

# The Mankala cost-price model

increases competition in power production



# The Mankala model increases competition in the electricity market



# Economies of scale and improved efficiency through the cost-price operating model

Operators joined resources and developed the special cost-price model known in Finland as the Mankala model to secure the availability of electricity in the post-war period when capital was scarce. The long-established operating model has made large-scale power production projects possible and lowered production costs. It has increased the number of operators in the field and improved Finland's self-sufficiency in energy production. The Mankala cost-price model continues to be necessary to secure future power plant projects.

In the Mankala cost-price model, the power company sells the produced electricity and heat to shareholders at no profit. The shareholders commit to paying the power company's costs in proportion to their holdings in the company. The operating model is included in the companies' articles of association.

A Mankala company does not aim to produce a profit or to pay a dividend. The owners benefit by using the product (electricity, heat) or selling it forward.

The purpose of the Mankala operating model is to combine resources and share the risks in order to carry out large-scale power plant projects with competitive production costs. Mankala is a joint venture model.

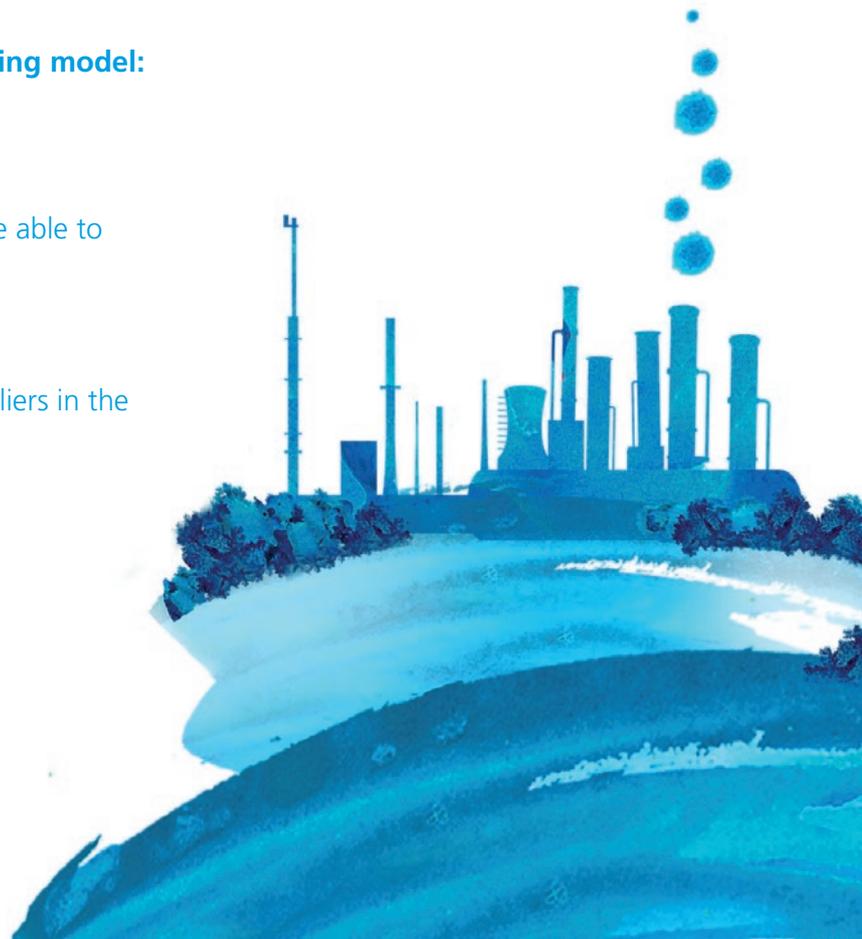
# The Mankala cost-price model makes major investments possible

The energy industry is Finland's most capital-intensive field of industry. Power plants tie large amounts of capital for decades. One power plant may require hundreds of millions, even billions of euros in investments. Not many Finnish companies are able to finance and carry out such immense energy production projects alone.

The Mankala model creates economies of scale and improves efficiency when constructing new production capacities. If a shareholder had a power plant of its own corresponding to its holding in the joint venture, the power plant's small size would result in higher production costs.

## The benefits of the Mankala cost-price operating model:

- Shared competencies and financial resources
- Shared risks
- A large number of operators of various sizes are able to participate in projects directly or indirectly
- New operators enter the electricity market and competition increases
- Improves the confidence of financiers and suppliers in the success of projects and production operations



# More than 40 per cent of electricity is produced at cost price in Finland

In 2012, more than 40 per cent of all Finnish electricity was produced at cost price. The proportion of cost-price production varies between the different forms of energy production.

## The share of cost-price production in 2012:

Wind power	57%
Nuclear power	66%
Hydropower	51%
Condensing power	51%
Thermal power	22%
Carbon-free production	53%
Renewable energy sources	42%

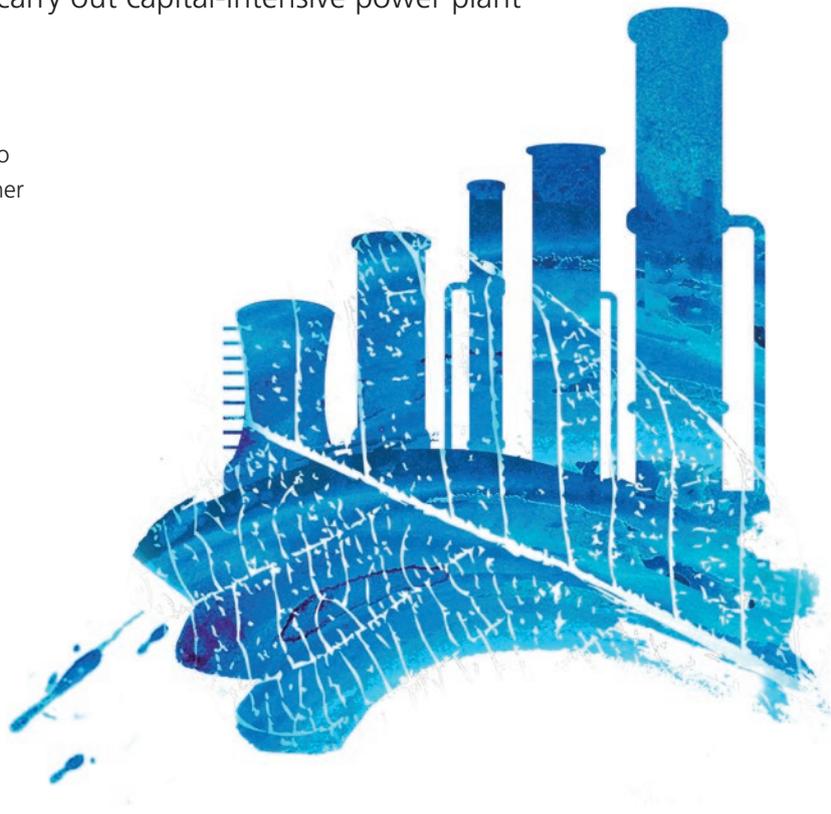
The Mankala companies have built a significant part of Finland's low-emission and renewable production capacity. In addition, a large part of the planned wind and bioenergy capacities will be built using the cost-price model.



# The Mankala model is part of an established legal practice

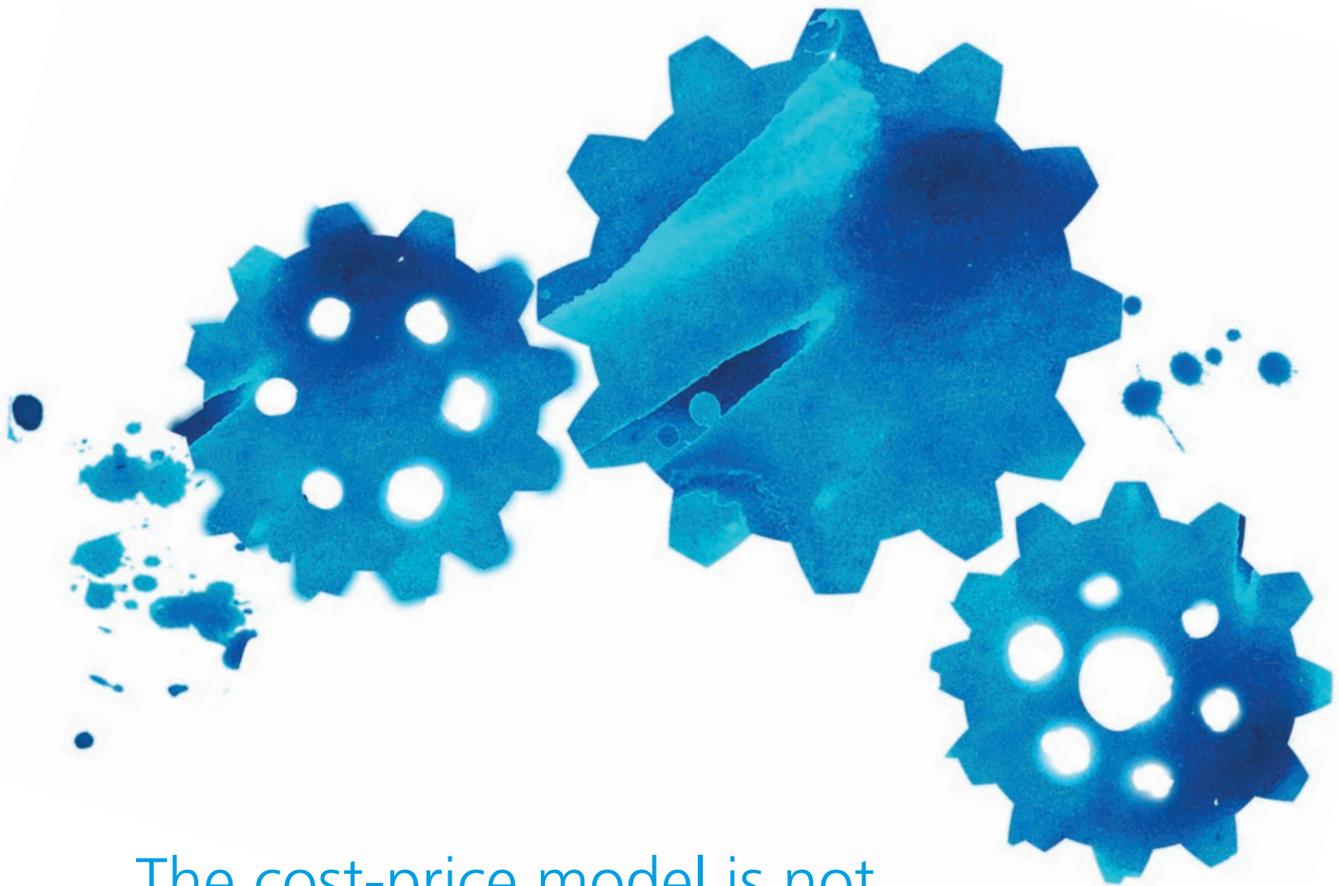
The Mankala cost-price model, carried out in limited company form, has long traditions in Finland. The model was developed after World War II, when Finland needed more electricity fast, and companies were not able to carry out capital-intensive power plant projects alone.

The Supreme Administrative Court (KHO) has issued a decision to confirm the legality of the cost-price Mankala model. Later, further legal authorisation has been confirmed on several occasions. This is only natural, as the model is part of the established legal practice in Finland. It is also in line with modern operating practices that consider joint ventures a good way of improving resource efficiency, among other things.



*KHO (1963-I-5): "as the company (Oy Mankala Ab), in accordance with its articles of association, was obligated to hand over the produced electrical energy to its shareholders in proportion to their holdings, and the shareholders were obligated to cover the company's costs in the same proportion, the company is not considered to have received dividend-type or other taxable income resulting from the price of electricity charged by the company from shareholders possibly having been lower than the market price".*

*Other legal justification: KHO 1968 II 521; justification for act 1998/470; justification for the Tax Procedure Act, Section 31; the statement of the Finnish Competition Authority to the Parliament's Commerce Committee on 4 June 2010; and KHO 2010:26.*

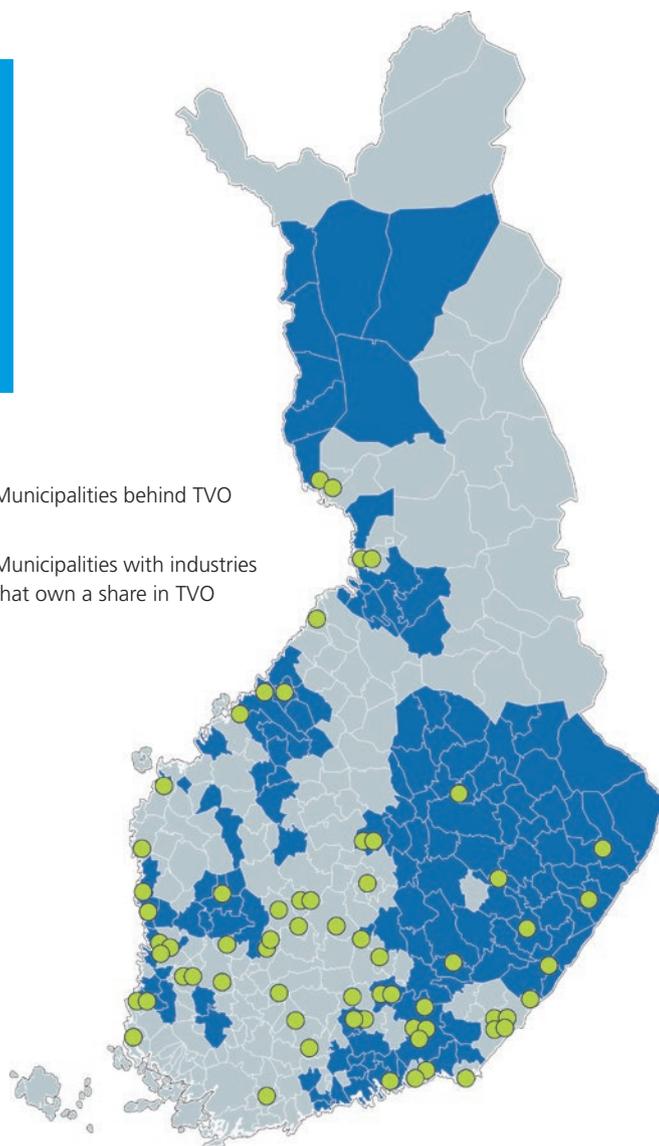


## The cost-price model is not tax evasion or disguised dividend

In the Mankala cost-price model, shareholders pay tax for the profit of their operations when they sell their products or the electricity purchased at cost price. As the KHO approved the model, it stated that the cost-price electricity received by the shareholder company did not constitute dividend or other taxable income.

# The Mankala cost-price model benefits the whole of Finland

- Municipalities behind TVO
- Municipalities with industries that own a share in TVO



KYMPPIVOIMA

