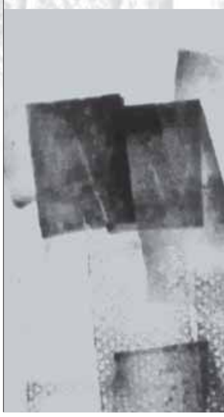
Financial Statements 2005

FINNVERA



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BUSINESS TRENDS

Financial performance

The Finnvera Group's profit for the year 2005 declined to EUR 33.5 million. The profit for the previous year had been EUR 38.4 million. The Group companies and associated companies had an effect of EUR 0.7 million on the profit (EUR -1.0 million).

The parent company's profit was EUR 32.7 million, as compared to EUR 39.3 million in 2004.

There were two primary reasons for the smaller profit: a decline in commissions income from export credit and special guarantees and an increase in credit and guarantee losses.

Interest income

The interest income of Finnvera plc includes interest subsidy of EUR 19.3 million, passed on by the parent company directly to its clients, and other interest subsidy of EUR 1.8 million. The sums are presented as items of their own in the profit and loss account.

The interest subsidy from the State and from the European Regional Development Fund (ERDF) totalled EUR 21.1 million, of which the State accounted for EUR 13.7 million and the ERDF plus the associated national interest support for a total of EUR 7.4 million. In 2004, interest subsidy had amounted to EUR 21.7 million.

The mean interest rate that clients paid for loans was 3.70 per cent on 31 December 2005 (3.50), while the mean interest rate for borrowing was 2.33 per cent (2.20).

Commissions income

The Group's commissions income totalled EUR 60.6 million. This was EUR 6.4 million less than in the previous year.

Commissions income includes EUR 36.3 million as commissions received by the parent company for export credit guarantee and special guarantee operations, EUR 15.8 million as other guarantee commissions, EUR 5.6 million as handling fees for loans and guarantees, and EUR 1.4 million as other commissions for lending.

Other income

A new item has been added to the profit and loss account: net income from saleable financial assets, EUR -0.1 million. This includes profits and losses from the sale of shares where Finnvera's holding is under 20 per cent, as well as any write-downs made on said shares.

Another new item is net income from investment property, EUR 0.4 million. The item consists of income and expenses from real property that is not in the Group's own use.

Other operating income includes the management fee of EUR 1.0 million paid by the Sate Guarantee Fund for management of the 'old' liability for export credit guarantee and special guarantee products arisen before 1999, as well as a fee of EUR 0.7 million for the management of the ERDF financing. Operating support paid by the State for development and advisory services provided for enterprises came to EUR 0.3 million.

Write-down losses

Write-down losses for credits and guarantees increased by EUR 16.5 million. The parent company's credit and guarantee losses totalled EUR 55.5 million (EUR 30.0 million). EUR 3.7 million of losses recorded earlier was cancelled; thus, net losses came to EUR 51.8 million (EUR 26.0 million). In addition, the profit and loss account includes an increase of EUR 0.3 million in write-down losses (in 2004, an increase of EUR 9.6 million in specific credit loss provisions). Compensation by the State and the ERDF totalled EUR 20.4 million or 39.4 per cent.

Claims for export credit guarantees and special guarantees came to EUR 1.0 million. Funds recovered totalled EUR 5.1 million, or EUR 4.1 million more than the claims paid.

Write-down losses from credits, domestic guarantees and from export and special guarantees came to EUR 48.0 million, as compared to EUR 36.5 million in the year before.

Other expenses

The Group's administrative expenses totalled EUR 39.7 million (EUR 37.9 million), of which personnel expenses accounted for 66.6 per cent. The parent company's administrative expenses totalled EUR 37.8 million (EUR 35.8 million), of which personnel expenses accounted for 67.6 per cent. Other operating expenses are costs for business premises.

Separate results

The separate result of export credit and special guarantee activities referred to in §4 of the Act on the State Guarantee Fund (444/1998) totalled EUR 25.7 million after imputed taxes. Correspondingly, the result of Finnvera plc's other activities totalled EUR 7.0 million. The separate results are presented under Notes to the Accounts, note no. 39.

Balance sheet

At year's end, Finnvera's outstanding credits totalled EUR 1,376.3 million. Credits increased by EUR 55.5 million during 2005. Guarantees increased slightly less than credits, or EUR 46.7 million. At the end of 2005, domestic guarantees totalled EUR 839.8 million. The book value of the liability, as referred to in the Act on the State's Export Credit Guarantees, amounted to EUR 3,378.8 million (EUR 2,886.2 million). Outstanding commitments arising from export credit guarantees and special guarantees (current commitments and offers given) totalled EUR 4,540.5 million (EUR 3,748.2 million).

The parent company's long-term liabilities at year's end totalled EUR 1,132.2 million. Of this sum, EUR 386.9 million consisted of bonds. The liabilities include a capital loan of EUR 11.5 million received from the State for the share capital of Aloitusrahasto Vera Oy. Liabilities increased by EUR 215.5 million during the year. The Group's long-term liabilities totalled EUR 1,169.6 million.

Other liabilities include a debt of EUR 13.9 million owed to the State. This debt pertains to the support that was received for the acquisition of shares in venture capital investment companies and that must be repaid as per contract terms.

The above par value fund consists of the following sums: the difference between the acquisition price and the nominal value of Kera's shares, EUR 42.9 million; the sum of EUR 0.1 million arisen in connection with the transfer of the Finnish Guarantee Board's assets and the acquisition of Fide Ltd's shares; and the sum of EUR 8.1 million arisen when Finnvera's share capital was raised in May 2004 for the acquisition of the stock of Finnish Export Credit Ltd. The above par value fund totals EUR 51.0 million.

The market value fund shows the difference between the market value and book value of publicly quoted shares and investment funds, in total EUR 0.5 million in the Group.

As decided by the Annual General Meeting, the parent company's profit for the previous financial year, EUR 39.2 million, was transferred to the reserve fund.

CAPITAL ADEQUACY AND ACQUISITION OF FUNDS

Capital adequacy has been calculated in accordance with the Credit Institutions Act and the regulations issued by the Financial Supervision, even though Finnvera is not governed by the Credit Institutions Act. At the end of 2005, the capital adequacy ratio of the Finnvera Group was 18.06 per cent (16.40). The Group's own assets stood at EUR 453.1 million, while the risk-weighted receivables, investments and commitments outside the balance sheet totalled EUR 2,508.4 million.

The capital adequacy ratio of Finnvera plc as of 31 December 2005 stood at 17.96 per cent (16.90). The parent company's own assets were EUR 443.7 million, while the risk-weighted receivables, investments and commitments outside the balance sheet totalled EUR 2,470.3 million.

The parent company's long-term funding totalled EUR 546.5 million. In all, EUR 331.0 million in long-term loans was paid back during the year.

CHANGES IN GROUP STRUCTURE

In March, Finnvera subscribed the entire increase of EUR 1.0 million in the share capital of Matkailunkehitys Nordia Oy; this raised Finnvera's holding to 63.5 per cent. In July, Finnvera drew an interest-free capital loan of EUR 11.5 million from the State to be used as share capital in Aloitusrahasto Vera Oy, a nationwide early-stage seed fund.

Among the associated companies, the shares of Hiihtokeskus Iso-Ylläs Oy and Kristina Cruises Oy were sold. In conjunction with the increase in the share capital of Stone Pole Oy, Finnvera's holding decreased to 19.6 per cent.

On 31 December 2005, the Finnvera Group comprised the parent company and the 100% owned Spikera Oy, Veraventure Ltd, Tietolaki Oy, and Finnish Export Credit Ltd, as well as Matkailunkehitys Nordia Oy (63.5% holding), Aloitusrahasto Vera Oy (84.6% holding) and one company providing services in the sector of business premises. The number of associated companies was four.

The following companies were not included in the consolidated financial statements: Finnvera's subsidiaries Kera Corporation and Tietoraha Oy, which have had no operations; and Lomakouhero Oy, which is temporarily owned by Matkailunkehitys Nordia Oy.

RISK MANAGEMENT

Risks pertaining to credits and guarantees

In domestic operations, Finnvera's credit and guarantee risks stem from risk-taking when loans and guarantees are granted. Besides loans and guarantees, share investments in enterprises are also included in outstanding commitments when risks are assessed.

The outstanding commitments as per risk assessment increased by 5.3 per cent during 2005, to EUR 2.4 billion at year's end. The most rapid increase was recorded in enterprises employing fewer than 10 people.

The relative risk position declined slightly during the year owing to a decrease in the outstanding commitments pertaining to enterprises in risk category A.

Finnvera's export credit and special guarantee risks are mostly credit risks arising from the buyers of Finnish export commodities. The exporter or the lender can use Finnvera's guarantees as protection against commercial and/or political risks associated with the borrower and/or the borrower's country.

Finnvera's outstanding guarantees and offers for foreign risk-taking (including the Bond Guarantees and Finance Guarantees of Finnish shipyards) totalled EUR 4,485 million at the end of 2005 (EUR 3,555 million). All guarantees together, including outstanding guarantees and binding offers, and the State Guarantee Fund's 'old' liability managed by Finnvera plc, totalled EUR 4,682 million at year's end (EUR 3,789 million). The commercial risks of enterprises amounted to EUR 3,817 million (EUR 3,062 million) and bank risks to EUR 447 million (EUR 462 million) at the end of 2005.

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 adjusting the terms of borrowing and lending to each other, for instance by means of interest rate and currency swaps. Risks are monitored and the Board of Directors receives regular reports of risks. It is estimated that market risks have little effect on the company's performance.

Clients usually opt 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 losses in US dollars has been deposited in dollar accounts.

The reserve of USD-denominated assets from export credit guarantee operations totalled USD 22.4 million at the end of 2005 (USD 20.2 million).

ATTAINMENT OF INDUSTRIAL POLICY AND OWNERSHIP POLICY GOALS

Industrial policy goals

1. Economic self-sustainability of Finnvera plc

Domestic financing

In accordance with §4 of the Act on the State-Owned Specialised Financing Company, the company's objective is to ensure that, in the long term, the expenses incurred in the company's operations can be covered by the income received from its operations.

Target: The cost-revenue ratio of economic self-sustainability should be at most 1 during the period of 1999–2005, assuming that the period constitutes one economic cycle. The figure reached in domestic financing was 1.22 (0.99). When the basic interest support is included in the calculation, the corresponding figure is 1.19 (0.94).

Financing of exports

In the long term, the premiums on export credit guarantees and special guarantees, and the funds recovered by Finnvera, should be sufficient to cover the administrative and other expenses of these operations as well as the claims paid by virtue of these guarantees.

The long term refers to a period of 10–20 years, within which the cumulative separate result should be zero. The separate result for 2005 showed a surplus of EUR 35.8 million (EUR 33.3 million). The cumulative result for 1999–2005 amounted to EUR +111.5 million before taxes. When the effect of imputed taxes is taken into account, the cumulative result is EUR 79.3 million (EUR 53.6 million).

2. Distribution between guarantees and loans (Domestic financing)

The share of guarantees in relation to loans is raised in order to increase risk distribution and cooperation with the banking sector.

Target: In 2005, altogether 55 per cent of domestic financing should be given in the form of guarantees.

Domestic guarantees and export guarantees accounted for 55 per cent of the financing decisions made in 2005.

3. Offsetting deficiencies in the operation of the financial market (Domestic financing)

3.1. Allocation of financing to starting enterprises

Target: In 2005, financing should be given to 3,000 starting enterprises. This target pertains to the enterprise policy programme that is meant to create a suitable framework promoting the establishment of enterprises.

In 2005, financing was granted to 3,638 starting enterprises.

3.2. Allocation of financing to growth enterprises

Target: Finnvera recognises growth enterprises and should offer financing to about 1,000 growth enterprises during 2005. This target is associated with the enterprise policy programme.

In 2005, financing was given to 976 enterprises defined as growth enterprises.

3.3. Distribution of financing between risk categories (Domestic financing)

Deficiencies in the operation of the financial market are charted by means of financial studies and surveys. Attention is paid to how well Finnvera has been able to offset market deficiencies.

Target: Financing granted to new enterprises in risk category A should not exceed 25 per cent of all financing decisions made in 2005.

The primary motivation for making financing decisions for enterprises in risk category A should be lack of collateral or some other similar market deficiency.

In 2005, risk category A accounted for 9 per cent of all financing decisions. Attainment of the goal is also assessed by following the ratio between enterprises in risk category A and Finnvera's total outstanding commitments. On 31 December 2005, risk category A accounted for 10 per cent of the outstanding commitments.

4. The impact of Finnvera's activities on the operations of small and medium-sized enterprises (Review of effectiveness)

4.1. Impact on employment (Domestic financing)

Target: The number of new jobs created in 2005 with the help of Finnvera's financial instruments should be 10,000.

The target was exceeded in 2005. Finnvera contributed to the creation of 10,550 new jobs.

4.2. Survival rate of enterprises (Domestic financing)

Target: In the review period of 2000–2004, the survival rate of enterprises financed by Finnvera should be as high as the corresponding figure between 1999 and 2003.

Meeting of this target during 2005 is evaluated by determining how many of the enterprises that had started operations in 2000 are still in business. At the end of January 2006, the survival rate of enterprises that had become Finnvera's clients in 2000 was 82.4 per cent. Of the enterprises that had become Finnvera's clients in 1999, 79.1 per cent were in business at the end of 2004.

5. Meeting the government's regional policy goals in Finnvera's operations

Promotion of balanced regional development is a guiding principle in Finnvera's activities. In national assisted areas, Finnvera must pay attention to the utilisation of the region's own strengths and technology and to the consolidation of know-how.

Target: Out of all financing decisions, at least EUR 380 million should be allocated to national assisted areas in 2005.

Financing granted to national assisted areas in 2005 totalled EUR 460.3 million (EUR 434.0 million)

6. Venture capital investments

Target: The Finnvera Group should make venture capital investments, paying special attention to the capital needs of starting enterprises and enterprises at the initial stages of their operations.

Aloitusrahasto Vera Oy, a subsidiary in which Finnvera's holding is 84.6 per cent, started as a venture capital fund in autumn 2005.

7. The impact of Finnvera's operations on the internationalisation and exports of enterprises

Exports in general

Target: For its part, Finnvera plc is responsible for keeping the export financing system competitive.

Meeting the target is followed by analysing the trend in the ratio between exports covered with Finnvera's export credit guarantees and Finland's total exports. Likewise, the trend in the ratio between exports covered with Finnvera's export credit guarantees and the total volume of Finland's exports to countries involving political risk are analysed.

Attainment of the target is assessed by following the ratio between Finnvera's risk concentrations and total outstanding commitments in the three countries with the greatest country exposures, in the three most important sectors and in the five biggest client enterprises.

At the end of 2005, the three greatest country exposures (United States, Russia, Norway) accounted for EUR

1,704.2 million, or 42 per cent, of total outstanding commitments. The three main sectors (shipyards and shipping companies, telecommunications, and the forest industry) accounted for EUR 3.5 billion (EUR 2.7 billion) of all commercial commitments, or 91 per cent (88). Commitments for the five biggest enterprises totalled EUR 2.2 billion (EUR 1.9 billion), or 58 per cent (63).

Exports and internationalisation of SMEs
The goal is to raise the number of SMEs utilising export credit guarantees from the present level and to increase financing granted to SMEs for internationalisation.

Attainment of the goal is assessed by following the number and value of export financing instruments granted to SMEs, and the share of SMEs of all export credit guarantee clients.

Domestic risks were taken with respect to SMEs engaged in exports by giving export guarantees for a total value of EUR 63.9 million (EUR 53.1 million). The value of guarantee decisions pertaining to foreign risk-taking by SMEs totalled EUR 44.6 million (EUR 18.6 million).

At the end of the year under review, Finnvera had 177 (206) exporter clients in foreign risk-taking. Of these, 69 (66) were SMEs. The number of new client enterprises was 28 (39), of which 23 (23) were SMEs.

Financing given to SMEs for internationalisation totalled EUR 16.3 million in 2005 (EUR 7.7 million). The number of positive financing decisions was 29 (24).

Ownership policy goals

1. Efficiency of operations

The efficiency of the company's operations is measured primarily by means of cost-effectiveness.

Target for 2005: The cost-effectiveness of the Finnvera Group and of the Group's domestic financing shall be at most 0.65 (cost-revenue ratio).

In 2005, the ratio was 0.51 for the whole Group and 0.68 for Finnvera's domestic financing. In 2004, the corresponding figures had been 0.46 and 0.61, respectively.

When interest subsidy and operating support are included in the calculation, the ratios were 0.42 (0.38) at the Group level and 0.49 (0.44) for Finnvera's domestic financing.

2. Capital adequacy

Capital adequacy must be sufficient in order to ensure the company's ability to bear risks and to keep the costs of funding as reasonable as possible.

Target for 2005: Finnvera plc shall make provision for the adoption of the Basel II framework at least on the basis of the standard method.

The Group's capital adequacy ratio was 18.1 per cent (16.4).

PROMOTING ENTERPRISE

Risk financing for starting innovative enterprises

In May, the Government proposed to Parliament that the State would provide EUR 11.5 million for a new type of feeder fund. Finnvera plc was selected as the body responsible for implementing this new venture capital fund arrangement. Starting the feeder fund was the first stage in the strategy drafted by the Ministry of Trade and Industry for revising the system of seed financing and services available for starting innovative enterprises.

On 29 June 2005, Finnvera was granted a capital loan of EUR 11.5 million from the State's Supplementary Budget for 2005. The loan was to serve as capital for the new seed financing company to be established.

The purpose of the new fund company is to eliminate the gap that exists between the financing schemes for product development and private venture capital investment. It has been difficult for enterprises in this phase to acquire financing.

In the main, the fund will invest in technology enterprises at their early stages and in technology-intensive or innovative service enterprises. The enterprises must have the potential to develop into growth enterprises.

Aloitusrahasto Vera Oy began operations on 15 August 2005. The Board of Directors of the fund comprises Seppo Arponen, Senior Vice President of Finnvera plc (Chairman); Veijo Ojala, Executive Vice President; Marja Karimeri, Senior Vice President, Legal Affairs; and Juhani Sutinen, Vice President. The Managing Director is Leo Houtsonen, who is also the Managing Director of Veraventure Ltd, Finnvera's subsidiary engaged in regional venture capital investments.

The fund launched its investment operations in autumn 2005, and the number of applications received during the period under review exceeded the advance estimate.

Growth Enterprise Service

The public organisations providing services for enterprises – Finnvera, Finpro, Tekes and the Employment and Economic Development Centres – began to develop a new Growth Enterprise Service concept in 2003. The concept was tested in pilot projects during 2004. Establishment of the concept in Finnvera's domestic financing continued in 2005.

At the end of 2005, nearly 130 enterprises among Finnvera's clientele were encompassed by the Growth Enterprise Service.

The goal of the Growth Enterprise Service is – as early as possible – to identify enterprises that have prerequisites for growth and to offer these enterprises a service package from the product slates of the participants in the service. This service package can then be used for the development, financing or internationalisation of the enterprise.

Cooperation with the actors participating in the Growth Enterprise Service always starts from the client's situation and needs.

By using the Growth Enterprise Service, the public enterprise service organisations strive to create prerequisites for success suited to enterprises that have set themselves clear growth targets either on international or domestic markets.

A review of the wood product sector

In summer 2005, Finnvera set up a working group to address the difficulties experienced by the wood product sector. The working group's task was to review the current status, problems and development outlook of Finnvera's client enterprises operating in the wood product sector. Extra attention was paid to the furniture industry and sawmills. The working group heard several influential actors in the sector.

On the basis of the review, Finnvera drew up recommendations for financing in the wood product sector. By applying solutions derived from these recommendations, Finnvera and other enterprise service organisations develop and revive the sector. Enterprises in the sector are encouraged, for instance, by applying measures that promote the development of products and production, internal networking and internationalisation.

POLICIES CONCERNING THE ENVIRONMENT AND PUBLICITY

The environmental policy approved by Finnvera plc for export credit guarantee activities in 2004 was updated in summer 2005. The result was a more specific definition of the scope of application of the environmental policy and more precise screening of export credit guarantee applications encompassed by the practice of environmental review.

The policy is based on the environmental recommendation approved by the OECD Council on 18 December 2003, and it replaces the common approaches on the environment that Finnvera had used previously. Finnvera's previous environmental policy had also been based on common environmental recommendations agreed within the OECD.

In export credit guarantee activities, Finnvera classifies projects into categories A, B and C depending on their potential environmental impacts. Projects in category A are expected to have the most environmental impacts. A precondition for granting a guarantee is that the environmental impact information pertaining to the project is made publicly available 30 days before Finnvera signs a guarantee agreement. In 2005, the environmental review of one pulp mill project (environmental category A) was published on Finnvera's website. In addition, an environmental impact assessment (EIA) is required for projects in category A.

The environmental impacts of projects in categories A and B are benchmarked against the host country standards and against a relevant international environmental standard. If the international environmental standard used is more stringent than the host country legislation, the project must also meet the requirements of the international standard.

The review of environmental impacts includes the following social aspects: involuntary settlement, the status of indigenous peoples, and the management of cultural property. These aspects are considered to be among the environmental impacts to be assessed.

Finnvera's subsidiary, Finnish Export Credit Ltd, also complies with the same environmental policy in export credit guarantee activities.

CORPORATE GOVERNANCE

The Acts governing the activities of Finnvera plc, i.e. the Act on the State Guarantee Fund, the Act on the State-Owned Specialised Financing Company, and the Act on Credits and Guarantees Provided by the State-Owned Specialised Financing Company, as well as the Act on the State's Export Credit Guarantees, were amended. The amendments entered into force on 1 January 2006.

An essential amendment for Finnvera was that the State's liability was changed from indirect to direct. The amendment ensures that Finnvera's guarantees have the zero risk status when calculating the capital adequacy of lenders after the Basel II Framework has entered into force at the beginning of 2007.

The upper limit of outstanding domestic credits and guarantees encompassed by the Government's commitment to compensate for credit and guarantee losses was raised from EUR 2.3 billion to EUR 2.6 billion, because the former limit defined by law was about to be reached at the beginning of 2006.

Because the State guarantees granted on the Group's financing are now based on the same regulations, Finnvera's acquisition of funds became clearer as concerns the financing of exports. Acquisition of funds can now be managed more easily from the perspective of the entire Group.

The Act on the State's Export Credit Guarantees was amended so that Finnvera can more flexibly grant export credit guarantees for exports to high-risk countries by virtue of special risk-taking. These export credit guarantees are granted for special reasons and on the grounds mentioned in the Act. At the same time, the maximum amount of these guarantee commitments given by virtue of the regulations on special risk-taking was raised by EUR 300 million, to one billion euros.

Studies on the effectiveness of Finnvera's financing

Finnvera has commissioned two studies from the Small Business Institute of Turku School of Economics and Business Administration: one about the effectiveness of domestic financing and one about the effectiveness of financing for exports. The study on domestic financing was completed in June 2005 and the study on financing for exports in January 2006. The studies analysed the effectiveness of Finnvera's financing from the year 1999 onwards.

Domestic financing

The goal of the study was to determine how deficiencies in the operation of the financial markets are seen in SME projects financed by Finnvera and what industrial policy results have been achieved in domestic financing in terms of new enterprise activities, new jobs and regional development.

The sample comprised 600 Finnvera clients in all sectors. Responses were received from 302 enterprises. Respondents were placed in three categories: starting, growing and other SMEs. In addition, 14 representatives of banks were interviewed.

According to the study, Finnvera has been successful both in its industrial policy role and in offsetting deficiencies existing in the financing available for SMEs.

Financing provided by Finnvera has played a crucial role especially at the onset of enterprise activities, during changes of generation and ownership, and in growth and internationalisation projects. The greatest need for Finnvera's presence in enterprises' financing arrangements stems from the lack of collateral among enterprises and entrepreneurs.

The findings of the evaluation study corroborate that Finnvera has acted in keeping with its objectives in domestic financing. However, it was pointed out that, more than at present, Finnvera should concentrate on more difficult and more risky projects, where financiers operating on market terms cannot act alone.

The findings were utilised during Finnvera's strategy work in autumn 2005. The new strategy focuses on starting, growing and internationalising enterprises. Moreover, risk-taking has been – and will be – increased in a controlled manner.

Financing of exports

The purpose of the study was to assess the effectiveness of Finnvera's export financing operations as concerns the promotion of exports and the offsetting of deficiencies in the operation of the markets. Another goal was to determine the importance of export financing for employment and the economy. In addition, interest equalization carried out by Finnish Export Credit Ltd was included in the scope of the study.

The parties interviewed for the study were large-scale exporters who had needed long-term financial arrangements for exports, other exporters, subcontractors, and representatives of banks. The total number of interviews was nearly 200.

The study concluded that Finnvera has succeeded well in supplementing the financing provided by the private sector; at the same time Finnvera has avoided overlapping supply. Finnvera's international competitiveness was deemed to be reasonably good. Finnvera's special strengths included the local nature of operations, the personnel's competence and accessibility, and an open and confidential relationship with client enterprises.

Medium-sized and large enterprises used the greatest numbers of export credit guarantees. Most guarantee decisions were given to industrial enterprises. By number, most transactions were made with clients in Eastern Europe; measured by the value of transactions, North America and Asia are the dominating markets. The applicants for interest equalization decisions have been major companies exporting goods mainly to Europe and Asia.

The primary impact of export financing arrangements on the operations of export enterprises was that it made transactions possible. Moreover, enterprises improved in their management of financing operations and financial risks, and gained more knowledge of financing. Use of export credit guarantees helped enterprises to increase their business volumes and internationalisation.

Financing for exports plays a major role in development of the economy. Without Finnvera's export credit guarantees, enterprises would not be competitive in their export transactions; in consequence, production would be reduced or relocated outside Finland.

Export transactions that include Finnvera's export credit guarantees in their selection of financial arrangements also have significant employment effects in exporter enterprises.

The study also found that the financing of exports has positive effects on the business of exporters' subcontractors.

Among the areas for development mentioned in the study were measures to make the monitoring of both the direct and indirect impacts of export financing more efficient and to make Finnvera's services better known through the network of regional offices. To improve effectiveness, it is important to ensure that Finnvera's interpretations of international regulations are compatible with the practices applied by other countries.

When outlining risk-taking policy, attention should be paid to the possibilities of special risk-taking in markets that are strategically important for Finnish exports and in the financing arrangements intended for small enterprises and smaller export transactions.

The findings of the study will be utilised in Finnvera's strategy work during 2006.

Exemption of Finnvera plc from income tax

Exemption of Finnvera plc from income tax was proposed in the international evaluation of Finnvera, which had been commissioned by the Ministry of Trade and Industry and was published in February 2004. The conclusions and recommendations presented in the evaluation report were further discussed in the Ministry's working group, which was also in favour of tax exemption.

Among Finnvera's predecessors, both Kera Corporation and the Finnish Guarantee Board had been exempted from income tax; Kera by virtue of a special law and the FGB as a State-owned agency.

The Cabinet Committee on Economic Policy supported the proposal that Finnvera plc be exempted from income tax as of 1 January 2007 by amending the Income Tax Act.

The Ministry of Finance will prepare the measures required by the tax exemption.

The tax exemption would benefit Finnvera's clients because the fees collected by Finnvera for its financing would be reduced. Furthermore, the tax exemption would make it possible for Finnvera to take higher risks in the financing of starting, growing and internationalising enterprises.

Extraordinary meeting of shareholders

An extraordinary meeting of Finnvera's shareholders amended the Articles of Association of Finnvera plc so that the company can also engage in venture capital investments. The new Articles of Association came into effect on 21 September 2005.

Supervisory Board and auditor

The Annual General Meeting decided on 5 April 2005 that Markus Aaltonen, Parliamentary Counsellor, will continue as Chairman of the Supervisory Board, Kyösti Karjula, Member of Parliament, will continue as the First Vice Chairman and Esko Kurvinen, Member of Parliament, as the Second Vice Chairman.

The following new members were elected to the Supervisory Board: Senior Adviser Leila Kurki, Managing Director Erkki K. Mäkinen, Director Pekka Pokela, and Adviser Pia Peltoniemi.

KPMG Oy Ab was elected as Finnvera plc's regular auditor with Hannu Niileksel\u00e4, Authorised Public Accountant, as the principal auditor.

Board of Directors

In accordance with the decision made by the Supervisory Board of Finnvera plc on 28 April 2005, the following regular members will continue on the Board: Director-General Kalle J. Korhonen (Ministry of Trade and Industry); Governmental Counsellor, Director of Legislative Affairs Pekka Laajanen (Ministry of Finance); Governmental Counsellor Päivi Kerminen (Ministry of Labour); Special Adviser Tarmo Korpela (Confederation of Finnish Industries EK); Under-Secretary of State Pekka Lintu (Ministry for Foreign Affairs); Director General Martti Mäenpää (Technology Industries of Finland); Director Risto Suominen (Federation of Finnish Enterprises); and Deputy Director Matti Viialainen (Central Organisation of Finnish Trade Unions SAK). Elise Pekkala, Governmental Counsellor (Ministry of Trade and Industry), and Kristina Sarjo, Financial Counsellor (Ministry of Finance), will continue as deputy members.

At its meeting on 21 December 2005, the Supervisory Board of Finnvera plc elected Pekka Huhtaniemi, Under-Secretary of State, Ministry for Foreign Affairs, as regular member to the Board of Directors of Finnvera plc as of 1 January 2006. Mr. Huhtaniemi succeeds Under-Secretary of State Pekka Lintu who took up a post at a Finnish mission abroad on 1 January 2006.

Managing Director

In accordance with the agreement made in 1998, the Board of Directors of Finnvera plc and Markku Mäkinen, President and CEO, agreed on 27 January 2005 that Markku Mäkinen will retire as of 1 July 2005.

On 28 April 2005, the Board of

Directors appointed Pauli Heikkilä, D.Sc. (Technology), to the position of Managing Director 1 August 2005.

Personnel

At the end of the financial year, on 31 December 2005, Finnvera had 419 employees, of whom 394 had permanent posts and 25 had a post for a fixed period. The Group had 429 employees.

The Board of Directors has confirmed the principles that are applied to the bonuses to be paid for 2005. The bonus sums will be assessed in April 2006.

Reorganisation of Finnvera plc

The principal goal of Finnvera's new strategy approved in December 2005 is to improve Finnvera's service capacity in the promotion of enterprise growth and internationalisation, together with other actors in the innovation system. Financing for growth and internationalisation will get its own unit within Finnvera's organisation during spring 2006.

History of specialised financing

In spring 2005, Finnvera began preparations for the writing of a history of specialised financing. The goal is to have a scientifically reliable history work that will shed light on the operations and results of specialised financing in Finland. The history will be written by Docent Timo Herranen, D.Soc.Sc., and it will be completed by the end of 2008.

INFORMATION MANAGEMENT

During the report year, in accordance with the company's information management strategy, Finnvera developed information systems for foreign risk-taking and for domestic financing. The next phases of the information system for foreign risk-taking were under development during 2005. This development will continue in 2006.

The corresponding system for domestic financing was taken into use on 7 January 2005. The second phase of its development began in 2005 and will continue during 2006.

EVENTS AFTER THE END OF THE FINANCIAL PERIOD

At its meeting on 6 March 2006, the Cabinet Committee on Economic Policy supported the granting of a Buyer Credit Guarantee for an export credit that is given on OECD terms to Royal Caribbean Cruises Ltd in the United States. The guarantee pertains to the delivery of a cruise ship by Aker Finnyards Inc.

Finnvera acts as an intermediary for the support given by the European Regional Development Fund (ERDF) for SMEs. Finnvera has started negotiations concerning financing instruments to be used in the European Structural Funds programmes during the new programme period of 2007–2013.

The international evaluation of Finnvera plc, published in February 2004, paid attention to the possibility that the Acts passed in connection with the establishment of Finnvera do not allow the practice whereby the surpluses that have been accumulated from the separate result over the past years and have been transferred to the reserve fund would be used to cover losses from export credit guarantees and special guarantees in subsequent years. Instead, the surpluses could be used for covering losses from domestic operations or for expanding Finnvera's operations. In practice, this kind of 'cross subvention' has not occurred during Finnvera's history.

The Ministry of Trade and Industry and Finnvera are together preparing an amendment to legislation in order to eliminate this cross subvention problem.

FUTURE PROSPECTS

The future expectations of SMEs have remained fairly positive in many industrial sectors, and growth during 2006 is expected especially in services. Labour disputes in the forest industry reduced the total output in 2005. Thus in 2006, there are good prospects for increasing the volumes of production and exports.

In exports, demand for guarantees will remain brisk despite the fact that private banks, too, have assumed a clearly more active role in the financing of exports. Demand for Finnvera's financing of exports will focus on export projects that are increasingly large and involve countries with higher risks.

The risk concentration in the financing for shipyards and ships will persist, and new major commitments are likely to arise in the telecommunications sector and in the forest industry. As concerns individual countries, a new major concentration of commitments is about to form in Russia.

The new commitments in Russia are in the private sector. Although they are spread over many fields, the emphasis is on telecommunications.

Key Indicators Showing the Group's Financial Trends

MEUR	**2005**	**2004**	**2003**	**2002**	**2001**
Turnover	171	164	153	153	157
Operating profit or loss	46	55	37	25	34
% of turnover	26.6	33.4	24.4	16.2	21.9
Profit from ordinary activities after taxes	46	55	37	25	35
% of turnover	26.6	33.4	24.3	16.3	22.2
Return on equity %	7.4	9.5	7.1	4.8	8.2
Return on 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
Expense-income ratio	0.4	0.3	0.3	0.3	0.3

Formulas for calculating the key indicators

Turnover = interest income + interest subsidy + income from equity-linked investments + commissions income + net income from securities transactions and currency + operations net income from saleable financial assets + net income from investment property + other operating income

Operating profit or loss = from the Profit and Loss Account

Profit from ordinary activities after taxes = from the Profit and Loss Account

Return on equity % (ROE) = $\dfrac{\text{operating profit/loss - taxes}}{\text{equity + minority holding + accumulated appropriations minus imputed tax liability (mean between the start and the end of the year))}} \times 100$

Return on assets % (ROA)= $\dfrac{\text{operating profit/loss - taxes}}{\text{balance sheet total on average}} \times 100$

Equity ratio % = $\dfrac{\text{equity + minority holding + accumulated appropriations minus imputed tax liability}}{\text{balance sheet total (mean between the start and the end of the year)}} \times 100$

Capital adequacy ratio = Calculated as per Financial Supervision Regulation no. 106.7

Expense-income ratio = $\dfrac{\text{commissions expenses + depreciation and write-downs on tangible and intangible assets + other operating expenses}}{\text{net interest income + income from equity-linked investments + net commissions income + net income from securities transactions and currency operations + net income from saleable financial assets + net income from investment property + other operating income + share of associated companies' profits}}$

Consolidated Balance Sheet

Assets (EUR 1,000)		31 Dec 2005		31 Dec 2004
Cash in hand		0		1
Receivables from credit institutions (1) (15) (16)				
Payable on demand	30,795		24,471	
Other	34	30,829	33	24,504
Receivables from the public and from public corporations (2) (15) (16)				
Credits	1,396,689		1,337,831	
Guarantee receivables	12,636		12,774	
Receivables from export credit and special guarantee operations	16,398	1,425,723	16,403	1,367,008
Debt securities (3) (5) (11) (15) (16)				
From public corporations	2,000			
From others	96,228	98,228	18,837	18,837
Shares and holdings (4) (37)		62,124		35,655
Shares and holdings in associated companies (4) (37)		47,107		38,871
Shares and holdings in Group companies (4) (37)		37		134
Intangible assets (6) (8)				
Other expenses with long-term effects		11,791		10,634
Tangible assets				
Investment property and shares and holdings in investment property (8)	1,845		2,973	
Other property and shares and holdings in real-estate corporations (7)	15,372		15,757	
Other tangible assets (7)	2,946	20,163	2,738	21,468
Other assets				
Credit loss receivables from the State	11,380		6,106	
Other	7,251	18,631	6,819	12,925
Accrued income and prepayments (9)		13,355		15,297
Imputed tax receivables (10)		664		625
		1,728,652		**1,545,959**

Liabilities and shareholders' equity (EUR 1,000)			31 Dec 2005			31 Dec 2004
Liabilities						
Liabilities to credit institutions (15) (16)						
Other than payable on demand		731,680			424,243	
Liabilities to the public and to public corporations (15) (16)		39,513			38,282	
Debt securities in issue (11) (15) (16)						
Bonds	386,930			489,995		
Other	0	386,930		75,846	565,841	
Other liabilities (12)						
Other liabilities	16,101			17,920		
Compulsory provisions	2,250	18,351		2,000	19,920	
Accrued expenses and advances received (13)		72,311			65,629	
Subordinated liabilities (14)						
Capital loan	11,500					
Other	5	11,505		5	5	
Imputed tax liability (10)		179	1,260,469		0	1,113,920
Shareholders' equity and minority share						
Share capital (18)		196,605			196,605	
Above par value fund (18)		51,036			51,036	
Reserve fund (18)		177,334			138,035	
Unrestricted funds (18)						
Market value fund				0		
Valuation at market value	500					
Other	59	559		59	59	
Profit/loss for previous years		2,516			3,445	
Profit for the financial year		33,454			38,361	
Minority share of capital		6,679	468,183		4,498	432,039
			1,728,652			**1,545,959**
Commitments outside the balance sheet (35)						
Commitments given in favour of a third party on behalf of a client						
Guarantees		839,793			793,080	
Book value referred to in the Act on the State's Export Credit Guarantees		3,378,816			288,616	
Liability for special guarantees		153,586	4,372,195		197,958	1,279,654
Irrevocable commitments given in favour of a client						
Binding financing offers			179,745			170,435

Consolidated Profit and Loss Account

(EUR 1,000)		1 Jan – 31 Dec 2005				1 Jan – 31 Dec 2004
Interest income (20)						
Interest from the public and public corporations	48,541			44,940		
Interest subsidy passed on to clients	19,325			18,919		
Interest on export credit and special guarantee receivables	110			21		
Interest on domestic guarantee receivables	2,138			1,641		
Other interest income	3,500	+	73,614	2,242	+	67,763
Interest expenses (20)		-	26,911		-	25,190
Other interest support (21)		+	1,780		+	2,802
Net interest income		**+**	**48,483**		**+**	**45,375**
Income from equity investments (22)		+	701		+	1,064
Commissions income (23) (38)		+	60,550		+	66,988
Commissions expenses (23)		-	2,267		-	3,589
Net income from securities transactionsand currency operations (24)						
Net income from securities transactions	0			514		
Net income from currency operations	2,802	+	2,802	-1,218	-	704
Net income from saleable financial assets (25)		-	107		+	1,947
Net income from investment property (26)		+	393		+	198
Other operating income (27)						
Credit loss compensation from the State	20,430			13,461		
Management fees	1,662			1,590		
Operating support	336			336		
Other	8,870	+	31,298	8,526	+	23,913
Administrative expenses						
Personnel costs						
Salaries and fees	20,447			19,437		
Indirect employee costs						
Pensions	4,482			4,357		
Other indirect employee costs	1,517			1,922		
Other administrative expenses	13,271	-	39,717	12,202	-	37,918
Depreciation and write-downs on tangible and intangible assets (28)		-	6,102		-	3,500
Other operating expenses (27)		-	4,055		-	2,857
Write-down losses on credits and other receivables (29)						
Credits and domestic guarantees	52,104			35,608		
Export credit and special guarantees	-4,117	-	47,987	861	-	36,469
Write-down losses on other financial assets (29)		-	0		-	499
Share of associated companies' profits		+	1,513		+	948
Operating profit		**+**	**45,505**		**+**	**54,897**
Income taxes						
Taxes on the financial year and previous years	12,029			16,067		
Change in imputed tax receivables	-45	-	11,984	401	-	16,468
Profit from ordinary activities after taxes		**+**	**33,521**		**+**	**38,429**
Minority share of the profit or loss for the year		-	67		-	68
Profit for the financial year		**+**	**33,454**		**+**	**38,361**

Consolidated Cash Flow Statement

(EUR 1,000)		1 Jan – 31 Dec 2005		1 Jan – 31 Dec 2005
Cash flow from operations				
Repayment of loan receivables	+	288,892	+	299,967
Disbursement of loans granted	-	376,534	-	372,524
Interest received	+	48,735	+	45,738
Interest paid	-	27,030	-	21,004
Interest support received	+	18,467	+	26,001
Payments received on commissions and fees	+	70,374	+	62,261
Payments received on other operating income	+	26,058	+	24,005
Payments of operating expenses	-	47,026	-	42,907
Claims paid	-	10,185	-	18,242
Direct taxes paid	-	16,271	-	16,052
Cash flow from operations before extraordinary items	**-**	**24,520**	**-**	**12,757**
Cash flow from extraordinary items (net)	+	0	+	0
Cash flow from operations (A)	**-**	**24,520**	**-**	**12,757**
Cash flow from investments				
Investments in tangible and intangible assets	-	6,495	-	12,842
Tangible and intangible assets relinquished	+	0	+	0
Other investments	-	119,251	-	4,109
Other investments relinquished	+	88,642	+	5,653
Dividends from investments	+	683	+	984
Cash flow from investments (B)	**-**	**36,421**	**-**	**10,314**
Cash flow from financing				
Share issue	+	0	+	0
Disbursement of loans	+	814,772	+	395,865
Repayment of loans	-	670,115	-	504,020
Cash flow from financing (C)	**+**	**144,657**	**-**	**108,155**
Change in liquid assets (A+B+C) increase (+)/decrease (-)	**+**	**83,716**	**-**	**131,226**
Liquid assets at the start of the financial year		**43,341**		**174,567**
Liquid assets at the end of the financial year		**127,057**		**43,341**

Parent Company's Balance Sheet

Assets (EUR 1,000)		**31.12.2005**		**31.12.2004**
Cash in hand		0		**0**
Receivables from credit institutions (1) (15) (16)				
Payable on demand	29,014		22,402	
Other	0	29,014	0	22,402
Receivables from the public and from public corporations (2) (15) (16)				
Credits	1,376,293		1,320,770	
Guarantee receivables	12,636		12,774	
Receivables from export credit and special guarantee operations	16,398	1,405,327	16,403	1,349,947
Debt securities (3) (5) (11) (15) (16)				
From public corporations	0		0	
From others	91,948	91,948	0	0
Shares and holdings (4) (37)		6,384		6,197
Shares and holdings in associated companies (4) (37)		13,937		14,082
Shares and holdings in				
Group companies (4) (37)		75,515		58,263
Intangible assets (6) (8)		11,748		10,617
Tangible assets				
Investment property and shares and holdings				
in investment property (8)	2,157		2,008	
Other property and shares and holdings				
in real-estate corporations (7)	12,194		13,359	
Other tangible assets (7)	2,796	17,147	2,570	17,937
Other assets				
Credit loss receivables from the State	11,380		6,106	
Other	7,182	18,562	6,754	12,860
Accrued income and prepayments (9)		11,006		11,168
Imputed tax receivables (10)		664		625
		1,681,252		**1,504,098**

Liabilities and shareholders' equity (EUR 1,000)			**31.12.2005**			**31.12.2004**
Liabilities						
Liabilities to credit institutions (15) (16)						
Payable on demand						
Other than payable on demand		731,680			424,243	
Liabilities to the public and to public corporations (15) (16)		2,101			2,478	
Debt securities in issue (11) (15) (16)						
Bonds	386,930			489,995		
Other	0	386,930		75,847	565,842	
Other liabilities (12)						
Other liabilities	15,994			17,821		
Compulsory provisions	2,250	18,244		2,000	19,821	
Accrued expenses and advances received (13)		71,903			65,893	
Velat, joilla on huonompi etuoikeus kuin						
Subordinated liabilities (14)						
Capital loans	11,500			0		
Other	5	11,505		5		5
Imputed tax liability (10)		86,227	1,222,449		0	1,078,282
Shareholders' equity						
Share capital (18)		196,605			196,605	
Above par value fund (18)		51,036			51,036	
Reserve fund (18)		177,334			138,035	
Unrestricted funds (18)						
Market value fund						
Valuation at market value		246			0	
Profit for previous years		841			841	
Profit (loss) for the financial year		32,741	458,803		39,299	425,816
			1,681,252			**1,504,098**
Commitments outside the balance sheet (35)						
Commitments given in favour of a third party on behalf of a client						
Guarantees		839,793			793,080	
Book value referred to in the Act on the State's Export Credit Guarantees		3,378,816			2,886,157	
Current liability for special guarantees		153,586	4,372,195		197,958	3,877,195
Irrevocable commitments given in favour of a client						
Binding financing offers			179,745			162,703

Parent Company's Profit and Loss Account

(EUR 1,000)			1 Jan – 31 Dec 2005			1 Jan – 31 Dec 2005
Interest income (20)						
Interest from the public and from public corporations	47,933			44,148		
Interest subsidy passed on to clients (21)	19,325			18,919		
Interest on export credit and special guarantees	110			21		
Interest on guarantee receivables	2,138			1,641		
Other interest income	3,187	+	72,693	1,900	+	66,629
Interest expenses (20)		-	25,653		-	24,606
Other interest support (21)		+	1,780		+	2,802
Net interest income		**+**	**48,820**		**+**	**44,825**
Income from equity investments (22)						
Companies in the same Group	0			0		
Associated companies	0			265		
Other companies	59	+	59	35	+	300
Commissions income (23)						
On export credit and special guarantees	36,348			44,457		
Other guarantee commissions	15,812			14,450		
Other	7,039	+	59,199	7,313	+	66,220
Commissions expenses (23)		-	2,268		-	3,588
Net income from securities transactions and currency operations (24)						
Net income from securities transactions	0			0		
Net income from currency operations	2,827	+	2,827	-1,226	-	1,226
Net income from saleable financial assets (25)		-	511		+	1,258
Net income from investment property (26)		+	320		+	2,707
Other operating income						
Credit loss compensation from the State	20,430			13,461		
Management fees	1,662			1,590		
Operating support	336			336		
Other (27)	8,030	+	30,458	8,645	+	24,032
Administrative expenses						
Personnel costs						
Salaries and fees	19,760			18,627		
Indirect employee costs						
Pensions	4,357			4,209		
Other indirect employee costs	1,467			1,887		
Other administrative expenses	12,249	-	37,833	11,043	-	35,766
Depreciation and write-downs on tangible and intangible assets (28)		-	4,475		-	3,530
Other operating expenses (27) (34)		-	3,907		-	2,520
Write-down losses on credits and other receivables (29)						
Credits and domestic guarantees	52,104			35,608		
Export credit and special guarantees	-4,117	-	47,987	861	-	36,469
Write-down losses on other financial assets (29)		-	0		-	0
Operating profit		**+**	**44,702**		**+**	**56,244**
Income taxes		-	11,731		-	16,225
Profit from ordinary activities after taxes		**+**	**32,971**		**+**	**40,019**
Income and expenses for other than ordinary activities (30)		-	230		-	720
Profit for the financial year		**+**	**32,741**		**+**	**39,299**

Parent Company's Cash Flow Statement

(EUR 1,000)		1 Jan – 31 Dec 2005		1 Jan – 31 Dec 2005
Cash flow from operations				
Repayment of loan and guarantee receivables	+	283,092	+	278,397
Disbursement of loans granted	-	365,365	-	372,524
Interest received	+	47,819	+	45,348
Interest paid	-	24,744	-	23,822
Interest support received	+	18,467	+	26,001
Payments received on commissions and fees	+	69,134	+	61,494
Payments received on other operating income	+	25,172	+	23,827
Payments of operating expenses	-	44,870	-	39,671
Claims paid	-	10,185	-	18,242
Direct taxes paid	-	16,229	-	15,798
Cash flow from operations before extraordinary items	**-**	**17,709**	**-**	**34,990**
Payments on other than ordinary activities	-	0	-	0
Cash flow from operations (A)	**-**	**17,709**	**-**	**34,990**
Cash flow from investments				
Investments in tangible and intangible assets	-	5,725	-	12,441
Tangible and intangible assets relinquished	+	0	+	0
Other investments	-	17,803	-	773
Real property and other investments relinquished	+	1,224	+	5,559
Dividends from investments	+	59	+	220
Cash flow from investments (B)	**-**	**22,245**	**-**	**7,435**
Cash flow from financing				
Share issue	+	0	+	0
Disbursement of loans	+	809,097	+	395,865
Repayment of loans	-	669,863	-	487,055
Payments of group contribution	-	720	-	953
Cash flow from financing (C)	**+**	**138,514**	**-**	**92,143**
Change in liquid assets (A+B+C) increase (+)/decrease (-)	**+**	**98,560**	**-**	**134,568**
Liquid assets at the start of the financial year		**22,402**		**156,970**
Liquid assets at the end of the financial year		**120,962**		**22,402**

Notes to the Accounts

PRINCIPLES FOR DRAWING UP THE FINANCIAL STATEMENTS

By virtue of a decision issued by the Finnish Accounting Standards Board on 25 January 1999, Finnvera plc draws up its profit and loss account and its balance sheet according to the formulas applied to credit institutions, even though the company does not operate under the Credit Institutions Act. The financial statements of Finnvera plc and the Finnvera Group have therefore been compiled in accordance with the regulations given by the Financial Supervision. These financial statements have been drawn up in accordance with Financial Supervision's standard 3.1 "Financial Statements and Annual Report", which entered into force on 1 December 2005. The figures for the previous financial year have been made compatible with the figures for the year under review.

When Finnvera was founded, one of the goals was transparency of operations. Accordingly, the profit and loss account itemises all support received from the State. In addition, note no. 39 shows the separate results for domestic operations and for export credit and special guarantee operations, since these are not shown directly by the profit and loss account.

Consolidated financial statements

The consolidated financial statements comprise the financial data of Finnvera plc and the subsidiaries under Finnvera's control, with the exception of enterprises that are classified as venture capital investments of the subsidiaries. The financial statements of the subsidiaries have been combined using the past equity method. Their acquisition costs have been eliminated against the equity shown by the balance sheet at the time of the acquisition.

The financial statements of associated companies have been combined using the equity method, with the exception of real-estate companies. The real-estate companies do not have any essential effect on the availability of correct and sufficient information on the Group's performance and financial status. The Group's share of the profit or loss shown by the companies combined using the equity method, corresponding to the Group's holding in these companies, is shown as an item of its own in the consolidated financial statements.

Business transactions and mutual receivables and liabilities within the Group have been eliminated. After combining the financial statements of the subsidiaries using the past equity method, the shares that shareholders outside the Group have of the results and equity of these subsidiaries are shown as separate minority interests in the consolidated financial statements.

Sums denominated in a foreign currency

Sums denominated in a foreign currency have been converted to euros using the exchange rates quoted on the last day of the financial period. Exchange rate differences have been entered as income or expenses in the profit and loss account.

Bases for the classification and valuation of financial instruments

The Finnvera Group uses interest rate and currency derivatives only for hedging purposes. Derivatives have been valued at the acquisition cost allowed by the Credit Institutions Act since the debts to be hedged have also been valued at acquisition cost. Valuation at market value will be introduced when the IFRS is adopted in 2007.

There are no investments that would be kept to the maturity date.

The item 'Loans and other receivables' includes receivables from credit institutions and receivables from the public and from public corporations. Receivables from the public have been valued at the accrued acquisition cost minus write-down losses. The effective interest method will be adopted after the transitional period on 1 January 2007. During the transitional period, no discounting method is used for entering contract-specific and group-specific write-downs.

Saleable financial assets include debt securities as well as shares and holdings in companies other than Group companies or associated companies. The market value of the shares cannot be determined reliably at Finnvera; the shares have therefore been valued at acquisition cost minus any write-downs, with the exception of publicly quoted shares and investment fund units, which have been valued at market value. The difference between book values and market values has been entered in the market value fund under shareholders' equity.

Ownership of property has been divided into investment property and other property. Investment property means property that is not in the Group's own use. All properties have been valued at acquisition cost minus depreciation and write-down losses.

In the parent company's separate financial statements, subsidiaries and associated companies are valued at acquisition cost minus any write-downs.

Receivables

Receivables from credit institutions have been divided into those payable on demand and into other receivables. Receivables payable on demand are those that fall due for payment immediately or after a period of notice of at most one day.

Guarantee receivables and receivables for export credit and special guarantee operations, which used to be under other assets, are now presented under receivables from the public.

Shares and holdings in Group, associated and other companies

In the balance sheet, shares and holdings have been broken down depending on the percentage of holding, with the exception of shares in real-estate companies, which are all presented under the balance sheet items 'Investment property and shares and holdings in investment property' or 'Other property and shares and holdings in real-estate corporations'.

Shares and holdings in Group companies comprise shares in subsidiaries in which the holding exceeds 50 per cent. Associated companies refer to enterprises in which the holding is between 20 and 50 per cent. Other shares and holdings are investments in which the holding is under 20 per cent.

When shares are valued in the financial statements, attention is paid to each company's financial performance and to prospects in the near future. If the value of shares has fallen, their value is also reduced in bookkeeping, and the shares are entered in the financial statements at their acquisition cost or at the probable assignment price. Publicly quoted shares are valued at market value.

Interest income and interest subsidy from the State

Interest on lending is entered on the accrual basis for the period during which the income is accumulated. However, post-maturity interest is entered as income on the payment basis. Because no discounting method is used for assessing write-downs, any unpaid interest on loans and other receivables is not entered as income for the year after the write-down loss has been entered. The effective interest method will be adopted in 2007.

Since 1993, Kera plc has received interest subsidy from the State. Tied in with the volume of lending, the subsidy is divided into a basic interest subsidy and into an additional interest subsidy, which is gradated on the regional basis and passed on directly to clients. In accordance with the above commitments, Finnvera plc receives interest subsidy on credits granted before 1999. The subsidy is based on the credit portfolio as at 31 December.

On the basis of a commitment given to Finnvera, concerning credits granted in 1999–2004, the State pays Finnvera a regional interest subsidy and a special interest subsidy, which is used to support the financing of small and medium-sized enterprises. Differing from the earlier commitments, this interest subsidy is calculated separately for each loan on the basis of the time elapsed, in the same way as interest.

In 2001, Finnvera also began to grant loans for investments and working capital that include support from the European Regional Development Fund (ERDF), as well as the national interest subsidy. In 2005, Finnvera began to give guarantees that include both national commission support from the State and commission support from the ERDF.

The interest subsidy passed on to clients – shown under interest income in the profit and loss account – comprises the additional interest subsidy, the interest subsidy on special loans, and the ERDF interest support and ERDF commission support. The basic interest subsidy on credits granted before 1999 is presented under the item 'Other interest subsidy'.

Income from equity investments

The item includes dividends and profit shares and other corresponding income that are obtained from stock and fund units and paid from the corporation's distributable assets.

Commissions income

The item comprises commissions on export credit and special guarantees and other guarantees, as well as various handling fees and commissions on lending.

When long-term premiums have been paid in advance, the share that corresponds to the liability assumed during the financial year is entered as income for the year. Premiums that do not belong to the financial year are presented as advances received.

Guarantee commissions are allocated in the same way as interest income.

Net income from saleable financial assets

The item shows profits and losses from the sale of shares and holdings in companies other than Group or associated companies, as well as write-downs on these shares and holdings.

Net income from investment property

The item shows income and expenses from real property that is not in the Group's own use.

Write-down losses on credits and other commitments

The principle followed in estimation of the final credit and guarantee losses in the financial statements is that, when enterprises have become bankrupt, have ceased operation and have been deemed to be without means during realisation of their assets, the value entered in the books is one that can probably be recovered through security arrangements or some other means. The rest, including the principal and interest and commissions until the date of removing the sum from the books, is entered as credit or guarantee loss.

Besides these materialised losses, write-down losses are entered when there is objective evidence of their existence. Write-down losses are estimated during a two-phase process, based on risk classification:

- Major write-downs on individual receivables
- Write-downs on groups of receivables, including the individual receivables on which no separate write-down was entered above

The State of Finland and the European Regional Development Fund (ERDF) compensate Finnvera for some of the credit and guarantee losses incurred. The compensation is shown as an item of its own under other operating income.

The losses from export credit and special guarantees include claims payable on the basis of commitments, minus any assets recovered, as well as compulsory provisions for anticipated losses in export credit guarantee operations.

Taxes

Taxes have been allocated in the financial statements on the basis of the tax calculation. The tax benefit to be obtained in future from the compulsory provisions and from deferred depreciation entered on fixed assets in 2003 is presented in the imputed tax receivables. The imputed tax liability shows the tax liability caused by market value changes entered in the market value fund.

NOTES TO THE BALANCE SHEET (1,000 e) | **Group** | **Finnvera plc**

Note no. 1

	Group: Payable on demand	Group: Other	Finnvera plc: Payable on demand	Finnvera plc: Other
Receivables from credit institutions				
Finnish credit institutions	30,790	0	29,010	0
Credit institutions abroad	5	33	4	0
	30,795	33	29,014	0

Note no. 2

	Group	Finnvera plc
Receivables from the public and public corporations, by sector		
Credits		
Enterprises	1,288,934	1,281,484
Financial and insurance institutions	0	1,100
Public corporations	12,990	12,990
Households	80,719	80,719
Foreign countries	14,046	0
	1,396,689	1 376,293
Subordinated claims		
Subordinated loans		
To Group companies	145	336
To associated companies	906	500
To others	108,464	108,464
	109,515	109,300
Receivables for which no interest income has been accrued		
Loans and guarantees on which write-downs have been entered	120,443	120,443
Other zero-interest receivables	6,526	6,526
	126,969	126,969
Write-down losses at the start of the year	29,735	29,735
Change of receivable-specific write-down losses during the year	6,709	6,709
Change of group-specific write-down losses during the year	-6,445	-6,445
Write-down losses at the end of the year	29,999	29,999

Write-down losses are entered on the basis of objective evidence. Receivable-specific write-down losses are individual important write-downs. The objective evidence for group-specific write-down losses is determined with the help of clients' risk classification, taking into account the collateral and the State's commitment to compensate for Finnvera's credit losses.

Note no. 3

Debt securities, by financial instrument group and by type of claim

	Group: Publicly quoted	Group: Other	Finnvera plc: Publicly quoted	Finnvera plc: Other
Issued by other than public corporations				
Saleable				
Certificates of deposit given by banks		4 280		0
Commercial papers		91 948		91 948
Other		2 000		0
		98 228		91 948

NOTES TO THE BALANCE SHEET (1,000 e)		**Group**		**Finnvera plc**

Note no. 4

Shares and holdings

	Publicly quoted	Other	Publicly quoted	Other
Shares and holdings				
Kept for trading purposes	32,235	22,165	0	0
Saleable	3,540	4,184	3,540	2,844
	35,775	26,349	3,540	2,844
Shares and holdings in associated companies		47,107		13,937
Shares and holdings in Group companies		36		75,515
	35,775	73,492	3,540	92,296
- of which at acquisition cost		26,349		2,844

There are no shares and holdings in credit institutions.

Note no. 5

Derivative contracts

	For hedging purposes	Kept for trading	For hedging purposes	Kept for trading
Nominal values of contracts				
Currency derivatives				
Interest rate and currency swaps	460,748	0	424,751	0

Market values of contracts

		Interest rate and currency swaps		Interest rate and currency swaps
For hedging purposes				
Nominal value of underlying instrument				
Under 1 year	50,000			50,000
1–5 years	258,657			222,660
5–15 years	152,091			152,091
over 15 years	0			0
Total	460,748			424,751
Market value				
Positive	5,687			2,587
Negative	-8,274			

All derivative contracts have been made for hedging purposes and they are not entered in the balance sheet.

Note no. 6

	Group	Finnvera plc
Intangible assets		
IT expenses	10,670	10,670
Other development expenses	0	0
Goodwill	0	0
Other	1,121	1,078
	11,791	11,748

NOTES TO THE BALANCE SHEET (1,000 e)

Note no. 7

Tangible assets

Land and water, buildings, and shares and holdings in real-estate corporations

	Group	Finnvera plc
	Book value	Book value
Land and water and buildings		
In own use	7 832	5 118
Investment property	292	291
	8 124	5 410
Shares and holdings in real-estate corporations		
In own use	7 540	7 076
Investment property	1 553	1 865
	9 093	8 941
Market value	17 217	14 351

All investment property is valued at acquisition cost, because the market value cannot be determined reliably.

Note no. 8

Changes in intangible and tangible assets during the year

	Group	Finnvera plc
Intangible assets		
Acquisition cost 1 Jan 2005	19 036	19 017
Additions	4 624	4 588
Deductions	-1	0
Transfers between items	0	0
Acquisition cost 31 Dec 2005	23 659	23 605
Accumulated depreciation and write-downs 1 Jan 2005	8 403	8 400
Accumulated deprecation on deductions and transfers	0	0
Depreciation for the year	3 465	3 457
Write-downs	0	0
Accumulated depreciation 31 Dec 2005	11 868	11 857
Revaluation	0	0
Book value 31 Dec 2005	11 791	11 748
Book value 1 Jan 2005	10 634	10 617
Investment property		
Acquisition cost 1 Jan 2005	4 030	2 946
Additions	0	0
Deductions	-2 047	-823
Transfers between items	997	997
Acquisition cost 31 Dec 2005	2 980	3 120
Accumulated depreciation and write-downs 1 Jan 2005	1 057	937
Accumulated depreciation on deductions and transfers	4	4
Depreciation for the year	74	22
Write-downs	0	0
Accumulated depreciation 31 Dec 2005	1 135	963
Revaluation		0
Book value 31 Dec 2005	1 845	2 157
Book value 1 Jan 2005	2 973	2 008

NOTES TO THE BALANCE SHEET (1,000 e)	**Group**	**Finnvera plc**
Note no. 8 continues		
Other property and shares in real-estate corporations		
Acquisition cost 1 Jan 2005	19,778	17,380
Additions	782	0
Deductions	-2	0
Transfers between items	-997	-997
Acquisition cost 31 Dec 2005	19,561	16,383
Accumulated depreciation and write-downs 1 Jan 2005	4,021	4,021
Accumulated depreciation on deductions and transfers	0	0
Depreciation for the year	168	168
Write-downs	0	0
Accumulated depreciation 31 Dec 2005	4,189	4,189
Revaluation	0	0
Book value 31 Dec 2005	15,372	12,194
Book value 1 Jan 2005	15,757	13,359
Other tangible assets		
Acquisition cost 1 Jan 2005	7,107	6,807
Additions	1,149	1,137
Deductions	-105	-81
Transfers between items	0	0
Acquisition cost 31 Dec 2005	8,151	7,863
Accumulated depreciation and write-downs 1 Jan 2005	4,369	4,238
Accumulated depreciation on deductions and transfers	0	0
Depreciation for the year	836	828
Write-downs	0	0
Accumulated depreciation 31 Dec 2005	5,205	5,066
Revaluation	0	0
Book value 31 Dec 2005	2,946	2,797
Book value 1 Jan 2005	2,740	2,570
Note no. 9		
Accrued income and prepayments		
Interest	4,738	4,425
Other accrued income and prepayments	8,617	6,581
	13,355	11,006
Note no. 10		
Imputed tax receivables and liability		
Imputed tax receivables		
Calculated on accrual differences	79	79
Calculated on compulsory provisions	585	585
	664	664
Imputed tax liability		
On revaluation entered in the market value fund	179	86
Note no. 11		
Bonds and debentures in issue		
Bonds	386,930	386,930
Commercial papers	0	0
	386,930	386,930

NOTES TO THE BALANCE SHEET (1,000 e)	**Group**		**Finnvera plc**
Note no. 12			
Other liabilities			
Debt to the State as per repayment terms, associated with contributions received for the acquisition of venture capital companies	13,875		13,875
Reimbursements on credit losses	779		779
Other	1,447		1,341
	16,101		15,995
Compulsory provisions			
Export credit guarantee provision 1 Jan 2005	2,000		2,000
Addition during the year	0		0
Used during the year	0		0
Cancelled during the year	0		0
Export credit guarantee provision 31 Dec 2005	2,000		2,000
Other compulsory provisions			
Other compulsory provisions 1 Jan 2005	0		0
Addition during the year	250		250
Used during the year	0		0
Cancelled during the year	0		0
Other compulsory provisions 31 Dec 2005	250		250
Note no. 13			
Accrued expenses and advances received			
Interest	67,021		66,612
Other accrued expenses and advances received	5,290		5,291
	72,311		71,903
Note no. 14			
Subordinated liabilities			
Finnvera plc/Group	EUR	Interest %	Loan period
Capital loan from the State	11,500	0	20 years

The loan will be paid back in one instalment at the end of the loan period, provided that, after the payment, there remains full coverage for the restricted equity and other undistributable items show by the balance sheet.

Perpetual loans to Group companies	5	0	

NOTES TO THE BALANCE SHEET (1,000 e)	**Group**	**Finnvera plc**
Note no. 15		
Maturity distribution of financial assets and liabilities		
Receivables from credit institutions		
under 3 months	30,829	29,014
3–12 months	0	0
1–5 years	0	0
5–10 years	0	0
over 10 years	0	0
	30,829	29,014
Receivables from the public and from public corporations		
Credits		
under 3 months	68,886	68,038
3–12 months	227,380	225,425
1 - 5 years	877,003	862,651
5–10 years	223,420	220,179
over 10 years	0	0
	1,396,689	1,376,293
Debt securities		
alle 3 kuukautta	93,978	91,948
3–12 kuukautta	2,250	0
1–5 years	2,000	0
5–10 years	0	0
over 10 years	0	0
	98,228	91,948
Liabilities to credit institutions		
under 3 months	0	0
3–12 months	30,000	30,000
1–5 years	563,859	563,859
5–10 years	137,821	137,821
yli 10 years	0	0
	731,680	731,680
Liabilities to the public and to public corporations		
under 3 months	0	0
3–12 months	1,461	1,461
1–5 years	0	0
5–10 years	0	0
over 10 years	38,052	640
	39,513	2,101
Bonds and debentures in issue		
under 3 months	0	0
3–12 months	123,620	123,620
1–5 years	263,310	263,310
5–10 years	0	0
over 10 years	0	0
	386,930	386,930
Subordinated liabilities		
under 3 months	0	0
3–12 months	0	0
1–5 years	0	0
5–10 years	0	0
over 10 years	11,505	11,505
	11,505	11,505

NOTES TO THE BALANCE SHEET (1,000 e)	**Group**	**Finnvera plc**

Note no. 16

Breakdown of balance sheet items denominated in domestic and foreign currencies

	Domestic	Foreign	In the same Group	Domestic	Foreign
Receivables from credit institutions	11,822	19,006		10,009	19,005
Receivables from the public and public corporations	1,378,540	18,149	14,609	1,404,825	502
Debt securities	98,228	0		91,948	0
Other assets	187,286	15,621		154,963	0
	1,675,876	52,776	14,609	1,661,745	19,507
Liabilities to credit institutions	693,859	37,821		693,859	37,821
Liabilities to the public and to public corporations	3,709	35,804		2,101	0
Bonds and debentures in issue	50,000	336,930		50,000	336,930
Subordinated liabilities	11,505	0		11,505	0
Other liabilities					
Accrued expenses and advances received	70,328	1,983		69,919	1,983
Other	18,530	0		18,331	0
	847,931	412,538		845,715	376,734

Note no. 17

Financial assets valued at acquisition cost instead of market value

Finnvera plc		Valued at acquisition cost
Shares and holdings in companies other than Group and associated companies, which have not been publicly quoted and whose market value cannot be determined reliably.	26,349	2,844

Note no. 18

Equity items

	Group	Finnvera plc
Share capital		
Book value as per 1 January 2005	196,605	196,605
+ increase during the year	0	0
- decrease during the year	0	0
Book value as per 31 December 2005	0	0
	196,605	196,605
Above par value fund		
Book value as per 1 January 2005	51,036	51,036
+ increase during the year	0	0
- decrease during the year	0	0
Book value as per 31 December 2005	0	0
	51,036	51,036
Reserve fund		
Book value as per 1 January 2005	138,035	138,035
+ increase during the year	39,299	39,299
- decrease during the year	0	0
Book value as per 31 December 2005	177,334	177,334
Market value fund		
Book value as per 1 January 2005	0	0
+ increase during the year	500	245
- decrease during the year	0	0
Book value as per 31 December 2005	500	245
Other equity		
Book value as per 1 January 2005	41,865	40,140
+ increase during the year	33,454	32,741
- decrease during the year	-39,291	-39,299
Book value as per 31 December 2005	36,028	33,582

NOTES TO THE BALANCE SHEET (1,000 e)	**Group**	**Finnvera plc**
Note no. 19		
Share capital	Shares kpl	Holding %
State of Finland	11,565	100
The company does not possess any of its own shares.		

NOTES TO THE INCOME STATEMENT (1,000 e)

Note no. 20

	Group	Finnvera plc
Interest income		
On receivables from the public and from public corporations	48,541	47,933
Interest subsidy passed on to clients	19,324	19,324
Interest on guarantee receivables	2,138	2,138
Interest on export credit and special guarantee operations	110	110
Other interest income		
On receivables from credit institutions	1,822	1,716
On debt securities	1,402	1,278
Other	277	193
	73,614	72,693
Interest expenses		
On liabilities to credit institutions	14,501	14,501
On liabilities to the public and to public corporations	1,383	125
On bonds and debentures in issue	10,725	10,725
On subordinated liabilities	0	
Other interest expenses	302	302
	26,911	25,653

Note no. 21

Interest subsidy from the State and from the European Regional Development Fund (ERDF)

Deviating from the instructions issued by the Financial Supervision. Finnvera shows here an itemised account of interest subsidy from the State and the ERDF, which is an important item for Finnvera's performance and is included in the net income from financial operations. For credits granted before 1999, the basis for the interest subsidy is the credit portfolio as per 31 December 2005. For credits granted in 1999-2005, the interest subsidy is calculated on the basis of time elapsed, similar to interest. In 2001, Finnvera also began to grant loans for investments and working capital that include support from the ERDF, as well as national interest subsidy.

Interest subsidy is divided into two: subsidy passed directly on to clients and basic subsidy paid on credits granted before 1999. The interest subsidy passed on to clients is included in interest income, while the basic interest subsidy is presented as an item of its own before the net income from financial operations.

Interest subsidy passed on to clients	Interest subsidy		Interest subsidy	
Regional interest subsidy	1,669		1,669	
Interest subsidy on special loans	10,297		10,297	
Interest subsidy from the ERDF	3,405		3,405	
National interest subsidy (ERDF)	3,953	19,324	3,953	19,324
Other interest subsidy				
Basic subsidy for credits granted before 1999		1,780		1,780
		21,104		21,104
Interest-subsidised credits and guarantees, in total, as per 31 December 2005		869,132		869,132

NOTES TO THE INCOME STATEMENT (1,000 e)	**Group**	**Finnvera plc**
Note no. 22		
Income from equity investments		
Dividends		
Investments classified into saleable financial assets	627	59
Investments classified into financial assets		
kept for trading purposes	0	0
Companies in the same Group	0	0
Associated companies	74	0
	701	59
Note no. 23		
Commissions income		
On export credit guarantees and special guarantees	36,348	36,348
On other guarantees	15,811	15,811
On credit operations	7,144	6,908
On asset management and legal tasks	1,247	131
	60,550	59,198
Commissions expenses		
On reinsurance	2,183	2,183
On borrowing	40	40
On payment transactions	45	45
Other	0	0
	2,268	2,268

Note no. 24

Arvopaperikaupan ja valuuttatoiminnan nettotuotot	Sales profits and losses	Changes in market value	Total	Sales profits and losses	Changes in market value	Total
Debt securities						
Shares and holdings						
Derivative contracts						
Net income from securities transactions, in total	0	0	0	0	0	0
Net income from currency operations						
Deposits and debts denominated in a foreign currency	2 802		2 802	2 827		2 827
Item in total	2 802	0	2 802	2 827	0	2 827

Note no. 25

Net income from saleable financial assets						
Assignment of financial assets	1 353		1 353	219		219
Write-downs	-1 460		-1 460	-730		-730
Cancellation of write-downs	0		0	0		0
Transfers from market value funds	0		0	0		0
	-107	-	107	-511		- 511

Note no. 26

Net income from investment property		
Rent income	285	179
Rent costs	-51	-51
Planned depreciation	-78	-26
Sales profits/losses	287	287
Profits/losses caused by valuation at market value	0	0
Write-down losses	0	0
Cancellation of write-down losses	0	0
Other income and expenses	-50	-69
	393	320

NOTES TO THE INCOME STATEMENT (1,000 e)	Group	Finnvera plc
Note no. 27		
Other operating income		
Other		
Rent income from property in own use	729	671
Sales profits from assignment of property in own use	1	0
Other income	8,140	7,359
	8,870	8,030
Other operating expenses		
Rent costs	2,607	2,520
Costs of property in own use	1,412	1,382
Losses from assignment of property in own use	0	0
Other expenses	36	6
	4,055	3,908

Note no. 28

Depreciation and write-downs on tangible and intangible assets	Group	Finnvera plc
Planned depreciation	4,723	4,476
Depreciation of Group goodwill	1,379	0
Write-downs	0	0
Cancellation of write-downs	0	0
	6,102	4,476

Note no. 29

Write-down losses on credits and domestic guarantees and on export credit and special guarantee operations, as entered in the profit and loss account

	Group: Final credit and guarantee losses, gross	Group: Deductions	Finnvera plc: Final credit and guarantee losses, gross	Finnvera plc: Deductions
On receivables from credit institutions	0	0	0	0
On credits	44,023	-3,209	44,023	-3,209
On guarantees and other items outside the balance sheet	11,503	-477	11,503	-477
Other	0	0	0	0
Total	55,526	-3,686	55,526	-3,686

	Group	Finnvera plc
+ Final credit and guarantee losses during the year, total	55,526	55,526
- Cancellation of losses entered in previous years	-3,686	-3,686
+/- Change in contract-specific write-down losses during the year	6,709	6,709
+/- Change in group-specific write-down losses during the year	-6,445	-6,445
Write-down losses on credits and guarantees, as shown by the profit and loss account, total	52,104	52,104
The State's and the ERDF's share of the final credit and guarantee losses		20,430

The State and the ERDF compensate Finnvera plc for the final losses on credits and guarantees granted without securing collateral. On 31 December 2005, these credits and guarantees totalled EUR 2,152 million. The compensation was 39.4% of the credit and guarantee losses recorded during the year.

Export credit and special guarantee operations	Group	Finnvera plc
Claims paid	977	977
+/- Change in claims provision during the year	0	0
- Recoveries accumulated	-5,094	-5,094
Write-down losses on export credit and special guarantees entered in the financial statements	-4,117	-4,117
Write-down losses on credits and domestic guarantees and on export credit and special guarantees, entered in the profit and loss account	47,987	47,987

NOTES TO THE INCOME STATEMENT (1,000 e)		**Group**		**Finnvera plc**
Note no. 30				
Income and expenses on other than ordinary activities				
Group contribution		0		230
Note no. 31				
Income and operating profit/loss by business area				
	Income	Operating profit/loss	Income	Operating profit/loss
Operations as per §4 of the Act on the State Guarantee Fund	42,448	35,755	42,448	35,755
Other financing operations	100,541	9,921	98,725	8,947
Venture capital investments	624	-2,035	0	0
Eliminations	507	1,864	0	0
	144,120	45,505	141,173	44,702
Assets and liabilities by business area				
	Assets	Liabilities	Assets	Liabilities
Operations as per §4 of the Act on the State Guarantee Fund	143,122	63,614	143,122	63,614
Other financing operations	1,599,784	1,196,813	1,538,130	1,158,835
Venture capital investments	66,764	6,791	0	0
Eliminations	-81,017	-6,750	0	0
	1,728,653	1,260,468	1,681,252	1,222,449
Personnel by business area, 31 Dec 2005				
Operations as per §4 of the Act on the State Guarantee Fund		73		73
Other financing operations		352		346
Venture capital investments		4		0
		429		419

NOTES CONCERNING SECURITY AND CONTINGENT LIABILITIES (1,000 e)

Note no. 32

Security given		
Liabilities to credit institutions		
Assets pledged and mortgaged	**0**	**0**

Note no. 33

Provision of pension cover for employees

In addition to the basic insurance specified in the Employees' Pension Act, Finnvera plc and Veraventure Ltd have taken out voluntary group pension insurance for employees who worked previously for Kera and the Finnish Guarantee Board. The insurance lowers the retirement age to 63-64 years 8 months. Further, the upper management of Finnvera and Veraventure have a voluntary group pension insurance which makes it possible to lower the retirement age to 60-63 years. The supplementary pensions have been covered with defined benefit plans.

Note no. 34

Other liabilities concerning rent		
Within one year	343	307
Within 1–5 years	558	558
After 5 years	8,969	8,969
	9,870	9,834

Leases do not include any particular terms concerning notices or redemption..

NOTES CONCERNING SECURITY AND CONTINGENT LIABILITIES (1,000 e)	Group		Finnvera plc	
Note no. 35				
Off-balance-sheet commitments as per 31 December 2005				
	Total	Group companies and associated companies	Total	Group companies and associated companies
1. Commitments given in favour of a third party on behalf of a client				
Guarantees	839,793	0	839,793	0
Book value as per the Act on the State's Export Credit Guarantees	3,378,816	0	3,378,816	0
Liability for special guarantees	153,586	0	153,586	0
	4,372,195	0	4,372,195	0
2. Irrevocable commitments given in favour of a client				
Binding financing offers	281,466		179,745	
3. Outstanding commitments for export credit and special guarantees (net), 31 Dec 2005				
Export credit guarantees				
Buyer Credit Guarantees	3,524,194		3,524,194	
Credit Risk Guarantees	109,176		109,176	
Letter of Credit Guarantees	144,831		144,831	
Investment Guarantees	84,767		84,767	
Bond Guarantees	276,902		276,902	
Finance Guarantees	249,044		249,044	
	4,388,914		4,388,914	
Special guarantees				
Environmental Guarantees	107,475		107 475	
Ship Guarantees	7,562		7 562	
Raw Material Guarantees	38,137		38,137	
Venture Capital Guarantees	412		412	
	153,586		153,586	
Export credit guarantees and special guarantees, total	4,542,500		4,542,500	
Provisions for export credit guarantees	-2,000		-2,000	
Grand total	4,540,500		4,540,500	

When the book value of commitments is calculated, the commitments arisen from current export credit guarantees are taken into account in their entirety insofar as the guaranteed capital is concerned, without any other items that might be indemnified in addition to the capital. Moreover, half of the liability arisen from binding guarantee offers is taken into account insofar as the guaranteed capital is concerned.

When the company's books were closed, the value of outstanding claims for indemnification totalled EUR 8.1 million. These commitments have not been entered as expenses in the financial statements because the claims are still being processed.

NOTES CONCERNING THE PERSONNEL AND MANAGEMENT (1,000 e)		**Group**		**Finnvera plc**
Note no. 36				
	Change during the year	Group	Change during the year	Finnvera plc
Personnel, on average				
Permanent full-time		376		368
Permanent part-time		30		29
Temporary		18		17
Total	-3	424	-3	414
Salaries, fees and indirect employee costs paid to the President and CEO and to his deputy				
Salary paid to the President				337
Bonus paid the President				11
President's deputy				190
				538

By agreement, the President's total monthly salary is EUR 18,100. The total salary includes the taxable value of the car benefit. During 2005, the President was encompassed by the profit-sharing scheme concerning Finnvera's personnel. The maximum bonus to be paid on the basis of this scheme corresponds to four weeks' salary. The period of notice applied to the President is 6 months. In addition, the President is paid compensation corresponding to 18 months' salary if he is dismissed by the company. The President is included the group pension insurance plan, according to which the retirement age is 60 years.

Salaries, fees and indirect employee costs paid to the members and deputy members of the Board of Directors, in total	189
Fees paid to the parent company's Board of Directors Monthly fees: Chairman EUR 1,200; Vice Chairman EUR 700; members EUR 600; and deputy members EUR 300 plus a meeting fee of EUR 500/meeting. The meeting fee was raised by EUR 200 during 2005.	39
Salaries, fees and indirect employee costs paid to the members and deputy members of the Supervisory Board, in total	123
Fees paid to the Supervisory Board Monthly fees: Chairman EUR 1,000; Vice Chairman EUR 600; and members EUR 500; plus a meeting fee of EUR 200/meeting The fees remained unchanged in 2005.	
Money loans granted to the members or deputy members of the Supervisory Board and the Board of Directors, to the President, to the President's deputy and to the auditors	14

NOTES CONCERNING SHAREHOLDINGS (1,000 e)		**Group**	**Finnvera plc**

Note no. 37

Shares and holdings in group companies

Finnvera PlC

Name and domicile of the company	Sector	Holding of all shares, %	Book value
Aloitusrahasto Vera Oy, Kuopio	Investment and development company	84.59	11,503
Kera Corporation	No operations	100.00	3
Matkailunkehitys Nordia Oy, Kuopio	Investment and development company	63.52	6,831
Spikera Oy, Kuopio	Investment and development company	100.00	135
Finnish Export Credit Ltd, Helsinki	Other lending	100.00	20,182
Tietolaki Oy, Kuopio	No operations	100.00	64
Tietoraha Oy, Kuopio	No operations	100.00	2
Veraventure Ltd, Kuopio	Investment and development company	100.00	36,795
			75,515
Kiinteistö Oy Puffetti Fastighets Ab, Vaasa	Management of housing and residential property	69.74	481
			75,996

Group

Name and domicile of the company	Sector	Holding of all shares, %	Book value
Matkailunkehitys Nordia Oy			
Lomakouhero Oy	Hotels	51.72	32
			32
Spikera Oy			
Alfalink Oy, Oulu	No operations	100.00	11
Apetta Oy, Kajaani	No operations	100.00	3
Deltalink Oy, Oulu	No operations	100.00	1
EL Assets Oy, Kuopio	Other investments	100.00	1
Kiinteistö Oy Kotkan Kisällinkatu 6, Kotka	Leasing and management of other property	100.00	17
Polator Oy, Kuopio	Management consulting	100.00	300
Postum Oy, Kuopio	Travel agencies	100.00	6
Renatur Oy, Kuopio	No operations	100.00	8
Soljet Oy, Kuopio	No operations	100.00	8
Teknoinvest Oy, Oulu	No operations	100.00	1
Tornion Teknologiakeskus Oy, Tornio	No operations	100.00	8
			364

Shares and holdings in associated companies

Finnvera PlC

Company	Sector	Holding of all shares, %	Book value
Huippupaikat Oy, Siilinjärvi	Sports fields, halls and stadiums	35.12	149
Iin Micropolis Oy, Ii	Technological research and development	23.08	76
Professia Oy, Tampere	Development company	25.00	42
Teollisen yhteistyön rahasto Oy, Helsinki	Investment and development company	20.00	13,670
			13,937

NOTES CONCERNING SHAREHOLDINGS (1,000 e)		**Group**	**Finnvera plc**
Note no. 37 continues			
Group			
Matkailunkehitys Nordia Oy			
Levi Magic Oy, Kittilä	Management consulting	22.56	128
Lomakeskus Saimanranta Oy, Taipalsaari	Hotels	47.41	1
Yyterin Kylpylähotelli Oy, Pori	Hotels	50.00	179
Kiinteistö Oy Saimaan Lomaranta, Taipalsaari	Leasing and management of other property	37.18	441
FTM Incoming Oy, Helsinki	Other services to the travel industry	44.61	1
Hotelli Luostotunturi Oy, Sodankylä	Hotels	49.95	169
Go Finland Oy, Helsinki Tietoverkkopalvelut	Information network services	22.35	45
Savonlinnan Seurahuone Oy, Savonlinna	Management consulting	49.00	49
Kultaranta Golf Oy Naantali, Naantali	Sports fields, halls and stadiums	30.00	690
Opteam Henkilöstöpalvelut, Helsinki	Staffing services	38.48	1,631
Kristina Cruises Oy, Kotka	Passenger transport in marine traffic	20.00	17
Kalajoen Kylpylähotelli, Kalajoki	Hotels	45.00	4
			3,355
			40
Veraventure Ltd			
Etelä-Savon Pääomarahasto Oy, Mikkeli	Other services to financing and investment	61.67	2,074
Indekon Oy, Lappeenranta	Management consulting	46.53	1,808
JyväsSeed Fund Oy, Jyväskylä	Other services to financing and investment	40.00	1,200
Kainuun Pääomarahasto Oy	Investment and development company	49.64	750
Karhu Pääomarahasto Ky, Pori	Fund operations	22.60	180
Karinvest Oy, Joensuu	Investment and development company	28.08	926
Midinvest Oy, Jyväskylä	Investment and development company	29.23	877
Pikespo Invest Oy, Tampere	Investment and development company	49.00	4,259
Savon Teknia Oy, Kuopio	Investment and development company	49.42	2,193
Spinno-Seed Oy, Espoo	Investment and development company	28.03	1,405
Teknoventure Oy, Oulu	Investment and development company	48.39	6,318
Uudenmaan Pääomarahasto, Helsinki	Investment and development company	40.00	700
Oy Wedeco Ab, Vaasa	Investment and development company	39.80	3,393
			26,083
Aloitusrahasto Vera Oy			
Global Response Oy, Tampere	Data processing	23,00	90
			90
Spikera Oy			
Juolukkakiinteistöt Oy, Kemijärvi	Leasing and management of other property	50,00	2,564
Myllymäen Teollisuuskiinteistöt Oy, Jämsänkoski	Leasing and management of other property	33,00	8,401
			10,965

OTHER NOTES

Note no. 38

Property management services offered to the public

Application for and renewal of mortgages and registrations of title.

OTHER NOTES (1,000 e) **Group** **Finnvera plc**

Note no. 39

Separate result* of activities referred to in the Act on the State Guarantee Fund, §4, and its share of the total result of Finnvera plc (EUR 1,000)

PROFIT AND LOSS ACCOUNT			Share of the activities defined in the act 1 Jan-31 Dec 2005			Share of other activities 1 Jan-31 Dec 2005			Finnvera total Jan-31 Dec 2005
Interest income									
Interest from the public and public corporations	0			47 933			47 933		
Interest subsidy passed on to clients	0			19 324			19 324		
Interest on guarantee receivables	111			2 138			2 249		
Other interest income	2 177	+	2 288	1 010	+	70 406	3 187	+	72 693
Interest expenses		-	0		-		25 653	-	25 653
Other interest support		+	0		+	1 780		+	1 780
Net interest income		**+**	**2 288**		**+**	**46 533**		**+**	**48 820**
Income from equity investments		+	0		+	59		+	59
Commissions income									
From export credit and special guarantees	36 348			0			36 348		
Other guarantee commissions	0			15 812			15 812		
Other	0	+	36 348	7 039	+	22 851	7 039	+	59 199
Commissions expenses		-	2 188		-	79		-	2 268
Net income from securities transactions and currency operations		+	2 827		-	0		+	2 827
Net income from saleable financial assets		-			-	494		-	494
Net income from investment property		+			+	320		+	320
Other operating income									
Credit loss compensation from the State	0			20 430			20 430		
Management fees	985			677			1 662		
Operating support	0			336			336		
Other	0	+	985	8 030	+	29 473	8 030	+	30 459
Administrative expenses		-	7 500		-	30 333		-	37 833
Depreciation and write-downs on tangible and intangible assets		-	511		-	3 965		-	4 476
Other operating expenses		-	611		-	3 297		-	3 908
Write-down losses on credits and other receivables									
Credits and domestic guarantees	0			52 104			52 104		
Export credit and special guarantees	-4 117	-	-4 117	0	-	52 104	-4 117	-	47 987
Write-down losses on other financial assets		-	0		-	18		-	18
Operating profit		**+**	**35 755**		**+**	**8 947**		**+**	**44 702**
Income taxes		-	10 018		-	1 713		-	11 731
Profit from ordinary activities after taxes		**+**	**25 737**		**+**	**7 234**		**+**	**32 971**
Income and expenses for other than ordinary activities		-	0		-	230		-	230
Profit for the financial year		**+**	**25 737**		**+**	**7 004**		**+**	**32 741**

*) The separate result of export credit and special guarantee activities refers to the activities for which the State is responsible and which have been defined in §4 of the Act on the State Guarantee Fund (44/1998).

The Board of Directors' Proposal for the Use of Retained Profits

When the profit for the financial year is taken into account, the Group's distributable retained profits amount to EUR 35,969,837.46 and the parent company's distributable retained profits amount to EUR 33,581,695.44. The Board of Directors proposes that the Annual General Meeting adopt the above financial statements of Finnvera plc and that the profit for the year, EUR 32,740,755.81, be transferred to the reserve fund and no dividends be distributed.

Helsinki, 9 March 2006

Kalle J. Korhonen

Pekka Huhtaniemi

Päivi Kerminen

Tarmo Korpela

Pekka Laajanen

Martti Mäenpää

Risto Suominen

Matti Viialainen

Pauli Heikkilä
Managing Director

Auditors' Report

To the shareholders of Finnvera plc

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Finnvera plc for the financial period 1 January–31 December 2005. The Board of Directors and the Managing Director have drawn up the report of the Board of Directors and the financial statements, which comprise the balance sheets, the profit and loss accounts and the cash flow statements for the Group and for the parent company, as well as the notes to the financial statements. Based on our audit, we express an opinion on the financial statements, on the report of the Board of Directors and on the parent company's administration.

The audit has been conducted in accordance with generally accepted auditing standards. The accounts, the principles on which the report of the Board of Directors and the financial statements were prepared, the contents, and the presentation of information in the report of the Board of Directors and in the financial statements were examined in sufficient detail to enable us to conclude that the financial statements and the report of the Board of Directors do not contain any essential flaws or shortcomings. The examination of administration evaluated the legality of the activities of the members of the parent company's Supervisory Board and Board of Directors, as well as the legality of the activities of the Managing Directors, in the light of the provisions of the Finnish Companies Act.

It is our opinion that the financial statements and the report of the Board of Directors were prepared in accordance with the Finnish Accounting Act and with other rules and regulations governing the preparation of financial statements and report of the Board of Directors. The financial statements and the report of the Board of Directors give a true and fair view, as defined in the Accounting Act, of the Group's and the parent company's performance and financial status. The report of the Board of Directors is compatible with the financial statements. The financial statements, including the consolidated financial statements, can be adopted, and the members of the parent company's Supervisory Board and Board of Directors and the President and the Managing Director can be discharged from liability for the financial period that we have audited. The proposal made by the Board of Directors for the handling of the distributable retained profits is in accordance with the Finnish Companies Act.

Helsinki, 14 March 2006

KPMG OY AB

Hannu Niilekselä
Authorised Public Accountant

Statement by the Supervisory Board

We have reviewed the financial statements of Finnvera plc, including the consolidated financial statements, for the period 1 January–31 December 2005, as well as the auditors' report issued on 14 March 2006.

We propose to the Annual General Meeting that the financial statements, in which the consolidated profit and loss account shows a profit of EUR 33,454,148.11 and the parent company's profit and loss account shows a profit of EUR 32,740,755.81, be adopted and that the parent company's profits be used in accordance with the proposal made by the Board of Directors.

Helsinki, 16 March 2006

Markus Aaltonen

Jere Lahti

Peter Boström

Ismo Luimula

Markus Fogelholm

Erkki K. Mäkinen

Susanna Haapoja

Pia Peltoniemi

Markku von Hertzen

Pekka Pokela

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