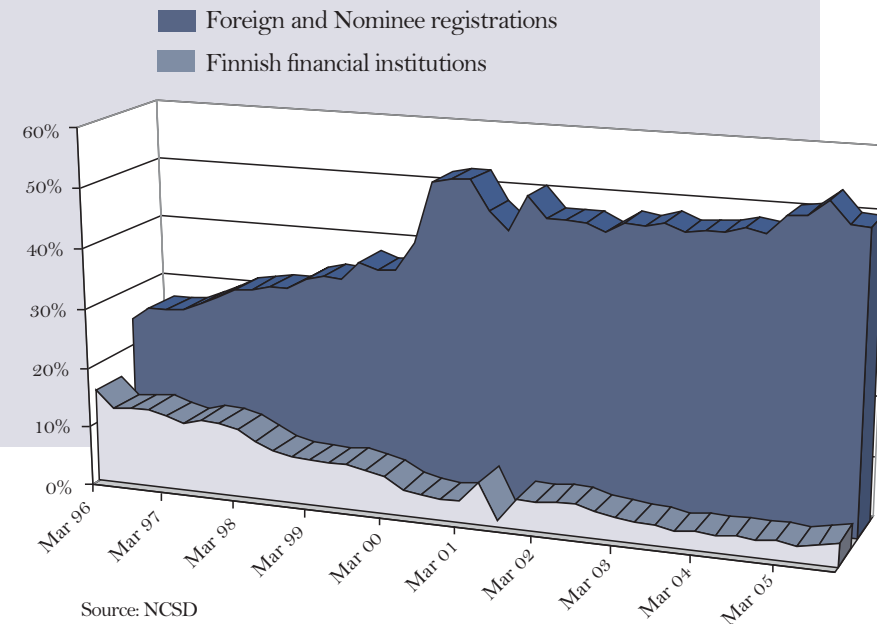
Finnish companies are well-placed to benefit from the upside of globalisation.

“I consider the management of Finnish companies in general to be of good quality. The Finnish temperament ensures that most executives take a level-headed approach to their business and do not make over-hasty decisions.

As for the ‘hot’ sectors in Finland, it is difficult to say since we tend to pick stocks from all different sectors. Our focus is on consistent profit growth and appropriate management of cash and the balance sheet for the benefit of all stakeholders. Having said that, I consider that Finnish IT companies rank highly in any European comparison.

- Crispin Longden, Director, Head of Continental European Small Cap, F&C Asset Management plc

The rising trend of foreign ownership



Bank of Finland sees internationalisation of markets as positive development



Antti Suvanto, Head of Monetary Policy & Research at the Bank of Finland

Economist Antti Suvanto is the Head of Monetary Policy and Research at the Bank of Finland. He comments below on some current themes such as the changing nature of the Finnish equity market, the influence of internationalisation on the Finnish economy and the current fast integration of the Nordic stock markets. Toni Oyry, Head of European Marketing at RD:IR, interviewed Mr Suvanto in April 2006.

What is your view on the current state of the Finnish equity market compared with this time last year?

The Finnish equity market has performed well for quite some time and the good performance has continued in the first quarter of this year.

What has been the historic degree of correlation between the Finnish economy and the Finnish equity market? What do you believe to be the level of correlation going forward?

As some of the big companies that dominate the stock markets are largely internationally owned and operate internationally and as the stock markets are integrating at a very fast pace (especially in the Nordic area), the connection between the macroeconomic developments and stock market performance has become increasingly distant. We cannot really expect high correlation anymore especially in the case of small open economies with many internationally-operating internationally-owned companies. It may even be that the causality has changed direction. If the stocks of a given company listed in a given country have performed strongly, it may spill over positively to the domestic economy through various channels.

Do you think that the Finnish equity market can be considered mature and what do you see as the major changes affecting the market going forward?

We wish that there would be more IPOs, and we wish that the liquidity of the stock market would improve. Today the market is liquid only for a handful of internationally traded companies. There is much room for improvement.

Looking at market data, the equity funds in Finland have been increasingly divesting themselves of domestic equity to the benefit of foreign equities in the last ten years. During the same time the foreign ownership of Finnish equities has approximately doubled.

What is the view of the Bank of Finland about this process?

This is a general trend globally. Indeed, it seems that the so called home bias is gradually diminishing and portfolios are becoming more diversified. As a result the risks are shared more widely and, hopefully, the allocation of global savings will become more efficient.

We have no institutional view on these developments regarding foreign ownership. On the whole it is a welcome development, although one should keep in mind that domestic ownership and a multitude of ownership forms will remain important.

What we would like to see is that Finland continues to provide a good and stable environment for innovation and investment by private businesses whatever their nationality and industry.

What is your view on the OMX Nordic list, do you think that this will have a positive effect on the liquidity of the Finnish stocks and the visibility of Finnish small and mid cap companies?

It is difficult to say. I think in the long run, or even in the medium-term, this will increase the opportunities to small and medium sized companies and should improve the liquidity of the stocks of smaller companies. Overall, I believe this is a positive development.

What is your view on the current state of the Finnish economy compared to the same time last year and what are the major growth drivers for the Finnish economy going forward?

Economic growth in 2006 is around 3.5 % compared to 2005. Last year, however, was exceptional because of the labour dispute in the paper industry and the associated loss of industrial output. Without it, the growth in 2005 would have been around 3% instead of roughly 2%. This is the rate we expect the economy to be growing over the next couple of years as well, although this might be more than the potential growth, which is seen in emerging bottlenecks in the labour market, in the declining trade balance and in the low household sector savings ratio.

The growth has been broadly balanced with private investment picking up while private consumption continues its robust growth. Exports are advancing at a satisfactory rate, although at a rate which is somewhat below the market growth.

For an extended period the growth in Finland has been twice as fast as in the rest of the euro area, but this may not continue as this pace in the longer run due to demographics starting to have a negative impact on labour force growth.

Do you think that the economic growth of Russia, Asia and the other emerging economies should be seen as an opportunity or a threat to

the Finnish economy in the medium/long-term?

The high growth in Russia, Asia and the new EU member states is a big opportunity for Finland. It has already affected our exports positively, especially the growth of exports to Russia. Although outsourcing of production to low-cost countries is not entirely unknown in Finland. Negative employment trends tend to dominate the headlines in the media for which reason the rapid improvement in employment, more recently also in manufacturing, has remained unobserved to the public at large.

Globalisation has many consequences, and all these generally require some reallocation of resources. Flexible economies can do the adjustment with less pain. In this respect there is room for much improvement in Finland, although in a European context the product and labour markets in Finland are already rather flexible.

One consequence of globalisation is the weak export price development for which reason the balance of payments have been on a declining trend for many years. The main reason for this is the declining producer prices of the information & communication technology related-products, like mobile phones, which form an important share of Finnish exports. This is the mechanism by which the high productivity gains are distributed to customers, in our case mainly foreign customers. Also oil, metal and raw material prices in general have gone up. The second reason is weak paper price development. The world market prices of paper and pulp have not increased in line with other raw material prices, which is a clear departure from earlier patterns.

Do you think that there will be significant changes to the Finnish economic and social models in the long-term because of the impact of globalisation?

Finland's economic and social system has already undergone profound changes as a result of the deregulation of the financial market in the 1980s, the rapid restructuring of industry furthered by the "creative destruction" during the recession in the early 1990s, European integration and, more recently, globalisation. As a result the country has already moved from a resource-based economy to a knowledge-based economy, meeting most of the objectives of the Lisbon strategy.

Further changes in the future are inevitable and mostly welcome. To meet the challenges brought about by globalisation and aging, the productivity growth has to be increased in the services sector, including public services, and the employment rate has to be raised. This may require some more flexibility in the labour market and new innovative ways to provide public services, health and medical care, but I think Finland has already shown that it can adapt quickly to a new environment and, I believe, we will be able to continue to do this.

Award-winning YIT has an international perspective on investor relations

Petra Thorén is YIT Corporation's Vice President, Investor Relations. She has been a part of the investor relations team at YIT since 2002. YIT is the biggest construction company in Finland and its shares are listed on the Helsinki Stock Exchange. YIT has an impressive track record in investor relations: YIT won IR awards for best Finnish company three years in a row and Ms Thorén won the best Finnish IRO award in 2005 at the Regi Nordic Awards.

Isabel Richardson, Head of Research at RD:IR, interviewed Ms Thorén in April 2006 about her views on investor relations in Finland, the impact of increased foreign

ownership on the Finnish equity market and the future for the Finnish equity markets.

What changes have you witnessed in Finland in relation to the equity markets over the past five to ten years?

In general there has been tremendous change within Finland over the past five to ten years. Finland has moved from a bank central model to a capital market model. In 1993 the restrictions on foreign ownership were abolished, which had a big impact on the market, and not only for stocks. From 1993, within five to ten years, the market was continuously evolving. There has been a lot of talk in Finland recently about the outflows of money from Finnish-registered

equity funds. The statutory pension funds in Finland are regulated and there are certain rules about their investment. The markets are getting more global and for Finnish statutory pension funds to get consistently good returns, they have to seek the best returns and this could mean they have to invest more globally. An impact on companies has been the increase of foreign ownership into Finnish equity, which has caused management teams to think much more about shareholder value rather than just the business. The OMX Nordic List will create a bigger market. I think it is a good concept and might make the Nordic market more attractive to foreign investors, as well as giving each company more peers.

YIT's foreign ownership has risen from 23% in 2003 to 43.5% in February 2006; apart from the reasons mentioned above, what do you think are the main reasons for that?

Firstly, we have a good story to tell. We have a good track record, we are well-managed, we have a good investment story and the acquisition from ABB we made in 2003 was a trigger for many new investors to find us. Secondly, we have put in a lot of investor relations groundwork. We have worked very hard on our IR and have organised a lot of roadshows. On our foreign interim roadshows alone we have about 35-40 days per year. Our CEO and CFO put a lot of time and priority into IR and this has been increasing each year for the last five years. We need to focus our CEOs time so we work on a priority system. We restrict the CEO to meeting only our largest investors (domestic and foreign) and to attend certain roadshows (for example London and Paris where we have many foreign shareholders). The CFO and I deal with most of the rest of the meetings.

How do you think that Finnish companies can effectively target long-term foreign investors?

I believe you have to do the groundwork to get the attention from foreign investors as Finland is a small market so it is not obvious that investors will come and find you. There is much opportunity for Finnish companies to increase their

foreign ownership if they put work into meeting investors. The more work you do, the more potential there is for increased foreign ownership.

We do not know who all our foreign owners are as they register under nominee registered accounts. We would like to know who they are. But we feel we are in control. It would be easier to meet new investors if we had knowledge of our current investors, but we use various methods to ensure we meet new investors. For example, visiting new cities: we have recently visited Vienna, Milan and Dublin for the first time. When we go to cities we have previously visited, we try to meet new investors and use investment banks which will introduce us to different investors.



Petra Thorén, VP Investor Relations, YIT Corporation

How could Scandinavian stocks improve the communication of their investment case to buy-side international investors?

“ **More direct communication with the fund managers.**
- Leading UK fund manager

By sending their reports and figures directly to the fund managers.
- Leading European fund manager

As a Reuters user, I find that the depth of information available on many of the smaller cap Scandinavian stocks is poor. Lack of analyst coverage is often a problem so have to rely on company websites. These websites could usually do better in making their case for investment.
- Paul Glover, International Investment Manager, NFU Mutual

They can visit more buy-side international investors. And they can do simple things such as sending emails.
- Leading European fund manager

More London-based presentations.
- Caroline Vincent, Fund Manager, Cavendish Asset Management

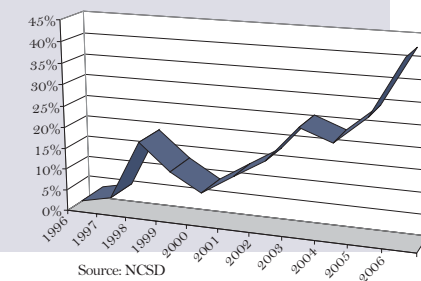
Invitations to conference calls on results. Invitations to visit plants, factories etc.
- Crispin Longden, Director, Head of Continental European Small Cap, F&C Asset Management

Visit us, email us and contact us directly; and participate in fairs.
- Xavier Lagrandie, Fund Manager, Lombard Odier Darier Hentsch

I don't know as we don't have much contact with them.
- Miriam Sánchez, Fund Manager, Sogeval

Source: RD:IR Scandinavian Equity Fund Manager Survey”

Foreign ownership of YIT



The importance of controlling the Investor Relations process on your terms

Looking at the Finnish equity market historically, Nokia has led the way in the international capital markets alongside our paper companies and companies related to these industries but now there are a large number of internationally competitive companies with highly skilled management making their way to becoming internationally recognised businesses.

This has certainly not gone unnoticed from international investors, as evidenced in the sharp rise of foreign ownership of Finnish companies in recent years. EMU

entry removed the currency risk attached to investment into Finnish stocks and Finnish pension funds have been able to diversify heavily their portfolios into the euro area.

Good IR is not about answering phone calls, it is about making them.

Before euro entry, private sector pension funds did not generally invest into assets outside Finland. Both these factors will continue to play a big part in the internationalisation of Finnish companies in terms of their equity ownership.

To achieve a fair value for your share it is essential to understand and manage the increasing internationalization of your ownership base. Good IR is not about answering phone calls, it is about making them. Good IR is reaching out to new investors and understanding their requirements.

Of course, this process requires time, resources and in-depth knowledge of the players in the global capital markets. It also requires trust that those involved in the implementation of your international IR strategy are working for your company's benefit rather than their own vested interest. All IROs should be aware of potential conflicts of interest.

At RD:IR, we wish to provide Finnish public companies with:

- analysis of your current international investors registered in nominees
- which potential investors are most likely to buy your stock
- communication channels to distribute your investment case
- software tools to manage your international IR strategy
- advice on how best to present your investment case
- control of the IR process on your terms

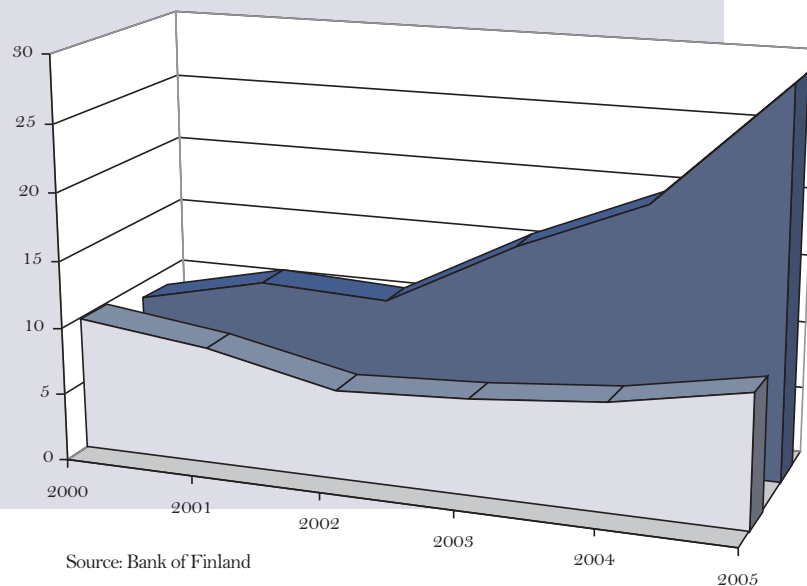
We look forward to hearing from you.



Toni Oyry, Head of European Marketing at RD:IR

Finnish pension funds investing ex-Finland

■ Investment in Non-Finnish stocks
■ Investment in Finnish stocks



Source: Bank of Finland

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