

Report on Operations 2005

Finnvera's Report on Operations and Financial Statements for 2005 are published in Finnish, Swedish and English.

The Interim Report covering the period from 1 January 2006 to 30 June 2006 will be published on 31 August 2006, also in three languages.

The Report on Operations and Financial Statements are available in Finnish, Swedish and English on Finnvera's Web site at [www.finnvera.fi](http://www.finnvera.fi). The Finnish and English versions can also be ordered from Finnvera's Corporate Communications, tel. +358 20 460 7402, fax +358 20 460 7272, e-mail [kaisa.sailas@finnvera.fi](mailto:kaisa.sailas@finnvera.fi)



On cover: MARIANNA UUTINEN; F-Facts, 2005  
acrylic on canvas, 200 x 300 cm



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Financial Statement	<a href="http://www.finnvera.fi/annualreport2005">www.finnvera.fi/annualreport2005</a>
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The data presented in this Report on Operations have not been audited. The report of the Board of Directors and the financial statements referred to in the Finnish Bookkeeping Act, as well as the auditors' report, are available as a separate report and at: [www.finnvera.fi/annualreport2005](http://www.finnvera.fi/annualreport2005)

## Finnvera in Brief

Finnvera plc is a specialised financing company owned by the State of Finland. Supplementing the financial market, it enhances the opportunities available to Finnish enterprises during start-up, growth and internationalisation as well as in exports. Finnvera provides financing in the form of loans, guarantees, capital investments and export credit guarantees.

By supplementing the financial market and by providing financing, Finnvera promotes

- the business of small and medium-sized enterprises
- exports and internationalisation efforts of enterprises
- realisation of the government's regional policy goals.

When an enterprise's own resources or collateral are insufficient, Finnvera grants financing for operations that are based on a good business idea and meet profitability criteria. The State of Finland covers some of Finnvera's credit and guaran-

tee losses. This enables Finnvera to take higher risks than operators working on market terms and to share risks with other financiers. Thanks to interest subsidies granted on regional policy grounds and by the European Regional Development Fund, enterprises operating in areas eligible for national and EU support can obtain financing at a lower cost.

In domestic financing, Finnvera's clientele consists of entrepreneurs, founders of enterprises, and SMEs. In the financing of exports, the clients are Finnish enterprises and financial institutions in Finland and abroad. Finnvera is Finland's official export credit agency (ECA). The State of Finland is responsible for Finnvera's commitments.

### FINNVERA'S VALUES

Finnvera's value statement, An Expert Esteemed by Clients, characterises the company's way of acting. The central elements of Finnvera's value base are trust, honesty, benefits to clients, being a fore-

runner, profitability, effectiveness, and constant development of competence.

### FINNVERA'S VISION

Finnvera promotes the competitiveness of Finnish enterprises, enabling the optimum financial solutions for their start-up, growth and international success.

### AN INDUSTRIAL POLICY ACTOR

The ownership and industrial policy goals set by the Ministry of Trade and Industry steer Finnvera's operations. These goals include self-sustainability in the long term, promoting the implementation of the government's regional and industrial policy goals, and offsetting deficiencies in the operation of the financial market. The goals and their implementation are presented in more detail at [www.finnvera.fi](http://www.finnvera.fi) > Financial Info.

The State of Finland is responsible for the liabilities and commitments arising from Finnvera's domestic financing.

### Impacts of Finnvera's activities

	2005	2004	2003	2002	2001
Domestic financing					
Number of jobs created with the help of Finnvera's financing	10,548	11,457	9,730	9,509	10,685
Financing/new job, EUR 1,000	85	78	79	81	66
Number of new enterprises created with the help of financing	3,638	2,956	2,576	2,281	2,357
Financing for developing areas, MEUR	460.3	433.9	373.8	383.4	341.2
Financing of exports					
Guarantees offered, MEUR					
– SMEs	44.6	18.6	18.4	29.1	51.9
– Major companies	2,929.7	2,190.8	2,292.6	1,679.7	1,712.2
Guarantees that came into effect, MEUR					
– SMEs	18.3	16.8	19.3	18.9	25.0
– Major companies	1,388.6	970.3	975.8	726.6	883.1
Exports covered by export credit guarantees, % (Finnvera and the State Guarantee Fund)					
– share of Finland's total exports	1.9	2.4	1.4	1.7	2.1
– share of exports to countries with political risk	4.9	5.7	4.2	5.6	6.9

In addition to the share capital invested, this responsibility derives from the State's commitments to compensate for credit and guarantee losses and to provide interest subsidies.

The funds that are needed for granting credits to SMEs are obtained from the financial market. The European Investment Bank is a major lender.

Acting as an intermediary, Finnvera gives its clients interest subsidies allocated from the State Budget on regional and industrial policy grounds. Some of Finnvera's financial products intended for SMEs may also include interest support from the European Regional Development Fund.

The State compensates Finnvera for some credit and guarantee losses. This compensation is graduated depending on the geographical region. The average compensation has been approximately 50 per cent.

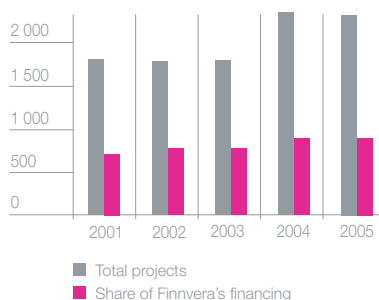
In the end, responsibility for the commitments arising from export credit guarantees and special guarantees rests with the State of Finland through the State Guarantee Fund. The State Guarantee Fund is presented on page 50.

In accordance with the principle of self-sustainability, Finnvera strives to cover the expenses incurred in its operations with revenue from its commercial operations.

Between 2001 and 2005, the cost per new job for the State has been about EUR 80,000. This sum includes the interest subsidies paid by the State and passed on by Finnvera to enterprises, and the compensations for credit and guarantee losses.

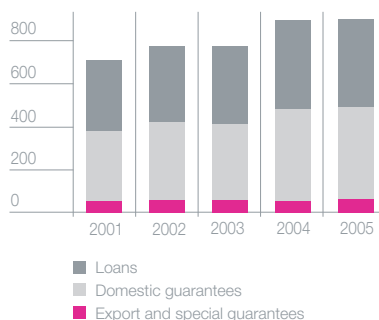
**Domestic financing**

Total projects made possible by Finnvera's financing  
MEUR



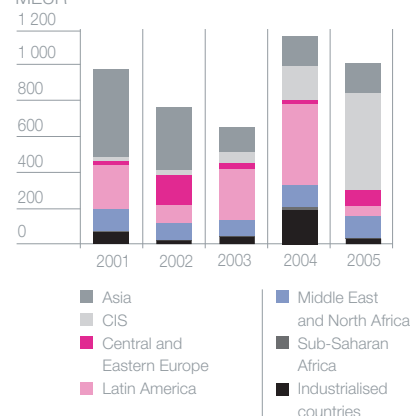
**Domestic financing**

Financing, by product  
MEUR



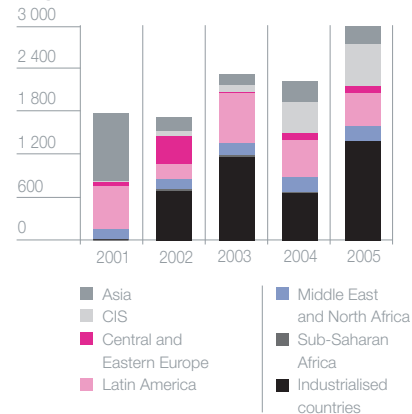
**Foreign risk-taking**

Exports covered by guarantees, by region  
MEUR



**Foreign risk-taking**

Guarantees offered, by region  
MEUR



## Finnvera in 2005

The financing granted to SMEs totalled EUR 895.3 million. This contributed to the realisation of projects worth EUR 2.3 billion. The projects gave rise to 3,638 new enterprises (2,956) and over 10,500 new jobs (11,500). Offers for export credit guarantees reached a new record, EUR 3.9 billion (EUR 2.7 billion). Ship-yards and shipping companies and telecommunications were the biggest sectors. Russia accounted for



the largest share of guarantees that came into effect.

- 3 February 2005: The Government of Finland approved the ERDF guarantee commission support, used by Finnvera to expand the application of the European Regional Development Fund's (ERDF) financing to guarantees given in Objective 1 regions.
- 21 June 2005: The Small Business Institute of the Turku School of Economics and Business Administration published its study on Finnvera's domestic financing and on its impacts on enterprise and employment.
- 1 July 2005: From

this date Finnvera, in keeping with the OECD Export Credit Arrangement, has been able to grant repayment terms of up to 15 years for export credits pertaining to renewable energy forms and water projects.

- 13 December 2005: The Cabinet Committee on Economic Policy of the Government of Fin-



land gave its support to the Ministry of Trade and Industry's proposal to exempt Finnvera from income taxes as of 1 January 2007. The matter still requires EU notification and an amendment to legislation.

- 1 January 2006: From this date, the domestic guarantees and export credit guarantees granted by Finnvera can be

treated according to the risk weight of the State of Finland, i.e. at zero risk weight, when calculating the capital adequacy of credit institutions, even after the Basel II Framework enters into force on 31 December 2006.

- 1 January 2006: From this date, the upper limit of the State's liability for compensation of losses incurred by Finnvera in domestic operations was raised by EUR 300 million, to EUR 2.6 billion.
- 1 January 2006: From this date Finnvera – by virtue of a special risk-taking authorisation and for a significant reason – can grant export credit guarantees for exports to high-risk countries more flexibly than before.
- 1 January 2006: From this date, the maximum liability limit of export credit guarantees pertaining to special risk-taking was raised from EUR 700 million to EUR 1,000 million.

### Venture capital investment

- 29 June 2005: The Ministry of Trade and Industry granted Finnvera a capital loan of EUR 11.5 million, to be

invested in a national early-stage seed fund.

- 11 July 2005: Finnvera invested EUR 11.5 million in shares issued by Finnvera's subsidiary, Aloitusrahasto Vera Oy. In the main, the fund makes investments in early-stage technology companies and in technology-intensive or innovative service enterprises.
- 15 August 2005: Aloitusrahasto Vera Oy and Veraventure Oy signed a management agreement, according to which Veraventure Oy is



invested one million euros. During the financial year, the shareholders' investments in the fund totalled EUR 13.6 million.

**Corporate governance**

- 27 January 2005: In line with the contract made in 1998, the Board of Directors of Finnvera and Markku Mäkinen, President and CEO, agreed that Mr Mäkinen will retire on 1 July 2005.
- 28 April 2005: The Board of Directors appointed Pauli Heikkilä, D.Sc. (Technology), Managing Director of Finnvera.

responsible for the management and investments of Aloitusrahasto Vera Oy.

- 26 October 2005: The Finnish Association of Graduate Engineers invested EUR 1.1 million in Aloitusrahasto Vera Oy; in the share issue on 23 November 2005, Sitra

- 22 December 2005: The Supervisory Board approved Finnvera's new strategy.
- 22 December 2005: The Supervisory Board selected Under-Secretary of State Pekka Huhtaniemi to serve as a regular member on the Board of Directors as of 1 January 2006. He replaces Under-Secretary of State Pekka

Lintu who is transferring to the Finnish diplomatic corps.

**Cooperation**

- Finnvera continued its cooperation with Tekes, the Employment and Economic Development Centres, and Finpro for the development of the Finnish Growth Company Development Service. The service aims to identify companies having prerequisites for growth and to offer them expert services meeting their needs.
- 31 May 2005: A bilateral reinsurance agreement was signed with SACE, the Italian counterpart of Finnvera.

**Recognitions**

- 10 November 2005: Finnvera received recognition in the Finnish Excellence Reward 2005

competition in the category of Recognised for Excellence in Europe.

- Finnvera was ranked fourth in the Awards for Excellence vote by readers of Trade Finance Magazine. In a corresponding vote arranged by Trade and Forfeiting Review, Finnvera was ranked fifth.



Key indicators showing the Group's financial trends

MEUR	2005	2004
Turnover	171	164
Operating profit or loss	46	55
% of turnover	26.6	33.4
Return on equity, %	7.4	9.5
Return on assets, %	2.0	2.5
Equity ratio, %	27.1	27.9
Capital adequacy ratio	18.1	16.4
Income-expense ratio	0.4	0.3

## Supporting Enterprises in Challenging Stages of Development

For Finnvera, the year 2005 was a record-breaking year rich in events.

We responded to growing demand and made nearly 40 per cent more financing for the domestic operations and exports of Finnish enterprises than in the year before. In domestic financing, we were involved in approximately 8,900 projects. We also exceeded the targets set for the year as concerns our contribution to the creation of new enterprises and jobs. A considerable percentage of the new jobs arose in enterprises engaged in trade and services.

The number of offers for export credit guarantees also increased more rapidly than ever before. As in previous years, in terms of the sums involved, guarantees pertained mostly to individual large-scale projects. During the year, exports to Russia gained the largest share of all export credit guarantees granted. The greatest demand for guarantees concerned financing for shipyards, shipping companies and telecommunications. For the Finnish economy, it is important that large export projects provide ample opportunities for SMEs to serve as subcontractors and thereby also as employers in their regions.

### Keeping pace with SMEs

According to the SME barometer survey published in October, Finnish SMEs expect the economic outlook to remain

positive in the near future. Small and medium-sized enterprises' focus on growth was already reflected as an upward trend in investments in 2005, when investments accounted for more than half of all projects financed by Finnvera. In the main, Finnvera increased its financing for starting and growing enterprises. We helped speed up the operations of over 3,600 new enterprises.

However, some concern for the future has been expressed, owing to the fact that most domestic investments have been replacement investments while new expansion investments take place abroad.

### Long-range financing from Finnvera

Stiffer international competition was experienced by our entire clientele. In order to strengthen or maintain their competitiveness, Finnish enterprises had to take greater risks than before. Unfortunately not everyone can succeed even when the overall economic situation is good. Besides the enterprise and the entrepreneur, failure is also reflected on Finnvera. Owing to some individual major bankruptcies, the volume of credit losses increased in 2005. The number of claims paid because of export credit guarantees has been very low; on the other hand, risk concentrations have increased.

In domestic financing we were involved in approximately 8,900 projects to strengthen enterprises' growth or internationalisation. We also exceeded the targets set for the year as concerns our contribution to the creation of new enterprises and jobs. A considerable percentage of the new jobs arose in enterprises engaged in trade and services.



A feature characterising all of Finnvera's operations is that matters need to be examined over a long period of time. In its financing decisions, Finnvera takes higher risks than commercial providers of enterprise financing. Even though the last couple of years have been financially very good for Finnvera, the company must be prepared for risks that may materialise in the future.

More competitive financing solutions for exports

In December, the Cabinet Committee on Economic Policy took a positive stand on exempting Finnvera plc from the payment of income taxes. The exemption would encompass export credit guarantees and special guarantees as well as domestic loans and guarantees. The benefit gained from the exemption would be transferred to Finnvera's clients in two ways: by reducing the price of financing and by accepting higher risks.

In particular, the possibilities offered by the tax exemption would enhance Finnvera's competitiveness as a guarantor of export financing. In consequence, Finnish export enterprises would be able to gain a more equal competitive standing in export financing.

Starting, growing and internationalising enterprises in focus

For Finnvera, the year 2005 has also been a year for planning the future. I myself started as Managing Director of the company in August. During the autumn we

developed the company's strategy so that Finnvera would be even better equipped to meet the expectations set for us by our owner and our clients.

I'd like to extend warm thanks to my predecessor, Markku Mäkinen. Over a span of seven years, he developed Finnvera into a dynamic specialist company with a clear role in the Finnish field of enterprise financing.

Markku Mäkinen also initiated the quality work that resulted in the recognition granted to Finnvera plc in the category "Recognised for Excellence in Europe" of the Finnish Excellence Reward competition 2005. Proceeding from this solid foundation, we can develop our operations and customer service further.

The central feature of our new strategy is controlled increase in risk-taking. We want to support Finnish enterprises in the challenging phases of start-up, growth and internationalisation, and to contribute to the strengthened competitiveness of export enterprises.

The most notable changes in our new strategy are the revision of financing services offered for SMEs, the arrangement of equity financing for starting enterprises, and a new, more flexible definition of 'Finnish interest', which takes recent internationalisation trends into account in implementing export financing solutions.

Thanks for a successful year

I wish to thank our clients, cooperation partners and all Finnvera employees for

a successful year. Our partnership in challenging growth and development situations faced by our clients, and successful adoption of the new strategy, will require strong input from each one of us in the future as well.

Finnvera's most important industrial policy tasks are contribution to the creation of new jobs and to the growth and internationalisation of Finnish enterprises, and measures to improve the competitiveness of export enterprises. I believe that in 2006, too, we'll succeed in meeting the goals set for us.

Pauli Heikkilä





## Finnvera's Strategy

**I**n 2005, Finnvera specified its strategic goals extending up to 2011. The strategy supports the growth and internationalisation of Finnish enterprises.

The strategy work was based on the owner's expectations concerning the impacts of Finnvera's activities. The expectations and assessments of Finnvera's other stakeholders, as well as the studies conducted on Finnvera's activities, were also utilised.

### THE PRINCIPAL STRATEGIC GOALS

#### 1. Revision of the financial services offered for SMEs

Together with regional organisations providing services for enterprises, Finnvera develops services available for starting and regional SMEs. Finnvera intensifies its cooperation with other public organisations offering services for enterprises.

One focus of Finnvera's activities is the financing of enterprises in the phases of growth and internationalisation.

Financing for growth and internationalisation will get its own unit within Finnvera's organisation during spring 2006.

The growth and internationalisation of enterprises are promoted in increasingly systematic cooperation with other public organisations providing services for enterprises. In 2005, these organisations developed a new operating model, Growth Enterprise Services. By identifying development needs, Growth Enterprise Services focus on improving enterprise-specific prerequisites for growth and on accelerating growth. The organisations behind this new operating model are Finnvera, Finpro, Tekes and the Employment and Economic Development Centres. For its part, Finnvera works to develop practical cooperation among

public organisations providing services for enterprises so that the company's services meet clients' expectations and fulfil the requirements set for the company's operations.

#### 2. Equity financing for starting innovative enterprises

As of the beginning of 2006, venture capital investments have constituted one of Finnvera's business areas.

One of the goals set by the owner for Finnvera is to succeed in venture capital investments.

Veraventure Ltd, a subsidiary owned 100% by Finnvera, makes capital investments in regional funds organised as limited companies. Aloitusrahassto Vera Oy, a new company founded in 2005 in which Finnvera has a majority holding, makes investments mostly in technology enterprises at the initial stages of their operations. Matkailunkehitys Nordia Oy, owned by Finnvera and Sitra, invests in travel-industry enterprises.

#### 3. Controlled increase in risk-taking

Finnvera will increase risk-taking, especially in the financing of starting and growth enterprises and in the financing of export projects.

Finnvera will revise the collateral policy applied to the financing of enterprises' domestic operations and will adopt a system of calculating capital adequacy in accordance with the Basel II Framework, whenever applicable.

#### 4. A more flexible definition of 'Finnish interest'

A task defined in Finnvera's strategy is to determine which type of enterprises and international business transactions or

projects in domestic and foreign risk-taking involve Finnish interest. Guidelines on the application of Finnish interest have existed for practical export credit guarantee work since 2001, when the concept was recorded in the revised Act on the State's Export Credit Guarantees. Because of changes in the operating environment, Finnvera's clients have hoped for a more flexible interpretation of interest.

According to the new strategy, the concept of 'Finnish interest' not only applies to export credit guarantees; it encompasses all cases where Finnvera's financing is used abroad either directly or indirectly. Finnvera's Board of Directors made a decision to this effect on 28 February 2006.

#### 5. Identification of market deficiencies

Finnvera's task is to supplement the financial market and to provide financing for projects that lack financing on market terms but that involve Finnish interest at the implementation stage.

According to the strategy, Finnvera develops its own operations so that each financing decision is assessed from the perspectives of effectiveness and Finnish interest. The grounds for the decision are also recorded in the decision documents.

One focus of Finnvera's activities is the financing of enterprises in the phases of growth and internationalisation.



MARIANNA UUTINEN. Spotted. 2005.  
Acrylic on canvas. 200 x 300 cm





## Impacts of Finnvera's Activities

A specialised State-owned financier, Finnvera supplements the financing offered to enterprises by banks. By virtue of the State's commitment to compensate for credit and guarantee losses, Finnvera can take considerably higher risks in the financing of starting and growing enterprises, and can promote the establishment and growth of these enterprises in line with the government's industrial policy goals.

Each year, the Ministry of Trade and Industry sets ownership and industrial policy goals for Finnvera in four areas, which are employment, enterprise, industrial and regional policies, and exports. The employment goals derive from the government's programme and are affected by Finnvera's authorisation to grant domestic financing.

### EMPLOYMENT

In 2005, Finnvera's financing contributed to the creation of nearly 10,550 (11,500) new jobs. The target of 10,000 jobs, which had been set for 2005, was thus exceeded. Jobs arose not only in enterprises financed by Finnvera, but also indirectly, for instance, among the client enterprise's network of subcontractors.

Of the new jobs, 60 per cent were created in enterprises engaged in trade and services, and 40 per cent in industry. Altogether 66 per cent of the new jobs came up in micro-enterprises employing fewer than 10 people. Financing granted for ownership changes helped create and secure about 2,900 jobs.

In 2005, small and medium-sized enterprises' willingness to invest remained at the same good level as in 2004. In all, 53 per cent of the total value of projects co-financed by Finnvera was used for various investments, while 36 per cent was used for working capital. The total value of investments co-

financed by Finnvera in 2005 came to EUR 1.2 million. Changes of generation and other reorganisations often require outside financing in SMEs. In 2005, Finnvera provided a total of EUR 133 million for changes of ownership in about 1,100 enterprises.

The impact of export financing on employment and new enterprise is seen as investments made by major export enterprises and their contract manufacturers and subcontractors. This in turn is reflected as jobs kept or created.

### ENTERPRISE

In 2005, Finnvera participated in the financing of approximately 8,900 projects; their total value was EUR 2.3 billion. On average, Finnvera provided 39 per cent of the financing for these projects. Finnvera's share of financing is greater in small projects, which usually do not involve sufficient collateral to obtain financing on market terms. Altogether 60 per cent of the financing was used for industry, 17 per cent for trade and consumer services, 15 per cent for services to business, and 8 per cent for tourism.

Financing granted by Finnvera is often crucial for the founding of new enterprises, because starting enterprises do not always obtain financing on market terms. In 2005, Finnvera began to apply a new definition of a 'starting enterprise'. This definition is in keeping with the industrial policy goals set by the Ministry of Trade and Industry for 2005. If an enterprise has been founded at most two years before Finnvera's financing decision, it is considered to be a starting enterprise.

In 2005, altogether 3,638 (2,956) starting enterprises received financing, the total sum being EUR 183.8 million. In recent years, Finnvera has provided

Finnvera's financing contributed to the creation of 10,550 jobs and 3,600 new enterprises.

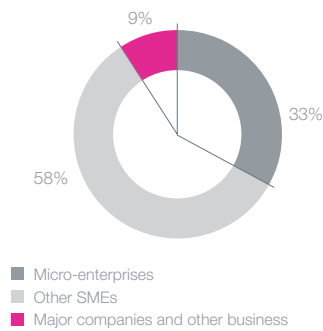
financing for about 10 per cent of all new enterprises founded annually in Finland.

The growth and development of Finnish enterprises is crucial for the growth of the Finnish economy. Finnvera pays special attention on how to use financing to secure prerequisites for the growth of enterprises. During 2005, Finnvera provided financing for 976 growth enterprises. The anticipated annual growth of a growth enterprise's turnover must be at least 10 per cent during the next three years. The relative share of growth enterprises among Finnvera's clients was slightly greater in the Helsinki area than elsewhere in Finland.

To assess trends among clients for domestic financing, Finnvera calculated how many of the starting enterprises that had become Finnvera's clients in 2000 were still in business five years later. At the end of January 2006, this 'survival rate' was 82 per cent. The year before, the figure had been 79 per cent. One reason for the higher survival rate was the fact that the relative share of enterprises that had wound up their operations had fallen.

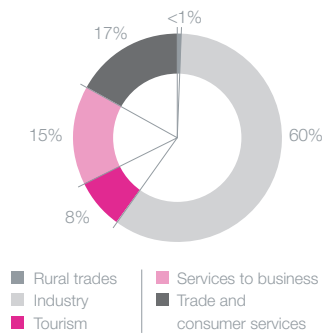
**Domestic financing**

Financing, by enterprise size  
1 Jan–31 Dec 2005  
Total MEUR 895.3



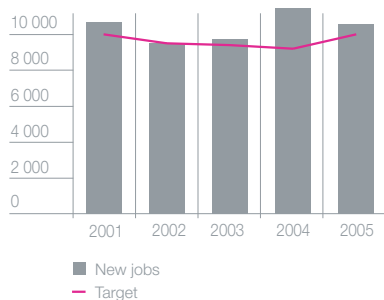
**Domestic financing**

Financing, by sector  
1 Jan–31 Dec 2005  
Total MEUR 895.3

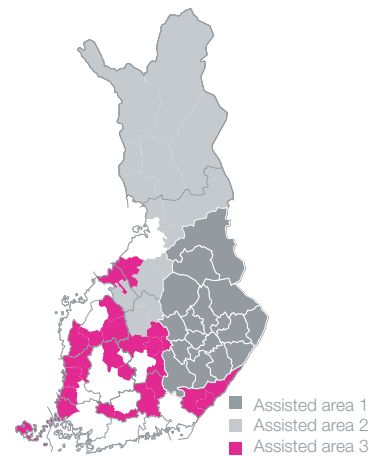


**Domestic financing**

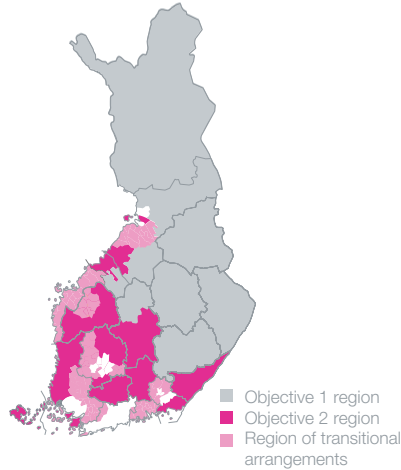
New jobs



**National assisted areas**

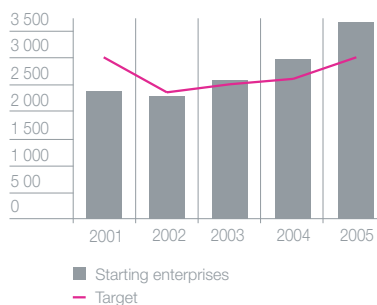


**The EU Objective regions**



**Domestic financing**

Starting enterprises



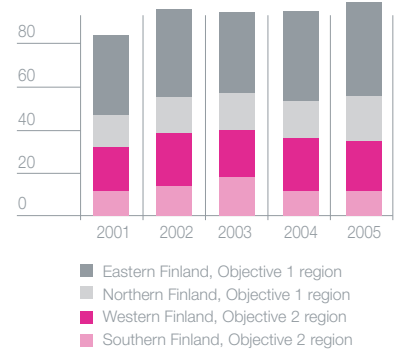
**Domestic financing**

Financing targeted at national assisted areas, MEUR



**Domestic financing**

ERDF financing transmitted to the EU Objective regions, MEUR



## INDUSTRIAL AND REGIONAL POLICIES

### More financing to national assisted areas on regional policy grounds

Financing granted on regional policy grounds promotes balanced regional development in Finland and helps secure preconditions for the establishment and growth of enterprises in national assisted areas. Thanks to regional interest-subsidised loans, enterprises in national assisted areas have the opportunity to secure financing on more advantageous terms for their investments and working capital.

In 2005, Finnvera provided more financing for enterprises in national assisted areas than ever before, or EUR 460.3 million (EUR 433.9 million), of which regional interest-subsidised loans accounted for EUR 118.9 million (EUR 132.1 million). Financing provided for developing areas accounted for 51 per cent of all financing decisions made by Finnvera. This is clearly more than the share that these areas have of Finland's total population.

The regionally graduated credit and guarantee loss compensation provided by the State also makes it possible for Finnvera to take higher risks, especially in the least developed areas. Enterprises financed by Finnvera account for the highest percentages of all enterprises in the regions of Kainuu, Satakunta and Lapland. The lowest percentages are in Uusimaa and especially in the Helsinki area.

### New enterprises and jobs with support from the EU

Finnvera acts as an intermediary for the support programmes of the European Regional Development Fund (ERDF). This support is included in loans for investments and working capital and in

entrepreneur loans, microloans and loans for women entrepreneurs in Objective 1 regions of Eastern and Northern Finland and in Objective 2 regions of Western and Southern Finland. Granting ERDF support in regions of transitional arrangements ended on 31 December 2005.

In addition, as of the beginning of 2005 Finnvera has given guarantees supported by the ERDF in Objective 1 regions in Eastern and Northern Finland. The interest subsidies granted by the State of Finland and the ERDF reduce SMEs' financing costs in the Objective regions. The ERDF loans can be used for the establishment of enterprises and for improving the prerequisites for their growth and competitiveness and for increasing the number of jobs.

In 2005, these ERDF-supported loans to SMEs totalled EUR 90.4 million (EUR 94.8 million), of which EUR 55.7 million (EUR 58.7 million) was granted to enterprises in Eastern and Northern Finland. The total value of ERDF-supported guarantees was EUR 8.8 million.

Finnvera's ERDF financing contributed to the establishment of 924 (597) new enterprises and to the creation or keeping of about 2,400 (3,500) jobs in the Objective regions.

To cover some of the financing granted to SMEs, Finnvera can apply for a portfolio guarantee from the European Investment Fund (EIF). In that case, the guarantee commission is lower than normally. The total value of these growth guarantees given in 2005 was EUR 69.3 million (EUR 80.3 million).

## EXPORTS

Finnvera works to secure the competitiveness of Finnish enterprises on the export market by offering them various arrangements for covering risks arising from export and project financing. These

arrangements should be of at least the same standard as those applied in Finland's main competitor countries.

Another goal is to promote the investments of enterprises by granting investment guarantees.

Promotion of the export efforts of Finnish companies affects both employment and enterprise activities.

### Export credit guarantees mainly for large projects

As in previous years, in terms of the sums involved, guarantees pertained mostly to individual large-scale projects. Guarantees with a value exceeding EUR 100 million accounted for 69 per cent (64) of all export credit guarantees offered and for 57 per cent (34) of the guarantees that came into effect. In the end, a large part of major projects consists of deliveries made by small and medium-sized enterprises because companies are increasingly often outsourcing sizable segments of their production.

In large-scale projects, risks are often shared between commercial financiers and risk-takers, on one hand, and the official export guarantee and export credit agencies of more than one country, on the other. When implemented, such projects involve either a corporate risk or a project risk. Project risks pertain to projects where loan servicing takes place through the cash flows generated by the investment, and where security arrangements play an important role.

### Outstanding commitments for export credit guarantees on the rise

Outstanding commitments, or offers given and current commitments together, stood at EUR 3.9 billion at year's end (EUR 3.4 billion); this was over EUR 0.5 billion more than at the end of 2004. Offers accounted

for 42 per cent (50) of all commitments; the offers come into effect if the export transactions and financial arrangements encompassed by the offers are carried out.

Export credit guarantees accounted for EUR 3,864.8 million (EUR 3,315.5 million) of all outstanding commitments, while raw material guarantees (import guarantees) accounted for EUR 38.1 million (EUR 51.6 million).

At year's end, one third of all outstanding commitments pertained to industrialised countries, a good fifth to Latin America and less than one fifth to Asia.

Among individual countries, the biggest commitments pertained to exports to the United States, Russia, Norway and Uruguay. Export projects in the telecommunications sector raised Russia's share, and ship financing raised Norway's share. In Asia, the biggest commitments pertained to China, and in the Middle East and North Africa to Turkey.

Broken down by the buyer's sector, 43 per cent of commitments concerned shipping companies, 37 per cent telecommunications and 20 per cent wood processing.

*A record number of guarantee offers*

The guarantee offers given reached a new record in 2005; most offers were given for exports to industrialised countries, Russia and Latin America.

As in 2004, demand focused on financing for shipyards and shipping companies and for the telecommunications sector. The combined share of the guarantees offered for these sectors accounted for 74 per cent of all guarantees granted in 2005. Wood processing increased its share markedly when seen against previous years; in 2005 it accounted for one fifth of all guarantees given.

*More guarantees for the export projects and transactions of shipyards*

Among Finnvera's export credit guarantee products, Finance Guarantees and Bond Guarantees are suited, for example, to pre-delivery financing in the shipyard industry. Bond Guarantees are generally granted for the shipyard as security for advance payments made by the client, while Finance Guarantees are granted as security for pre-delivery credits. The need for pre-delivery export credit guarantees stems from the production structure of the Finnish shipyard industry; in consequence, the demand for working capital is considerable.

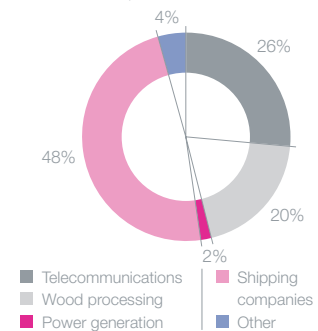
Finnvera makes its guarantee decisions separately for each project and requires risk-sharing with commercial financiers. The premiums collected by Finnvera correspond to the level applied by commercial financiers and guarantors. Thus, no support element is included.

Depending on the project, Finnvera may also participate in the buyer's financial arrangements through a Buyer Credit Guarantee. In that case, Finnvera's role extends from the initial stages of the shipbuilding contract to the delivery of the vessel. Thereafter it continues as liability pertaining to the buyer throughout the repayment period of the export credit, which complies with the OECD rules and does not exceed 12 years.

In 2005, the total value of Bond Guarantee offers covering domestic risks and pertaining to the export projects of the shipyard industry came to EUR 132.5 million (EUR 138.5 million). The value of the guarantees that came into effect was EUR 74.4 million (EUR 124.2 million). The Finance Guarantees offered amounted to EUR 809.1 million (EUR 379.0 million); the guarantees that came into effect totalled EUR 1,164.2 million (0).

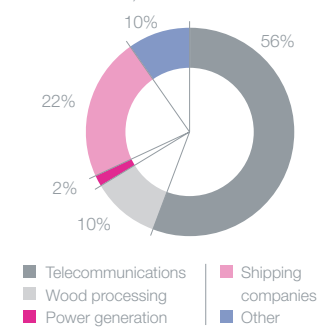
**Foreign risk-taking**

Guarantees offered, by buyer's sector  
1 Jan–31 Dec 2005  
Total MEUR 2,974.3



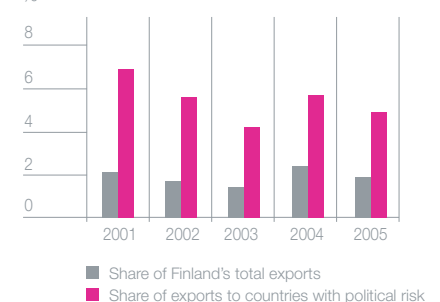
**Foreign risk-taking**

Guarantees that came into effect, by buyer's sector  
1 Jan–31 Dec 2005  
Total MEUR 1,406.9



**Foreign risk-taking**

Trends in exports covered by export credit guarantees %



On 31 December, Finnvera's current pre-delivery commitments in the shipyard industry, pertaining to exports, totalled EUR 469.4 million (EUR 164.9 million). There were no offers for pre-delivery guarantees (EUR 248.5 million).

The value of Ship Guarantees granted for financing Finnish shipyards and ship-owners totalled EUR 176.0 million (0). No Ship Guarantees came into effect during the year (EUR 101.4 million).

#### Russia the biggest export country

Guarantee offers for Russia rose by 16 per cent on the previous year, to EUR 474.1 million (EUR 410.3 million), and the amount of guarantees that came into effect tripled, to EUR 481.5 million (EUR 160.5 million). The biggest guarantees were given to banks that finance the exports of Finnish enterprises. Guarantees were offered, for instance, for the telecommunications sector, the paper and forest industries and for the basic metals industry. Guarantee commitments rose by 24 per cent, to EUR 471.5 million (EUR 380.7 million).

In terms of numbers, most guarantees offered were short-term Credit Risk Guarantees. At year's end, Finnvera guaranteed transactions with 81 Russian buy-

ers. The real growth in the total volume of guarantees was attributable to a couple of major transactions.

Russia accounted for over half of all guaranteed exports in 2005. This was by far the greatest share among all countries.

#### Steady demand for export credit guarantees among SMEs

SMEs accounted for 39 per cent of Finnvera's exporter clients. As subcontracting is becoming more common, the number of SMEs benefiting from export credit guarantees is many times greater.

Between 2001 and 2005, over 110 new SMEs applied for Finnvera's export credit guarantees pertaining to the financing of export transactions. Since one-off transactions, where the period of payment is not longer than a couple of months, are typical of most SMEs, the number of active SME exporters has remained steady.

The total value and number of guarantees associated with the exports of SMEs remained at the same level as the year before. The value of guarantees offered came to EUR 44.6 million (EUR 18.6 million). However, one single guarantee accounted for nearly 60 per cent of this sum. The value of guarantees that

came into effect was EUR 18.3 million (EUR 16.8 million).

Of the guarantees offered, 61 per cent concerned export transactions planned for Asian countries, while 30 per cent concerned exports to Russia. In terms of numbers, Russia was by far the most interesting target; over half of guarantees were granted for exports to Russia.

Of the guarantees that came into effect, Buyer Credit Guarantees accounted for EUR 6.3 million (EUR 3.7 million), Letter of Credit Guarantees for EUR 6.3 million (EUR 6.1 million), and Credit Risk Guarantees for EUR 5.7 million (EUR 7.0 million).

Guarantees on exports by SMEs, in particular, are restricted by the European Union's rules. Accordingly, when the risk period is under two years, Finnvera can only guarantee exports to countries outside the OECD industrialised countries. For SMEs, the principal export markets are in the EU Member States and in other industrialised countries. In addition, the exports of SMEs seldom consist of capital goods for which risk periods are generally at least two years and to which the EU rules do not apply.

#### Ship Guarantees and Environmental Guarantees against domestic risks for large enterprises; Finance Guarantees and Bond Guarantees pertaining to export projects and transactions

MEUR	Guarantees offered					Guarantees in effect				
	2005	2004	2003	2002	2001	2005	2004	2003	2002	2001
Ship Guarantees	176.0	-	132.4	-	-	-	101.4	23.3	-	-
Environmental Guarantees	-	-	133.3	-	-	-	-	133.3	-	-
Finance Guarantees										
Shipyards industry	809.1	379.0	90.0	180.0	-	1,164.2	-	270.0	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total	809.1	379.0	90.0	180.0	-	1,164.2	-	270.0	-	-
Bond Guarantees										
Shipyards industry	132.5	138.5	65.9	56.3	-	74.4	124.2	59.6	56.3	200.2
Other	-	-	40.0	35.6	-	-	-	-	35.6	-
Total	132.5	138.5	105.9	91.9	-	74.4	124.2	59.6	91.9	200.2



## Finnvera's Business Operations

**I**n 2005, the Finnish economy grew more slowly than had been expected. Growth sagged during the first half of the year because of labour disputes in the forest industry and international economic trends, but picked up towards the end of the year. According to preliminary data for 2005, Finland's total production increased by 2.1 per cent on the previous year. Industrial production fell, but trade and services showed a rising trend.

In 2004, Finnish exports rose to nearly EUR 48.8 billion, which is five per cent more than the year before. Exports were higher than this only in 2000. According to preliminary data for 2005, the value of exports was EUR 52.4 billion, or 7 per cent more than in the year before. Owing to increased re-exports of industrial products, the exports of industry from Finland continued to rise although the volume of industrial production in Finland fell. For instance in the electronics sector, a major share of export products were manufactured in countries other than Finland.

The Finnish industry's investments in real property increased by about 7 per cent in 2005. Investments have increased moderately since 2004, and slight growth is also expected for the current year. The targeting of investments has been undergoing a structural change in recent years. The importance of research and product development has risen, whereas the relative share of fixed investments has fallen.

Employment improved in 2005 more rapidly than had been anticipated; the employment rate is likely to rise to 68 per cent. Jobs were created especially in private services and in the building sector. The falling trend in the number of jobs in industry also levelled off.

According to the SME barometer survey published by Finnvera and the Federation of Finnish Enterprises in October 2005, SMEs have positive expectations for

the future and believe that their business operations will increase in 2006. The dent in the growth rate of the economy in early 2005 had no significant effect on the development or future outlook of SMEs. SMEs also expected to invest more than in the survey conducted the year before; the willingness to invest has increased especially in the building and service sectors.

### WORLD ECONOMY TRENDS

The International Monetary Fund predicts a growth rate of about 4.3 per cent for the world economy despite oil price peaks, natural catastrophes and the general imbalance of the world economy in 2005.

With a growth rate of 3.5 per cent, the United States continued to be the fastest growing industrial country. Despite the 6 per cent deficit in the current account, the value of the dollar did not plummet; on the contrary, the exchange rate of the dollar to the euro strengthened by 14 per cent during the year. The economic prospects of the United States weakened towards the end of the year when inflation picked up and the US Federal Reserve raised the interest rate of the dollar gradually to over 4 per cent. The devastation caused by hurricane Katrina will persist for a long time, even though its immediate impact on the overall growth rate of the economy in the United States was not great.

Economic growth in Europe is still concentrated in the emerging markets of Central and Eastern Europe. With a growth rate of 4.3 per cent, these markets are catching up with the standard of living in the euro area. The biggest countries of the euro area are slow to dismantle rigid structures in their economies, and the growth rate in the area will be under 1.5 per cent in 2005. Finland's economy grew by nearly 2 per cent, or slightly more than the average rate in the

euro area. The fastest growing euro country was Ireland, with a growth rate of 5 per cent.

The economic growth of developing countries has been rapid after the crises of the late 1990s. In 2005 the annual growth rate was 6.4 per cent. As in recent years, the world's fastest growing economies were China, India and Russia, with growth rates of around 7 per cent.

The basic structures of developing countries have strengthened; this is also reflected as improved international ratings. Owing to the favourable trend, the net amount of private capital flows to the developing markets reached a new peak, nearly USD 360 billion at the annual level. At the same time, the low interest rate and good liquidity of international financial markets have kept the price of financing low.

The imbalance in the world economy – Americans' credit-driven consumption financed mainly by Asian central banks – showed no signs of improvement during the year. Spurred by new impending threats, the risk of a global recession increased towards the end of the year.

During 2005 it became clear that high oil prices have come to stay. Between 2002 and 2004, the annual mean price of oil rose from USD 29 to USD 38 a barrel. In 2005, the price already reached USD 55 a barrel. Although the price of oil is not as important for the world economy as it was in the 1970s and 1980s, the high price of energy is a threat to global economic growth.

The dispute between Russia and Ukraine over the price of natural gas also made Europeans aware of their dependence on Russia's gas deliveries. Other conflicts posing a threat to the world economy are the continuing war in Iraq, the escalation of terrorism, the start of a nuclear programme in Iran and, as the most recent threat, the spread of avian flu.



For the world economy, the year 2006 started with many uncertainties.

#### Reporting on Finnvera's business

In accordance with Finnvera's new business strategy approved in December 2005, the operations of the Finnvera Group are divided into four business areas: regional financing; financing for growth and internationalisation; export financing; and venture capital investments.

Reporting on the year 2005 takes place according to three business areas: domestic financing; financing of exports; and venture capital investments.

Venture capital investments are carried out by Veraventure Ltd, which is owned 100% by Finnvera plc, and by Aloitusrahasto Vera Oy (Finnvera's holding 84.6 per cent) and Matkailunkehitys Nordia Oy (Finnvera's holding 63.25 per cent).



MARIANNA UUTINEN, Night and day, 2005.

Acrylic on canvas, diptych

203 x 153 cm each.



DOMESTIC FINANCING

As in the previous year, the favourable economic situation of SMEs was reflected in the demand for Finnvera's financial instruments. In 2005, the financing provided by Finnvera for the domestic operations of enterprises reached a new record: EUR 895.3 million. This is EUR 3.8 million, or 0.4 per cent more than the year before. Altogether 91 per cent of the financing was granted to micro-enterprises and SMEs. Loans accounted for 45 per cent, or EUR 405.8 million, and domestic guarantees and export guarantees together for 55 per cent, or EUR 489.5 million, of the total financing.

The most rapid growth in financing was recorded in the sectors of trade and consumer services and tourism, whereas financing for industry declined slightly. Most domestic financing was granted for the metals and wood products industries and for trade.

In 2005, financing increased the most rapidly in the regions of Etelä-Karjala, Satakunta and Päijät-Häme. The volume of financing granted annually varies from year to year, depending on the financing and investment needs of enterprises in each area. Major individual projects may mean considerable changes to the regional breakdown of the demand for financing at the annual level.

In 2005, Finnvera had 4,774 new clients (4,510). At year's end, Finnvera's clients numbered 27,369 (26,111), of which 22,535 (21,131) were micro-enterprises, 4,546 (4,664) were small and medium-sized enterprises, and 288 (316) were engaged in other business. The number of clients increased the most in the regional offices of Uusimaa, Kajaani and Joensuu.

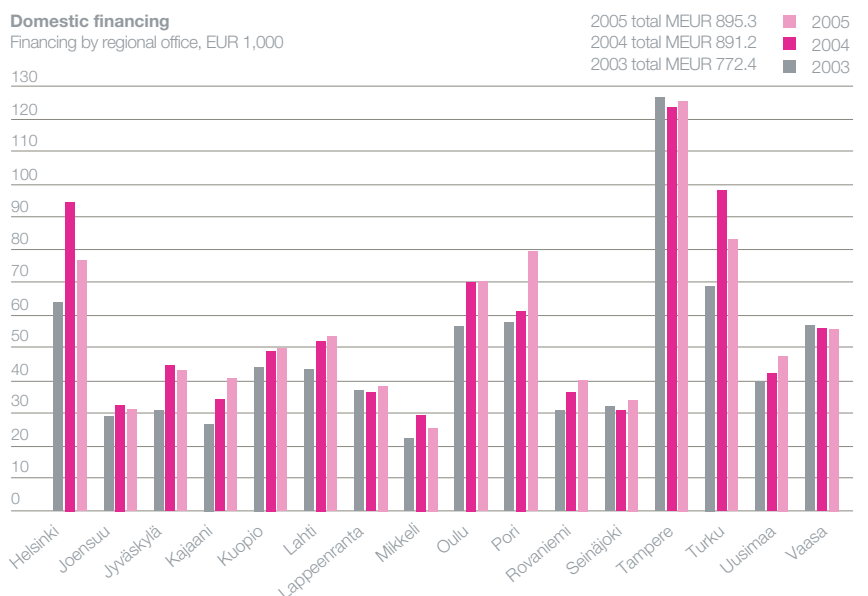
Record-high volume of financing for micro-enterprises

Finnvera's financing for micro-enterprises increased markedly in 2005, to a total of EUR 296.7 million (EUR 251.6 million). This is 18 per cent more than the year before. Financing targeted at micro-enterprises accounted for 33 per cent of all financing granted for the domestic operations of enterprises. The most popular micro-financing products were micro-loans and loans for women entrepreneurs; their total amount was EUR 57.8 million (EUR 53.0 million). The volume of loans for women entrepreneurs increased by 16 per cent on the previous year and reached a new record, EUR 25.7 million (EUR 22.1 million). Microloans and micro-guarantees were also in greater demand than before. The volumes of microloans and micro-guarantees given were EUR 32.1 million (EUR 31.0 million) and EUR 20.6 million (EUR 20.2 million), respectively.

Finnvera's micro-financing makes it possible to start a business and to develop enterprise operations and to

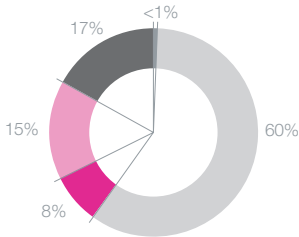
make investments when the collateral available is not sufficient to obtain financing on market terms. In micro-financing projects, Finnvera's task is to assist in the starting of a business. Once the operations have got off to a start, small enterprises are often able to finance their investments with their cash flow and by relying on financiers operating on market terms. Most micro-financing clients only employ the owner of the enterprise. In 2005, micro-financing helped create 4,437 new jobs (4,141), of which 46 per cent were created in the service sector and 19 per cent in trade.

The total value of entrepreneur loans granted in 2005 was EUR 25.5 million (EUR 28.6 million), or 11 per cent less than in the record-breaking year 2004. Demand for entrepreneur loans has continued to be brisk for several years – an indication that reorganisations are still common within SMEs. Entrepreneur loans have helped their recipients carry out numerous company reorganisations and generation changes and establish new enterprises.



**Domestic financing**

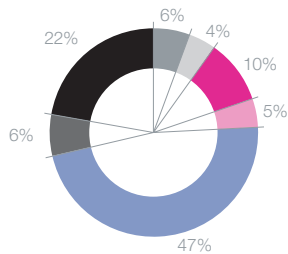
Financing, by sector  
1 Jan-31 Dec 2005  
Total MEUR 895.3



- Rural trades
- Industry
- Tourism
- Services to business
- Trade and consumer services

**Domestic financing**

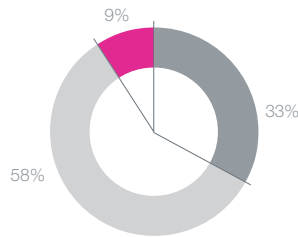
Financing, industry  
1 Jan-31 Dec 2005  
Total MEUR 533.3



- Manufacture of foods
- Manufacture of textile, clothing and leather products
- Manufacture of wood-based products
- Manufacture of chemical, rubber and plastic products
- Manufacture of metal products
- Electrical and electronics industry
- Other industry

**Domestic financing**

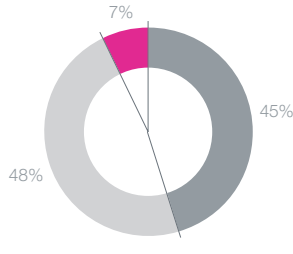
Financing, by enterprise size  
1 Jan-31 Dec 2005  
Total MEUR 895.3



- Micro-enterprises
- Other SMEs
- Major companies and other business

**Domestic financing**

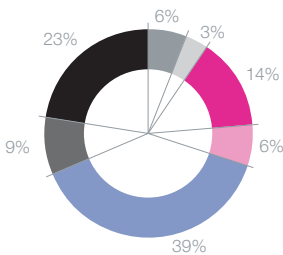
Financing, by product  
1 Jan-31 Dec 2005  
Total MEUR 895.3



- Loans
- Domestic guarantees
- Export guarantees and special guarantees

**Domestic financing**

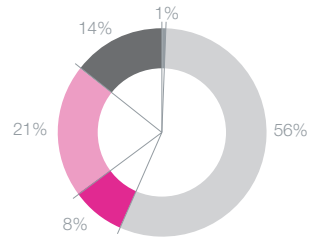
Outstanding commitments, industry  
31 Dec 2005  
Total MEUR 1,352.4



- Manufacture of foods
- Manufacture of textile, clothing and leather products
- Manufacture of wood-based products
- Manufacture of chemical, rubber and plastic products
- Manufacture of metal products
- Electrical and electronics industry
- Other industry

**Domestic financing**

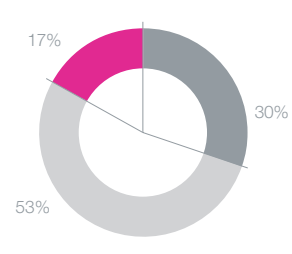
Outstanding commitments, by sector  
31 Dec 2005  
Total MEUR 2,417.5



- Rural trades
- Industry
- Tourism
- Services to business
- Trade and consumer services

**Domestic financing**

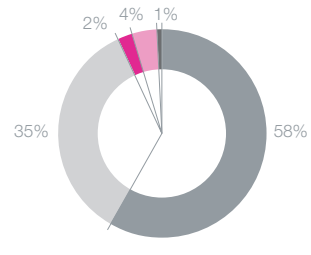
Outstanding commitments, by enterprise size  
31 Dec 2005  
Total MEUR 2,417.5



- Micro-enterprises
- Other SMEs
- Major companies and other business

**Domestic financing**

Outstanding commitments, by product  
31 Dec 2005  
Total MEUR 2,417.5



- Loans
- Domestic guarantees
- Export guarantees
- Share capital investments
- Guarantee receivables

In 2005, the financing provided by Finnvera for the domestic operations of enterprises reached a new record: EUR 895.3 million. This is EUR 3.8 million, or 0.4 per cent more than the year before.

Outstanding commitments continued to rise

In 2005, Finnvera's outstanding commitments increased in all enterprise size categories. At year's end, outstanding commitments totalled EUR 2.4 billion (EUR 2.3 billion), which is over 5 per cent more than the year before.

Outstanding guarantees rose by nearly 7 per cent and outstanding loans by a good 3 per cent. The growth of outstanding guarantees has been rapid in recent years, but slowed down during 2005. The share of guarantees among all outstanding commitments is expected to increase moderately in future as well. At the end of 2005, loans accounted for 58 per cent (60) and domestic guarantees and export credit guarantees together for 37 per cent (37) of all outstanding commitments.

In relative terms, outstanding commitments increased the most in Southern Ostrobothnia, Northern Savo, Southern Karelia and Kainuu. A slight decline was recorded in Eastern Uusimaa and Kymenlaakso. The trend in outstanding commitments depends not only on the financing granted each year, but also on the maturing of Finnvera's liabilities and on credit losses.

Broken down by sector, outstanding commitments rose the most in the sectors of trade and consumer services and in services to business.

More SME projects in nearby areas of Russia

The Ministry for Foreign Affairs and Finnvera have cooperated since 2003 for the preparation of projects to be carried out by Finnish SMEs in Russia. The principal goal is to augment the competitiveness of enterprises by expanding their market areas and by developing production-related cooperation and competence.

On the basis of analyses conducted by Finnvera's specialists, proposals were made in 2005 to grant EUR 600,000 for altogether 24 projects involving preliminary investigations and training. Especially in the metals and electronics industries, enterprises are increasingly interested in learning how to become established in nearby areas.

In 2005, Finnvera and the guarantee fund OAO (AKO) owned by the Leningrad Regional Administration worked on the Lentake project, where Finnvera's wood industry experts have participated in the development of the guarantee fund's corporate analysis methods.

### Domestic financing

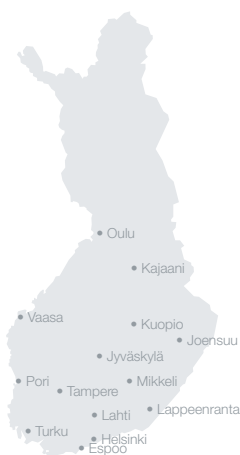
Key business indicators

	Financing			Outstanding commitments		
	2005	2004	Change %	31 Dec 2005	31 Dec 2004	Change %
<b>Total</b>	895.3	891.5	0.4	2,417.5	2,295.7	5
Loans	405.8	411.8	-1.5	1,412.0	1,365.4	3
Domestic guarantees	425.6	426.6	-0.2	841.8	796.1	6
Export guarantees	63.9	53.1	20.3	52.9	42.5	25
Share capital investments				95.8	78.8	22
Guarantee receivables				14.9	12.8	16
Micro-enterprises	296.7	251.6	17.9	734.5	639.2	15
Other SMEs	517.5	519.8	-0.4	1,274.2	1,266.8	1
Major companies and other business	81.0	120.1	-32.6	408.7	389.6	5

### Clients

	New clients			Clients, in total		
	2005	2004	Change %	2005	2004	Change %
Micro-enterprises	4,398	3,858	14	22,535	21,131	7
Other SMEs	367	638	-42	4,546	4,664	3
Major companies and other business	9	14	-36	288	316	9
<b>Total</b>	4,774	4,510	6	27,369	26,111	5

**Veraventure Ltd's target funds**  
31 Dec 2005



Oulu	Teknoventure Oy
Kajaani	Kainuun Pääomarahasto Oy
Vaasa	Oy Wedeco Ab
Kuopio	Savon Teknia Oy
Joensuu	Karinvest Oy
Jyväskylä	JyväSeed Fund Oy
Jyväskylä	Midinvest Oy
Mikkeli	Etelä-Savon Pääomarahasto Oy (ERDF share 49.60% share of votes 43.89%)
Pori	Karhu Pääomarahasto Ky ERDF holding
Tampere	Pikespo Invest Oy Ltd
Lappeenranta	Indekon Oy
Turku	Aboa Venture III Ky
Espoo	Spinno-Seed Oy
Helsinki	Uudenmaan Pääomarahasto Oy

The project, which continues until the end of 2006, is part of Finland's regional cooperation with Russia, supported by the Finnish Ministry of Trade and Industry.

The licence of Finnvera's representation office in St. Petersburg was renewed until 31 August 2008. In particular, the office maintains network relations in Russia and promotes knowledge of Russia among Finnvera's specialists.

**VENTURE CAPITAL INVESTMENTS**

By virtue of an amendment made to the Act on Finnvera, venture capital investments were included in the range of Finnvera's financial services as of the beginning of 2005. The Ministry of Trade and Industry has also set goals for Finnvera's venture capital investments. Within the Finnvera Group, venture capital investments are organised through Veraventure Ltd, Aloitusrahasto Vera Oy and Matkailunkehitys Nordia Oy.

During 2006 Finnvera plc will define ownership goals for its subsidiaries engaged in venture capital investments.

**Veraventure – a regional fund of funds**

Veraventure Ltd, founded in April 2003, is a venture capital investment company owned by Finnvera plc. For its own part, Veraventure is responsible for the investment activities of regional funds organised as limited companies, and for the development of these activities. In its operations, Veraventure complies with the Ministry of Trade and Industry's guidelines on regional venture capital investments and on the Finnvera Group's investment activities, and with the objectives set by the parent company. Furthermore, Veraventure Ltd serves as the management company of Aloitusrahasto Vera Oy, which began operations in autumn 2005.

In regional venture capital investments, Veraventure's goal is to support and promote regional industrial policy together with local actors, to supplement the financial market in equity investments, to ensure the availability of financing options for potential growth enterprises and to complement Finnvera's financial instruments and know-how.

Operating on the 'fund of funds' principle, Veraventure Ltd makes investments in regional funds organised as limited companies. Veraventure Ltd also works in close cooperation with Finnvera plc, with bodies investing in funds, with fund management companies, and with other actors on the market of enterprise financing. As the management company of the fund Aloitusrahasto Vera Oy, Veraventure Ltd is responsible for the fund's investments and for the development of target enterprises.

**An active year**

In 2005, Veraventure Ltd engaged actively in investment operations. The company made three share capital investments in existing funds. The company also participated in the establishment of a new regional fund, Uudenmaan Pääomarahasto Oy, by acquiring a considerable holding.

The company contributed to the national development of the strategy to revise the system of seed financing and services for starting innovative enterprises, and to the establishment of Aloitusrahasto Vera Oy.

**Aloitusrahasto Vera Oy started operations**

The operations of Aloitusrahasto Vera Oy are based on the strategy to revise the system of seed financing and services for starting innovative enterprises, published

by the Ministry of Trade and Industry in October 2004. In this strategy, the Ministry proposed the establishment of a new national seed fund for venture capital investments.

In June 2005, the Ministry of Trade and Industry decided to grant a capital loan of EUR 11.5 million from the State's Supplementary Budget to Finnvera plc for use as the share capital and above par value fund of the new national seed financing company. Finnvera invested these assets in Aloitusrahasto Vera Oy. Aloitusrahasto Vera Oy began operations on 15 August 2005.

In the share issue on 26 October 2005, the Finnish Association of Graduate Engineers invested EUR 1.1 million in Aloitusrahasto Vera Oy, and in the share issue on 23 November 2005, the Finnish National Fund for Research and Development (Sitra) invested one million euros. During the financial year, the shareholders' investments in the fund totalled EUR 13.6 million.

Investments in starting innovative enterprises

The operations of Aloitusrahasto Vera Oy are guided by the conditions of the capital loan granted by the Ministry of Trade and Industry, by the outlines defining the Finnvera Group's venture capital investments, and by the strategic goals set by the parent company.

In the main, the fund invests in technology enterprises at their initial stages, and in technology-intensive or innovative service enterprises. The target enterprises must have the potential to develop into growth enterprises. As concerns its equity investments and external capital investments, the fund complies with the European Union's rules on state subsidies.

The fund works as a venture capital investor supplementing the financial market at the initial stages of an enterprise's operations, when financing is not yet available from private or public venture capital investors. The purpose of the fund is to eliminate the gap existing between the financing schemes for product development and private venture capital investment.

More applications than anticipated

The fund's investment activities were launched in autumn 2005. During the financial year the fund carried out two investments. The number of applications has exceeded the estimate made in advance.

The fund does not have any employees; all practical work is carried out by Veraventure Ltd.

Matkailunkehitys Nordia Oy

Matkailunkehitys Nordia Oy is a venture capital investment fund established in 1989. Organised as a limited company, it specialises in the travel industry.

The company is owned by Finnvera and the Finnish National Fund for Research and Development (Sitra). In 2005, Finnvera plc invested an additional EUR 1 million in the share capital of Matkailunkehitys Nordia Oy. Finnvera owns 63.52 per cent and Sitra 36.48 per cent of Nordia.

Financing for enterprises serving as engines for growth

Matkailunkehitys Nordia Oy invests in travel industry enterprises and in enterprises providing services to promote well-being, work ability and fitness. These growth-oriented enterprises must have the prerequisites for profitable business.

Matkailunkehitys Nordia Oy Investments  
31 Dec 2005



FTM Incoming Oy	Hämeenlinna
Go Finland Oy	Helsinki
Hotelli Luostotunturi Oy	Sodankylä
Jyväskylän Laajavuori Oy	Jyväskylä
Kalajoen Kylpylähotelli Oy	Kalajoki
Kiinteistö Oy Saimaan Lomaranta	Taipalsaari
Kristina Cruises Oy	Kotka
Kuutaranta Golf Oy	Naantali
Kuntokumppanit Oy	Helsinki
Levi Magic Oy	Kittilä
Lomakeskus Saimaanranta Oy	Taipalsaari
Lomakouhero Oy	Karstula
Muumimaailma Oy	Naantali
Opteam Henkilöstöpalvelut Oy	Helsinki
Savonlinnan Seuruhuone Oy	Savonlinna
Yyterin Kylpylähotelli Oy	Pori
Ähtärinreitit Loma Oy	Ähtäri

In the main, the fund offsets market deficiencies, supports entrepreneurs and shares risks in projects where enterprises cannot obtain financing merely on market terms, or when an investment made by Nordia is a precondition for obtaining such financing. Financing solutions are the result of cooperation between Nordia, Finnvera plc and banks – often including other public sources of financing as well.

Nordia's objective is mainly to invest in travel-industry enterprises that serve as engines for growth in their regions. In addition, Nordia has helped establish starting enterprises that are important for their regions or otherwise for the development of the travel industry.

Nordia operates side by side with the entrepreneurs as a temporary minority holder and developer. Investments may be equity investments or external capital investments. In making venture capital investments, Nordia's goal is to obtain returns equalling the investment risks, either during the investment period or at the latest when giving up the investment.

Through venture capital investments and participation in the development of the enterprise, Nordia strives to achieve sound, profitable and socially responsible business that has direct or indirect employment effects in the enterprise's operating area. Another goal is to pro-

mote the business of enterprises that serve as the travel-industry enterprise's subcontractors or other cooperation partners. Within the investment period agreed, enterprises should reach a development stage where the fund can give up its investment.

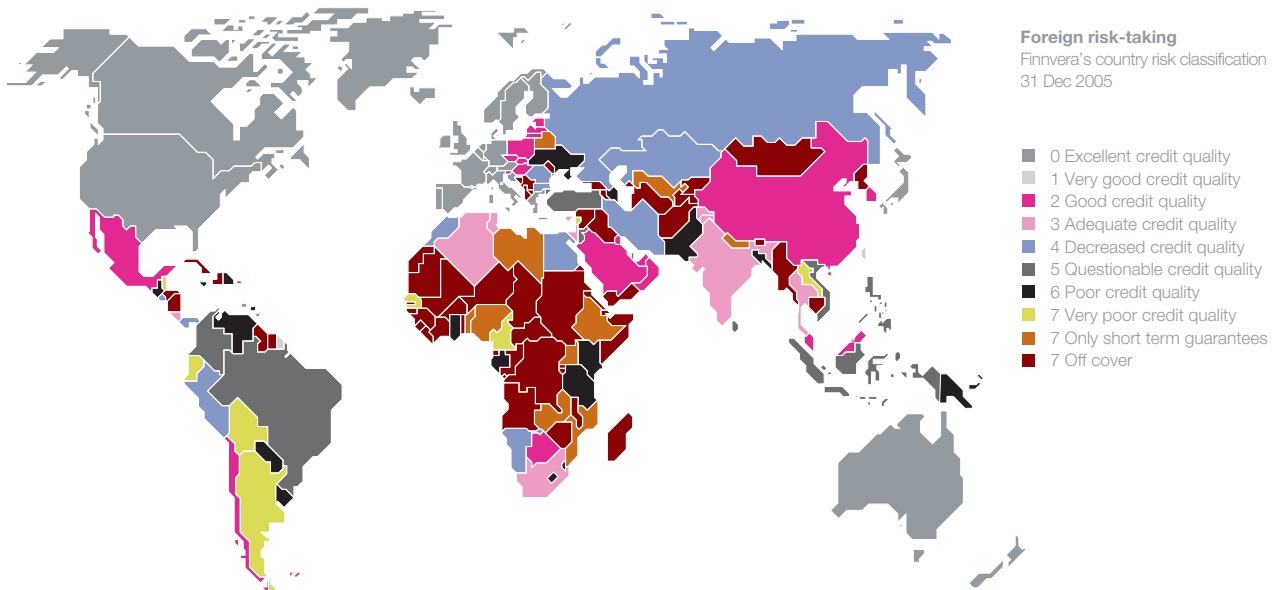
Work to over 1,000 people

At year's end, Nordia had 17 investment targets, most of them travel-industry enterprises. During the year, the fund made four initial investments and two further investments. The fund gave up its investments in four targets. In two of them, Nordia's investment was purchased by the entrepreneur, and one target was sold as part of an international company reorganisation. One smaller holding was transferred to a travel-industry enterprise in Lapland. The representatives of the fund played an active role in the plan-

ning and development of operations in the enterprises where investments had been made.

The combined turnover of the enterprises where the fund had made investments was about EUR 63 million in 2005. The enterprises gave work to a little over 1,000 people on a permanent basis and to many more during the peak seasons. Besides the direct employment effect, the enterprises have an important regional employment effect since they provide work for other companies, such as cleaning and property maintenance firms. Moreover, the enterprises use local suppliers, producers of programme services and other cooperation partners and subcontractors to supply raw materials, goods and services.

Matkailunkehitys Nordia Oy's profit for the financial year was about EUR 260,000. The company distributed EUR 130,000 as dividends to its shareholders.





EXPORT CREDIT GUARANTEES

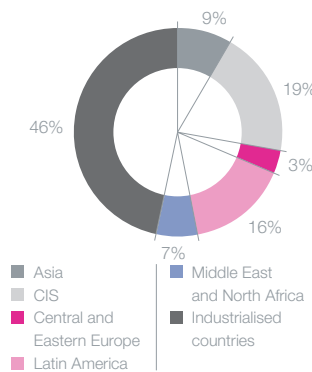
In 2005, exporters and financiers submitted a total of 282 (304) guarantee applications pertaining to planned export transactions that would involve foreign risk-taking. The value of the applications came to EUR 4.4 billion (EUR 6.5 billion).

In 2004, the value of applications had been exceptionally high because of numerous offers given for shipbuilding. In 2005, the number of guarantee applications returned to a level that corresponds to the average during Finnvera's history. At year's end, Finnvera had 123 guarantee applications under processing (104); their total value was EUR 4.3 billion (EUR 5.6 billion).

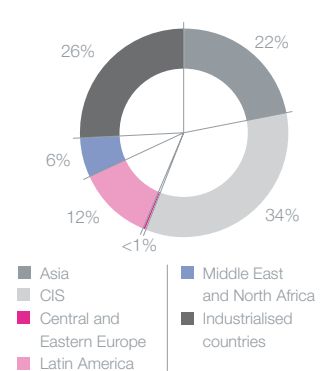
Most guarantee offers given in 2005 concerned exports to industrialised countries, Russia and Latin America. Out of the guarantees that came into effect – in total EUR 1,406.9 million – Russia accounted for 34 per cent, Norway for 18 per cent, Thailand for 10 per cent, Mexico for 9 per cent, and Sweden and the Philippines each for 6 per cent.

The value of guarantees that came into effect was over 40 per cent greater than the year before, or EUR 1,406.9 million (EUR 987.1 million). This is a new record for Finnvera.

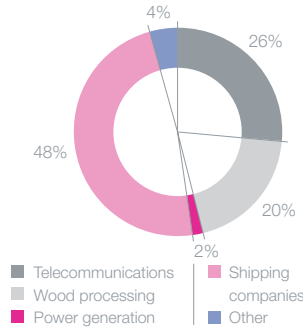
**Foreign risk-taking**  
Guarantees offered, by region  
1 Jan–31 Dec 2005  
Total MEUR 2,974.3



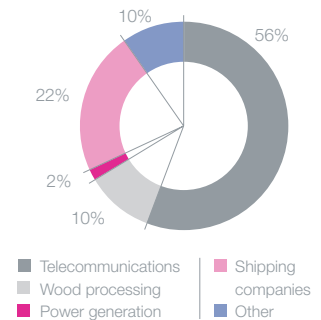
**Foreign risk-taking**  
Guarantees that came into effect, by region  
1 Jan–31 Dec 2005  
Total MEUR 1,406.9



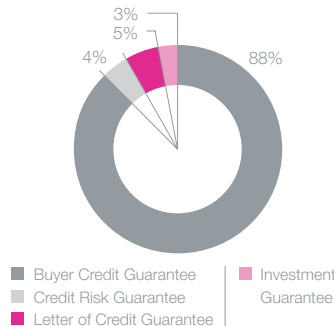
**Foreign risk-taking**  
Guarantees offered, by buyer's sector  
1 Jan–31 Dec 2005  
Total MEUR 2,974.3



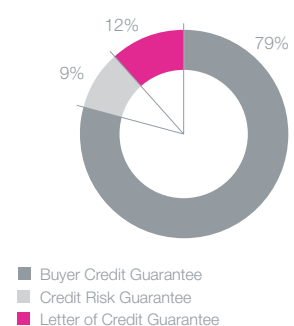
**Foreign risk-taking**  
Guarantees that came into effect, by buyer's sector  
1 Jan–31 Dec 2005  
Total MEUR 1,406.9



**Foreign risk-taking**  
Guarantees offered, by product  
1 Jan–31 Dec 2005  
Total MEUR 2,974.3



**Foreign risk-taking**  
Guarantees that came into effect, by product  
1 Jan–31 Dec 2005  
Total MEUR 1,406.9



The number of new guarantee offers was 194 (224) and their total value came to EUR 2,974.3 million; this is one third more than in 2004 (EUR 2,209.4 million). The figure was the highest in Finnvera's history.

Greatest demand for guarantees in shipbuilding, telecommunications and wood processing

As in the previous year, demand for guarantees focused on the shipbuilding and shipping industries, which accounted for 48 per cent of guarantee offers (25), and on financing for telecommunications, which accounted for 26 per cent (56). Compared with previous years, wood processing attracted exceptionally much interest in 2005, accounting for 20 per cent (5) of the guarantees granted. Some of the guarantees granted in 2005 will come into effect in 2006 or later.

The biggest guarantee sums were offered for exports to the United States, Russia, Norway, Uruguay, Thailand, Turkey and Mexico. As in previous years, the highest number of guarantees was offered for exports to Russia, which accounted for nearly one third of the total.

A new record for the value of guarantees that came into effect

The value of guarantees that came into effect was over 40 per cent greater than the year before, or EUR 1,406.9 million (EUR 987.1 million). This is a new record for Finnvera.

Out of the guarantees that came into effect, Russia accounted for 34 per cent, or EUR 481.5 million; Norway for 18 per cent, or EUR 260.0 million; Thailand for 10 per cent, or EUR 144.1 million; Mexico for 9 per cent, or EUR 129.8 million; Sweden for 6 per cent, or EUR 91.0 mil-

lion; and the Philippines for 6 per cent, or EUR 86.3 million. The guarantees cover political and/or commercial risks pertaining to 37 (43) countries.

Out of the guarantees that came into effect, telecommunications accounted for 56 per cent, or EUR 785.9 million (EUR 597.6 million); shipping companies for 22 per cent, or EUR 309.1 million (EUR 2.4 million); wood-processing for 11 per cent, or EUR 149.4 million (EUR 84.8 million); and power generation for 2 per cent, or EUR 25.2 million (EUR 177.0 million).

Telecommunications transactions in Russia, Ukraine, Asia and Latin America

In February, Finnvera guaranteed the entire credit of USD 100 million that ING Bank N.V. arranged for Smart Communications Inc, the biggest mobile phone operator in the Philippines. For financing new exports, the credit was used to refinance credits that Finnvera had guaranteed earlier.

In March, Finnvera gave a Credit Risk Guarantee of EUR 60 million, which was used by Nokia to transfer credit risks to Finnvera. The risks involved export transactions in Russia, and the guarantee was granted with 100% coverage.

Finnvera participated in the financing arrangement of USD 541.5 million that was concluded in June and used by the Russian mobile phone operator OJSC MegaFon to finance, for instance, Nokia's network supplies. The financing was arranged by Citibank N.A. and ING Bank N.V.

In July Finnvera granted a Buyer Credit Guarantee of USD 150 million. The guarantee was used by Nordea Bank Finland plc to share risks involved in Nokia's exports to Latin America with Finnvera. Finnvera's guarantee covered 85 per cent of the associated commercial and political risks. With this arrangement and an

arrangement implemented earlier, commercial banks have been able to share risks of USD 260 million with Finnvera.

In September, Finnvera granted a Buyer Credit Guarantee of USD 170 million to cover political and commercial risks involved in Nokia's supplies to Total Access Communication Public Company Limited (DTAC) in Thailand. The guarantee covers 90 per cent of political and commercial risks. The credit was arranged by ABN Amro Bank N.V.

In December, LLC Astelit, the third GSM-operator in Ukraine, carried out a project financing arrangement of USD 735 million, to which Finnvera also contributed by granting a Buyer Credit Guarantee to finance Nokia's export transactions. Finnvera guaranteed an export credit of USD 117.5 million with 100% coverage against political risks and 85% coverage against commercial risks.

Ships to Norway, the United States and Russia

On 31 May 2005, the Helsinki shipyard of Aker Finnyards delivered a double-acting icebreaker and supply vessel to Far Eastern Shipping Company (FESCO). The vessel will operate in Russian waters, in the difficult environment of the Sea of Okhotsk, as a supply vessel for the ExxonMobil consortium's oil-drilling platform in the Sakhalin 1 field. The vessel is also equipped for oil combatting and fire fighting. Finnvera's contribution to the financing of the transaction was a Buyer Credit Guarantee granted for the credit arrangement of over USD 60 million. The credit is arranged by ING Bank N.V.

In November, Finnvera signed a Buyer Credit Guarantee agreement concerning the delivery of the Color Magic, a cruise vessel equipped with a car deck and built by Aker Finnyards, to Color Line AS, the leading shipping company in

Norway. The purchase price of the vessel is EUR 325 million and it is the sister vessel of the Color Fantasy, which was delivered in December 2004. The Color Magic will start in traffic in autumn 2007. The post-delivery financing consists of a credit of EUR 130 million, guaranteed by Finnvera, and a commercial credit of the same magnitude. The credit was arranged by DnB NOR Bank ASA, Fokus Bank ASA, HSH Nordbank AG and Nordea Bank Norge ASA. Another participant in the financing is Eksportfinans ASA.

In December, Aker Finnyards and Royal Caribbean Cruises signed an agreement on the construction of three of the world's biggest cruise vessels. The vessels will be built at the Turku shipyard of Aker Finnyards. Finnvera's pre-delivery financing arrangement covers 50 per cent of the credit arrangement of EUR 384 million. The credit is arranged and financed by Skandinaviska Enskilda Banken AB.

Deals with the neighbouring countries for the wood-processing and basic metals industries

Within the wood-processing industry, the biggest guarantee offers were given as security for the financing of machine and equipment deliveries that are part of forest industry investments in South America. Major guarantee offers pertaining to individual investments were also given for transactions in Sweden, Russia and Turkey.

The biggest export credit guarantee projects were implemented in Finland's neighbouring countries. In February 2005, Finnvera granted a Buyer Credit Guarantee for the financing arranged by ABN Amro Bank N.V. to enable the delivery of Andritz's soda recovery boiler to Sweden. Finnvera's guarantee covers a share of USD 43 million of the financing.

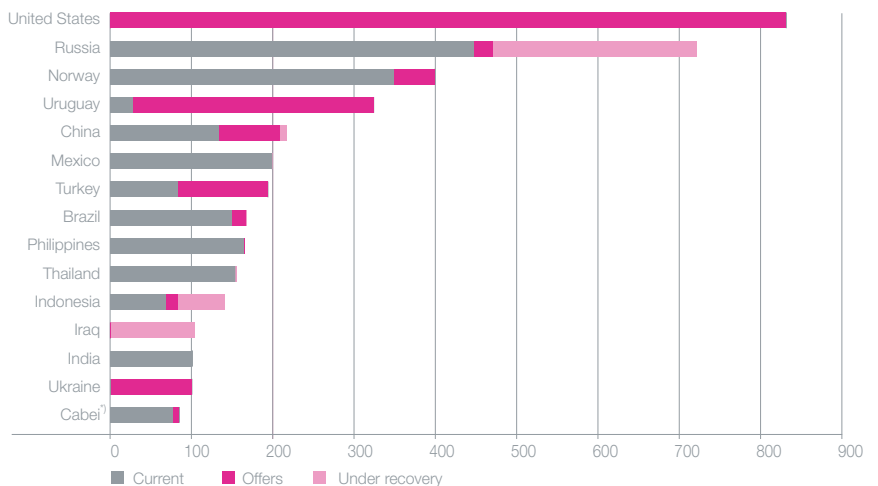
In April 2005, a Buyer Credit Guarantee was granted for the credit line arrangement of HSH Nordbank AG to finance deliveries by several exporters to the Ilim Pulp Group companies in Russia. Ilim Pulp is a major Russian forest industry group. Its main products are pulp and board. The credit sum is EUR 40 million and the maximum credit period is five years. Credits under the arrangement are used to finance, for instance, equipment deliveries by Andritz and Metso Paper to Ust-Ilimsk pulp mill and forestry equipment deliveries by John Deere Forestry. Thanks to the credit line arrangement, credits can be arranged for several transactions once the basic preparations have been made. The arrangement can also include smaller transactions.

Another export credit guarantee project that materialised in the forestry sector in Russia concerned modernisation of a pulp mill. For this purpose, Finnvera granted a Buyer Credit Guarantee to ABN Amro Bank N.V. in June 2005.

Thanks to the favourable price trend of metals, investments in mining and metal processing continued to be brisk. Demand for guarantees concerned countries and projects that involved clearly higher risks than before.

Demand for guarantees in the mining and basic metals industries also remained lively. The biggest export credit guarantee project carried out in the metals industry consisted of overhead crane deliveries by KCI Special Cranes to OJSC Magnitogorsk Iron and Steel Works ("MMK") of Russia. The crane deliveries are part of MMK's extensive modernisation project of its steel mill. MMK is Russia's biggest individual steel mill; its annual capacity is over 11 million tonnes of raw steel. The credit sum guaranteed by Finnvera is USD 39 million, and the repayment period is five years. The lender is ABN Amro Bank N.V.

15 biggest country exposures, 31 Dec 2005 (Finnvera plc and State Guarantee Fund)



<sup>1</sup>Cabei is the Central American Bank for Economic Integration. The export transaction took place in Honduras.

Guarantees that protect financiers raised their share

The most important guarantee type in foreign risk-taking is the Buyer Credit Guarantee. Granted to the financier of an export transaction, it protects the financier against risks associated with the borrower or the borrower's country. The Buyer Credit Guarantee means that the exporter gets the purchase price on cash terms and the credit risk is transferred to the lender and further to Finnvera. The share of Buyer Credit Guarantees out of all guarantees offered in 2005 rose to 88 per cent, or to EUR 2,605.9 million. At year's end, the outstanding commitments for Buyer Credit Guarantees totalled EUR 3,524.2 million.

Other important guarantee products include the Credit Risk Guarantee, granted to exporters, and the Letter of Credit Guarantee, which is granted to banks confirming Letters of Credit. In total 94 Credit Risk Guarantees, 50 Letter of Credit Guarantees and 49 Buyer Credit Guarantees were offered in 2005.

The value of the exports covered by means of Buyer Credit, Credit Risk and Letter of Credit Guarantees totalled EUR 999.8 million (EUR 1,156.3 million).

Fewer guarantees for concessional credits

By virtue of the Act that came into effect in 2001, Finnvera serves as the guarantor of concessional credits granted by the Ministry for Foreign Affairs for projects in developing countries. Finnvera also participates in assessment of the eligibility of projects for guarantees and interest support. The Ministry for Foreign Affairs assesses the projects and decides whether interest support is granted. Concessional credits can be arranged by all credit institutions operating in the European Economic Area.

During the year under review, Finnvera received 10 applications for concessional credits (16). The total value of these applications was EUR 70.5 million (EUR 161.3 million). The applications pertained to transactions planned to take place in Asia and Africa.

Steady number of clients

At the end of 2005, Finnvera had nearly 210 clients in foreign risk-taking, i.e. exporters or their financiers.

'Client' means an enterprise or a financier whose application for an export credit guarantee is being processed by Finnvera, who has received a guarantee offer, or whose export credit guarantee has come into effect once the export transaction has materialised.

Number of claims still small

The guarantee premiums and handling fees collected through foreign risk-taking totalled EUR 39.0 million (EUR 32.9 million).

The claims paid by virtue of foreign risk-taking totalled EUR 0.2 million (EUR 1.6 million) during the year under review. All claims pertained to commercial risks that had materialised. As in previous years, the amount of claims paid during the year was small when seen against the volume of operations. EUR 3.8 million of claims paid because of commercial risks was recovered during the year.

By virtue of an agreement made with the Ministry of Trade and Industry, since 1 January 1999, Finnvera has managed the 'old guarantee stock' of the State Guarantee Fund, against a fee. The management fees Finnvera received from the Fund came to EUR 1.0 million. Of this sum, foreign risk-taking accounted for EUR 0.7 million and domestic financing for EUR 0.3 million. The total sum and

The interest equalization provided by Finnish Export Credit improves the opportunities of financial institutions to arrange internationally competitive, long-term and fixed-interest financing for exports.

the breakdown of the 'old' guarantees are presented in more detail on page 50.

**Finnish Export Credit Ltd**

Together with Finnvera plc, which grants export credit guarantees, Finnish Export Credit strives to ensure a competitive public export financing system.

Finnish Export Credit administers the interest equalization system for officially supported export credits and domestic ship financing in accordance with the OECD Arrangement. The interest equalization system is based on law. The interest equalization provided by Finnish Export Credit improves the opportunities of financial institutions to arrange internationally competitive, long-term and fixed-interest financing for exports.

Finnish Export Credit also promotes exports by providing export credits in cases where the borrower is a party referred to in tax treaties concluded with certain countries and the arrangement involves a withholding tax benefit. Finnish Export Credit is a subsidiary owned 100% by Finnvera plc. Like its parent company, it is an internationally approved official export credit agency (ECA).

Interest equalization offers for enterprises and financiers

In an interest equalization system, a financial institution arranges for its client – usually a buyer of Finnish capital goods or services – an export credit based on a fixed commercial interest reference rate (CIRR), in compliance with the terms of the OECD Arrangement. The financial institution is responsible for funding the export credit. The interest equalization agreement signed by the financial institution with Finnish Export Credit provides the financial institution with a hedge,

which converts the fixed CIRR-based asset into a floating rate asset. At its discretion, the financial institution can cover the credit risk with Finnvera's export credit guarantee or in some other way.

Finnish Export Credit gives interest equalization offers to companies and financial institutions at an early stage of commercial negotiations. Interest equalization agreements are made with investment grade financial institutions having a cooperation agreement with Finnish Export Credit. The procedure of interest equalization is based on terms set by ISDA (International Swaps and Derivatives Association, Inc.). The State of Finland is responsible for any interest support payable to financial institutions on the basis of interest equalization agreements.

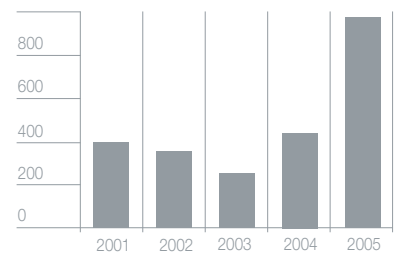
Export credits are usually arranged by commercial banks with extensive experience in export and project finance. Based on tax treaties concluded by Finland, Finnish Export Credit enjoys a more favourable tax treatment than commercial banks in many countries. Finnish Export Credit can grant credits to borrowers in these countries, thereby reducing the costs of the financial arrangements.

Value of interest equalization agreements rising

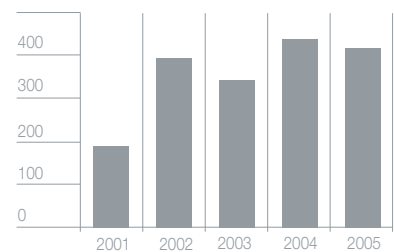
At year's end, Finnish Export Credit had cooperation agreements with 13 banks and with three specialised credit institutions or ECAs.

The total value of interest equalization offers given in 2005 amounted to EUR 8.8 billion (EUR 7.6 billion). The value of interest equalization commitments made in 2005 on the basis of signed credit agreements totalled EUR 0.8 billion (EUR 0.7 billion). The total value of interest equalization agreements con-

**Finnish Export Credit Ltd**  
Value of interest equalization agreements  
Me



**Finnish Export Credit Ltd**  
Outstanding credits  
Me



cluded was EUR 730 million (EUR 297 million).

At the end of 2005, the value of all interest equalization agreements in force totalled EUR 978 million (EUR 441 million). The maturity of outstanding agreements extends until 2014.

During 2005, Finnish Export Credit acted as a lender in five new export credit arrangements.



## Risk Management

As a financier supplementing the financial market, Finnvera takes higher credit risks than financiers operating on commercial terms. Domestic financing and export credit guarantees are based on specialised Acts that define the grounds for Finnvera's risk-taking.

The State of Finland compensates Finnvera for some of the losses that arise in domestic financing. Using revenues from its operations, Finnvera must cover its own share of any domestic credit and guarantee losses arisen from one economic cycle to the next. In regard to export credit guarantees, both the State Guarantee Fund and the State of Finland secure foreign risks pertaining to the country, bank or enterprise. In the long term, profits from operations must cover the expenses and guarantee losses arising from operations. Finnvera's goal is to take credit risks in a controlled manner in line with its operating principles, and to hedge against other risks or to minimise them.

Owing to the nature of Finnvera's business, risk management plays an important role in maintaining the company's risk-taking capacity and in reaching its financial targets over the long term.

Finnvera's Board of Directors and upper management are responsible for arranging and organising internal control and risk management. The Board approves decision-making powers, the principles of risk management and the outlines for risk-taking. In keeping with the company's strategy, the outlines ensure a controlled increase in risk-taking, especially as concerns starting and growth enterprises. For its part, risk management ensures prerequisites for implementing the company's strategy.

Domestic risk-taking is guided through office-specific risk-taking goals, taking into account, for instance, differences in the clientele and operating envi-

ronment of each office. The risk-taking goals are based on the targets set for Finnvera vis-à-vis its ownership policy, profitability and effectiveness. Risk-taking pertaining to export credit guarantees is guided by means of the country and guarantee policies ratified by the Board of Directors.

Working independently of Finnvera's business areas, the Risk Management Unit is responsible for the development of policy, methods and guidelines for risk management, and for the monitoring of the company's risk standing. The Risk Management Unit reports to the Managing Director. Internal auditing monitors and ensures that the guidelines approved by the Board are followed. Practical measures associated with risk management are part of the company's day-to-day management and are carried out by the entire Finnvera organisation and all Group companies.

### CREDIT AND GUARANTEE RISKS

*The risk of a credit loss* arises when a debtor or another counterpart does not meet his obligations to the full. In domestic financing, the reason for a credit loss may be the insolvency of a corporate client. In the case of export credit guarantees, a guarantee loss may stem from the inability or unwillingness of a country, bank or corporate client to meet their payments.

*Management of credit risks in domestic operations* is based on the assessment of credit risks for each enterprise. Finnvera applies a risk classification system of eight categories. When a decision on financing is made, the account manager is responsible for assessing the credit risk, applying the risk classification and drafting the financing proposal. The risk classification of Finnvera's client companies is updated at least every sec-

ond year. The value of any available collateral is also assessed and updated in a similar way.

Finnvera monitors its risk-taking monthly by means of a diverse set of indicators. The main indicators in risk management are as follows: distribution of current commitments and the change in commitments by risk category; the anticipated statistical value of credit losses, describing the amount of risk-taking in terms of outstanding commitments and the financing granted; and the credit losses that have materialised.

*For granting export credit guarantees* Finnvera classifies countries into eight categories. The classification is based on methods used by export credit agencies and on country risk assessment. Since there may be considerable differences between individual countries, even within the same category, risk-taking is based on a separately defined country policy. Various factors affect the determination of the country category: assessment of the country's ability to manage its external liabilities; expectations of the future trend of the country's economy; and political stability and the legislative framework. Finnvera keeps a close eye on the economic and political situations of countries and makes adjustments to country categories according to the changes that have occurred. The category of each country is checked at least once a year.

*The taking of bank risks* is based on an assessment of each country's banking system and on the risk analyses and risk ratings of individual banks. On the basis of both qualitative and quantitative factors, a risk-taking outline is determined for each individual bank, depending on the risk category. The risk rating of banks is updated whenever needed and always when new projects are introduced.

*The taking of enterprise risks* is based on an analysis of the enterprise's manage-

ment, business and finances. The analysis can be concise in small and short-term guarantees. The analysis results in internal risk classification, which partly corresponds to the risk classification method used by international rating agencies. The classification is updated when new projects are introduced and at least once a year.

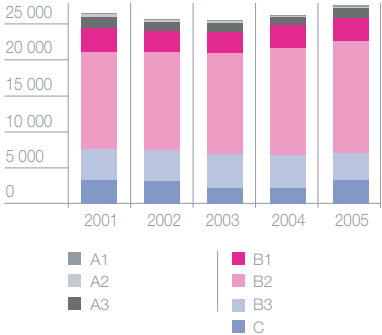
RISK-TAKING TRENDS DURING THE YEAR UNDER REVIEW

*Outstanding commitments in domestic financing* rose by EUR 122 million and stood at about EUR 2.4 billion at year's end. Most outstanding commitments are in risk categories B1 and B2. During 2005, outstanding commitments shifted slightly towards greater risks. Especially the volume of commitments in risk category A has been falling during the past few years. In consequence of some individual major bankruptcies in 2005, the amount of credit losses was significantly greater than in previous years.

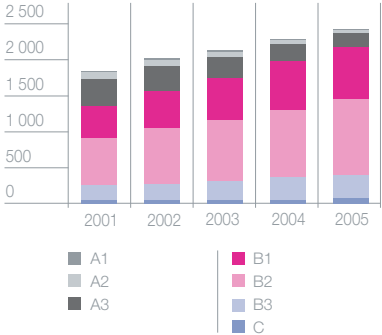
At the end of 2005, *foreign risk-taking* as referred to in the *Act on the State's Export Credit Guarantees*, totalled EUR 4.1 billion. Outstanding commitments rose by EUR 0.6 billion during the year. A considerable proportion of the current guarantees and binding offers is in country category 0 and in categories 4–5. Only slight changes occurred in the distribution of guarantees between various risk categories during 2005; the distribution can be considered normal in export credit guarantee operations.

*Outstanding commercial commitments for foreign enterprises and Finnish shipyards* increased by 25 per cent during 2005, to EUR 3.8 billion at year's end. The biggest commitments were in the sectors of shipping companies, shipyards and

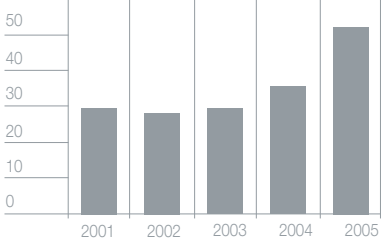
**Domestic financing**  
Clients by risk category



**Domestic financing**  
Outstanding commitments by risk category, MEUR

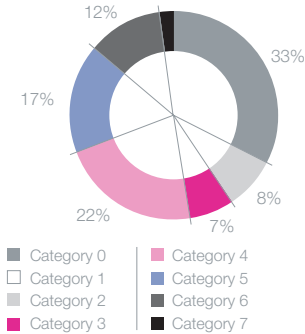


**Domestic financing**  
Credit and guarantee losses EUR 1,000



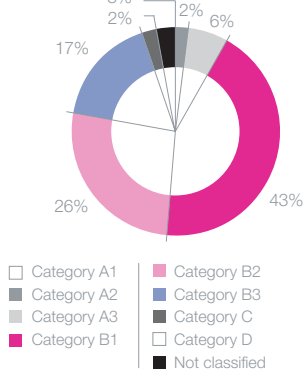
**Foreign risk-taking**

Guarantees offered, by country risk category  
31 Dec 2005  
Total MEUR 4,099  
(Finvera plc and State Guarantee Fund)



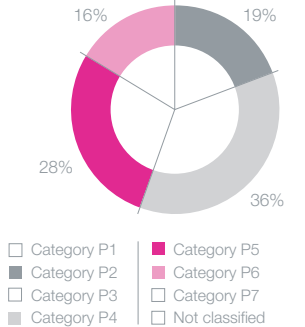
**Foreign risk-taking**

Commercial commitments for foreign enterprises and Finnish shipyards, by risk category  
31 Dec 2005  
Total MEUR 3,817  
(Finvera plc and State Guarantee Fund)



**Foreign risk-taking**

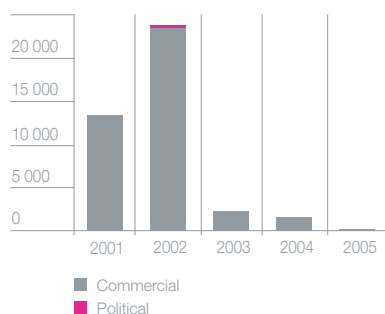
Commercial commitments for banks, by risk category  
31 Dec 2005  
Total MEUR 447  
(Finvera plc and State Guarantee Fund)





**Foreign risk-taking**

Claims paid by virtue of export credit guarantees  
Total MEUR 199.5



telecommunications. Together these three accounted for 77 per cent of all enterprise commitments. Thanks to the recent favourable trends, enterprises continued to have better risk ratings; at year's end, 43 per cent of commitments were in category B1, which is near the investment level. Categories B1–B3 dominated new risk-taking. The amount of guarantee losses was low in 2005.

At the end of 2005, the total value of reinsurance agreements and other corresponding arrangements made by Finnvera to hedge against risks was EUR 49 million.

**CALCULATION OF CAPITAL ADEQUACY**

The operating environment of financial markets will undergo major changes at the beginning of 2007 when the calculation of the capital adequacy of banks is revised according to the Basel II Framework. Finnvera is not required to apply Basel II, but a decision has been made to calculate Finnvera's capital adequacy according to the new regulations. The choice of method is currently under study in order to determine the most

practical one for Finnvera – the standard model or a more sophisticated model based on internal risk classification.

The Acts concerning Finnvera have been amended to the extent necessary in order to keep the risk weight of Finnvera's guarantees at zero weight in the capital adequacy calculations of banks.

**MARKET RISKS**

The interest rate and exchange rate risks associated with credit operations are managed in accordance with guidelines decided by the Board of Directors. Risks are minimised by reconciling the terms of borrowing and lending by means of, for instance, interest rate and currency swaps. Risks are monitored, and the Board of Directors receives reports on risks on a regular basis. The effect of market risks on Finnvera's performance is deemed to be small.

Clients have usually opted for credits linked with a variable reference interest rate (over 90 per cent of loans are linked with euribor rates). In order to manage the interest rate risk, loans taken by Finnvera are therefore also linked with a variable reference interest rate, when necessary by means of interest rate swaps.

Provision has been made for any claims that may need to be paid in US dollars by virtue of export credit guarantees granted. The associated exchange rate risk has been reduced so that a sum corresponding to any foreseen payments in US dollars has been deposited in dollar accounts.

**OPERATIVE RISKS**

An operative risk is a risk of loss caused by insufficient or inoperable internal processes, systems, human resources or external events. Operative risks also

include legal risks and the risk of damage to reputation.

Finnvera is developing the management of operative risks; for this purpose, the company uses a monitoring system that is able to recognise operative risks. The goal is to eliminate as many risks as possible. Safeguards are taken against risks that cannot be eliminated, or some other methods are developed to minimise their impact. Risks associated with information security were charted during 2005. Other risks will be charted next.

**VENTURE CAPITAL INVESTMENT**

Within the Finnvera Group, venture capital investments are carried out by Vera-venture Oy, Aloitusrahasto Vera Oy and Matkailunkehitys Nordia Oy. Investments made in these companies are included within the scope of Finnvera plc's credit risk monitoring.

Risk management done by the subsidiaries engaged in venture capital investment is based on limiting the size of investments, on sharing the risk with other investors, and on sufficient distribution of the investment portfolio.



## Corporate Social Responsibility

Social responsibility is the starting point of Finnvera's operations. Finnvera is a specialised financing company and an industrial policy actor owned by the State of Finland. Its tasks are defined in the laws passed when the company was founded in 1998. Supplementing the financial market, Finnvera strengthens the prerequisites for the operations of Finnish enterprises during start-up, growth and internationalisation as well as in exports.

Each year the Ministry of Trade and Industry defines goals and indicators for Finnvera; these are used to monitor how well the company has succeeded in its basic functions. These indicators include: allocation of financing to starting enterprises and growth enterprises; the number of new jobs created in these enterprises; and the amount of financing targeted at areas eligible for support on regional policy grounds.

One premise in Finnvera's operations is that, as a provider of financing supplementing the market, the company can take higher risks than commercial financiers operating on market terms. For its part, Finnvera is also responsible for ensuring that the system for financing exports remains competitive.

Another reflection of Finnvera's social responsibility is the goal of self-sustainability set for the company and the level defined for the income-expense ratio.

Finnvera's objective of being an Expert Esteemed by Clients crystallises the company's value base. When the company was founded, the central elements of this value base were defined as follows: trust and honesty; benefits to clients; being a forerunner; profitability and effectiveness; and constant development of competence.

In accordance with its vision, Finnvera promotes the competitiveness of Finnish enterprises, enabling the opti-

mum financial solutions for their start-up, growth and international success. The cornerstone of the company's strategy is the updating of services so that Finnvera can continue to provide good service for enterprises with a variety of needs.

### ETHICAL ISSUES

Finnvera's operations are grounded on good governance and on the closely associated ethical principles that emphasise corporate social responsibility. Development of these areas began during 2005. More detailed principles, encompassing the entire personnel, will be completed during spring 2006.

In activities involving export credit guarantees, Finnvera's responsible approach is crystallised in the following policy outlines:

- assessment and consideration of the environmental impacts of projects
- anti-bribery measures
- commitment to direct guarantees granted for exports to heavily indebted poor countries (HIPCs) so that they are used for productive projects
- drawing exporters' attention to the OECD Guidelines for Multinational Enterprises

These policy outlines are based on discussions and agreements between governments within the OECD concerning international cooperation in matters involving export credit guarantees. Finland takes an active part in international cooperation and works towards the goal of ensuring that the practices applied by all export credit agencies would be as uniform as possible.

In practice, the anti-bribery approach means that, in connection with the guarantee application, exporters assure that they have not been involved in bribery

during the project in question. Exporters pledge to repay any indemnity received if they are found to be guilty of giving bribes. If the guarantee-holder is a financier, the financier must also assure that no bribery is involved in the project.

In granting export credit guarantees for exports to HIPCs, Finnvera abides by the OECD Statement of Principles, according to which guarantees are directed at productive projects that contribute to the social or economic development of the buyer's country.

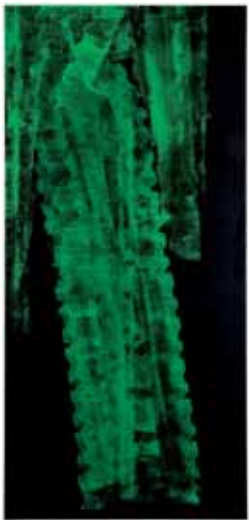
Finnvera is also committed to drawing exporters' attention to the OECD Guidelines for Multinational Enterprises.

### FINNVERA REPRESENTS FINLAND IN THE PARIS CLUB

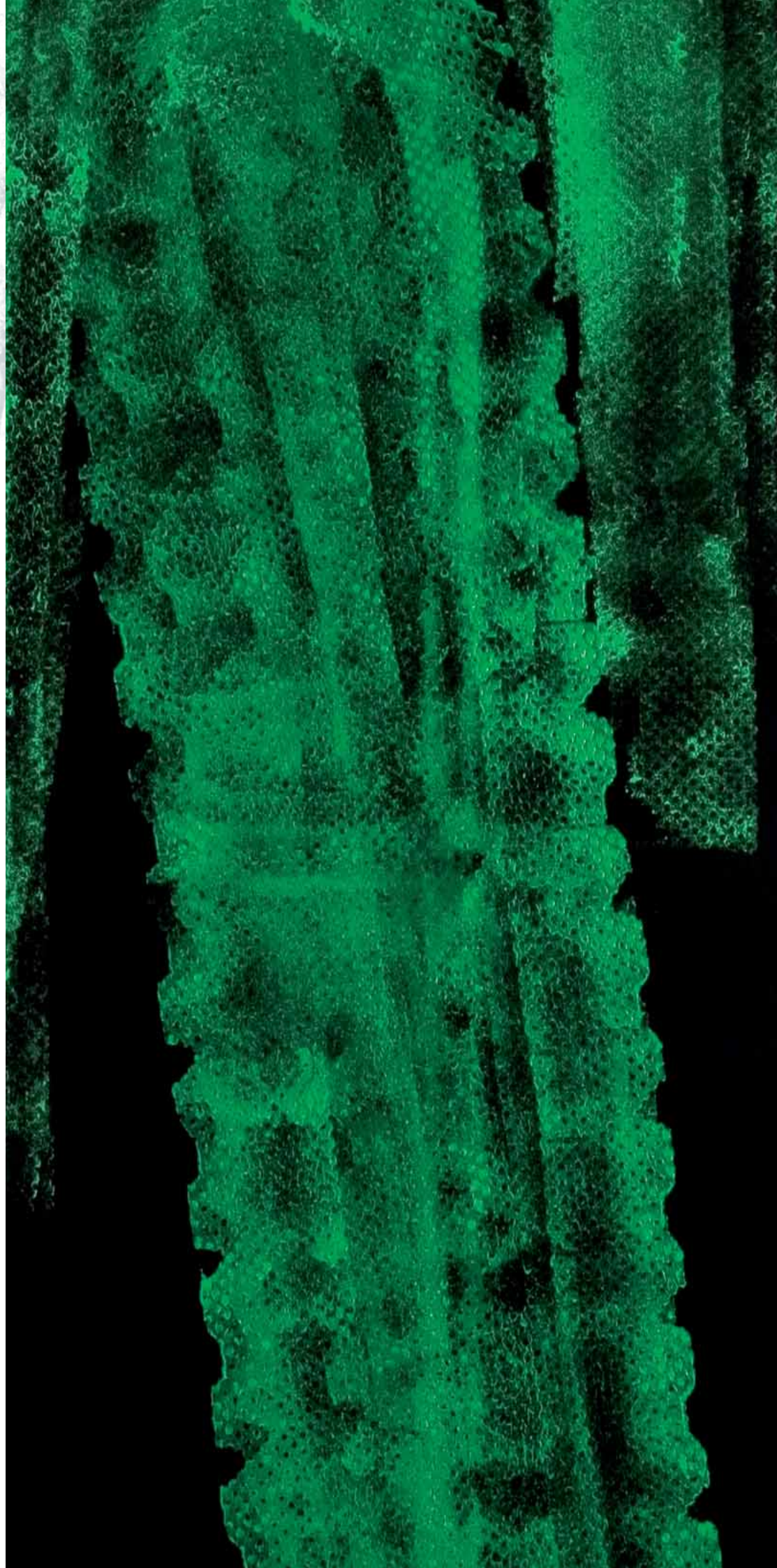
As Finland's representative, Finnvera participates in the meetings of the Paris Club, the forum for public creditors. The Paris Club discusses public debt servicing problems experienced by countries in financial difficulties. The Club also makes framework agreements on the rescheduling of debts, after which individual countries make bilateral rescheduling agreements. In 2005, the Paris Club met nine times. Finland participated in negotiations concerning the rescheduling of Nigeria's debts. According to the framework agreement concluded, Nigeria will pay 67 per cent of its rescheduled debts and the rest of the debt is cancelled.

Finland and Ethiopia signed a bilateral rescheduling agreement cancelling the entire remaining debt. In addition, Finland has agreed on debt relief to Indonesia in order to lighten the country's burden after the tsunami.

Poland paid its entire rescheduled debt of EUR 44 million prematurely to Finland. In addition, Russia made a premature payment of EUR 164 million of its rescheduled debts, and Peru paid back



MARIANNA UUTINEN, Toy, 2005.  
Acrylic on canvas. 300 x 200 cm



EUR 6 million. Bilateral negotiations concerning Iraq's debts led to an agreement on 15 February 2006. According to the agreement, 80 per cent of Iraq's debt of USD 250 million is written off. Iraq will pay back its debts until the year 2038.

All rescheduled debts discussed in the Paris Club are included in the 'old' liability managed by Finnvera.

#### ENVIRONMENTAL RESPONSIBILITY AND PUBLICITY POLICY

In domestic financing, Finnvera complies with Finland's environmental legislation. Moreover, through its environmental loans and guarantees, Finnvera encourages Finnish SMEs to invest in environmental protection.

Finnvera participated in the working group founded by the Committee for Corporate Analysis to draw up guidelines for identifying the environmental aspects of projects to be carried out in Finland. The point of departure for the working group's assignment was the increased weight of environmental issues and environment-related risks in financing decisions associated with the domestic operations of enterprises.

Finnvera's environmental policy in activities involving export credit guarantees is based on the company's role as Finland's official export credit agency, its goal being to promote and develop exports and internationalisation benefiting the Finnish economy. According to the Recommendation on Common Approaches on Environment and Officially Supported Export Credits, issued by the OECD in 2003, all projects that are financed by official export credit or guarantee agencies and that can be considered to have reasonably or considerably extensive environmental impacts must conform to international environmental standards.

At Finnvera, the environmental classification of export credit guarantee projects has been in use since 2001. All applications for export credit guarantees have been classified according to environmental criteria since the beginning of 2002. Assessment of the total risk of projects guaranteed by Finnvera includes the project's environmental impact.

Finnvera's environmental policy was reviewed in spring 2004 on the basis of the Recommendation on Common Approaches on Environment and Officially Supported Export Credits, adopted by the OECD in 2003. According to the current environmental policy, Finnvera's website contains environmental information on projects classified into environmental category A. The scope of application of the environmental policy and the screening of guarantee applications encompassed by environmental review were specified in summer 2005.

Finnvera constantly develops its environmental policy and environmental review methods. The company also provides its personnel with training in essential environmental issues.

#### Publicity policy

Publicity provisions concerning Finnvera are included in the Act on the State-Owned Specialised Financing Company (443/1998) and in the Act on the State's Export Credit Guarantees (422/2001).

As the State's specialised financing company, Finnvera adheres to confidentiality requirements as high as in credit institutions. In keeping with this principle of confidential banking information, no information that would make it possible to identify a client is made public without the client's permission.

Finnvera's export credit guarantee activities are additionally guided by the Act on the Publicity of the Authorities' Actions.

Since the beginning of 2003, Finnvera has published basic information about the most important export credit guarantee projects with the consent of the parties; this ensures that exporters' competitive position is not endangered. The decision pertains to medium and long-term export credit guarantees in cases when the share of the credit principal covered by Finnvera exceeds EUR 10 million. The following information is published: exporter, lender, buyer's country, exported goods/project, guaranteed amount, and environmental classification.

In June 2002, as part of the Finnish Export Credit Campaign, the Finnish Association for Nature Conservation appealed Finnvera's decision not to relinquish a number of documents concerning the environmental analyses of certain export credit guarantee projects. Finnvera based its refusal on the confidentiality requirement in §5 of the Act on Finnvera. Finnvera considers that the information cannot be relinquished without the client's consent. The case is pending in Helsinki Administrative Court.

More detailed information on Finnvera's policies concerning the environment and publicity is available at: [www.finnvera.fi](http://www.finnvera.fi), under Export > Finnvera – an Export Credit Agency.

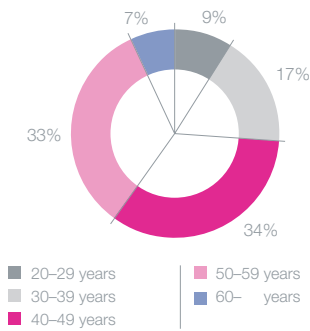
#### SOCIALLY RESPONSIBLE APPROACH

##### Personnel

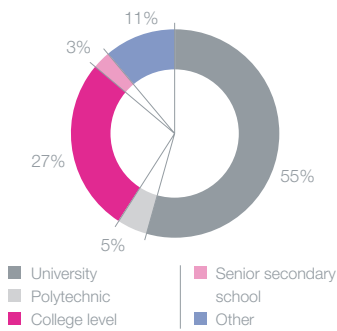
In accordance with Finnvera's personnel policy, the company has a sufficient number of personnel with appropriate training, adequate experience, and a suitable age and gender distribution. The personnel shall be competent and committed to their work.

The personnel policy supports the achievement of the goals set in the company's vision and strategy and in the industrial and ownership policy.

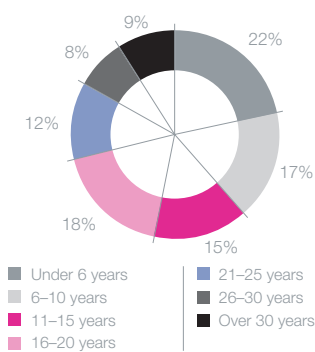
**Personnel's age distribution**  
31 Dec 2005



**Personnel's education**  
31 Dec 2005



**Average length of employment**  
31 Dec 2005



**Personnel policy outlines**

At the end of 2005, the Management Group and Board of Directors of Finnvera approved that the following four personnel policy outlines derived from the strategic goals would form the basis of the company's personnel work in the coming years:

- An incentive pay scheme encouraging good work performance and personal development
- Systematic management of competence, and focusing development on strategic skills, supervisory tasks and management.
- Improving the efficiency of personnel planning so that timely provision is made for anticipated structural changes, such as retirement.
- Maintaining a good internal and external employer image by encouraging the personnel to serve in functions such as trainers and authors, and by increasing cooperation with universities.

**Personnel structure**

Finnvera's personnel are highly educated and have extensive work experience. On average, employment relations last a long time, and turnover is relatively low. At the company level, the personnel's age and gender distribution are in balance, but there are considerable differences among individual units, tasks and personnel categories.

Finnvera has personnel in 15 locations throughout Finland.

**Personnel development and training**

By defining and surveying the company's core competence and other critical competence, Finnvera has wanted to ensure

that resources are directed at strategically important areas, such as competence in financing, management of credit risks, competence in customer relations, and knowledge of the financial market. An additional development area is management of one's own work.

Strategic competence areas and the needs for developing the personnel's skills are discussed annually during adjustment of the business strategy. Management was added to the list of strategic competence areas in 2005.

The management tools used by the company are the balanced scorecard, self-assessment of quality (EQM), and performance discussions. The results of competence surveys are reviewed during the annual performance discussions, where personal development plans are agreed for the short and longer terms. Development and training programmes focus on the needs to strengthen and develop competence that arise during these discussions.

During 2005, in total EUR 565,000 was spent on personnel training. The sum does not include salary costs. In-house training included 815 classroom days. Training days numbered 2,175 or about 5.5 training days for each Finnvera employee.

In-house training concentrated on the development of supervisory work and competence in financing. In 2005, seven Finnvera employees participated in the corporate analyst's authorisation examination, planned by the Committee for Corporate Analysis. Each year, 20-25 persons from the Committee's member organisations are selected for the examination.

**Incentives and commitment**

In accordance with the collective bargaining agreement, a decision was reached in December 2004 that the

labour agreement concerning Finnvera plc will be in force until 30 September 2007.

On 1 March 2005, salaries were raised by 2.5 per cent. In total EUR 680,000 in bonuses as per the profit-sharing scheme was paid out in May in accordance with the decision made by the Board of Directors. In addition, some personal pay rises were paid.

Trends in earnings were reviewed together with personnel representatives in November 2005.

Personnel well-being

Personnel well-being is based on permanent contracts, challenging tasks and good opportunities for personal development and influence. Well-being is supported by means of up-to-date management systems and high-standard supervision. Finnvera also invests in comprehensive occupational health care and supports the personnel's fitness and recreational activities.

Performance discussions are an established element of a supervisor's role. Opinions presented during these discussions are taken into account in practical work to the extent possible.

Finnvera has supported in-house interaction, for instance, by arranging unit-specific and enterprise-specific personnel events, meetings between the management and personnel, and information sessions for the entire personnel, in which staff members in different locations have been able to participate through a real-time video link.

No personnel surveys were conducted in 2005, but the practice will be continued in 2006.

Equality and parity

Finnvera's equality plan states that each Finnvera employee has the opportunity

to apply for a position corresponding to the employee's training and skills. The personnel can develop their competence and can participate in both internal and external training and development programmes in accordance with the approved budget and development plan.

In keeping with the action plan, all members of the personnel have been informed of issues pertaining to equality and parity, and guidelines have been drawn up for preventing and dealing with situations involving harassment.

Realisation of equality in pay schemes is monitored in conjunction with the review of earnings trends.

Relations with stakeholders

Finnvera's industrial policy mission calls for systematic monitoring of changes in the operating environment and developments in the financing field, as well as interaction with various stakeholder groups.

Domestic interest groups

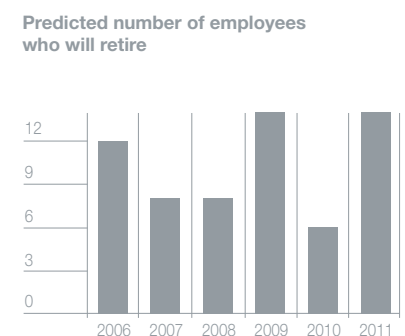
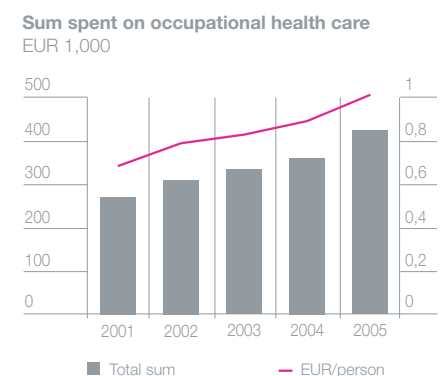
Finnvera's Board of Directors includes representatives of the Ministry of Trade and Industry, the Ministry of Finance, the Ministry of Labour and the Ministry for Foreign Affairs, as well as representatives of various enterprise, business and interest organisations.


Finnvera is represented on the Board of the Finnish Fund for Industrial Cooperation Ltd (Finnfund). Finnfund promotes the economic and social development of developing countries by providing financing for private enterprise in these countries on a self-sustaining basis. Finnvera also engages in environmental cooperation with Finnfund.

The expectations of owners, clients and other stakeholders vis-à-vis Finnvera's operations were surveyed

during revision of the strategy in autumn 2005. Both the revised strategy and the new action plan and organisation to be implemented during spring 2006 will meet these expectations concerning the company's operations. Cooperation with interest groups is increased and developed further so that clients, too, benefit from its results.

Finnvera will have closer cooperation with other public enterprise service organisations, financiers, interest organisations and regional players. An example of the cooperation is the Growth Enterprise Services, in which Finnvera, the Employment and Economic Development Centres, Tekes and Finnpro together





work to identify enterprises having potential for growth and provide these enterprises with expert services that best suit their needs. The above partners plus Finnish Industry Investment Ltd and Sitra are also involved in cooperation to promote innovative environments. Moreover, Finnvera contributes to the planning and implementation of the Enterprise Finland web service, which is coordinated by the Ministry of Trade and Industry.

Finnvera participates in the TRIO programme started by the Technology Industries of Finland in 2004. Finnvera provides both investment and development financing and internationalisation financing for use by TRIO enterprises. Finnvera is also one of the background organisations of the SME Foundation.

In accordance with its new strategy, services for starting enterprises and regional SMEs are improved by intensifying cooperation with regional enterprise service organisations.

The operating environment is surveyed by means of sector-specific questionnaires. Together with the Federation of Finnish Enterprises, Finnvera produces the SME Barometer.

Working as cooperation organs between clients and Finnvera, the Committees are sources of information on the needs and expectations of clients, both at the company level and regionally. Finnvera carries out regional cooperation within various provincial collaboration groups and with local financiers and other cooperation partners, such as entrepreneurs' organisations and Enterprise Agencies.

Finnvera participates in the National Enterprise Days. At the regional level, Finnvera contributes to events and seminars arranged by organisations promoting entrepreneurship.

Finnvera's subsidiaries specialising in venture capital investment cooperate with venture capital investors working at the national and local levels. Concerning the management of Aloitusrhasto Vera Oy, Veraventure Ltd has signed cooperation agreements with Finnvera, the Finnish Science Park Association (TEKEL), and Sitra. In addition, Finnvera and Finnish Industry Investment Ltd have signed a cooperation agreement. Veraventure Ltd

is a member of the Finnish Venture Capital Association.

The management company of Matkailunkehitys Nordia Oy is a member of both the Finnish Venture Capital Association and the Finnish Business & Society network, promoting corporate social responsibility.

#### International cooperation

Finnvera is active in several European networks and associations set up by *financial institutions for SMEs*, such as

- NEFI (Network of European Financial Institutions for SMEs)
- ISLTC (Institutions in the European Union Specialising in Long-Term Credit)
- EAPB (European Association of Public Banks)
- EMN (European Microfinance Network)
- AECM (European Mutual Guarantee Association).

By acting in these networks and associations, Finnvera can contribute to the development of prerequisites for small and medium-sized enterprises within the EU and can obtain valuable information for the development of its own operations. For instance, NEFI has submitted an opinion to the European Commission concerning the Commission's Competitiveness and Innovation Framework Programme (CIP).

The European Microfinance Network (EMN) represents microfinance organisations in contacts with the European Union, offers training services for its members, and organises exchange visits. The United Nations had designated the year 2005 as the International Year of Microcredit. In September, Finnvera hosted an EMN event held in Finland.

The objective of international cooperation in the sector of *export credit guarantees* is to prevent competition by means of officially supported export credit terms and to promote sound principles for guarantee activities. Finnvera has signed bilateral cooperation and reinsurance agreements with several guarantee agencies. An agreement with SACE of Italy was signed in 2005.

As Finland's official export credit

agency, Finnvera participates in the activities of the following working groups:

- European Council Working Group on Export Credits
- Working Party on Export Credits and Export Credit Guarantees under the OECD Trade Committee
- Participants to the Arrangement on Guidelines for Officially Supported Export Credits
- Berne Union – the cooperation body of export credit agencies
- Cooperation among the Nordic export credit agencies
- The Paris Club – a forum for public creditors.

Assistant Director Pekka Karkovirta of Finnvera is among the Chairpersons of the OECD Working Party on Export Credits and Export Credit Guarantees.

The new OECD Export Credit Arrangement that came into force on 1 July 2005 allows a repayment period of a maximum of 15 years for export credits pertaining to renewable energies and water projects. The new agreement brought additional flexibility to repayment terms. The flexible project financing terms became a permanent feature of the Export Credit Arrangement and also apply to major projects undertaken to expand production.

During 2005, the OECD discussed, among other things, anti-bribery measures and financing of aircraft. Negotiations were started to harmonise fees charged for guarantees against commercial risks.

The Berne Union comprises 54 guarantee agencies, credit insurers and political risk insurers from over 40 countries. By engaging in lively exchange of information, the Berne Union promotes the sound principles of guarantee activities and develops the operations of export credit agencies. Each year the BU arranges an Annual General Meeting, meetings on export credit guarantees, and special seminars. In June 2005, Finnvera and GIEK of Norway jointly hosted a BU seminar on ship financing in Helsinki.

Finnvera continued close cooperation with the Nordic guarantee agencies during 2005.

## Corporate Governance

The State of Finland owns the entire stock of Finnvera plc, and Finnvera is included in the administrative sector of the Ministry of Trade and Industry. Finnvera's operations are based on law. The Acts on Finnvera define the tasks whereby Finnvera affects the development of enterprise and employment in Finland. Finnvera reports on the impacts of its activities twice a year, in the Interim Report and in the Annual Report.

### THE STATE'S ROLE AS THE OWNER

The responsibility of the State of Finland for the liabilities and commitments of Finnvera plc derives from the share capital invested in the company by the State. In addition, the State gives commitments to compensate for credit and guarantee losses and to provide interest support and grants guarantees for the acquisition of funds. In addition, through the State Guarantee Fund, the State is responsible for the export credit guarantees and other guarantees given by Finnvera.

The commitments given by the State enable Finnvera to apply a higher risk-taking level in domestic financing than that applied by commercial financial institutions. During the year under review, 76.6 per cent (73.3) of the losses arisen from credits eligible for support from the European Regional Development Fund (ERDF) were covered with both national and ERDF support. In total, 37.1 per cent (50.9) of the credit and guarantee losses arisen from other loans and guarantees were covered with State support.

The liability subject to the commitment to compensate for credit and guarantee losses stood at EUR 2,182.3 million (EUR 2,065.0 million) as per 31 December 2005. Interest-subsidised loans as per 31 December 2005 totalled EUR 869.1 million (EUR 843.0 million).

The total sum of guarantees granted by the State for Finnvera's acquisition of funds was EUR 773.5 million (EUR 677.8 million) at the end of 2005.

The purpose of the State Guarantee Fund is to ensure that Finnvera can meet the obligations of the export credit guarantees, domestic guarantees and other commitments referred to in §4 of the Act on the State Guarantee Fund. If the separate result calculated annually for export credit guarantees and special guarantees shows a deficit, the corresponding sum is transferred from the State Guarantee Fund to Finnvera. If the separate result shows a surplus, the State Guarantee Fund can require that Finnvera pay a reimbursement to the Fund until all previous transfers have been paid back. At the end of 2005, Finnvera had no previous transfers to be repaid to the State Guarantee Fund.

The State Guarantee Fund serves as a buffer between the State Budget and any deficit that might arise annually from Finnvera's export credit and special guarantee activities. Defined in §4 of the Act on the State Guarantee Fund, this deficit is ultimately the State's responsibility.

The Fund's assets are also used to cover the liability arising from the guarantees and other commitments given by Finnvera's predecessor, the Finnish Guarantee Board, and – before that – the Export Guarantee Board and the State Guarantee Board. Finnvera manages this 'old' liability for the State, and the State Guarantee Fund pays Finnvera a fee for this management. The 'old' liability totalled EUR 210.1 million (EUR 268.0 million) as per 31 December 2005.

### OWNERSHIP POLICY

Each year, the Ministry of Trade and Industry defines ownership and industrial policy goals and indicators for Finnvera;

these are used for evaluating the company's success in its activities.

In line with the industrial policy goals, Finnvera shall strive to reach economic self-sustainability in the long term. For its part, the company shall offset any deficiencies in the operation of the financial market, shall promote and develop the activities of small and medium-sized enterprises and shall advance the internationalisation and exports of enterprises. Finnvera shall promote fulfilment of the government's regional policy goals. For the first time, the industrial policy goals set for 2006 include targets pertaining to the Finnvera Group's venture capital investments.

As regards the ownership policy, the goals apply to the efficiency of the company's operations and to capital adequacy. Efficiency is evaluated primarily by means of cost-effectiveness. Capital adequacy must be sufficient in order to ensure the company's ability to bear risks and to keep the costs of funding reasonable.

In 2005, Finnvera met both its ownership policy and industrial policy goals. These goals are presented in more detail at: [www.finnvera.fi/annualreport2005](http://www.finnvera.fi/annualreport2005).

### CORPORATE GOVERNANCE

The goal of good corporate governance, as practised by Finnvera, is to ensure transparency at all levels of the organisation. Finnvera complies with the Finnish law on companies and bookkeeping.

Finnvera's annual reports and interim reports, as well as the press releases on financial statements, meet the requirements of the Finnish law and are published in Finnish, Swedish and English. The International Financial Reporting Standards (IFRS) will be adopted in 2007.

## ADMINISTRATIVE BODIES OF FINNVERA PLC

The corporate organs responsible for Finnvera's administration and operations are the General Meeting of Shareholders, the Supervisory Board, the Board of Directors, and the President and Chief Executive Officer (CEO).

### General Meeting of Shareholders

In addition to the tasks determined by the Finnish Companies Act and the Articles of Association, the General Meeting may also decide on the fund reimbursement referred to in the Act on the State Guarantee Fund (444/1998), provided that the Board of Directors of the State Guarantee Fund has presented Finnvera with a proposal to this effect.

The Annual General Meeting is held yearly, by the end of June.

### Supervisory Board

The Supervisory Board represents the owner in companies owned 100% by the State. The members representing the owner are selected from the parliamentary groups of political parties on the basis of their representation in the Finnish Parliament. In addition, Finnvera's Supervisory Board includes representatives of organisations in line with the company's industrial policy goals.

According to the Articles of Association, the Supervisory Board is comprised of a minimum of eight and a maximum of eighteen members. The General Meeting of Shareholders elects the members of the Supervisory Board for a term of one year. A person who is 68 years old or older cannot be elected a member of the Supervisory Board.

The Supervisory Board supervises the company's administration by the

Board of Directors and the CEO. It presents the Annual General Meeting with its statement on the financial statements and the auditors' report, and decides on issues that concern considerable reduction or expansion of the company's operations or substantial reorganisation of the company.

The Supervisory Board's duty is to provide the Board of Directors with guidelines in matters that have far-reaching consequences or are otherwise important as questions of principle. The Supervisory Board selects the members and deputy members of the Board of Directors and the Chairman and two Vice Chairmen of the Board of Directors, and convenes a General Meeting.

In 2005, the Supervisory Board had 18 members (see p. 40) and met seven times. The average attendance rate at the Supervisory Board meetings was 79 per cent. During 2005, the most important issues handled by the Supervisory Board were the election of the Board of Directors and the decision on Finnvera's strategic goals and the associated reorganisation.

### Board of Directors

The Board of Directors determines and confirms the company's strategy, advances the company's development and ensures that the operations meet the goals set by law and the owner. The Board also decides other matters of principle and important individual cases of financing.

The Board of Directors is responsible for the company's administration and for the proper organisation of operations, including the supervision of accounting and funding.

Separate agreement has been made on the division of operative duties and business-related decision-making

between the Board of Directors, the CEO and other management.

The Board appoints and dismisses the company's President, Executive Vice Presidents and other members of the upper management.

According to the Articles of Association, the company's Board of Directors is comprised of a minimum of six members and a maximum of nine members plus two deputy members. One Board member is elected among candidates named by the Ministry of Trade and Industry, one among candidates named by the Ministry of Finance, one among candidates named by the Ministry of Labour, and one among candidates named by the Ministry for Foreign Affairs. Of the two deputy members, the first is elected among candidates named by the Ministry of Trade and Industry and the second among candidates named by the Ministry of Finance.

The members and deputy members of the Board are elected for a term of one year. The term ends at the closing of the Supervisory Board's meeting where a new Board has been elected. A person who is 68 years old or older cannot be elected a member of the Board of Directors. The Board meets every second week.

In 2005, the Board had eight members (see p. 41) and met 28 times. The regular members' average attendance rate at Board meetings was 88 per cent. Apart from matters of principle and significant financing decisions, the most important issues discussed by the Board of Directors in 2005 were revision of the company's strategic goals and targets and reorganisation of the company's operations. In addition, the Board systematically monitors the attainment of the goals set and assess the efficiency and effectiveness of operations throughout the year.



## Managing Director

The Managing Director is responsible for the company's operative administration in keeping with the guidelines and regulations issued by the Board of Directors. In management of the tasks specified in the Companies Act, the Managing Director is assisted by the Management Group and the Corporate Management. The Managing Director is presented on page 42. Information on the Managing Director's employment contract and salary is given in the Notes to the Accounts, note no. 36.

## Management Group and Corporate Management

Finnvera's Management Group practice was revised in October 2005. The Management Group discusses important issues pertaining to clients, business operations and risk management. The Management Group comprises the Managing Director, the Executive Vice Presidents, the Senior Vice President responsible for corporate planning, the Managing Director of Veraventure Ltd, the Senior Vice President, Legal Affairs, and the Communications Manager. The Management Group meets three times a month.

The Corporate Management discusses matters having an extensive impact on the Finnvera Group and its personnel; the matters may be prepared within the Management Group. Besides the members of the Management Group, the Corporate Management includes the Senior Vice President, Finance, the Managing Director of Finnish Export Credit Ltd, and the Vice President responsible for development. As of 1 February 2006, the personnel organisations are also represented in the Corporate Management. The Corporate Management meets once a month.

The members of the Management Group and the Corporate Management,

and their areas of responsibility, are presented in more detail on page 42.

## SALARIES AND FEES

The fees paid to the members of the Supervisory Board and the Board of Directors are in agreement with the Ministry of Trade and Industry's recommendation on fees paid to the administrative bodies of State-owned companies. Detailed information is presented in the Notes to the Accounts, note no. 36

The Board of Directors decides on the salaries paid to the Managing Director, the Executive and Senior Vice Presidents and to other Directors appointed by the Board, as well as on the bonus to be paid to the Managing Director.

## RISK MANAGEMENT

The objective of Finnvera's risk management is to ensure that the risk-taking capacity required in order to achieve the goals set for the company's operations is maintained over the long term.

Finnvera's risk management principles are based on the Act on Credits and Guarantees Provided by the State-Owned Specialised Financing Company and on the Act on the State's Export Credit Guarantees.

Risk management is controlled and risk management methods are developed by the Risk Management Unit, which is separate from the business units and reports to the Managing Director. Business units are responsible for risk-taking and for the associated actions. More about risk management on page 28.

## INTERNAL AUDITING

Internal auditing is part of Finnvera's management system, and is a tool used by the management for monitoring, evaluating and promoting internal control.

Internal auditors report to the CEO, to the bodies audited and, at least once a year, to the Board of Directors.

Internal auditors inspect and evaluate

- the extent, sufficiency, efficiency and economy of internal control
- the working of risk management systems
- the reliability and integrity of the accounting, IT and other systems used for measuring, classifying and reporting economic and operative data
- the correctness of business transactions and the working of the internal control applied to these transactions
- compliance with the regulations and guidelines issued
- attainment of the goals set, profitability of operations, use of resources and management of assets.

In their work, internal auditors comply with the relevant standards, good internal auditing practice and the guidelines issued by Financial Supervision. They coordinate their work with the company's auditors and the Internal Auditing Unit of the Ministry of Trade and Industry.

## AUDITING

Finnvera has a minimum of one and a maximum of two auditors, depending on the decision made by the General Meeting of Shareholders. The auditors must be authorised public accountants or accounting firms.

The auditors' term ends at the next Annual General Meeting following their election.

The company's regular auditor is KPMG Oy Ab. The auditor with the main responsibility is Hannu Niilekselä, Authorised Public Accountant.

In 2005, the fees paid to the auditors totalled EUR 135,771, which also includes EUR 39,142 as fees for other consulting.

## Supervisory Board of Finnvera plc

Supervisory Board of Finnvera plc  
Elected on 5 April 2005

The Supervisory Board represents the owner in companies owned 100% by the State. The members are selected from the parliamentary groups of political parties on the basis of their representation in the Finnish Parliament. In addition, Finnvera's Supervisory Board includes representatives of organisations in line with the company's industrial policy goals.

Chairman

**Markus Aaltonen**

Parliamentary Counsellor  
(Finnish Social Democratic Party)

First Vice Chairman

**Kyösti Karjula**

Member of Parliament  
(Finnish Centre Party)

Second Vice Chairman

**Esko Kurvinen**

Member of Parliament  
(National Coalition Party)

Members

**Peter Boström**

Managing Director  
(Swedish People's Party)

**Markus Fogelholm**

Managing Director, Finnish Bankers' Association

**Susanna Haapoja**

Member of Parliament  
(Finnish Centre Party)

**Markku von Hertzen**

Managing Director, Finnish Association of Graduates in Economics and Business Administration - SEFE (Confederation of Unions for Academic Professionals)

**Sinikka Hurskainen**

Member of Parliament  
(Finnish Social Democratic Party)

**Leila Kurki**

Senior Adviser  
Finnish Confederation of Salaried Employees STTK

**Jere Lahti**

Member of Parliament  
(National Coalition Party)

**Ismo Luimula**

(Central Organisation of Finnish Trade Unions SAK)

**Erkki K. Mäkinen**

Managing Director  
(Federation of Finnish Enterprises)

**Pia Peltoniemi**

Adviser  
Finnvera plc

**Pekka Pokela**

Director  
Confederation of Finnish Industries EK

**Iivo Polvi**

Member of Parliament  
(Left Alliance)

**Eero Reijonen**

Member of Parliament  
(Finnish Centre Party)

**Heikki Ropponen**

Deputy Managing Director  
Federation of Finnish Commerce

**Osmo Soininvaara**

Member of Parliament  
(Green League)



## Board of Directors of Finnvera plc



Chairman  
**Kalle J. Korhonen**  
 (1948), M.Sc. (Tech.)  
 Director-General  
 Ministry of Trade and  
 Industry  
 Chairman of the Board  
 1999–  
 Finnish Industry Invest-  
 ment Ltd, Board Member  
 1999–  
 Finpro, Board Member  
 1997–  
 Fintra, Deputy Member of  
 the Board 1999–2005  
 Rautaruukki Corporation,  
 Board Member 2005–

Vice Chairman  
**Pekka Laajanen**  
 (1944), LL.M.  
 Governmental Counsellor,  
 Director of Legislative  
 Affairs  
 Ministry of Finance  
 Vice Chairman of the  
 Board 1999–  
 Insurance Supervisory  
 Authority, Board Member  
 1999–  
 Financial Supervision,  
 Vice Chairman of the  
 Board 1997–



**Päivi Kerminen**  
 (1958), LL.M.  
 Governmental Counsellor  
 Ministry of Labour  
 Board Member 1999–

**Tarmo Korpela**  
 (1942), M.Soc.Sc.  
 Special Adviser  
 Confederation of Finnish  
 Industries EK  
 Board Member 2003–  
 OMX Ab, Board Member  
 2003–  
 Invest in Finland, Chair-  
 man of the Foundation's  
 Board 2005–



**Pekka Lintu**  
 (1947), LL.Lic.  
 Under-Secretary of State  
 Ministry for Foreign Affairs  
 Board Member 2001–2005  
 Foundation for Promoting  
 Foreign Trade, Chairman  
 2001–  
 Finpro, Board Member  
 2003–

**Martti Mäenpää**  
 (1950), D.Sc. (Tech.)  
 Director General  
 Technology Industries of  
 Finland  
 Board Member 2000–  
 Fintra, Deputy Member of  
 the Board 2001–  
 Finnish Fair Cooperative,  
 Supervisory Board Mem-  
 ber 2002–



**Risto Suominen**  
 (1947), Lic.Soc.Sc.  
 Director  
 Federation of Finnish Enter-  
 prises  
 Board Member 1999–  
 Taxpayers' Association of  
 Finland, Board Member  
 1997–  
 Finnish Centre for Pen-  
 sions, Board Member  
 1998–  
 Tapiola Mutual Pension  
 Insurance Company, Board  
 Member 1998–

**Matti Viialainen**  
 (1953), M.Soc.Sc.  
 Deputy Director  
 Central Organisation of Finn-  
 ish Trade Unions SAK  
 Board Member 2000–  
 IDP Consultants Oy, Manag-  
 ing Director 1988–  
 Kehityskanava Oy, Board  
 Member 1996–  
 Ilmarinen Mutual Pension  
 Insurance Company, Super-  
 visory Board Member  
 2000–  
 Finnish Industry Investment  
 Ltd, Investment Council  
 Member 2003–  
 Tekes, Board Member  
 2003–



## Deputy Members:

**Elise Pekkala**  
 (1959), LL.M.,  
 LL.M. (Eur.)  
 Governmental Counsellor  
 Ministry of Trade and  
 Industry  
 Deputy Member of the  
 Board 2004–  
 TTS Institute, Vice Chair-  
 man of the Board 1999–  
 Finland Convention  
 Bureau, Board Member  
 1998–

**Kristina Sarjo**  
 (1959), LL.M.  
 Financial Counsellor  
 Ministry of Finance  
 Deputy Member of the  
 Board 2003–  
 Nordic Investment Bank,  
 Board Member 2003–

## Corporate Management and Management Group of Finnvera plc

Finnvera's Management Group practice was revised as of 1 October 2005.

The Management Group discusses important issues pertaining to clients, business operations and risk management. The Management Group comprises the CEO, the Executive Vice Presidents, the Senior Vice President responsible for corporate planning, the Managing Director of Veraventure Ltd, the Senior Vice President, Legal Affairs, and the Communications Manager. The Management Group meets three times a month.

The Corporate Management discusses matters having an extensive impact on the Finnvera Group and its personnel; the matters may be prepared within the Management Group. Besides the members of the Management Group, the Corporate Management includes the Senior Vice President, Finance, the Managing Director of Finnish Export Credit Ltd, and the Vice President responsible for development. As of 1 February 2006, the personnel organisations are also represented in the Corporate Management. The Corporate Management meets once a month.

### Pauli Heikkilä

(1962), D.Sc. (Tech.)  
Managing Director  
Chairman of Corporate Management, the Management Group and the Management Group on Financing 2005–  
VTT Information Technology, Advisory Board Member 2002–2005  
Tekla Corporation, Board Member 2004–

### Topi Vesteri

(1956), LL.M.  
Executive Vice President,  
Export Credit Guarantees  
First Deputy of the CEO

Member of Corporate Management and the Management Group on Financing 1999–  
Management Group Member 2005–  
Finnfund, Board Member 2002–  
Finnish Export Credit Ltd, Chairman of the Board 2004–

### Veijo Ojala

(1951), M.Soc.Sc.  
Executive Vice President,  
Domestic Financing  
Second Deputy of the CEO  
Member of Corporate Management and the Manage-

ment Group on Financing 1999–  
Management Group Member 2005–  
'Technology to Products' Foundation, Board Member 2002–  
Veraventure Ltd, Chairman of the Board 2003–2004,  
Vice Chairman 2005–  
Aloitusrahasto Vera Oy, Board Member 2005–

### Aarno Järvinen

(1947), M.Sc. (Econ. & Bus. Adm.)  
Executive Vice President,  
Corporate Services  
Third Deputy of the CEO  
Member of Corporate Management 1999–  
Management Group Member 2005–  
Training Consortium of Central Uusimaa, Board Member 1981–, Vice Chairman 1997–  
Laurea Polytechnic, Board Member 1996–2005  
Finnish Export Credit Ltd, Board Member 2005–

### Eila Alajoki

(1951), B.A.  
Communications Manager,  
Corporate Services, Communications  
Member of Corporate Management 2005–  
Management Group Member 2005–

### Seppo Arponen

(1943), M.Sc. (Econ. & Bus. Adm.)  
Senior Vice President, Corporate Planning  
Fourth Deputy of the CEO  
Member of Corporate Management and the Management Group on Financing 1999–  
Management Group Member 2005–

Jobs and Society in Finland, Chairman of the Supervisory Board 2001–2005  
Incap Corporation, Board Member 2002–  
Veraventure Ltd, Board Member 2003–2004,  
Chairman of the Board 2005–  
VTT Electronics, Advisory Board Member 2004–2005  
Matkailunkehitys Nordia Oy, Chairman of the Board 2005–  
3C Europe Oy, Board Member 2005–  
Proventia Group Oy, Board Member 2005–  
Invest in Finland, Member of the Foundation's Board 2005–  
Aloitusrahasto Vera Oy, Chairman of the Board 2005–

### Leo Houtsonen

(1958), M.Sc. (Econ. & Bus. Adm.)  
Managing Director,  
Veraventure Ltd  
Managing Director, Aloitusrahasto Vera Oy  
Member of Corporate Management 1999–  
Management Group Member 2005–  
Sentica Partners Oy, Board Member 1997–2005  
Mega Elektroniikka Oy, Chairman of the Board 1997–2005  
Savon Teknia Oy, Vice Chairman 2003–  
Karinvest Oy, Board Member 2004–  
Teknoventure, Board Member 2004–  
Kainuun Pääomarahasto Oy, Board Member 2004–  
Jyväskylä Seed Fund Oy, Board Member 2004–  
Pikespo Invest Oy, Deputy Member of the Board 2004–

Innoventure Oy, Deputy Member of the Board 2004–  
Midinvest Oy, Board Member 2005–

### Marja Karimeri

(1949), eMBA, LL.M.  
Senior Vice President, Legal Affairs  
Member of Corporate Management 1999–  
Management Group Member 2005–  
Finnish Export Credit Ltd, Board Member 2001–  
Board of the State Guarantee Fund, Secretary 2001–  
Paris Club, Head of the Finnish Delegation 2001–  
Veraventure Ltd, Board Member 2005–  
Aloitusrahasto Vera Oy, Board Member 2005–  
Spikera Oy, Chairman of the Board 2005–

### Hannu Lipponen

(1945), M.Sc. (Tech.)  
Senior Vice President,  
Finance  
Member of Corporate Management 1999–

### Matti Männikkö

(1954), M.Sc. (Tech.)  
Vice President, Corporate Planning  
Member of Corporate Management 2005–  
SME Foundation, Board Member 2000–

### Jyrki Wirtavuori

(1950), LL.M.  
Managing Director, Finnish Export Credit Ltd  
Member of Corporate Management 2005–

## Directors of Finnvera's Regional Offices

**Juho Björn**  
(1947), M.Sc. (Tech.)  
Joensuu Regional Office

**Jan-Christer Eriksson**  
(1946), M.Sc. (Tech.)  
Vaasa Regional Office

**Jukka-Pekka Jordan**  
(1950), M.Sc. (Econ. & Bus. Adm.)  
Mikkeli Regional Office

**Reijo Järvinen**  
(1948), M.A.  
Helsinki Regional Office

**Pentti Kinnunen**  
(1954), M.Sc. (Econ. & Bus. Adm.)  
Oulu Regional Office

**Pentti Kokkinen**  
(1949), M.Sc. (Econ. & Bus. Adm.)  
Jyväskylä Regional Office

**Martti Kytöluhta**  
(1947), M.Sc. (Econ. & Bus. Adm.)  
Pori Regional Office

**Markku Laineenoja**  
(1949), M.Sc. (Econ. & Bus. Adm.)  
Turku Regional Office

**Pauli Piilma**  
(1961), LL.M.  
Kajaani Regional Office

**Pasi Pirinen**  
(1956), M.Sc. (Tech.)  
Lahti Regional Office

**Hannu Puhakka**  
(1959), M.Sc. (Tech.)  
Lappeenranta Regional Office

**Asko Saarinen**  
(1954), M.Sc. (Tech.),  
eMBA  
Seinäjoki Regional Office

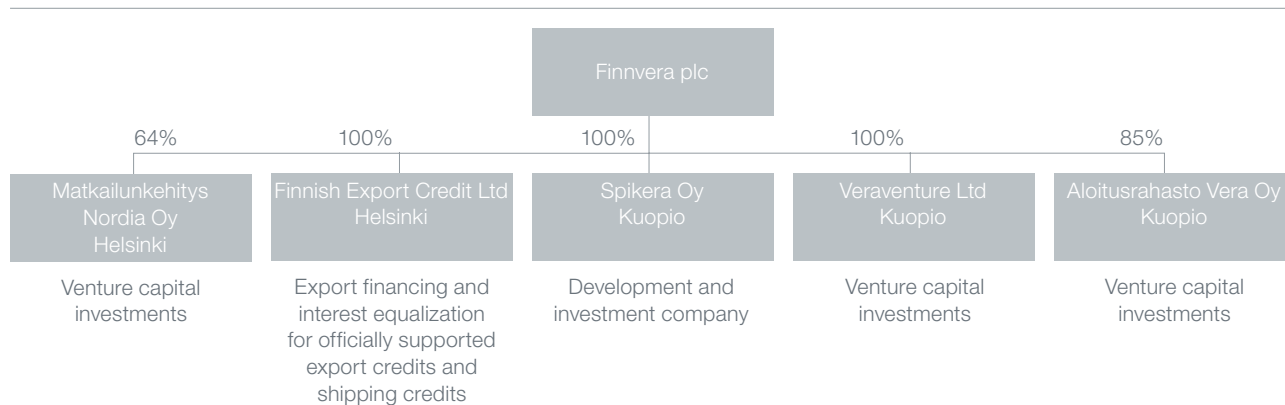
**Pauli Tengvall**  
(1947), M.Sc. (Tech.)  
Kuopio Regional Office

**Kari Tuominen**  
(1958), M.Sc. (Econ. & Bus. Adm.)  
Rovaniemi Regional Office

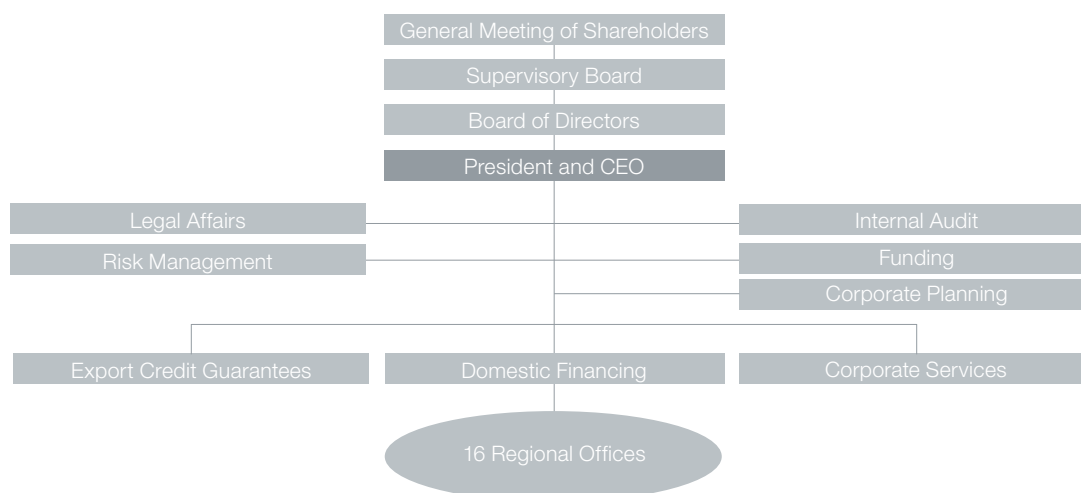
**Seppo Tyynelä**  
(1949), B.Sc. (Econ. & Bus. Adm.)  
Tampere Regional Office

**Jukka Vilppo**  
(1955), M.Sc. (Tech.)  
Uusimaa Regional Office

### Finnvera plc Group structure



### Organisation of Finnvera plc



## Domestic financing

### Financing, by product (EUR 1,000)

	2005	2004	2003	2002	2001
<b>Loans</b>	<b>405,757</b>	<b>411,794</b>	<b>363,661</b>	<b>352,104</b>	<b>331,986</b>
Loans for investments and working capital	262,901	258,764	230,067	230,863	218,801
Venture capital loans	21,486	22,308	24,790	19,958	14,977
Development loans	17,819	23,335	17,108	17,817	15,956
Loans for women entrepreneurs	25,700	22,075	18,207	17,320	16,454
Microloans	32,098	30,969	30,779	26,600	29,229
Entrepreneur loans	25,499	28,548	24,158	17,981	10,242
Environmental loans	20,254	25,796	18,552	21,565	26,327
<b>Domestic guarantees</b>	<b>425,622</b>	<b>426,609</b>	<b>351,328</b>	<b>361,701</b>	<b>323,146</b>
For investments and working capital	142,683	130,259	115,243	127,133	57,522
For growth and employment	69,269	80,339	66,643	54,026	124,855
For current account with overdraft	89,155	89,116	69,478	76,688	61,661
Micro-guarantees	20,563	20,174	19,225	19,207	13,005
For delivery	103,953	106,721	78,739	84,647	63,345
For environmental protection			2,000		2,758
<b>Export guarantees and special guarantees</b>	<b>63,915</b>	<b>53,139</b>	<b>57,460</b>	<b>56,386</b>	<b>53,163</b>
Export guarantees	63,915	53,064	57,460	56,386	53,163
Venture capital guarantees		75			
<b>Total</b>	<b>895,294</b>	<b>891,543</b>	<b>772,449</b>	<b>770,191</b>	<b>708,295</b>

### Financing decisions, by enterprise size

(MEUR)	2005	2004	2003	2002	2001
Micro-enterprises	296.7	251.6	215.9	206.8	180.3
Other SMEs	517.5	519.8	444.1	463.1	450.6
Major companies and other business	81.0	120.1	112.4	100.3	77.4
<b>Total</b>	<b>895.3</b>	<b>891.5</b>	<b>772.4</b>	<b>770.2</b>	<b>708.3</b>
(%)	2005	2004	2003	2002	2001
Micro-enterprises	33.1	28.2	28.0	26.9	25.5
Other SMEs	57.8	58.3	57.5	60.1	63.6
Major companies and other business	9.1	13.5	14.5	13.0	10.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Financing, by sector  
(EUR 1,000)**

	2005	2004	2003	2002	2001
<b>Rural trades, in total</b>	<b>5,345</b>	<b>6,675</b>	<b>6,051</b>	<b>7,125</b>	<b>5,837</b>
Special trades in agriculture	3,890	5,106	3,718	5,409	4,343
Fishery	1,454	1,569	2,333	1,716	1,494
<b>Industry, in total</b>	<b>533,282</b>	<b>552,123</b>	<b>488,743</b>	<b>463,458</b>	<b>462,755</b>
Manufacture of foods	30,224	23,442	27,114	28,801	38,745
Manufacture of textiles, clothing and leather products	22,681	20,476	17,496	20,101	18,842
Manufacture of wood-based products	52,496	55,340	59,171	67,676	69,004
Manufacture of paper products	8,134	3,107	9,162	5,966	7,287
Communications industry	7,900	14,311	10,944	12,969	12,005
Manufacture of furniture	12,099	14,589	9,372	14,633	18,444
Manufacture of chemical, rubber and plastics products	24,160	29,892	30,446	25,307	26,578
Manufacture of glass, ceramic and stone products	12,674	10,188	12,739	9,623	9,094
Basic metals and mechanical industry	251,119	240,221	193,291	155,125	166,719
Electrical and electronics industry	34,396	68,825	59,320	67,996	45,922
Other industry and manufacture	77,400	71,733	59,688	55,261	50,115
<b>Tourism, in total</b>	<b>68,458</b>	<b>57,412</b>	<b>51,624</b>	<b>44,128</b>	<b>43,224</b>
Accommodation and restaurant business	39,042	37,733	31,937	29,368	26,769
Activities serving tourism	29,417	19,679	19,687	14,760	16,455
<b>Services for business, in total</b>	<b>138,832</b>	<b>136,411</b>	<b>117,509</b>	<b>150,534</b>	<b>108,178</b>
Real-estate companies	28,086	28,718	27,301	39,312	28,384
Transport	31,656	25,553	19,191	27,985	14,638
Data processing services	18,540	17,966	20,475	16,121	14,494
Services for business management	12,865	15,815	9,403	12,646	13,531
Technical services	25,748	23,693	18,740	35,192	22,851
Media and advertising services	7,323	5,864	5,926	5,103	4,767
Other services for business	8,077	6,866	9,637	7,920	3,500
Cleaning and real-estate maintenance	6,539	11,933	6,836	6,255	6,013
<b>Trade and consumer services, in total</b>	<b>149,377</b>	<b>138,923</b>	<b>108,522</b>	<b>104,946</b>	<b>88,301</b>
Wholesale trade	62,731	61,400	39,537	42,818	39,914
Retail trade	40,228	35,651	32,275	22,194	24,390
Repair of motor vehicles	21,289	19,345	19,083	21,163	11,116
Consumer services	25,130	22,527	17,627	18,771	12,881
<b>Grand total</b>	<b>895,294</b>	<b>891,543</b>	<b>772,449</b>	<b>770,191</b>	<b>708,295</b>

**Financing, by regional office  
(EUR 1,000)**

	2005	2004	2003	2002	2001
Helsinki	76,730	94,645	63,799	67,210	67,267
Joensuu	31,034	32,489	29,074	29,003	25,786
Jyväskylä	43,089	44,563	30,786	32,190	30,811
Kajaani	40,620	34,132	26,687	22,745	19,776
Kuopio	49,714	49,090	44,194	39,507	45,017
Lahti	53,415	52,085	43,478	50,688	47,650
Lappeenranta	38,315	36,252	36,987	31,697	32,233
Mikkeli	25,439	29,414	22,334	24,555	21,833
Oulu	70,342	70,166	56,636	72,079	64,267
Pori	79,603	61,323	57,717	50,912	42,507
Rovaniemi	40,183	36,244	30,904	27,900	28,941
Seinäjoki	34,066	30,775	31,959	24,308	24,820
Tampere	125,567	123,668	126,744	117,502	100,092
Turku	83,096	98,187	68,924	88,885	78,630
Uusimaa	47,495	42,250	39,724	38,408	33,875
Vaasa	55,790	55,899	56,921	52,215	44,395
Åland	798	362	510	387	396
Head Office			5,070		
<b>Total</b>	<b>895,294</b>	<b>891,543</b>	<b>772,449</b>	<b>770,191</b>	<b>708,295</b>

**Outstanding commitments, by product  
(MEUR)**

	31.12.2005	31.12.2004	31.12.2003	31.12.2002	31.12.2001
Loans	1,412.0	1,365.4	1,290.9	1,261.7	1,231.1
Domestic guarantees	841.8	796.1	692.6	626.1	495.9
Export guarantees and special guarantees	52.9	42.5	65.9	59.4	53.1
Share capital investments	95.8	78.8	60.7	57.9	57.9
Guarantee receivables	14.9	12.8	7.7	6.4	8.9
<b>Total</b>	<b>2,417.5</b>	<b>2,295.7</b>	<b>2,117.8</b>	<b>2,011.5</b>	<b>1,846.9</b>

**Outstanding commitments, by enterprise size  
(MEUR)**

	2005	2004	2003	2002	2001
Micro-enterprises	734.5	639.2	581.4	557.8	524.8
Other SMEs	1,274.2	1,266.8	1,189.7	1,135.4	1,050.0
Major companies and other business	408.7	389.6	346.7	318.3	272.1
<b>Total</b>	<b>2,417.5</b>	<b>2,295.7</b>	<b>2,117.8</b>	<b>2,011.5</b>	<b>1,846.9</b>

**Outstanding commitments, by sector  
(MEUR)**

	2005	2004	2003	2002	2001
Rural trades	19.2	20.0	20.2	20.6	20.5
Industry	1,352.4	1,321.9	1,221.9	1,178.4	1,163.9
Tourism	200.8	193.8	188.6	177.1	170.8
Services to business	497.4	469.7	435.0	420.7	301.3
Trade and consumer services	347.7	290.3	252.1	214.7	190.4
<b>Total</b>	<b>2,417.5</b>	<b>2,295.7</b>	<b>2,117.8</b>	<b>2,011.5</b>	<b>1,846.9</b>

**Outstanding commitments, by regional office  
(MEUR)**

	2005	2004	2003	2002	2001
Helsinki	179.7	173.2	142.8	143.0	125.9
Joensuu	94.8	97.1	89.5	87.0	81.4
Jyväskylä	121.5	123.2	106.8	108.1	107.4
Kajaani	86.9	82.4	72.3	61.9	59.5
Kuopio	154.7	144.9	140.8	138.5	127.9
Lahti	138.7	134.0	121.1	120.9	105.2
Lappeenranta	113.7	109.3	111.3	104.6	100.9
Mikkeli	79.4	74.5	73.9	77.9	73.4
Oulu	188.8	176.1	169.3	172.1	151.2
Pori	180.6	170.2	162.2	143.5	117.9
Rovaniemi	132.7	127.1	122.3	121.4	122.1
Seinäjoki	99.8	82.5	86.5	73.6	79.9
Tampere	300.8	295.4	275.2	243.2	212.5
Turku	188.0	186.2	178.3	168.7	153.2
Uusimaa	112.7	97.0	86.5	86.2	77.3
Vaasa	152.8	145.3	134.0	125.9	115.8
Åland	1.6	2.2	2.2	2.4	2.6
Head Office	90.4	75.1	42.8	32.6	32.8
<b>Total</b>	<b>2,417.5</b>	<b>2,295.7</b>	<b>2,117.8</b>	<b>2,011.5</b>	<b>1,846.9</b>

**Clients, by enterprise size  
(Number)**

	2005	2004	2003	2002	2001
Micro-enterprises	22,535	21,131	20,626	21,055	22,341
Other SMEs	4,546	4,664	4,420	4,244	3,970
Major companies and other business	288	316	355	377	450
<b>Total</b>	<b>27,369</b>	<b>26,111</b>	<b>25,401</b>	<b>25,676</b>	<b>26,761</b>

(%)	2005	2004	2003	2002	2001
Micro-enterprises	82.3	80.9	81.2	82.0	83.5
Other SMEs	16.6	17.9	17.4	16.5	14.8
Major companies and other business	1.1	1.2	1.4	1.5	1.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



**Clients, by sector  
(Number)**

	2005	2004	2003	2002	2001
Rural trades	189	331	345	383	421
Industry	9,830	9,479	9,359	9,683	10,226
Tourism	3,092	2,949	2,895	2,821	2,890
Services to business	6,348	6,121	5,950	6,164	6,519
Trade and consumer services	7,910	7,231	6,852	6,625	6,705
<b>Total</b>	<b>27,369</b>	<b>26,111</b>	<b>25,401</b>	<b>25,676</b>	<b>26,761</b>

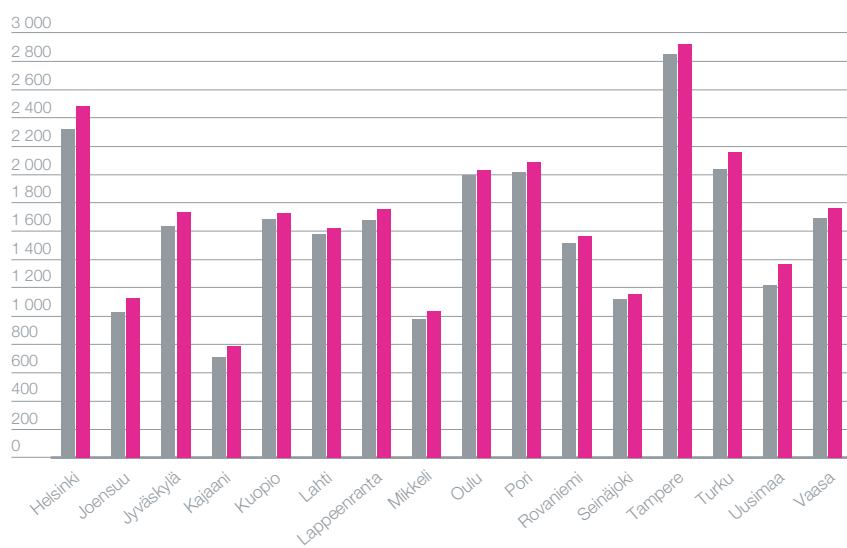
**New clients  
(Number)**

	2005	2004	2003	2002	2001
Micro-enterprises	4,398	3,858	3,410	3,167	2,927
Other SMEs	367	638	613	613	675
Major companies and other business	9	14	16	20	13
<b>Total</b>	<b>4,774</b>	<b>4,510</b>	<b>4,039</b>	<b>3,800</b>	<b>3,615</b>

**Domestic financing**

Clients, by regional office

2005 total 27,369 ■ 2005  
2004 total 26,111 ■ 2004



## Foreign risk-taking <sup>1)</sup>

### Guarantees offered, by region (MEUR)

	2005	2004	2003	2002	2001
Asia	251.7	293.0	146.3	200.3	934.8
CIS *	576.7	427.2	108.0	58.6	25.6
Central and Eastern Europe	103.1	95.7	8.8	387.0	51.0
Latin America	465.5	510.2	702.5	211.5	594.9
Middle East and North Africa	196.1	222.4	162.8	138.3	147.3
Sub-Saharan Africa	1.4	0.8	19.6	23.8	–
Industrialised countries	1,379.8	660.1	1,163.0	689.3	10.5
<b>Total</b>	<b>2,974.3</b>	<b>2,209.4</b>	<b>2,311.0</b>	<b>1,708.8</b>	<b>1,764.1</b>

### Guarantees that have come into effect, by region (MEUR)

	2005	2004	2003	2002	2001
Asia	309.5	211.2	46.3	152.4	598.7
CIS *	483.0	162.5	63.7	14.2	31.6
Central and Eastern Europe	1.4	125.4	15.3	237.8	23.2
Latin America	165.2	257.9	337.8	74.0	193.8
Middle East and North Africa	85.5	147.5	122.7	110.0	54.0
Sub-Saharan Africa	–	16.4	–	0.0	–
Industrialised countries	362.3	66.2	409.3	157.1	6.8
<b>Total</b>	<b>1,406.9</b>	<b>987.1</b>	<b>995.1</b>	<b>745.5</b>	<b>908.1</b>

### Guarantees that have come into effect, by buyer's sector (MEUR)

	2005	2004	2003	2002	2001
Telecommunications	785.9	597.6	283.1	535.8	504.3
Wood processing	149.4	84.8	25.8	12.6	135.1
Power generation	25.2	177.0	119.6	87.7	134.0
Shipping companies	309.1	2.4	395.0	–	–
Other	137.3	125.3	171.6	109.4	134.7
<b>Total</b>	<b>1,406.9</b>	<b>987.1</b>	<b>995.1</b>	<b>745.5</b>	<b>908.1</b>

### Outstanding commitments <sup>2)</sup>, by product, 31 Dec 2005 (MEUR)

	Offers	Current	Total
Buyer Credit Guarantees	1,567.5	1,956.7	3,524.2
Credit Risk Guarantees	1.6	107.6	109.2
Letter of Credit Guarantees	–	144.8	144.8
Investment Guarantees	84.8	–	84.8
Bond Guarantees	–	1.8	1.8
<b>Total</b>	<b>1,653.9</b>	<b>2,210.9</b>	<b>3,864.8</b>
Raw Material Guarantees	–	38.1	38.1
<b>Grand Total</b>	<b>1,653.9 <sup>3)</sup></b>	<b>2,249.0 <sup>4,5)</sup></b>	<b>3,902.9</b>

### Outstanding commitments <sup>2)</sup>, by region, 31 Dec 2005 (MEUR)

	Offers	Current	Total
Asia	125.9	580.0	705.9
CIS*	124.2	458.3	582.5
Central and Eastern Europe	82.0	42.5	124.5
Latin America	322.4	545.0	867.4
Middle East and North Africa	110.5	139.6	250.1
Sub-Saharan Africa	1.8	11.2	13.0
Industrialised countries	887.0	472.5	1,359.5
<b>Total</b>	<b>1,653.8 <sup>3)</sup></b>	<b>2,249.1 <sup>4,5)</sup></b>	<b>3,902.9</b>

### Exports covered by guarantees, by region <sup>6)</sup> (MEUR)

	2005	2004	2003	2002	2001
Asia	165.0	169.5	136.7	351.0	492.2
CIS *	541.4	184.7	60.5	28.5	21.5
Central and Eastern Europe	86.3	23.2	37.2	168.7	24.5
Latin America	58.5	449.0	279.8	95.1	241.3
Middle East and North Africa	118.1	124.5	88.1	93.0	123.5
Sub-Saharan Africa	0.1	16.0	0.1	0.2	0.5
Industrialised countries	30.4	189.4	41.3	20.4	66.6
<b>Total</b>	<b>999.8</b>	<b>1,156.3</b>	<b>643.7</b>	<b>756.9</b>	<b>970.1</b>

\* CIS refers to 12 independent states that were formerly included in the Soviet Union.

### Premium income and guarantee losses in 2005 (MEUR)

	Premium income	Guarantee losses <sup>7)</sup>
Buyer Credit Guarantees	1.3	-4.7
Credit Risk Guarantees	1.0	-0.2
Letter of Credit Guarantees	29.0	-
Investment Guarantees	-	-
Bond Guarantees	-	-
<b>Total</b>	<b>31.3</b>	<b>-4.9</b>
Raw Material Guarantees	1.3	-
<b>Grand total</b>	<b>32.6</b>	<b>-4.9</b>

### Receivables in the recovery process, 31 Dec 2005 <sup>8)</sup>

(EUR 1,000)	Political risk	Commercial risk	Total
Buyer Credit Guarantees	-	2,546.3	2,546.3
Credit Risk Guarantee	-	22,200.7	22,200.7
Other	-	96.8	96.8
<b>Total</b>	<b>-</b>	<b>24,843.8</b>	<b>24,843.8</b>

### Claims paid and recovery on the basis of political risk, by country

(EUR 1,000)	2005		2004		2003		2002		2001	
	Claims	Recovery	Claims	Recovery	Claims <sup>9)</sup>	Recovery	Claims <sup>9)</sup>	Recovery	Claims	Recovery
Latvia	-	-	-	-	0.4	5.1	402.4	467.9	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.4</b>	<b>5.1</b>	<b>402.4</b>	<b>467.9</b>	<b>-</b>	<b>-</b>

### Claims paid and recovery on the basis of commercial risk, by country

(EUR 1,000)	2005		2004		2003		2002		2001	
	Claims <sup>9)</sup>	Recovery	Claims <sup>9)</sup>	Recovery	Claims <sup>9)</sup>	Recovery	Claims <sup>9)</sup>	Recovery	Claims	Recovery
United Arab Emirates	3.0	-	21.3	-	0.8	-	2.2	14.9	327.1	-
Argentina	4.1	251.1	3.8	381.0	2.7	348.4	2,865.1	22.6	88.0	18.3
Australia	-	125.9	-	1,104.5	1,739.2	44.7	-	-	-	-
Chile	-	-	0.6	-	4.4	70.0	318.6	-	-	-
Indonesia	28.3	3,395.4	1,586.6	128.1	67.2	10,159.5	20,283.8	-	12,734.1	-
China	-	-	-	-	-	-	-	-	11.9	-
Latvia	-	-	-	-	-	-	-	-	59.7	-
Lithuania	-	-	2.7	2.3	-	-	-	-	-	-
Mexico	-	-	-	-	-	-	-	-	131.9	-
Poland	-	-	-	-	290.3	-	-	-	-	-
Venezuela	-	-	-	42.7	169.4	107.0	-	-	-	-
Russia	164.1	-	7.0	-	0.1	-	-	-	-	-
<b>Total</b>	<b>199.5</b>	<b>3,772.4</b>	<b>1,622.0</b>	<b>1,658.6</b>	<b>2,274.1</b>	<b>10,729.6</b>	<b>23,469.7</b>	<b>37.5</b>	<b>13,352.7</b>	<b>18.3</b>

1) Foreign risk-taking = export credit and special guarantees in which the object of the risk is abroad.

2) Outstanding commitments = commitments as per coverage; overlapping between guarantees has been eliminated (net commitments).

3) Of this sum, commitments as per special risk-taking referred to in §6 of the Act on the State's Export Credit Guarantees (422/2001) accounted for EUR 139.9 million. Special risk-taking is authorisation given by the Government for special reasons to grant export credit guarantees in situations in which they would not be granted on the basis of regular risk assessment.

4) Of this sum, commitments as per special risk-taking referred to in §6 of the Act on the State's Export Credit Guarantees (422/2001) accounted for EUR 333.7 million.

5) The outstanding commitments arising from Credit Risk Guarantees include a provision of EUR 2.0 million for credit losses.

6) Exports covered with Buyer Credit, Credit Risk and Letter of Credit Guarantees; does not include exports covered with the corresponding guarantees for which the State Guarantee Fund is liable.

7) Claims paid minus recovery (net claims; changes in claims provisions and recovery receivables have been included).

8) Finnvera's share.

9) Includes recovery costs.

## The liability managed by Finnvera

By virtue of the Act on the State Guarantee Fund, liability for the export credit guarantees and State guarantees granted by the Finnish Guarantee Board and outstanding on 31 December 1998 rests with the Fund, which is managed by the Ministry of Trade and Industry. The Ministry and Finnvera have signed an agreement on the management of this 'old' liability.

Accordingly, the Fund pays Finnvera a management fee. The purpose of the State Guarantee Fund is to ensure that Finnvera's liability for export credit guarantees, domestic guarantees and other commitments referred to in §4 of the Act on the State Guarantee Fund is met. The assets of the Fund are used directly to cover the guarantees and other commit-

ments given by the former Finnish Guarantee Board and by its predecessors, the Export Guarantee Board and the State Guarantee Board.

In order to illustrate the overall situation, the outstanding commitments are presented together with Finnvera's corresponding figures.

### Liability for guarantees under the Act on the State's Export Credit Guarantees and for raw material guarantees (Act on State Guarantees to Ensure the Supply of Basic Raw Materials) <sup>1)</sup> 31 Dec 2005

(MEUR)	Offers			Current commitments			Total			Book value <sup>2)</sup>		
	Fund	Finnvera	Total	Fund	Finnvera	Total	Fund	Finnvera	Total	Fund	Finnvera	Total
<b>Export credit guarantees</b>												
Buyer Credit Guarantees	-	1,567.5	1,567.5	196.4	1,956.7	2,153.1	196.4	3,524.2	3,720.6	165.3	2,597.8	2,763.1
Credit Risk Guarantees	-	1.6	1.6	-	107.6	107.6	-	109.2	109.2	-	106.2	106.2
Letter of Credit Guarantees	-	-	-	-	144.8	144.8	-	144.8	144.8	-	140.7	140.7
Investment Guarantees	-	84.8	84.8	-	-	-	-	84.8	84.8	-	38.3	38.3
Bond Guarantees	-	-	-	-	241.1	241.1	-	241.1	241.1	-	214.1	214.1
Finance Guarantees	-	-	-	-	230.1	230.1	-	230.1	230.1	-	230.1	230.1
Export Guarantees	-	2.4	2.4	-	52.4	52.4	-	54.8	54.8	-	53.6	53.6
Compulsory provisions	-	-	-	-	-2.0	-2.0	-	-2.0	-2.0	-	-2.0	-2.0
<b>Total</b>	-	<b>1,656.3</b>	<b>1,656.3</b>	<b>196.4</b>	<b>2,730.7</b>	<b>2,927.1</b>	<b>196.4</b>	<b>4,387.0</b>	<b>4,583.4</b>	<b>165.3</b>	<b>3,378.8</b>	<b>3,544.1</b>
Raw Material Guarantees	-	-	-	-	38.1	38.1	-	38.1	38.1	-	35.4	35.4
<b>Grand total</b>	-	<b>1,656.3</b> <sup>3)</sup>	<b>1,656.3</b>	<b>196.4</b> <sup>4)</sup>	<b>2,768.8</b> <sup>5,6)</sup>	<b>2,965.2</b>	<b>196.4</b>	<b>4,425.1</b>	<b>4,621.5</b>	<b>165.3</b>	<b>3,414.2</b>	<b>3,579.5</b>

### Liability for special guarantee activities, 31 Dec 2005 (MEUR)

	Current commitment <sup>7)</sup>		
	Fund	Finnvera	Total
<b>State Guarantees</b>			
Industry Guarantees	10.7	-	10.7
Ship Guarantees	-	7.6	7.6
Environmental Protection Guarantees	2.8	107.5	110.3
Stabilisation Guarantees	0.1	-	0.1
Micro-guarantees	0.1	-	0.1
<b>Total</b>	<b>13.7</b>	<b>115.1</b>	<b>128.8</b>

### The State Guarantee Fund's recovery receivables, 31 Dec 2005 (MEUR)

	Total receivables	The Fund's share <sup>8)</sup>	Book value
<b>Based on political risk</b>			
Rescheduled receivables	350.6	337.3	261.8
Other receivables based on political risk	165.2	139.9	10.7
<b>Total</b>	<b>515.8</b>	<b>477.2</b>	<b>272.5</b>
<b>Based on commercial risk</b>	<b>149.0</b>	<b>144.1</b>	<b>32.5</b>
<b>Grand total</b>	<b>664.8</b>	<b>621.3</b>	<b>305.0</b>

1) Liability = commitments as per coverage; overlapping between guarantees has been eliminated (net liability)

2) Book value = current commitments + half of offers

3) Of this sum, commitments as per special risk-taking referred to in §6 of the Act on the State's Export Credit Guarantees totalled EUR 139.9 million. Special risk-taking is authorisation given by the Government for special reasons to grant export credit guarantees in situation in which they would not be granted on the basis of regular risk assessment.

4) Of this sum, commitments as per special risk-taking referred to in §6 of the Act on

the State's Export Credit Guarantees totalled EUR 3.3 million.

5) Of this sum, commitments as per special risk-taking referred to in §6 of the Act on the State's Export Credit Guarantees totalled EUR 333.7 million.

6) The outstanding commitments arising from Credit Risk Guarantees include a provision of EUR 2.0 million for credit losses.

7) As per the Act

8) The difference between the Fund's share and total receivables represents the guarantee holder's receivables under recovery.

## Finnvera Group, key figures

### Financial indicators

MEUR	2005	2004	2003	2002	2001
Turnover	171.0	164.2	153.2	153.2	157.3
Operating profit or loss	45.5	54.9	37.3	24.9	34.5
% of turnover	26.6	33.4	24.3	16.2	21.9
Profit or loss before appropriations and taxes	45.5	54.9	37.3	25.0	34.9
% of turnover	26.6	33.4	24.3	16.3	22.2
Return of equity, %	7.4	9.5	7.1	4.8	8.2
Return of assets, %	2.0	2.5	1.7	1.1	1.9
Equity ratio, %	27.1	27.9	24.1	22.4	23.2
Capital adequacy ratio	18.1	16.4	15.8	14.6	15.3
Credit losses and claims paid	48.0	36.5	34.1	31.3	39.5

### Finnvera plc, domestic financing

Number of clients	27,369	26,111	25,401	25,676	26,761
Number of new enterprises	3,638	2,956	2,576	2,281	2,357
Number of new jobs	10,548	11,457	9,730	9,509	10,685
Financing granted, MEUR	895.3	891.5	774.2	770.2	708.3
Outstanding commitments at year's end					
Outstanding credits, MEUR	1,376.3	1,337.8	1,246.6	1,212.2	1,177.0
Outstanding guarantees, MEUR	839.8	793.1	691.5	623.3	491.2

### Finnvera plc, financing of exports

Number of clients	209	239	229	248	238
Outstanding commitments, MEUR	3,902.9	3,367.1	3,138.6	2,561.4	2,938.9
Guarantees offered, MEUR	2,974.3	2,209.4	2,311.0	1,708.8	1,764.1
Guarantees the came into effect, MEUR	1,406.9	987.1	995.1	745.5	908.1

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## MARIANNA UUTINEN

Marianna Uutinen (b. 1961) is a reformer of painting whose early works are an essential element of the history of painting in the 1990s. She was among the first to break the divider between high and low in visual arts; she ironised the masculine traditions of thinking and painting, brought the kitchen and handicraft into the sphere of high culture and stretched the concept of painting to the point that it took on new contents.

Cover: F-FACTS, 2005  
acrylic on canvas  
200 x 300 cm

Page 9: SPOTTED, 2005  
acrylic on canvas  
200 x 300 cm

Page 16: NIGHT AND DAY, 2005  
acrylic on canvas  
diptych, 203 x 153 cm each

Page 32: TOY, 2005  
acrylic on canvas  
300 x 200 cm

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