FINNVERA PLC GROUP

INTERIM REPORT 1 JANUARY–30 JUNE 2007

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1. Business Operations

During the period under review, the loans and guarantees offered by Finnvera to SMEs totalled EUR 525.6 million (EUR 449.3 million).

The value of export credit guarantees and export guarantees offered during the first half of 2007 totalled EUR 1,418.3 million (EUR 2,159.7 million). Export credit guarantees that came into effect amounted to EUR 457.7 million (EUR 490.9 million).

On 30 June 2007, Finnvera had a total of 28,200 clients (28,000), of whom 200 were export financing clients, i.e. exporters or bodies providing financing for exporters.

2. Financial Statements

The company's financial trend

As an issuer of debt instruments, Finnvera adopted the International Financial Reporting Standards (IFRS) as of 1 January 2007; this Interim Report has been drawn up in accordance with the IFRS approved by the EU. The figures for the reference year have also been converted to correspond to the IFRS. The calculation principles applied are explained in a separate notice issued on 29 August 2007.

Financial performance

The Finnvera Group's profit for the period under review totalled EUR 26.7 million. The profit for the same period last year had been EUR 21.2 million. The financial performance thus improved by EUR 5.5 million. Among the major items improving the financial performance from the previous year were an increase of EUR 2.7 million in the net interest income – owing to a general rise in interest rates – and an increase of EUR 2.4 million in commissions income. Moreover, gains and losses from financial instruments carried at fair value amounted to EUR 2.8 million. When compared against last year, the most important change reducing the result was a fall of EUR 2.4 million in the parent company's other income. This was because the trading profit on the loans transferred from Arsenal was no longer entered as income after 2006.

The profit of the parent company, Finnvera plc, came to EUR 18.4 million, or EUR 1.1 million less than for the period 1 January–30 June 2006.

Commissions income include EUR 19.5 million as commissions from the parent company's export credit guarantees and special guarantees, and EUR 8.3 million as domestic guarantee commissions. Other commissions income include EUR 2.8 million as fees collected on loans and guarantees, and EUR 2.1 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 financial instruments carried at fair value include changes recorded in the fair values of debts and interest rate and currency swaps made to hedge these debts, and changes in the fair values of the holdings of venture capital investment companies (EUR 2.0 million), as well as exchange rate differences (EUR -0.4 million).

Net income from investments includes EUR 1.6 million in dividends and EUR 0.4 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 1.5 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 management of the 'old' liability for export credit guarantee and special guarantee products arisen before 1999, as well as management compensation pertaining to ERDF financing, in total EUR 0.7 million (EUR 1.0 million).

The interest subsidy paid by the State and by the European Regional Development Fund (ERDF) to Finnvera plc totalled EUR 8.6 million (EUR 9.6 million). The basic interest subsidy on credits granted before 1999 totalled EUR 0.3 million (EUR 0.5 million). The interest subsidy passed on directly to clients for reducing their interest rates on loans amounted to EUR 8.3 million (EUR 9.1 million), of which EUR 1.6 million came from the ERDF and EUR 1.8

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 2007 was 5.5 per cent (4.34), while the mean interest rate paid by Finnvera for borrowing was 4.01 per cent (2.94).

A new, increasingly accurate method was put to use for computing impairment losses. The method is based on the liabilities of clients who have non-performing receivables. Of these liabilities, a credit loss assessed on the basis of past experience is recorded as an impairment loss for each risk category. Payments accumulated on the loans assessed 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 9.3 million. EUR 1.9 million of losses recorded earlier was cancelled; thus, net losses came to EUR 7.4 million (EUR 8.6 million). In addition, the profit and loss account includes an increase of EUR 6.5 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 14.0 million. When the credit loss compensation from the State is taken into account, Finnvera plc's share of the final losses was EUR 3.6 million, or 48.4 per cent of credit and guarantee losses. The parent company's impairment losses increased by a total of EUR 4.9 million on the situation between 1 January and 30 June 2006.

During the period under review, the parent company's losses on export credit guarantees and special guarantees stood at EUR 0.5 million. The reason for the losses was a write-down entered on recovery receivables. Claims paid totalled only EUR 6,000.

Outstanding commitments

At the end of the period under review, Finnvera's outstanding credits amounted to EUR 1,411.8 million (EUR 1,372.3 million on 31 December 2006). Domestic guarantees totalled EUR 814.9 million as per 30 June 2007 (EUR 804.3 million). The entire Group's loan receivables stood at EUR 1,435.0 million on 30 June 2007.

The book value of Finnvera plc's liability, as referred to in the Act on the State's Export Credit Guarantees, totalled EUR 3,818.5 million as per 30 June 2007 (EUR 3,883.0 million). Outstanding commitments arising from export credit guarantees and special guarantees (current commitments and offers given) totalled EUR 5,212.9 million at the end of the period under review (EUR 5,072.3 million).

The claims presented to the parent company and pending at the time of drawing up the Interim Report totalled EUR 6.9 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 92.2 million as per 30 June 2007. On 31 December 2006, they had been EUR 74.7 million.

Capital adequacy and acquisition of funds

Including the profit for the period under review, the Finnvera Group's capital adequacy was 17.7 per cent as at 30 June 2007. The Group's own assets stood at EUR 460.3 million, while the risk-weighted receivables, investments and commitments outside the balance sheet totalled EUR 2,598.0 million.

In June, Finnvera plc withdrew a loan of EUR 60 million from the European Investment Bank and issued two bonds of 400 million Norwegian crowns. In euros their value was 99.4 million. In total, EUR 195.4 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 2007. At the end of March, outstanding commitments totalled EUR 2.46 billion, which was EUR 42 million more than at the turn of the year. Among the various risk categories, commitments in categories B2 and B3 have increased slightly, but few changes have taken place in other categories. Owing to changes made in the valuation of collateral in February, the percentage of credit risks covered by collateral fell to 37 per cent. Among other things, this meant a slight increase in the anticipated loss when compared against the situation at the turn of the year. There is no significant rise in the risk level when the volume of non-performing credits and overdue payments is compared to the situation in June 2006.

Venture capital investments

Other 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.

Foreign risk-taking

At the end of the period under review, Finnvera’s outstanding commitments in foreign operations totalled EUR 5.1 billion, or EUR 0.4 billion more than at the start of the year. Owing to the improvement of Russia’s country rating and the removal of a separate risk category for China, the distribution of country categories changed considerably, but the changes that occurred in the risk levels of enterprises and banks in the background were slight. The favourable trend of the past few years still continued. The greatest threats are not associated with risks in the distribution of guarantees; rather, they stem from increased likelihood of crises. In addition, there are fairly high risks associated with individual enterprise concentrations and with the shipyard and shipping sector, which still remains an important concentration.

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. On 30 June, FEC's outstanding loans granted for the financing of exports totalled EUR 504 million, of which the company's financing accounted for EUR 9 million. The company's liquid assets are mainly invested in funds operating on the financial market (EUR 33 million). In addition, the company has made longer-term investments at its own risk for EUR 10 million and short-term investments for EUR 2 million. In all, the risk associated with credits and investments is small.

The value of interest equalisation agreements as at 30 June 2007 totalled EUR 2,116 million, or EUR 379 million more than at the start of the year. Offers given totalled EUR 4,106 million, or EUR 1,019 million less 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 108 million to the State by the year 2014. A rise of one percentage point in interest rates would increase costs by about EUR 44 million. Any new agreements resulting from the offers given will increase the amount of interest support. 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 Trade and Industry 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 Ministry has also appointed a working group to monitor the management of market risks in the interest equalisation system.

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.

Risk associated with the value of capital invested in subsidiaries

For Finnvera plc, subsidiaries involve a risk associated with the value of capital invested in them. The valuation of shares owned by Finnvera in these companies is updated annually in conjunction with the closing of the books. 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 is specified below. Finnvera plc's investments in Veraventure Ltd increased by EUR 0.8 million following the sale of the shares of Incap Oyj. In accordance with the Government's decision, Finnvera plc invested the assets under a repayment obligation in regional venture capital operations.

Name	Capital invested (MEUR)
Veraventure Ltd	41.1
Aloitusrahasto Vera Oy	31.5
Finnish Export Credit Ltd	20.1
Finnfund	13.6
Matkailunkehitys Nordia	6.8
Spikera Oy	1.1

4. Changes in Group Structure

The share capital of Veraventure Ltd, a subsidiary owned 100% by Finnvera plc, was raised by EUR 0.8 million. Finnvera plc subscribed to all the new shares.

In conjunction with the adoption of the IFRS, five associated real-estate companies in which Finnvera has premises were included in the consolidated financial statements.

After this change, on 30 June the Group comprised six subsidiaries, one company providing services in the sector of business premises, and eight associated companies.

5. Administration and Personnel

For its operations, Finnvera adopted an internal management model in which the domestic regional organisation was divided into four geographically defined service regions. Each region is managed by a Vice President. They see to it that the company's strategy and credit policy are implemented in a uniform manner in each service region. The Vice Presidents report to the Managing Director. Moreover, the Vice Presidents head one of the regional offices located in their respective regions. The appointments of the Vice Presidents for the four regions took effect on 1 July 2007, when the new management model came into force. The reorganisation was implemented through internal recruitment.

The reform has no effect on Finnvera's network of regional offices. The regional offices continue their operations in the present localities. The geographical division of the four service regions is as follows:
- Northern Finland: Regional Offices of Oulu, Rovaniemi and Kajaani
- Southern Finland: Regional Offices of Helsinki, Uusimaa, Lahti and Lappeenranta
- Central Finland and Eastern Finland: Regional Offices of Jyväskylä, Kuopio, Joensuu and Mikkeli
- Western Finland: Regional Offices of Vaasa, Seinäjoki, Pori, Tampere and Turku

The following Vice Presidents were appointed: Northern Finland, Pentti Kinnunen, M.Sc. (Econ. & Bus. Adm.); Southern Finland, Kari Villikka, M.Sc. (Tech.); Central and Eastern Finland, Hannu Puhakka M.Sc. (Tech.); and Western Finland, John Erickson, M.A.

The organisations of Corporate Services and the Managing Director's Staff were revised. In May, Ulla Hagman, M.Sc. (Econ. & Bus Adm.), Head of Group Reporting, was appointed Senior Vice President, Finance, responsible for finance, acquisition of funds and information management as of 1 September 2007. She will also be a member of the Corporate Management and the Management Group.

The Legal Unit, HR management, personnel development, and office and real-estate services will be combined under the responsibility of the Senior Vice President, Administration. The Senior Vice President, Communications, will be responsible for communications and marketing operations. The posts of the Senior Vice Presidents for Administration and Communications were advertised for external application in May. No appointments were made during the period under review.

Merja Välimäki, M.Sc. (Econ. & Bus. Adm.) was appointed Head of Internal Audit at Finnvera plc as of 1 September 2007.

Merja Välimäki served as Head of Internal Audit at the State Treasury 1999–2004. Since 2004 she has worked as the Director of the Audit Unit at the Ministry of Trade and Industry, where she has been responsible, among other things, for supervising Finnvera's financing operations.

In 2006, in line with the company's strategy, Finnvera launched a project to increase the number of personnel working at the customer interface. During the first half of 2007, altogether 50 Group employees transferred to partly or completely new tasks. The project will be completed during autumn 2007.

On 30 June 2007, the Finnvera Group had 419 employees (429), of whom 403 had permanent contracts (417) and 16 had temporary contracts (12).

Supervisory Board and auditor

The Annual General Meeting elected Johannes Koskinen, Member of Parliament (Finnish Social Democratic Party), Chairman of the Supervisory Board. Kyösti Karjula, Member of Parliament (Finnish Centre Party) was elected First Vice Chairman and Reijo Paajanen, Member of Parliament (National Coalition Party), was elected Second Vice Chairman.

The new members on the Supervisory Board are Kaija Erjanti, Head of Division (Federation of Finnish Financial Services), Ritvaliisa Mononen, Financial Counsellor (Finnvera plc), and Ahti Vielma. M.Sc. (Tech.) (National Coalition Party).

The following members were re-elected: Peter Boström, Managing Director (Swedish People's Party); Susanna Haapoja, Member of Parliament (Finnish Centre Party); Sinikka Hurskainen, Member of Parliament (Finnish Social Democratic Party); Timo Kekkonen, Director (Confederation of Finnish Industries EK); Leila Kurki, Senior Adviser (Finnish Confederation of Salaried Employees STTK); Erkki K. Mäkinen, Managing Director (Federation of Finnish Enterprises); Iivo Polvi, Master of Administrative Sciences (Left Alliance); Eero Reijonen, Member of Parliament (Finnish Centre Party); Heikki Ropponen, Deputy Managing Director (Federation of Finnish Commerce); Osmo Soininvaara, Licentiate of Social Sciences (Green League); Veli-Matti Töyrylä, Chairman (Finnish Association of Graduates in Economics and Business Administration); and Timo Vallittu, Chairman (Chemical Workers' Union).

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

At its meeting on 22 May 2007, the Supervisory Board of Finnvera plc decided to renew the mandate of the company's current Board of Directors.

Director-General Kalle J. Korhonen (Ministry of Trade and Industry) continues to chair the Board of Directors. Pekka Laajanen, Governmental Counsellor, Director of Legislative Affairs (Ministry of Finance) continues as the First Vice Chairman and Pekka Huhtaniemi, Under-Secretary of State (Ministry for Foreign Affairs), as the Second Vice Chairman.

The following persons continue as regular members of the Board: Governmental Counsellor Päivi Kerminen (Ministry of Labour); Special Adviser Jyrki Kiviharju (Confederation of Finnish Industries EK); Director General Martti Mäenpää (Technology Industries of Finland); Director Risto Suominen (Federation of Finnish Enterprises); and Deputy Director Matti Viialainen (Central Organisation of Finnish Trade Unions SAK).

Governmental Counsellor Elise Pekkala (Ministry of Trade and Industry), and Financial Counsellor Kristina Sarjo (Ministry of Finance) continue as deputy members.

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

Exemption of Finnvera plc from income tax

At its meeting on 13 December 2005, the Cabinet Committee on Economic Policy supported the proposal that Finnvera plc be exempted from income tax. The Government's proposal for exempting Finnvera from income tax was submitted to the Finnish Parliament on 8 December 2006. On 9 February 2007, the President of the Republic ratified the Act amending Section 20 of the Income Tax Act. The Act stipulates that Finnvera plc is a corporation exempt from income tax. A prerequisite for the tax exemption is that the European Commission is given the information on State aid referred to in Article 88, paragraph 3 of the Treaty establishing the European Community. The Commission is currently reviewing the information submitted by Finnvera.

Finnvera’s tax exemption cannot become effective until the Commission has issued its decision in the matter. The Act to this effect will enter into force on a date to be determined by Government Decree. The Act will be applied for the first time to determine taxes for the tax year during which the Act enters into force. Tax exemption would make it possible for Finnvera to adjust its pricing and to raise its risk-taking level.

Strengthening venture capital investments within the Group

In line with the stand taken by the Cabinet Committee on Economic Policy on 20 June 2007, risk financing for starting enterprises will be concentrated on Finnvera. This is one of the measures to develop venture capital markets, as specified in the Government Programme. Sitra’s pre-seed operations, such as the business angel network, will be transferred to Finnvera. No new capital will be added to the seed financing programme of Finnish Industry Investment Ltd; it has been planned that in the future Finnvera’s subsidiary Aloitusrahasto Vera Oy will make direct investments in seed-stage enterprises, as well as joint investments with the business angel network and venture capital funds. The importance of venture capital investments will increase considerably within the Finnvera Group. The capital reserved for the operations of Aloitusrahasto Vera Oy will rise from the current EUR 35.6 million to EUR 100 million.

During the period under review, the parent company Finnvera plc made a share capital investment of EUR 837,751 euros in its subsidiary Veraventure. The State is ready to provide capital for Aloitusrahasto during the early part of the Government’s term. Aloitusrahasto Vera invests in early-stage technology enterprises and service enterprises, and it began operations in 2005.

Amendments in the European Community’s rules on State aid

The European Community’s rules on State aid were amended during the period under review. The amendments apply to the Finnvera Group’s venture capital investments and to guarantees and export guarantees in domestic financing. The most important change was the Commission’s new Regulation on de minimis aid, which entered into force on 1 January 2007. According to the Regulation, State aid under the de minimis rule shall not exceed EUR 200,000 over a period of three fiscal years. In keeping with the new EC rules, Finnvera’s guarantee cannot account for more than 80 per cent of the entire loan or some other financial commitment.

During the period under review, Finnvera's subsidiary Veraventure Ltd and the Ministry of Trade and Industry have together prepared measures to adapt the Group's venture capital investments to the new rules concerning State aid.

The European Community's regional State aid rules were also amended as of the beginning of 2007, and the Finnish Ministry of the Interior redefined the areas eligible for regional aid. As of the beginning of 2007, Finland is divided into assisted areas I, II and III. Together the assisted areas I and II form the developing area.

After the period under review, Finnvera will no longer grant growth guarantees and micro-guarantees encompassed by the European Investment Fund's portfolio guarantee, since the relevant EU programme will close at the end of 2007.

7. Future prospects

The economic expectations of SMEs remained positive during the first six months of the year. SMEs have continued to invest briskly. Some sectors and areas have already suffered from shortages of labour and capacity. The rising building costs are also reflected in investments. Apart from investments, company reorganisations and, in particular, changes of generation among entrepreneurs will affect the demand for Finnvera's financing during the latter half of the year.

Growth in the demand for export credit guarantees partly depends on how problems associated with the American subprime mortgages affect the development of financial markets in developing countries. In countries for which it is common to apply for export credit guarantees, financing is acquired from either international or local markets. In their pricing, export credit agencies must comply with the minimum premium levels set by the OECD, whereas on the market it is nowadays common to go below these levels. Especially in medium-term operations, the minimum rates of export credit guarantees often exceed the current market rates. Because of the subprime crisis, credit margins have been rising; in consequence, the above situation may change.

Towards the end of the year, the demand for export credit guarantees is expected to focus, in particular, on financing for shipyards and on the exports of machinery and equipment for power generation and for the forest industry.

Finnvera’s financial performance for 2007 is expected to remain at the same level as the year before.

During the first six months of the year, impairment losses on credits and other receivables were higher than during the corresponding period the year before. On the other hand, rising interest rates will improve Finnvera’s financial performance after a time lag. However, even a single major credit loss or claim during the second half of the year may reverse the trend that now looks positive.