



21 December 2020

OPERATIONAL GUIDELINES FOR ILMASTORAHASTO OY

The legislation applicable to Ilmastorahasto Oy (later referred to as Ilmastorahasto or the company) comprises the Limited Liability Companies Act, the Securities Markets Act and the State Shareholdings and Ownership Steering Act as well as the provisions of the company's Articles of Association. These Operational Guidelines contain more detailed provisions on the company's operation and the criteria on which its decisions are based.

1. Steering of Ilmastorahasto

Ilmastorahasto operates in the administrative branch of the Ministry of Economic Affairs and Employment, and the ministry is responsible for its ownership steering. The Ownership Steering Department of the Prime Minister's Office is responsible for steering related to Ilmastorahasto's shares in Neste Oyj ('Neste'), as the ownership steering of Neste falls within the remit of the Prime Minister's Office.

The ministry discusses and makes decisions on the appointment of central government representatives to the Annual General Meeting, the exercise of the central government's rights as a shareholder and other ownership steering of the company, excluding all matters related to Neste shares, which fall within the remit of the Ownership Steering Department of the Prime Minister's Office.

These Guidelines for Ilmastorahasto were issued by the ministry. The Operational Guidelines for Ilmastorahasto were endorsed by the Cabinet Committee on Economic Policy on 23 October 2020. They were drawn up by the Ministry of Economic Affairs and Employment in cooperation with the Prime Minister's Office, the Ministry of Finance, the Ministry of the Environment and the Ministry of Transport and Communications.

In its ownership steering activities, the State complies with the division of duties and responsibilities between corporate administrative bodies and the owner laid down in the Limited Liability Companies Act. The shareholder, the Board of Directors and the operational management of the company each have their specific duties, responsibilities and rights under the Limited Liability Companies Act and the Articles of Association. In addition, the principles of good corporate governance are applied to the operation of the company and its bodies as set out in the currently valid recommendations concerning good corporate governance.

In its operation, the company complies with the Government's currently valid resolution on ownership policy, taking into account the special task specified in these Operational Guidelines.

2. Background of Ilmastorahasto

Prime Minister Marin's Government Programme states that the Government will work to ensure that Finland is carbon neutral by 2035 and carbon negative soon after that. This will be done by accelerating emissions reduction measures and strengthening carbon sinks.

At its climate conference on 3 February 2020, the Government published a roadmap that defines the timeline and objectives of preparing climate actions and outlines new actions in support of carbon neutrality. Ilmastorahasto ('the Climate Fund') is established by the Government as a relaunch of the State Business Development Company Vake. Ilmastorahasto focuses on combating climate change, boosting low-carbon industry and promoting digitalisation. The transition to a carbon neutral economy technology will require sufficient investments in such areas as developing the circular economy, clean technology solutions and energy efficiency.

The European Union has set the target of being the first climate-neutral bloc in the world by 2050. According to the Commission, this transition will necessitate considerable investments made by not only the EU and its Member States' public sectors but also the private sector. The Commission's goals support Finland's climate targets.

Based on the European Green Deal Investment Plan of January 2020, the Commission published ambitious circular economy and industrial strategies in March 2020 to support the transition. With regard to the different financial instruments and strategies, the Commission has indicated that it is making significant investments in the commercialisation of climate solutions. It is in Finland's interests to benefit from these investments and to channel public funding in a way that makes it possible for Finnish stakeholders to tap EU funding. The EU's goals contribute to Finland's ambitious targets of becoming a pioneering country of the circular economy. Leveraging EU funding will be one of Ilmastorahasto's tasks.

3. Objectives and investments of Ilmastorahasto

Ilmastorahasto is a special task company which focuses on combating climate change, boosting low-carbon industry and promoting digitalisation. The company's mission is to reduce the carbon footprint and strengthen the carbon handprint¹ of companies as well as to promote innovative climate and digital solutions with the aim of reducing greenhouse gas emissions, improving the efficiency of natural resources use and promoting biodiversity. In addition, Ilmastorahasto may also finance other digitalisation projects, provided that their environmental impacts are no worse than neutral and that other significant societal benefits can be achieved through them.

Rather than aiming to maximise its operating profits, as a special task company Ilmastorahasto strives to carry out its societal mission as efficiently as possible and to maximise the societal return. In the long term, however, the operations of the company's investment objects and funding beneficiaries must be self-sufficient as a whole.

¹ Carbon footprint is used to describe negative environmental impacts. The carbon handprint describes the positive environmental impacts of a product/service.

As a guideline, approx. 65% of the funding objects should be linked to climate change and approx. 35% to digitalisation, with the main focus of investment activities being on combating climate change and boosting low-carbon industries. This split (65%/35%) is indicative and will be reviewed over the long term. The split can be based on euro amounts or project numbers, depending on the future project flow and funding offer, among other things. The Ministry of Economic Affairs and Employment may submit a proposal on changing these percentages to the Cabinet Committee on Economic Policy. Ilmastorahasto primarily invests in industrial scaling projects, for example demonstration phase projects related to new technologies. The volume of these investments typically is in the range of EUR 10 to EUR 50 million. Key evaluation criteria include the possibility of realising a significant investment earlier, the emissions reduction potential of the investment, innovativeness of the solution, achieving a larger investment than a market-based plan would indicate, or the fact that the investment takes place in Finland. In addition, the investments' verifiable potential of significantly reducing emissions or the use of non-renewable natural resources compared to current solutions must be an essential priority.

Investments may be made in the projects of private or public actors. Ilmastorahasto may also be involved in various public platforms that enhance data utilisation and in public-private partnership projects.

While Ilmastorahasto can in exceptional cases also make large investments exceeding EUR 50 million, this is not part of the core activity of the company to be established.

Ilmastorahasto may grant equity and debt financing as well as quasi-equity financing. Capital loans are a natural instrument in the initial phase. Ilmastorahasto can also establish or invest in funds. Leverage can also be used in Ilmastorahasto's investments. Any borrowing needs of Ilmastorahasto must be approved by the Cabinet Committee on Economic Policy.

Ilmastorahasto may use State aid in its financial instruments. The company may take a higher risk, waive some or all of its profits or otherwise use its financial instruments to ensure that private and/or EU funding goes ahead. The company will prepare the launch of a State aid programme in cooperation with the Ministry of Economic Affairs and Employment. The use of State aid in financial instruments must be planned carefully to achieve effectiveness without market distortion. Using subsidies as part of financial instruments is justified especially when they help implement projects which would not go ahead without a subsidy, or which will produce indirect benefits when realised.

After its first year of operation, Ilmastorahasto will prepare an analysis for the Ministry of Economic Affairs and Employment and submit a proposal on whether it is also necessary to start granting direct subsidies in order to achieve the objectives, in which case an act needs to be passed. The analysis must take into account subsidies granted by such other organisations as Business Finland, the Ministry of Transport and Communications, the Ministry of Economic Affairs and Employment, the Ministry of the Environment, the agencies in the administrative branches of the ministries and the ELY Centres as well as the administrative costs associated with granting subsidies and the possibility of channelling potential new support through existing support organisations.

The business operations of the company's investments and funding beneficiaries must be profitable in the long term. Rather than striving to maximise its profits, the company operates as a special task company which promotes climate, low-carbon and digital solutions. The company must monitor and develop the effectiveness of its operations in a measurable and goal-oriented manner, taking into account the special features of the task assigned to it. As a starting point, Ilmastorahasto bases its operation on yields from

its capital, including returns from investments and financing. These returns should, as a rule, cover the financing activities and administrative expenditure of the company. The capital needs of Ilmastorahasto are assessed in connection with the central government's budget processes.

When selecting funding objects the company must, in particular, assess whether Ilmastorahasto's participation in the project would make possible an investment that would otherwise not go ahead, or if the company's involvement would enable a larger investment, or the earlier realisation of an investment. If Ilmastorahasto becomes aware during the process that its funding share would not bring added value in terms of timing, volume or quality compared to other private and public funding available for the project, Ilmastorahasto must withdraw from it.

When making investment decisions, Ilmastorahasto must assess the climate change impacts of investments. The company must also take into account the impacts of the investments on biodiversity development and ensure that they do not significantly harm biodiversity. Indicators appropriate for combating climate change in the short and long term will be incorporated in the criteria, making use of international standards as applicable. In its investment decisions, Ilmastorahasto relies on a three-tiered evaluation model consisting of economic and other threshold values, cross-cutting impact targets and more detailed impact targets for specific funding objects. The threshold values must be met in each investment. Where the threshold values are met, the final comparison and selection of funding objects is based on the impact targets. Ilmastorahasto's effectiveness model and criteria, which may be modified by decision of the company's Board of Directors, are attached to these Operational Guidelines (Appendix 1).

All investment decisions of Ilmastorahasto concerning equity or other equity-type investments are made at government plenary sessions for as long as Ilmastorahasto remains a state development company referred to in section 2(5) of the State Shareholdings and Ownership Steering Act (1368/2007, as amended) (the 'Ownership Steering Act').

The Ministry of Economic Affairs and Employment together with the Prime Minister's Office take measures to convert Ilmastorahasto into a state-owned special task company without a state development company status.

Once Ilmastorahasto's development company status has been removed, all investment decisions will be made by the company's Board of Directors.

Ilmastorahasto's decisions on investments and participation in projects are subjected to the approval of the Cabinet Committee on Economic Policy where they exceed EUR 20 million. The rapporteur in the Cabinet Committee on Economic Policy is the Ministry of Economic Affairs and Employment. The decisions are prepared for the Ministry of Economic Affairs by Ilmastorahasto's Board of Directors. Any investments and projects amounting to between EUR 5 to 20 million decided by Ilmastorahasto's Board of Directors will be notified to the Cabinet Committee on Economic Policy twice a year. The threshold in euro amount of projects and investments subjected to the Cabinet Committee on Economic Policy will be reviewed after Ilmastorahasto's first year of operation.

4. Ilmastorahasto's capital

Ilmastorahasto has approximately EUR 70 million in disposable funds in September 2020. If Neste's Board of Directors decides to pay a second dividend instalment and supplementary dividend in October 2020, the disposable funds will be increased by approx. EUR 30 million by the end of 2020.

Ilmastorahasto will be capitalised by EUR 300 million from the State budget (the seventh supplementary budget for 2020, which will enter into force in December 2020). Within the limits of this appropriation, the Ministry of Economic Affairs and Employment can capitalise the company in one or more instalments by decision of the government plenary session in 2020–2022.

The company's shares in Posti Group Oyj (49.9%), Altia Oyj (36.24%), Vapo Oy (16.7%) and Nordic Morning Group Oyj (100%) will be transferred back to direct state ownership and placed under the management and ownership steering of the Prime Minister's Office. The shares in Neste (8.3%) will remain in Ilmastorahasto's ownership.

After the establishment of Ilmastorahasto, the competence related to the ownership steering of Neste's shares will remain with the Prime Minister's Office's Ownership Steering Department in full. Regarding Neste shares, decisions on such matters as changes to shareholdings will be made by the Government on the presentation of the Prime Minister's Office. The shares in Neste cannot be sold, pledged or otherwise disposed of in order to finance Ilmastorahasto's activities. The Prime Minister's Office exercises all rights belonging to Neste shareholders on behalf of the State and, in this case, also on behalf of Ilmastorahasto, including participating in Neste's annual general meetings on behalf of Ilmastorahasto and using the joint voting rights on behalf of the State and Ilmastorahasto; all decisions and authorisations of the owner concerning Neste and its shares, information exchanges and communication concerning the company as well as all other tasks related to ownership steering are the responsibility of the Prime Minister's Office, and they are prepared and presented by the Prime Minister's Office.

The future working capital of Ilmastorahasto will be based on dividend income from shareholdings (at minimum, from the 8.3% shareholding in Neste), budget funding and the company's operating income. Any dividend income received by the company will not be recognised as revenue for the on-budget entities.

5. Corporate governance

5.1. Composition of the Board of Directors

Ilmastorahasto has a Board of Directors consisting of at least three and at most seven members. The members of Ilmastorahasto's Board of Directors will be selected based on their expertise and in line with the gender equality objectives set by the Government. Persons selected for the Board of Directors must have diverse expertise. Their background may be in business life, societal advocacy, public administration or research. Ilmastorahasto's Board of Directors is appointed by the Ministry of Economic Affairs and Employment at the company's Annual General Meeting, which also decides on the Board members' fees. The tasks of the Board of Directors are determined pursuant to the Limited Liability Companies Act and the Articles of Association.

5.2. Investment Council

In order to ensure a cross-administrative perspective, Ilmastorahasto has an Investment Council, which is tasked to form an overview of the Government's common strategic objectives regarding Ilmastorahasto's operation. This helps to ensure that Ilmastorahasto's operation is compatible with the objectives of key administrative branches and takes into account developments in the operating environment. The idea is to enhance the effectiveness of Ilmastorahasto's activities when it comes to achieving horizontal targets related to combating climate change, promoting digitalisation and boosting low-carbon industries. The Investment Council provides the Ministry of Economic Affairs and Employ-

ment with an annual written assessment of how Ilmastorahasto should develop its operations in order to achieve its objectives. The ministry will take this assessment into account as part of its ownership steering process.

The meetings of the Investment Council primarily discuss topical themes related to the company's investment activities and its general operating environment. The Investment Council does not deal with individual decisions to invest or pull out. The company's activities and their outcomes will be presented to the meetings. In the initial phase, not only the Ministry of Economic Affairs and Employment but also the Prime Minister's Office, the Ministry of Finance, the Ministry of the Environment and the Ministry of Transport and Communications are represented in the Investment Council, which is appointed by the Ministry of Economic Affairs and Employment. Any needs to expand the Council's composition, for example to the world of research, will be assessed after Ilmastorahasto's first year of operation. The chair of the Investment Council is rotating. No fees are paid to the Investment Council members.

The meetings of the Investment Council are convened by the Chair. At minimum, two to four meetings are held each year. Invitations to meetings are sent to the Council members by e-mail or by other similar means at least one week before the date of the meeting.

The Investment Council will approve Rules of Procedure for itself.

6. Evaluation of Ilmastorahasto's operation

In addition to annual evaluations, the success of Ilmastorahasto's launch will be evaluated extensively in late 2022. This evaluation will include a thorough assessment of its instruments. Any needs for recapitalisation as well as Ilmastorahasto's capital amount in relation to the continuity of its operations will also be reviewed in this context.

7. Reporting to the owner

The company submits quarterly reports to the Ministry of Economic Affairs and Employment as well as to the Prime Minister's Office, the Ministry of Finance, the Ministry of the Environment and the Ministry of Transport and Communications.

The reports include the following sections:

- a market review of the company
- company-specific income statement and balance sheet information
- investments made and the effectiveness of operations, including climate impacts and achievement of indicators
- development of holdings
- accrual of revenue and profits from sales
- company-specific comments and outlook
- other matters to be agreed separately.

Similarly to other state-owned companies, the company submits quarterly financial reports to the Ownership Steering Department of the Prime Minister's Office following instructions issued by this department.

8. Reporting to the Cabinet Committee on Economic Policy

The Ministry of Economic Affairs and Employment submits annual reports on Ilmastorahasto's operation, as well as separate reports on significant events, to the Cabinet

Committee on Economic Policy. In addition to the usual basic financial information, the purpose of the reports is to provide the Committee with information which can be used to examine compliance with the set strategic conditions and target achievement.

APPENDICES: Ilmastorahasto's effectiveness model and criteria (Appendix 1)

Ilmastorahasto's effectiveness model and criteria

“Ilmastorahasto is a special task company which focuses on combating climate change, boosting low-carbon industry and promoting digitalisation. The company's mission is to reduce the carbon footprint and strengthen the carbon handprint of Finnish companies as well as to promote innovative climate and digital solutions with the aim of reducing greenhouse gas emissions and improving the efficiency of natural resources use. In addition, Ilmastorahasto may also finance other digitalisation projects.”

A state-owned special task company that complements private and public actors must pay particular attention to making a clear positive impact on the implementation of funding packages through its co-funding and also to having wider positive societal impacts that can be verified.

As a frame of reference, this Appendix describes the effectiveness model and the set of criteria used as a guideline for targeting Ilmastorahasto's activities. In digitalisation projects, the criteria are complied with where applicable. This set of criteria is not relevant to subsidies granted by Ilmastorahasto. The criteria for subsidies will be defined later as the role of these activities in Ilmastorahasto's operations begins to take shape.

Ilmastorahasto's effectiveness model and the utilisation of existing frames of reference

“When making investment decisions, Ilmastorahasto must assess the climate change impacts of the investments. The company must also take into account the impacts of investments on the development of biodiversity. Indicators appropriate for combating climate change in the short and long term will be incorporated in the criteria, making use of international standards as applicable.”

The main objective of the special task company is to achieve societal impacts as set out in the Operative Guidelines. To ensure that the company's operations focus on bringing about the targeted societal change, its decisions must be guided by a set of criteria that frames the desirable impacts in a balanced manner.

A number of relevant frames of reference and criteria exists which can be taken into account when preparing Ilmastorahasto's investment decisions where applicable, including the EU taxonomy for sustainable activities, the UN's Sustainable Development

Goals, the terms of the EIB's lending policy and the criteria for sustainable recovery formulated by a working group appointed by the Ministry of the Environment. The set of criteria presented in the following section has interfaces with the criteria listed above.

Three-tiered set of criteria for investment decisions

“In its investment decisions, Ilmastorahasto relies on a three-tiered evaluation model consisting of economic and other threshold values, cross-cutting impact targets and more detailed impact targets for specific investments and beneficiaries. The threshold values must be met in each investment. Where the threshold values are met, the final comparison and selection of beneficiaries is made on the basis of the impact targets.”

Each investment decision is assessed relying on a three-tiered set of criteria:

1. Threshold conditions:

- **Definition:** Each funding decision must meet the threshold conditions. Once the threshold conditions are met, the prioritisation and comparison of funding opportunities is mainly based on Ilmastorahasto's impact criteria and examination of the investment object.
- **Threshold conditions:**
 1. Each investment object should have a credible plan for at least self-supporting business activities in terms of competence and funding, among other things. Ilmastorahasto may assess profitability over a longer time span than usual.
 2. Verifiable added value created by Ilmastorahasto's funding as part of the funding package: the investment goes ahead in general or is realised earlier,

is larger, or takes place in Finland compared to the situation without Ilmastorahasto's contribution.

3. The investment passes the 'do no significant harm' test of the EU taxonomy.

2. Ilmastorahasto's impact criteria:

- Definition: Once the threshold conditions have been met, the prioritisation of funding objects is primarily based on impact criteria and the scrutiny of individual funding objects. The impact criteria are applied as part of each funding decision. In addition, a mechanism for verifying and monitoring the intended impacts will be developed before each decision is made.
- Impact criteria:
 1. Emissions reduction potential in Finland and globally
 2. Productivity potential
 - For example, this can be assessed as the contribution to RDI and/or Finland's knowledge capital
 - The productivity potential is also directly linked to a high added value employment impact
 3. Compliance with the EU taxonomy (yes/no)
 - In addition to the 'do no significant harm' test, the substantial contribution and minimum safeguards perspectives are evaluated as part of compliance with the taxonomy.
 - Considering the current gaps in the EU taxonomy so far, compliance with a strict interpretation of the taxonomy is regarded as a benefit for a funding object but not an essential condition.
 4. Business potential, productivity benefits and added value which the funding makes possible for operators registered in Finland.

3. Thematic review:

- Definition: Ilmastorahasto's operations are channelled into a limited number of funding packages with large euro amounts. Individual funding packages may focus on a wide variety of sectors. Extremely thorough analysis and evaluation of individual projects are thus a precondition for making responsible investment decisions. Depending on the object, very different things may be crucial from the perspective of both effectiveness and risks. A thematic analysis may produce a more nuanced assessment of biodiversity impacts, export potential or social justice issues.
- If such other indirect impacts are used as a significant criterion for making decisions, it must be possible to quantify the intended indirect impacts at the analysis and preparation stage and to build a mechanism for also verifying and monitoring these impacts once any investment has been made.
- The criteria formulated by the working group on sustainable recovery and/or the UN's Sustainable Development Goals can also be used in the thematic review.
- Thematic reviews take into account links to EU funding and, for example, the possibilities of leveraging it. If the object also applies for EIB funding, the terms and conditions of the EIB's lending policy are applied to the theme.

Figure 1: Ilmastorahasto's three-tiered set of criteria

