FINNVERA GROUP

FINANCIAL REVIEW 1 JANUARY–30 JUNE 2008

Contents of the Interim Report

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1. Business Operations

During the first half of the year, demand for Finnvera's export credit guarantees continued brisk in all main sectors of capital goods exports. In Finland, demand for financing among growing and internationalising enterprises was greater than anticipated.

The value of export credit guarantees and export guarantees offered by Finnvera during the period under review totalled EUR 4,000.4 million (EUR 1,418.3 million). Guarantees that came into effect amounted to EUR 1,047.8 million (EUR 508.2 million).

The loans and guarantees offered by Finnvera to SMEs during the period under review totalled EUR 513.6 million (EUR 525.6 million).

On 30 June 2008, Finnvera had a total of 27,800 clients (28,200), of whom 130 (200) were export financing clients, i.e. exporters or bodies providing financing for exporters.

2. The Company's Financial Trend

As an issuer of debt instruments, Finnvera adopted the International Financial Reporting Standards (IFRS) as of 1 January 2007; the Interim Report has been drawn up in accordance with the IFRS approved by the EU. The exemption of Finnvera plc from income tax, which was granted at the end of 2007, came into effect retroactively as of 1 January 2007; thus, the tax exemption has been taken into account in the reference figures for 2007 included in the income statement.

Financial performance

The Finnvera Group's profit for the period under review totalled EUR 29.7 million. The profit for the same period last year had been EUR 32.5 million. Thus, the profit declined by EUR 2.8 million when seen against the first half of 2007. The main items improving the financial performance from the previous year were the increase of EUR 2.9 million in the net interest income – owing to the rise in interest rates – the increase of EUR 4.2 million in the value of capital investments, and the reduction of EUR 1.5 million in income tax. The most important change diminishing the profit from the previous year was the reduction of EUR 4.0 million in the parent company's commissions income, of which EUR 3.3 million was attributable to export and special guarantee operations. In addition, the parent company's impairment losses on receivables and credit and guarantee losses increased by EUR 6.1 million.

The profit of the parent company, Finnvera plc, came to EUR 22.8 million, or EUR 5.3 million less than for the period 1 January– 30 June 2007.

Commissions income includes EUR 16.3 million as commissions from the parent company's export credit guarantees and special guarantees, and EUR 8.2 million as domestic guarantee commissions. Other commissions income include EUR 3.2 million as fees collected on loans and guarantees, and EUR 0.4 million as the Group's other commissions income. Commissions expenses came to EUR 0.5 million; they have been deducted from the commissions income.

Gains and losses from items carried at fair value include changes recorded in the fair values of debts and interest rate and currency swaps made to hedge these debts (EUR -0.4 million), changes recorded in the fair value of the holdings of venture capital investment companies (EUR 4.2 million), as well as exchange rate differences (EUR -0.2 million).

Net income from investments includes EUR 0.7 million in dividends and EUR 1.8 million in profits from the sale of shares.

In the result for the whole Group, the share of the profit or loss made by associates came to EUR 1.8 million; almost all of this was derived from profits made by the Finnish Fund for Industrial Cooperation Ltd.

Other operating income includes the management fee paid by the State Guarantee Fund for the management of the old portfolio for export credit guarantee and special guarantee products arisen before 1999, as well as a management fee pertaining to ERDF financing, in total EUR 0.7 million (EUR 0.7 million).

The interest subsidy paid by the State and by the European Regional Development Fund (ERDF) to Finnvera plc totalled EUR 8.8 million (EUR 8.6 million). The basic interest subsidy on credits granted before 1999 totalled EUR 0.2 million (EUR 0.3 million). The interest subsidy passed on directly to clients for reducing their interest rates on loans amounted to EUR 8.6 million (EUR 8.3 million), of which EUR 1.9 million came from the ERDF and EUR 2.2 million was national interest support associated with that of the ERDF. Granting of credits eligible for interest support from the ERDF began on 1 April 2001.

The mean interest rate that the clients of Finnvera plc paid for loans on 30 June 2008 was 6.01 per cent (5.50), while the mean interest rate paid by Finnvera for borrowing was 4.65 per cent (4.01).

A new, increasingly accurate method was put to use in 2007 for computing impairment losses on loan receivables. The method is based on the liabilities of clients who have non-performing receivables. Of these liabilities, a credit loss estimated on the basis of past experience is recorded as an impairment loss for each risk category. Payments that are estimated to accumulate on the loans are discounted using the average interest rates, while the claims paid on the basis of guarantees are discounted using the 12-month Euribor rate. Impairment losses on loans are recorded as a reduction in outstanding credits, and claims paid on the basis of guarantees are recorded as a provision for guarantee losses.

Credit and guarantee losses

The parent company’s final credit and guarantee losses for the period under review amounted to EUR 19.1 million. EUR 1.9 million of losses recorded earlier was cancelled; thus, net losses came to EUR 17.2 million (EUR 7.4 million). In addition, the income statement includes an increase of EUR 3.4 million in individually and collectively assessed impairment losses on loans and in provisions for guarantee losses. Thus, the parent company’s impairment losses on credits and guarantees totalled EUR 20.6 million. When the credit loss compensation from the State is taken into account, Finnvera plc’s share of the final losses was EUR 8.1 million, or 46.8 per cent of credit and guarantee losses. The parent company’s impairment losses increased by a total of EUR 4.2 million on the situation between 1 January and 30 June 2007.

During the period under review, the parent company’s losses on export credit guarantees and special guarantees totalled EUR 0.4 million.

Outstanding commitments

At the end of the period under review, Finnvera’s outstanding credits amounted to EUR 1,376.0 million (EUR 1,368.9 million on 31 December 2007). Domestic guarantees totalled EUR 878.7 million as per 30 June 2008 (EUR 827.4 million). The entire Group’s loan receivables stood at EUR 1,401.1 million on 30 June 2008.

The book value of Finnvera plc’s liability, as referred to in the Act on the State’s Export Credit Guarantees, totalled EUR 4,967.6 million as per 30 June 2008 (EUR 3,878.3 million). Outstanding commitments arising from export credit guarantees and special guarantees (current commitments and offers given) totalled EUR 5,031.7 million at the end of the period under review (EUR 4,980.2 million).

The claims presented to the parent company and pending at the time of drawing up the Interim Report totalled EUR 8.4 million, for which a provision of EUR 2.0 million has been entered into the books.

The parent company's non-performing and other zero-interest claims totalled EUR 97.6 million as per 30 June 2008. On 31 December 2007, they had been EUR 92.4 million.

Capital adequacy and acquisition of funds

Excluding the activities involving export and special guarantees, the Finnvera Group's capital adequacy was 16.8 per cent as at 30 June 2008. The Group's own assets stood at EUR 430 million, while the risk-weighted receivables, investments and commitments outside the balance sheet totalled EUR 2,345 million.

In May, Finnvera plc withdrew a loan of EUR 50 million from the Council of Europe Development Bank and issued a bond of 700 million Norwegian crowns. In euros its value was 88.2 million. In total, EUR 180.9 million in loans were paid back.

3. Risk Management

Credit risks in domestic operations

No major changes took place in credit risks associated with domestic operations during the period 1 January–30 June 2008. At the end of June, outstanding commitments totalled EUR 2.55 billion, which was EUR 73 million more than at the turn of the year. The share of outstanding commitments covered by collateral diminished during the first half of the year, but no major changes occurred in the total risk level of outstanding commitments. Non-performing receivables accounted for 3.2 per cent of outstanding commitments at the end of June. The index rose especially during the second half of 2007 and is still at a higher level than a year earlier.

Venture capital investments

Subsidiaries follow the risks of their own investments independently and report on these risks separately. The investment portfolios of companies engaged in venture capital investments are valued as recommended by the Finnish Venture Capital Association.

In addition, the companies are monitored by classifying each subsidiary by means of risk rating methods. The parent company's liability for investments in each subsidiary on 30 June 2008 is specified below. The liability for investments in Aloitusrahasto Vera Oy increased by EUR 11.5 million during the first half of 2008, since the share capital pertaining to early-stage venture capital investments was raised by that sum.

Name	Liability (€ million)
Aloitusrahasto Vera Oy	66.5
Veraventure Ltd	41.1
Finnish Export Credit Ltd	20.1
Finnish Fund for Industrial Cooperation Ltd.	13.6
Matkailunkehitys Nordia Oy	6.8
Spikera Oy	1.1

Foreign risk-taking

At the end of the period under review, Finnvera's outstanding commitments in foreign operations totalled EUR 5.8 billion, or EUR 1.4 billion more than at the start of the year. A positive trend has already continued for some years, and most commitments pertain to Finnvera's low-risk country categories. Despite this, the operating environments of individual countries involve risks. In addition, the risks associated with individual enterprise concentrations and with the shipyard and shipping business are high.

Finnvera plc's subsidiary Finnish Export Credit Ltd (FEC) grants credits on the basis of withholding tax agreements, invests its cash reserves and administers the interest equalisation system for the State of Finland. The risk associated with FEC's credits and investments used for export financing is small.

The value of interest equalisation agreements as at 30 June 2008 totalled EUR 2.1 billion, or EUR 38 million less than at the start of the year. Offers given totalled EUR 7.8 billion, or EUR 4.9 billion more than at the start of the year. Based on market interest rates at the time of the review, it is estimated that the current agreements will cause interest subsidy expenses of about EUR 60 million to the State by the year 2020. A rise of one percentage point in interest rates would increase costs by about EUR 40 million. On the other hand, when repayment times are long, interest levels may also fall and costs may become even markedly lower.

The guidelines issued by the Ministry of Employment and the Economy for 2007 set a limit for the sensitivity of agreements to interest rate fluctuations. The State Treasury follows the risk position and is responsible for protective measures that help keep the overall risk within the limits set.

The State of Finland is directly responsible for any losses incurred in interest equalisation and also collects any profits accumulated therein; thus the interest equalisation system has no impact on the Finnvera Group's financial performance.

4. Changes in Group Structure

When the share capital of Aloitusrahasto Vera Oy was raised, Finnvera plc subscribed 5,750 shares at EUR 11.5 million. After this increase, Finnvera plc's holding in the company is 90.36 per cent.

On 30 June 2008, the Group comprised six subsidiaries, one company providing services in the sector of business premises, and seven associates.

5. Administration and Personnel

On 30 June 2008, the Finnvera Group had 410 employees (419), of whom 400 (403) had permanent contracts and 10 (16) had fixed-term contracts.

Supervisory Board and Auditor

On 18 April 2008, the Annual General Meeting made the following decisions concerning the company's Supervisory Board: **Johannes Koskinen**, Member of Parliament, was re-elected Chairman of the Supervisory Board. **Kyösti Karjula**, Member of Parliament was re-elected First Vice Chairman and **Reijo Paajanen**, Member of Parliament, Second Vice Chairman.

The new members on the Supervisory Board are **Ulla Achrén**, Party Secretary; **Matti Kauppila**, Member of Parliament; **Petri Pihlajaniemi**, Member of Parliament; **Hannele Pohjola**, Director of Innovation; and **Tuomo Puumala**, Member of Parliament. The following members were re-elected: **Kaija Erjanti**, Head of Division; **Susanna Haapoja**, Member of Parliament; **Sinikka Hurskainen**, Member of Parliament; **Leila Kurki**, Senior Adviser; **Ritvaliisa Mononen**, Finance Manager; **Erkki K. Mäkinen**, Managing Director; **Heikki Ropponen**, Deputy Managing Director; **Osmo Soininvaara**, Licentiate of Social Sciences; **Veli-Matti Töyrylä**, Chairman; and **Timo Vallittu**, Chairman.

The Annual General Meeting decided to amend the Articles of Association so that, instead of the Supervisory Board, the Annual General Meeting elects the Members, Chairman and Vice Chairmen of the company's Board of Directors.

KPMG Oy Ab was elected as Finnvera plc's regular auditor with **Raija-Leena Hankonen**, Authorised Public Accountant, as the principal auditor.

Board of Directors

The Supervisory Board of Finnvera plc elected a new Board of Directors for the company on 9 May 2008.

Under-Secretary of State **Kalle J. Korhonen** continues to chair the Board of Directors; **Pekka Laajanen**, Governmental Counsellor, Director of Legislative Affairs, continues as the First Vice Chairman, and **Pekka Huhtaniemi**, Under-Secretary of State, as the Second Vice Chairman.

Director **Risto Suominen** continues as a regular member.

The new regular members elected for the Board are Regional Director **Pirkko-Liisa Hyttinen**, Director **Timo Kekkonen**, Labour Market Counsellor **Marja Merimaa**, and Manager, Trade and Industrial Policy **Janne Metsämäki**.

Governmental Counsellor **Elise Pekkala** and Financial Counsellor **Kristina Sarjo** continue as deputy members.

6. Changes in the Operating Environment and in Industrial and Ownership Policies

Changes in the commitments given by the State to compensate for Finnvera's credit and guarantee losses

On 15 May 2008, the Government amended the commitment given to Finnvera concerning the partial compensation for credit and guarantee losses. The amendments pertained to an increase in the compensation paid by the State in areas of abrupt structural change, and to the compensation that will be paid for credit and guarantee losses incurred in 2009–2011. The amendments came into effect on 1 July 2008. At the same time, the validity of the commitment was extended until 31 December 2012.

As part of the model to address abrupt structural changes, the State's compensation for losses incurred in areas of abrupt structural change in Support Region 3 was raised. Support Region 3 refers to Finland outside development areas. In Support Region 3, the sub-regions of Kotka-Hamina, Kouvola, Forssa, Southern Pirkanmaa and Vakka-Suomi are areas of abrupt structural change.

In line with the amendments made to its commitment, the Government reduced its compensation for losses in 2009–2011 by a total of EUR 21 million. In consequence, Finnvera plc's liability for credit and guarantee losses increased as follows: by EUR 4 million in 2009, by EUR 7 million in 2010, and by EUR 10 million in 2011.

Strengthening venture capital investments within the Group

In agreement with the stand taken by the Cabinet Committee on Economic Policy on 20 June 2007, the provision of risk financing for starting enterprises is concentrated in Finnvera. Accordingly, in February 2008 Veraventure Ltd, a subsidiary of Finnvera, launched an Extranet service intended for private investors. This service gives investors information about potential investment targets selected from the project stream of Aloitusrahasto Vera Oy. Investment targets are also presented to private investors during various events.

This type of service, managed previously by Sitra, is among the measures to develop early-stage venture capital investment markets, measures that have now been concentrated in Finnvera. The purpose of the service geared to private investors is to promote the availability of private capital for the early stage of businesses. At the time of writing this report, 72 investors have registered for the service.

Aloitusrahasto Vera makes direct investments, as well as joint investments with private investors and capital funds, in enterprises at the early stage. During the period under review, Aloitusrahasto Vera carried out two share issues, which increased the fund's capital to EUR 73.6 million. Shares were subscribed by Finnvera, Ilmarinen Mutual Pension Insurance Company, Fennia Mutual Insurance Company, and Mutual Insurance Company Pension-Fennia.

A notification concerning the investment activities of Aloitusrahasto Vera was submitted to the European Commission in summer 2007. At the time of writing this report, the Commission is still handling the matter.

Amendments to the European Community's rules on State aid

In 2008, the European Union's rules on State aid have been subject to several amendments that affect Finnvera's financing operations.

In May 2008, the Commission adopted a new Communication concerning State aid for guarantees. Changes based on this Communication must be made by 1 January 2010. The General Block Exemption Regulation was adopted in July. This Regulation is an element of the Small Business Act reform concerning the operations of small and medium-sized enterprises. The General Block Exemption Regulation will affect several of Finnvera's loan systems in one way or another during 2009.

A new Communication on reference interest rates came into effect on 1 July 2008. Finnvera applies this method when calculating the size of the State aid element included in a loan. The new method pays more attention to the risk category of the enterprise and to the recovery rate in the event of a loss. Following the change, the State aid element included in Finnvera's loans and passed on to the client is somewhat greater than before.

7. Events after the Period under Review

No major events have occurred in the company after the period under review.

8. Foreseeable Risks and Future Prospects

The slowdown in economic growth is starting to have an effect on domestic financing as the growth in investments by SMEs comes to a halt and the need for financing for working capital increases. Continued uncertainty on the financial market is also likely to cause a decline in the availability of financing for SMEs and a rise in financing costs. This will emphasise Finnvera's role as a provider of risk financing and as a body supplementing the financial market.

The crisis prevailing on the financial market keeps the demand for export credit guarantees at a historically high level in all sectors of capital goods exports. Banks strive to secure their capital adequacy by seeking export credit guarantees with zero risk weight for their liabilities. Increased uncertainty in the economic prospects of client enterprises also makes banks more aware of risks, thereby adding to the demand for Finnvera's guarantees. Owing to long credit periods and large projects, the demand for guarantees is particularly brisk in ship financing. The shipyard and shipping sector is expected to remain the sector with the greatest commitments for export credit guarantees. Demand for export credit guarantees is also active in the exports of machinery and equipment for the forest industry, in the exports of telecommunications networks, and in the exports of equipment for energy generation.

Owing to the cruise vessels under construction, the United States will account for the largest share of export credit guarantees. When measured by the number of projects and counterparts, Russia is expected to be

Finnvera’s most active market for export credit guarantees. Within a year, Finnvera’s commitments for export credit guarantees granted for exports to Russia will reach one billion euros.

Finnvera’s financial performance for 2008 is expected to decline from the level attained the year before. During the first half of the year, write-down losses on credits and other receivables were clearly higher than during the corresponding period the year before.