

The company's financial trend

The Finnvera Group's profit for the period under review totalled EUR 17.3 million. The profit for the first six months in 2004 had been EUR 19.4 million; thus, the profit fell by 10.8 per cent when compared against the corresponding period the year before. The most important change affecting the profit was an increase of EUR 8 million in specific credit loss provisions included in the parent company's credit and guarantee losses.

The profit of the parent company, Finnvera plc, came to EUR 16.0 million, or EUR 5.2 million less than for the period 1 January-30 June 2004. 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 10.0 million after imputed taxes. Correspondingly, the result of Finnvera plc's other activities totalled EUR 6.0 million after imputed taxes.

In the result for the whole Group, the share of the profit or loss of associated companies came to EUR +1.6 million, most of which was derived from the profits made by the Finnish Fund for Industrial Cooperation Ltd and Huippupaikat Oy.

Commissions income includes EUR 16.6 million as commissions received by the parent company for export credit guarantee and special guarantee operations, EUR 7.9 million as other guarantee commissions, EUR 3.2 million as handling fees for loans and guarantees, and EUR 1.2 million as other commissions income received by the Group. The increase of EUR 1.4 million in commissions income was mainly attributable to commissions on domestic guarantees.

The exchange rate gain of EUR 2.0 million in currency operations was caused by the rise in the exchange rate of the US dollar during the first half of the year.

Other operating income includes the management fee paid by the State Guarantee Fund for management of the 'old' liability for export credit guarantee and special guarantee products arisen before 1999. During the period under review, the management fee was EUR 0.6 million (EUR 0.4 million). The management fee associated with financing provided by the European Regional Development Fund (ERDF) amounted to EUR 0.4 million (EUR 0.4 million) during the first six months of the year. Since the separate result of export credit and special guarantee activities shows a surplus of EUR 14.2 million (EUR 11.9 million), it does not give rise to receivables from the State Guarantee Fund.

The interest subsidy paid by the State and by the ERDF to Finnvera plc remained at the same level as the year before, or in total EUR 10.4 million. The basic interest subsidy on credits granted before 1999 totalled EUR 0.9 million (EUR 1.3 million). The interest subsidy passed on directly to clients for reducing their interest rates on loans amounted to EUR 9.5 million (EUR 9.1 million), of which EUR 1.7 million came from the ERDF and EUR 1.9 million was national interest support associated with that of the ERDF. Granting of credits eligible for interest support from the ERDF began on 1 April 2001.

The mean interest rate that clients paid for loans was 3.53 per cent on 30 June 2005 (3.39), while the mean interest rate for borrowing was 2.14 per cent (2.15).

The parent company's credit and guarantee losses came to EUR 12.2 million during the period under review. Of this sum, compensation by the State covered EUR 5.6 million. The higher losses stemmed from an increase of EUR 8.0 million in specific credit loss provisions. During the first half of 2004, credit and guarantee losses amounted to EUR 9.5 million, of which compensation by the State covered EUR 4.1 million. The increase in specific credit loss provisions was then EUR 1.3 million.

During the period under review, the funds recovered in export credit guarantee and special guarantee operations exceeded the claims paid by EUR 0.03 million (EUR 0.4 million).

On 30 June 2005, Finnvera plc's outstanding credits stood at EUR 1,376.0 million (EUR 1,301.2 million), while outstanding guarantees totalled EUR 824.1 million (EUR 755.4 million). In addition, outstanding Environmental Guarantees and Ship Guarantees - both included in special guarantees - totalled EUR 136.0 million and EUR 8.5 million, respectively. On the whole, the increase in outstanding credits was slightly greater than the increase in outstanding guarantees during the period under review. The entire Group's loan receivables stood at EUR 1,387.6 million on 30 June 2005.

The book value of Finnvera plc's liability, as referred to in the Act on the State's Export Credit Guarantees, totalled EUR 3,314.0 million on 30 June 2005 (EUR 2,623.8 million). Outstanding commitments arising from export credit guarantees and special guarantees (current commitments and offers given) totalled EUR 4,786.0 million at the end of the period under review (EUR 3,899.2 million).

On 30 June 2005, the claims presented to the parent company stood at EUR 12.0 million; a provision of EUR 2.0 million for these has been entered into the books.

Non-performing and other zero-interest claims amounted to EUR 99.4 million on 30 June 2005 (EUR 85.1 million).

Capital adequacy and acquisition of funds

The Finnvera Group's capital adequacy was 15.8 per cent as at 30 June 2005. Compared to the start of the year, capital adequacy fell by 0.6 per cent. The Group's own assets stood at EUR 390.9 million, while the risk-weighted receivables, investments and commitments outside the balance sheet totalled EUR 2,466.3 million. The Group's own assets increased by EUR 10.4 million, while the risk-weighted receivables, investments and commitments outside the balance sheet increased by EUR 146.3 million. Subsidiaries and associated companies had an effect of EUR 3.1 million on the unrestricted shareholders' equity of the Group. The return on equity was 8.4 per cent (8.8).

In March, Finnvera withdrew a loan of EUR 100 million from the European Investment Bank. Bonds worth NOK 1,200 million (EUR 146.5 million) were floated in April. In May, a loan of EUR 250 million was taken from Svensk Exportkredit, and in June a loan of EUR 25 million from the Council of Europe Development Bank. The total sum of loans withdrawn was EUR 521.5 million, and the total sum of loans paid back was EUR 260.1 million, of which EUR 250 million consisted of repayment of a bond issue in 2001.

Changes in Group structure

The share capital of Veraventure Ltd, owned 100% by Finnvera plc, was increased by EUR 1.3 million in January. Finnvera plc subscribed all the 850 new shares. In March Finnvera subscribed the increase in the share capital of Matkailunkehitys Nordia Oy, i.e. 571,300 shares. After the increase in share capital, Finnvera's holding in Matkailunkehitys Nordia Oy rose to 63.52 per cent. The value of the holding is EUR 1.0 million. In April, Finnvera sold its shares in the associated company Hiihtokeskus Iso-Ylläs, worth EUR 0.3 million, to Ylläskeskus Oy.

At the end of June, the Group comprised five subsidiaries, one company providing services in the sector of business premises, and six associated companies.

Domestic financing

For the first half of the year, demand for domestic financing remained at nearly the same record-high level as in 2004. In particular, SMEs were active in making investments and company reorganisations; this contributed to the high demand for financing. Demand was also high for financing needed by SMEs for internationalisation. Much more support than in previous years was granted for this purpose.

During the first half of 2005, Finnvera plc's financing to enterprises operating in Finland totalled EUR 508.0 million (EUR 525.8 million). The financing contributed to the realisation of projects worth in total EUR 1.1 billion (EUR 1.3 billion) and to the creation of 6,052 new jobs (6,607) and to the founding of 1,747 new enterprises (1,595). The total value of the investments financed was EUR 558.6 million.

In all, EUR 260.7 million was granted to areas eligible for support on regional policy grounds (EUR 255.8 million). This is 51 per cent of all financing granted (49). Of the financing granted to areas eligible for regional support, interest-subsidised loans accounted for EUR 72.3 million (EUR 76.2 million).

During the first half of 2005, the total value of the growth guarantees supported by the European Investment Fund (EIF) came to EUR 37.8 million (EUR 54.0 million). The total value of loans supported by the European Regional Development Fund (ERDF) and granted to Objective 1 and 2 regions amounted to EUR 63.6 million (EUR 61.9 million). Since February this year, Finnvera has also been able to give guarantees supported by the ERDF to Objective 1 regions. These ERDF guarantees amounted to EUR 5.6 million during the period under review.

Compared against the first half of 2004, the greatest growth in financing granted by Finnvera was recorded in areas around the Regional Offices of Pori, Lappeenranta and Mikkeli. In relation to the number of businesses, Finnvera's financing accounts for the highest percentages in Kainuu, Satakunta and Pirkanmaa.

During the period under review, the financing received by industry came to EUR 297.1 million (EUR 342.4 million). This is 58 per cent of all financing granted (65). When measured by the volume of financing granted, the second biggest sector was trade and consumer services. Trade and consumer services received a total of EUR 87.3 million (EUR 65.7 million), which was 17 per cent of all financing granted (12). Services to business received EUR 70.6 million (EUR 79.3 million), and tourism and rural trades in total EUR 52.9 million (EUR 38.5 million).

Financing granted to trade and consumer services and to tourism increased when compared against the corresponding period the year before.

At the end of June, Finnvera had a total of 26,938 clients (25,876). Altogether 2,671 new clients were acquired during the first half of the year (2,434). Of the total number of clients, 22,016 were micro-enterprises (20,996) and 4,626 were other SMEs (4,543). During the first six months of the year, the number of clients increased by 827, or by about three per cent. There were more starting small enterprises, and slightly fewer SMEs. The number of clients increased the most rapidly in the Regional Offices of Uusimaa, Kajaani and Jyväskylä.

Risk financing for starting enterprises, growth enterprises and for internationalisation

In line with the company's strategy, risk-taking was increased in the financing of starting enterprises and growth enterprises. During the first half of the year, financing was granted to 1,747 starting enterprises (1,595) and to 519 enterprises classified as growth enterprises. The target set for the whole year is to provide financing to about 1,000 growth enterprises and to 3,000 starting enterprises.

The fact that SMEs continued actively to make investments was an important factor behind the brisk demand for financing. Likewise, starting enterprises, changes of generation and other company reorganisations accounted for a major proportion of all projects financed by Finnvera. In addition, new entrepreneurs often invested in purchased business. Financing provided by

Finnvera helped realise 600 changes of ownership during the period under review.

The amount of loans granted during the first six months of the year was greater than the year before, while the amounts of domestic guarantees and export guarantees fell.

The total amount of loans granted was nearly six per cent higher than during the corresponding period the year before. Demand for special loans granted on industrial policy grounds (microloans, loans for women entrepreneurs, entrepreneur loans, development loans and environmental loans) continued to be brisk. The total sum of special loans granted during the first six months of the year was EUR 67.8 million (EUR 74.4 million).

The total sum of internationalisation financing granted to SMEs was EUR 9.7 million (EUR 4.6 million). This sum granted during the first six months of the year was greater than the total sum of internationalisation financing granted during the whole of 2004. One out of four projects financed involved China, and nearly as many projects involved Russia. About 15 per cent of the projects were intended for the Baltic countries. Among the various sectors, the metals industry and the services sector were the primary recipients of internationalisation financing.

Loans accounted for EUR 239.1 million (EUR 225.8 million), domestic guarantees for EUR 245.0 million (EUR 260.2 million) and export guarantees for EUR 23.9 million (EUR 39.2 million). The share of guarantees out of all financing granted has increased steadily during the past few years. On 30 June, guarantees accounted for 53 per cent of all financing granted. The average sum of domestic guarantees and export guarantees granted was about EUR 174,000. The average loan sum was EUR 69,000.

Trend in outstanding commitments

Outstanding commitments in domestic financing increased by four per cent, to EUR 2,337.4 million (EUR 2,205.3 million). Compared against the situation the year before, outstanding commitments increased by six per cent.

On 30 June, loans accounted for EUR 1,376.0 million of all outstanding commitments (EUR 1,301.2 million), while domestic guarantees accounted for EUR 826.8 million (EUR 757.1 million), export guarantees for EUR 34.2 million (EUR 53.8 million), investments in share capital for EUR 81.5 million (EUR 79.9 million), and guarantee receivables for EUR 18.9 million (EUR 13.3 million).

The growth in the volume of domestic guarantees has been rapid in recent years. During the past year, the volume of outstanding domestic guarantees increased by nine per cent. However, during the period under review, growth slowed down slightly, and the volume of outstanding guarantees increased by about four per cent. Similarly, the volume of outstanding loans increased by four per cent.

Risk financing for starting innovative enterprises

According to a proposal submitted by the Government to Parliament in May, the State would finance a new type of feeder fund with EUR 11.5 million and would allocate EUR 1.5 million for the associated development efforts. Finnvera plc was selected as the body responsible for carrying out the arrangements for the new venture capital investment fund. Starting the feeder fund is 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 will 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.

Called Aloitusrahasto Vera Oy, the fund will launch investment activities in September 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.

Regional venture capital investment activities

Development of the operations of Veraventure Ltd - Finnvera's subsidiary established in April 2003 to manage regional venture capital investments - continued in accordance with the outlines defined by the Ministry of Trade and Industry. The starting point in Veraventure's operations is close cooperation with Finnvera's Regional Offices. In this way, Veraventure can make use of the knowledge and expertise gathered by Regional Offices of local circumstances and enterprise financing.

In accordance with a proposal made by the Board of Directors, the Extraordinary General Meeting of Veraventure Ltd decided to raise the company's share capital by EUR 850,000 on 17 January 2005. Finnvera plc subscribed the entire issue.

During the period under review, some of Veraventure's associated companies - regional venture capital funds - raised their share capitals in order to ensure the continuity of the funds' investment activities. Teknoventure Oy, operating in Northern Finland, raised its share capital at the beginning of 2005. In addition to Veraventure, local towns and municipalities contributed significantly to the share issue. The fund is managed by Teknoventure Management Oy. After the share issue, Veraventure's holding in Teknoventure Oy is 48.30 per cent.

Veraventure also participated in the share issue of Indekon Oy, operating in Southeastern Finland. After the issue, Veraventure's holding in the fund was 46.50 per cent. Indekon is managed by Innofinance Oy.

During 2004, the company form of Etelä-Savon Pääomarahasto, operating in Southern Savo, was changed from a limited partnership to a joint-stock company. After this change, the continuity of the fund's investment activities was secured by floating a share issue. Veraventure participated in this share issue; after the issue, Veraventure's holding in the fund is 43.89 per cent. Etelä-Savon Pääomarahasto is managed by Sentic Partners Oy.

A new regional venture capital fund, Uudenmaan Pääomarahasto Oy, was founded in Uusimaa. The fund will start operations during autumn 2005. Besides Veraventure, the founders include local banks and an insurance company. On 30 June, Veraventure's holding in the fund was 40 per cent.

A new Growth Company Development Service model for growth enterprises

In 2004, the public organisations providing services for enterprises - Finnvera, Finpro, Tekes and the Employment and Economic Development Centres - began to develop a new Growth Company Development Service model. The model was tested in pilot projects during 2004 in the Regional Offices of Lahti, Jyväskylä and Turku. Establishment of the model in Finnvera's domestic financing began during the first half of 2005.

By 30 June, over 60 enterprises among Finnvera's clientele were encompassed by the model.

The goal of the Growth Company Development Service is to ensure that each organisation within the service is able to recognise growth enterprises in its own area as early as possible and can offer them a comprehensive service package consisting of services provided by various actors for the development, financing or internationalisation of enterprises.

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

International cooperation and activities in nearby areas

International cooperation among financing specialists

Finnvera is active in several European networks and associations set up by financial institutions for SMEs. Through this cooperation, Finnvera can contribute to the development of prerequisites for small and medium-sized enterprises within the EU and can obtain valuable information for the development of its own operations.

At their annual meeting, the Institutions in the European Union Specialising in Long-Term Credits (ISLTC) discussed issues such as the financing of emissions trading, financing of road projects by the European Investment Bank, and financial instruments for SMEs created in accordance with the European Union's new CIP programme. The working meetings of the Network of European Financial Institutions for SMEs (NEFI) discussed the European Commission's proposal for a competitiveness and innovation framework programme covering a span of several years (CIP). NEFI also gave an opinion of the programme to the Commission.

Cooperation with nearby areas in Russia

The Ministry for Foreign Affairs and Finnvera continued their cooperation in supporting SMEs in the preparation of projects intended for the Russian market. Based on Finnvera's surveys, a proposal was made to grant a total of EUR 390,000 for altogether 16 projects during the first half of 2005. Compared to the previous year, enterprises have become clearly more interested in learning about the possibilities of becoming established in nearby areas.

A decision was made to continue the operations of Finnvera's representation in St. Petersburg. For this purpose, an application has been made for a new three-year licence. The current licence will expire on 31 August 2005.

In spring 2005, Finnvera and the Guarantee Fund owned by the Government of the Leningrad Region launched a joint project where Finnvera's experts in the sectors of wood, metals and tourism participate in the development of corporate analysis within the Guarantee Fund. The 18-month project is part of Finland's cooperation with nearby areas in Russia, supported by the Finnish Ministry of Trade and Industry.

Financing of exports

On 30 June 2005, Finnvera had 202 clients engaged in exports or in the financing of exports. This is slightly less than the figure the year before. SMEs accounted for one third of exporter clients.

Demand for export credit guarantees

During the first six months of the year, Finnvera received 123 guarantee applications pertaining to foreign risk-taking (137); their total value was EUR 2,021.4 million (EUR 1,513.1 million). Altogether 87 guarantees were granted (106), totalling EUR 2,320.8 million. This is more than two times the figure during the corresponding period last year (EUR 1,072.9 million).

Industrialised countries accounted for 52 per cent of all guarantees granted, or EUR 1,210.2 million; the CIS countries accounted for 20 per cent, or EUR 461.7 million; Latin American countries for 19 per cent, or EUR 443.6 million; Asian countries for 7 per cent, or 162.4 million; and countries in the Middle East and North Africa for 2 per cent, or EUR 42.9 million.

The biggest guarantee sums were granted for exports to the United States, Russia, Uruguay, Norway, Thailand and Mexico, in this order. The greatest numbers of guarantees were granted for numerous fairly small export transactions in Russia, Turkey, China, Israel and Venezuela. The biggest guarantee sums were granted to the shipyard and shipbuilding sector, telecommunications, and the wood-processing sector.

In April, Finnvera granted a Buyer Credit Guarantee for the line of credit arrangement made by HSH Nordbank AG. The arrangement is used to finance the deliveries of several exporters to companies in the Ilm Pulp Group. Ilm Pulp is a major Russian forest industry group. Its main products are pulp and board. The credit sum is EUR 40 million and the maximum credit period is five years. Credits covered by the arrangement are used to finance, for instance, deliveries of forestry equipment by Timberjack and deliveries of equipment by Andritz and Metso Paper to the Ust-Ilimsk pulp mill. In the line of credit system, credits can be arranged for several transactions at once. It is also possible to add small transactions to the same package.

Export credit guarantees that came into effect

The total value of the export credit guarantees that came into effect during the first half of the year was EUR 678.0 million; this is nearly two thirds more than during the same period last year (EUR 414.0 million). The guarantees cover political and/or commercial risks pertaining to 19 countries. Guarantees for exports to Russia, Sweden and the Philippines accounted for the greatest outstanding commitments. Of the guarantees that came into effect, telecommunications accounted for 61 per cent, or EUR 412.7 million, and wood-processing for 16 per cent, or EUR 109.3 million.

In June, Finnvera and Calyon signed a guarantee agreement making it possible to arrange an export credit of USD 321 million for MegaFon, a Russian mobile phone operator. Intended for financing Nokia's network deliveries, the credit was arranged by Citibank and ING Bank. A syndicate of 12 banks participated in the arrangement. Finnvera's guarantee coverage is 70 per cent. MegaFon is one of the major mobile phone operators in Russia.

KCI Special Cranes will deliver electric overhead travelling cranes to OJSC Magnitogorsk Iron and Steel Works (MMK) of Russia. The credit sum guaranteed by Finnvera is about USD 39 million, and the repayment period is five years. The lender is ABN AMRO. The crane deliveries are part of MMK's extensive modernisation project. MMK is Russia's biggest individual steel mill; its capacity is over 11 million tonnes of raw steel.

At the end of May, the Helsinki shipyard of Aker Finnyards delivered a double-acting icebreaker and supply vessel to Far Eastern Shipping Company (FESCO). Finnvera's contribution to the financing of the transaction is a Buyer Credit Guarantee granted for the credit arrangement of over USD 60 million. The credit is arranged by ING Bank. The vessel will act as a standby and supply vessel for an offshore oil drilling platform at the Sakhalin 1 field of the ExxonMobil consortium. Russia's third biggest shipping company, FESCO has 80 vessels.

Total outstanding commitments

The outstanding commitments of Finnvera's foreign risk-taking (offers given and current commitments together) totalled EUR 4,402.7 million at the end of the period under review (EUR 3,428.9 million). Of this sum, industrialised countries accounted for 43 per cent, or EUR 1,876.1 million; Latin America for 22 per cent, or EUR 981.9 million; Asia for 16 per cent, or EUR 690.7 million; and the CIS countries for 14 per cent, or EUR 627.3 million. Among industrialised countries, the highest outstanding commitments concerned exports to the United States, while in Asia the list was topped by exports to the Philippines, and in Latin America by exports to Uruguay. Among individual countries, Russia was the second after the United States when measured by the value of outstanding commitments.

Finnvera did not acquire new reinsurance coverage for outstanding commitments during the first half of 2005. On 30 June, in total EUR 65 million of export credit guarantee risks had been reinsured (EUR 204 million).

The value of guarantees granted to SMEs for exports totalled EUR 9.9 million during the first half of the year (EUR 9.5 million). Most of these guarantees, in terms of both numbers and sums, pertained to export transactions planned to take place in Russia.

Applications concerning concessional credits granted by the Ministry for Foreign Affairs for projects in developing countries are sent to Finnvera, which acts as the guarantor of these credits and participates in assessment of the eligibility of projects for guarantees and interest support. During the first half of the year, Finnvera received five applications for concessional credits (9); their value was EUR 30.3 million (EUR 74.5 million).

Guarantees pertaining to export projects in the shipyard industry

During the first half of the year, the total value of applications received by Finnvera for Finance Guarantees and Bond Guarantees covering domestic risks and associated with export projects in the shipyard industry came to EUR 608.5 million (EUR 421.0 million).

The value of offers given for Bond Guarantees totalled EUR 58.2 million (EUR 42.2 million); the value of guarantees that came into effect was EUR 28.5 million (EUR 35.9 million).

The value of Finance Guarantees granted during the first six months of the year totalled EUR 704.1 million (EUR 379.0 million), but no guarantees came into effect (0).

The value of Ship Guarantees granted for financing Finnish shipyards and shipbuilders totalled EUR 176.0 million (0). None of these guarantees came into effect during the period under review (EUR 101.4 million).

International cooperation

In early February, Finnvera and two Russian banks, Vneshekonombank and Roseximbank, which is owned by the first-mentioned bank and acts as Russia's export credit agency, signed a framework agreement to promote Finnish-Russian joint projects in third countries. In practice, this involves exports of investment goods or joint projects. Roseximbank and Finnvera together arrange the financing so that Roseximbank finances the exports of the Russian party and Finnvera guarantees the Finnish party's financing arrangements. The agreement does not include any mutual reinsurance.

Finnvera signed a reinsurance agreement with the Italian guarantee agency SACE S.p.A in May. By virtue of reinsurance agreements, the exporter and the bank arranging financing for an export transaction need to contact the guarantee agency of only one country in situations where the export transaction includes deliveries from both Finland and other countries. The agreement with SACE is the 13th framework agreement associated with reinsurance that Finnvera has made with export credit agencies abroad.

In spring 2005, the Working Party on Export Credits and Export Credit Guarantees under the OECD Trade Committee discussed modifications to the OECD Export Credit Arrangement, which is the most important agreement regulating officially supported export credits. As a result of the discussions, project finance terms became a permanent part of the Arrangement. A new sector agreement was signed for projects based on renewable energy forms; this enables a maximum credit period of 15 years. It was additionally agreed that exceptions can be allowed to the regular repayment practice based on equal instalments paid every six months, provided there are justified reasons for the exception. The modifications came into effect on 1 July 2005.

In the Awards for Excellence 2005 vote arranged by Trade Finance Magazine, Finnvera was voted the fourth best export credit agency. In 2002 Finnvera had been voted the best export credit agency and in 2003 and 2004 the fifth best. Trade Finance Magazine is published by Euromoney.

Paris Club

As Finland's representative, Finnvera participated in the meetings of the Paris Club, the forum for public creditors. The Paris Club discusses public debt servicing problems experienced by countries in financial difficulties. Framework agreements are made on the rescheduling of debts, after which countries sign bilateral rescheduling agreements.

The Paris Club met six times during the first half of the year. Finland did not participate in new rescheduling arrangements during this period. Finland signed a bilateral rescheduling agreement with Ethiopia. In consequence, Ethiopia's remaining debts to Finland will be written off.

In addition, the Paris Club has agreed on debt reliefs to countries that have suffered from the consequences of the tsunami last December, as far as loans granted by governments are concerned. The Club has also agreed with Poland and Peru on the prepayment of rescheduled debts.

Based on a bilateral agreement, Poland prepaid its remaining debt, approximately EUR 44 million, at the end of March.

Prepayment of Russia's debts

At its meeting on 13 May 2005, the Paris Club decided that Russia will prepay nearly EUR 12 billion of its debts to creditor countries. Finland's share of Russia's rescheduled debts was EUR 431 million, and the share of the prepayment is EUR 174 million. The prepayment offer is the largest ever made in the history of the Paris Club.

Creditor countries had to decide on their participation in the prepayment arrangement by 1 June. Finland made use of the prepayment arrangement, and the payment was received in July. After this prepayment, Russia's debt to Finland as per the rescheduling agreement is EUR 263 million.

Finland's share of Russia's debts is paid to the State Guarantee Fund. The Fund is ultimately responsible for any claims based on current commitments made by Finnvera and on commitments made by its predecessor organisations, the Finnish Guarantee Board, the Export Guarantee Board and the State Guarantee Board, before 1999.

Administration and personnel

On 30 June 2005, the Finnvera Group had 418 employees (418), of whom 407 had permanent contracts (397) and 11 had temporary contracts (21).

Supervisory Board and Board of Directors

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 Annual General Meeting elected the following new members to the Supervisory Board: Leila Kurki, Senior Adviser (Finnish Confederation of Salaried Employees STTK); Erkki K. Mäkinen, Managing Director (Federation of Finnish Enterprises); Pekka Pokela, Director (Confederation of Finnish Industries EK); and Pia Peltoniemi, Legal Counsel (Finnvera).

The following members were re-elected: Peter Boström, Managing Director; Markus Fogelholm, Managing Director (Finnish Bankers' Association); Susanna Haapoja, Member of Parliament; Sinikka Hurskainen, Member of Parliament; Markku von Hertzen, Managing Director (Finnish Association of Graduates in Economics and Business Administration - SEFE); Jere Lahti, Member of Parliament; Ismo Luimula, Deputy Chief Economist (Central Organisation of Finnish Trade Unions SAK); Iivo Polvi, Member of Parliament; Eero Reijonen, Member of Parliament; Heikki Ropponen, Director (Federation of Finnish Commerce); and Osmo Soininvaara, Member of Parliament.

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

At its meeting on 28 April 2005, the Supervisory Board of Finnvera elected Kalle J. Korhonen, Director-General (Ministry of Trade and Industry), as Chairman of the Board of Directors, and Pekka Laajanen, Governmental Counsellor, Director of Legislative Affairs (Ministry of Finance), as Vice Chairman. The following persons will continue as regular members of the Board: Päivi Kerminen, Governmental Counsellor (Ministry of Labour); Tarmo Korpela, Special Adviser (Confederation of Finnish Industries EK); Pekka Lintu, Permanent Under-Secretary (Ministry for Foreign Affairs); Martti Mäenpää, Director General (Technology Industries of Finland); Risto Suominen, Director (Federation of Finnish Enterprises); and Matti Viialainen, Deputy Director (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.

President and Chief Executive Officer

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 (42), D.Sc. (Technology), to the position of President and CEO of Finnvera as of 1 August 2005.

Moving of the company's operations in Helsinki

At the end of March, the company's Head Office in Helsinki, the Regional Offices of Helsinki and Uusimaa, the subsidiary Finnish Export Credit Ltd, and the Helsinki operations of Veraventure Ltd moved to joint premises at Eteläesplanadi 8.

Industrial and ownership policy

Finnvera's exemption from taxes

The international evaluation commissioned by the Ministry of Trade and Industry and completed in February 2004 recommended that Finnvera plc be granted exemption from taxes. The same proposal was made by the 'Finnvera 2004' working group, which had been set up by the Ministry to discuss the recommendations given by the evaluation group. This issue is still being prepared by the Ministry of Trade and Industry.

Study on the impact of Finnvera's domestic financing

According to a study conducted by the Small Business Institute of Turku School of Economics and Business Administration, Finnvera has been successful both in its industrial policy role and in offsetting deficiencies existing on the SME financing market. Financing provided by Finnvera plays a crucial role especially at the onset of enterprise activities, during changes of generation and ownership, and in growth and internationalisation projects.

The sample comprised 600 Finnvera clients in all sectors. Responses were received from over 300 enterprises. The sample was representative as concerns both the phases of the respondents' life-cycles and their geographical locations. Respondents included starting, growing and other SMEs as well as 14 representatives of banks. Responses were received from the Helsinki area, from growth centres, from rural areas and from areas eligible for national support.

The study indicated that, more than at present, Finnvera should concentrate on projects involving risks, where banks cannot act alone. These projects include changes of generation or ownership, or other development projects that meet some of the basic requirements for obtaining financing. In this way, Finnvera's impact on the development of business could still be strengthened.

Finnvera will conduct a corresponding study during 2005 to investigate the effects of export financing.

Environmental and publicity policy of export credit guarantee activities

On 23 March 2005, the Supreme Administrative Court gave its decision in the case concerning the request made by the Finnish Export Credit Campaign to obtain information on certain export credit guarantee projects. In its decision, the Court returned the request to Finnvera for renewed handling.

The Court's decision retained in force the earlier decision made by Helsinki Administrative Court on 23 June 2003. The Supreme Administrative Court concluded that legal evaluation of the case was not possible unless Finnvera again takes up the requests for documents made by the society under the Finnish Association for Nature Conservation and gives a new, more specific decision in the matter.

The request for documents made by the Finnish Export Credit Campaign concerned export projects carried out in 1994-2002. The matter was handled again at Finnvera in a specific manner, and Finnvera still retains the view that the documents in question cannot be relinquished. Finnvera bases its decision primarily on §5 of the Act on the State-Owned Specialised Financing Company, which can be equated with a banker's duty to maintain confidentiality. The Export Credit Campaign was not satisfied with this decision, but appealed the case again to Helsinki Administrative Court on 20 May 2005. Finnvera has given its own substantiated statement on the appeal, and the case is pending at Helsinki Administrative Court.

Finnvera's export financing complies with an environmental policy that is based on the OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits. The current policy was approved by the Finnvera Board of Directors in May 2004, and it defines the system of assessing the environmental impacts of export credit guarantee projects.

All export credit guarantee projects have been classified in terms of their environmental impacts since 2002. Basic data on the most important projects have been published since 2003.

Future prospects

Growth in the world economy will continue, but at a slightly lower pace. Economic growth in Asia and in the United States will remain strong. However, imbalance in the world economy poses a major threat to the continuation of sustainable growth. High oil prices are partly responsible for the continued deficit in the current account of the United States, and the deep budget deficit increases uncertainty on the market. The strengthening of the dollar in summer 2005 stemmed from rising interest rates in the United States.

Prospects for growth in the euro region are less optimistic. High oil prices and the strong euro have weakened competitiveness in the euro region. In Finland, the paper industry's labour market dispute in early summer slowed down economic growth, but the outlook for the latter half of the year and for next year is better.

Domestic financing

During the first half of the year, economic trends have been better than expected for small and medium-sized enterprises. The output of small and medium-sized industrial enterprises has increased more rapidly than anticipated; sales by service enterprises have grown steadily as well. SMEs also expect positive economic trends to continue for the next 12 months. However, it is expected that the situation for service enterprises will become slightly weaker towards the end of the year. The forecast for industrial enterprises' economic trends is twofold: the prospects for medium-sized enterprises have weakened, whereas the expectations of small enterprises are better than before.

There are also major differences between various sectors. In particular, problems in the wood product industry have clearly increased, and Finnvera has paid special attention to the development needs of the furniture industry and sawmills.

A considerable proportion of the financing needs of small and medium-sized industrial enterprises involves production investments and the working capital required by investments. Intangible investments are also expected to continue rising. In addition to industrial sectors, many service sectors are also making considerable investments.

As well as investments, company reorganisations and, in particular, generation changes in SMEs spur demand for Finnvera's financing. Ensuring generation changes is an essential factor for meeting the goals of the Finnish Government's entrepreneurship policy programme. Increasingly often, financing is needed in SMEs for the internationalisation of operations.

It is predicted that demand for Finnvera's financing will remain high in Finland. Investments are expected to remain at least at the same level as during the first half of 2005, in the whole of Finland. In addition to enterprises' own cash flow, banks and financing companies play an important role in the financing of investment projects. However, Finnvera is needed very often for sharing project risks. The authorisation given by the State to Finnvera for granting financing needs to be increased for 2005 so that the total financing of SMEs can be secured.

Financing of exports

The industrial division of labour in the world economy is under transition. This will mean increasing challenges for the competitiveness of both enterprises and the economies of traditional exporting industrialised countries.

Finland's export prospects look rather promising at present, and many sectors have a fair number of orders on hand for exports. Export enterprises will continue their efforts to improve profitability, for instance, by moving manufacture closer to the markets, to countries with lower production costs.

Commercial financiers have become clearly more active in financing for exports. They are ready to take higher risks than before; this, in turn, reduces the demand for Finnvera's export credit guarantees. European and North American banks are seeking growth for their business by providing financing for exports, since demand for enterprise credits on their home markets is low.

The risk premiums of commercial financiers are currently at a very low level. In many cases, the credit margins are even lower than those which the relevant OECD regulations require of Finnvera and other public providers of export guarantees. However, terrorist attacks and other potential crisis situations may quickly change financiers' views on risks.

If currency flows were to turn towards industrialised countries, this would mean that risk margins, which have stayed exceptionally low this year, would begin to rise. This, in turn, would raise financing and debt servicing costs in emerging markets. This might cause problems for enterprises in emerging markets, because foreign capital is their main source of financing. With the exception of ship financing, Finnvera's export credit guarantee risks are mainly enterprise risks involving enterprises in emerging markets.

Finnvera's export credit guarantees are likely to be needed especially in the case of exports to countries with political risks or when the transactions are unusually large. When the criterion is the number of guarantees, the most vibrant market is Russia.

In ship financing, demand for guarantees concerns mainly industrialised countries. According to forecasts made by Finnvera, the most active users of export credit guarantees during the latter half of the year will be in the telecommunications sector, in shipyards and shipbuilding and in the forest industry.

FINNVERA PLC

KEY INDICATORS AS AT 30 JUNE

MEUR	PARENT		PARENT		PARENT		PARENT		PARENT		PARENT		PARENT	
	GROUP	COMPANY	GROUP	COMPANY	GROUP	COMPANY	GROUP	COMPANY	GROUP	COMPANY	GROUP	COMPANY	GROUP	COMPANY
	YEAR 2005	YEAR 2005	YEAR 2004	YEAR 2004	YEAR 2003	YEAR 2003	YEAR 2002	YEAR 2002	YEAR 2001	YEAR 2001	YEAR 2000	YEAR 2000	YEAR 1999	YEAR 1999
TURNOVER, EUR MILLION	79,6	78,3	74,7	75,0	75,5	76,5	69,6	70,3	76,2	79,2	65,3	64,5	56,3	56,2
OPERATING PROFIT OR LOSS, EUR MILLION	23,0	21,7	28,3	29,8	21,3	24,0	11,5	16,5	21,9	21,5	20,9	20,1	14,2	13,7
% OF TURNOVER	28,9	27,6	37,9	39,8	28,2	31,4	16,5	23,5	28,7	27,1	32,0	31,2	25,2	24,4
BALANCE SHEET TOTAL, EUR MILLION	1 754,6	1 707,2	1 553,5	1 509,0	1 528,5	1 530,0	1 504,1	1 497,9	1 379,7	1 400,7	1 405,9	1 403,2	1 242,7	1 240,3
OUTSTANDING COMMITMENTS, EUR MILLION	6 997,7	6 986,1	6 032,6	5 996,4	5 727,0	5 736,2	4 579,4	4 594,4	4 406,6	4 411,5	3 537,7	3 542,9	1 900,8	1 902,0
INCOME-EXPENSE RATIO	2,5	2,6	2,5	2,7	2,3	2,4	2,3	2,4	2,7	3,0	2,4	2,5	2,1	2,1
CAPITAL ADEQUACY RATIO	15,8	17,0	17,0	17,0	14,8	15,1	14,4	14,3	15,1	14,7	17,6	14,9	18,5	16,0
CREDIT LOSSES AND CLAIMS PAID (NET CLAIMS) EUR MILLION	18,4	18,4	9,1	9,1	11,7	11,7	12,5	12,5	15,9	15,9	7,4	24,9	5,7	5,7
CREDIT AND DOMESTIC GUARANTEE LOSSES	18,4	18,4	9,5	9,5	10,2	10,2	11,8	11,8	9,5	9,5	6,4	20,1	5,7	5,7
EXPORT CREDIT GUARANTEE CLAIMS	0,0	0,0	-0,4	-0,4	1,5	1,5	0,7	0,7	6,4	6,4	1,0	4,8	0,0	0,0
SPECIAL GUARANTEE LOSSES	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
PERSONNEL ON AVERAGE	418	409	418	407	411	405	404	399	399	393	407	398	395	385

FINNVERA PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT (EUR 1 000)

	1 Jan - 30 June 2005	1 Jan - 30 June 2004	1 Jan - 31 Dec 2004
INTEREST INCOME			
Interest from the public and from public corporations	24 052	22 439	44 940
Interest subsidy passed on to clients	9 539	9 126	18 919
Interest on domestic guarantee receivables	845	705	1 641
Interest on export credit guarantees and special guarantees	19	15	21
Other interest income	1 565 +	36 020	1 730 +
	34 015	2 242 +	67 763
INTEREST EXPENSES	- 13 301	- 13 216	- 25 190
OTHER INTEREST SUPPORT	+ 880	+ 1 333	+ 2 802
NET INCOME FROM FINANCIAL OPERATIONS	+ 23 599	+ 22 132	+ 45 375
INCOME FROM EQUITY INVESTMENTS	+ 336	+ 458	+ 1 064
COMMISSIONS INCOME	+ 28 941	+ 27 522	+ 66 988
COMMISSIONS EXPENSES	- 1 396	- 2 071	- 3 589

NET INCOME FROM SECURITIES TRANSACTIONS AND CURRENCY OPERATIONS

Net income from securities transactions	0	296	514
Net income from currency operations	1 988 +	1 988	816 + 1 112 -1 218 - 704

OTHER OPERATING INCOME

Credit loss compensation from the State	5 611	4 136	13 460
Management fees	1 076	879	1 590
Operating support	0	0	336
Income from assignment of shares included in fixed assets	432	357	1 947
Other	4 294 +	11 413	4 893 + 10 265 8 999 + 26 332

ADMINISTRATIVE EXPENSES**Personnel costs**

Salaries and fees	10 542	9 869	19 437
Indirect employee costs			
Pensions	2 435	2 359	4 357
Other indirect employee costs	741	1 008	1 921
Other administrative expenses	7 065 -	20 783	6 154 - 19 390 12 201 - 37 916

DEPRECIATION AND WRITE-DOWNS ON TANGIBLE AND INTANGIBLE ASSETS

	- 2 156	- 1 725	- 3 704
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OTHER OPERATING EXPENSES

	- 2 105	- 1 362	- 2 928
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CREDIT AND GUARANTEE LOSSES

Losses from credits and domestic guarantees	18 481	9 537	35 608
Losses from export credit and special guarantees	-33 -	18 448	-418 - 9 119 860 - 36 468

WRITE-DOWNS ON SECURITIES INCLUDED IN FIXED ASSETS

	- 3	- 0	- 499
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SHARE OF THE PROFIT OR LOSS OF ENTERPRISES COMBINED USING THE EQUITY METHOD

	+ 1 625	+ 493	+ 948
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OPERATING PROFIT

	+ 23 011	+ 28 315	+ 54 897
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EXTRAORDINARY ITEMS

Extraordinary income	0	0	0
Extraordinary expenses	0 +	0	0 + 0 - 0

PROFIT BEFORE APPROPRIATIONS AND TAXES

	+ 23 011	+ 28 315	+ 54 897
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INCOME TAXES

Taxes on the financial period and previous periods	5 709	8 942	16 066
Change in calculated tax receivables	13 -	5 722	-137 - 8 805 401 - 16 468

MINORITY SHARE OF THE PROFIT OR LOSS FOR THE PERIOD

	+ 60	- 78	- 68
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PROFIT FOR THE FINANCIAL PERIOD

	+ 17 349	+ 19 432	+ 38 361
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**CONSOLIDATED BALANCE SHEET
(EUR 1 000)**

30 June 2005 30 June 2004 31 Dec 2004

ASSETS

Cash in hand	1	2	1
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Receivables from credit institutions

Payable on demand	76 253	29 138	24 471
Other	33	76 286	6 29 144 33 24 504

Receivables from the public and from public corporations

	1 387 600	1 337 412	1 337 831
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Debt securities

From public corporations	0	2 000	0
From others	104 696	104 696	17 863 19 863 18 837 18 837

Shares and holdings

	48 230	31 344	35 655
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Shares and holdings in associated companies

	47 961	37 866	40 240
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Shares and holdings in Group undertakings

	134	140	134
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Intangible assets

Consolidation difference	1 379	0	0
Other expenses with long-term effects	11 808	13 187	9 296 9 296 10 634 10 634

Tangible assets

Real estate and shares and holdings in real-estate corporations	16 264	22 933	17 361
Other tangible assets	3 163	19 427	3 029 25 962 2 738 20 099

Other assets

Receivables from domestic guarantees	17 071	13 117	12 774
Receivables from export credit and special guarantee operations	14 287	14 142	16 403
Credit loss receivables from the State	6 534	10 058	6 106
Calculated tax receivables	612	1 007	625
Other	7 724	46 228	5 895 44 219 6 819 42 727

Accrued income and prepayments

	10 861	18 261	15 297
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1 754 611 1 553 509 1 545 959

CONSOLIDATED BALANCE SHEET

(EUR 1 000)	30 June 2005		30 June 2004		31 Dec 2004	
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
Liabilities to credit institutions						
Other than payable on demand		790 296		440 610		424 243
Liabilities to the public and to public corporations		39 805		40 615		38 282
Debt securities in issue						
Bonds		386 930		489 543		489 994
Other		0	386 930	78 102	567 645	75 847
					565 841	
Other liabilities		17 747		23 381		17 920
Accrued expenses and advances received		68 486		65 046		65 629
Compulsory provisions						
Provisions for export credit guarantees		2 000		3 000		2 000
Subordinated liabilities		5		5		5
Minority share of capital		4 443	1 309 712	4 595	1 144 897	4 498
						1 118 418
SHAREHOLDERS' EQUITY						
Share capital		196 605		196 605		196 605
Above par value fund		51 036		51 036		51 036
Reserve fund		177 334		138 035		138 035
Other unrestricted funds		59		59		59
Profit/loss for previous years		2 516		3 445		3 445
Profit for the financial period		17 349	444 899	19 432	408 612	38 361
						427 541
			1 754 611		1 553 509	1 545 959
COMMITMENTS OUTSIDE THE BALANCE SHEET						
Commitments given in favour of a third party on behalf of a client						
Domestic guarantees		824 136		755 441		793 080
The book value referred to in the Act on the State's Export Credit Guarantees		3 313 990		2 623 790		2 886 157
Liability for special guarantees		193 293	4 331 419	300 147	3 679 378	197 958
						3 877 195
Irrevocable commitments given in favour of a client						
Binding financing offers			181 139		180 956	170 435
Derivative instruments (interest rate, share, currency and other)						
(EUR 1 000)	30 June 2005		30 June 2004		31 Dec 2004	
Values of underlying instruments	For hedging purposes	Other	For hedging purposes	Other	For hedging purposes	Other
Interest rate derivatives						
Interest rate swaps	50 000	0	300 000	0	300 000	
	50 000	0	300 000	0	300 000	0
Currency derivatives						
Interest rate and currency swaps	374 751	0	228 231	0	228 231	0
	374 751	0	228 231	0	228 231	0
Credit equivalent amounts of contracts						
Interest rate contracts		250		1 750		1 750
Currency contracts		63 944		38 014		39 014
		64 194		39 764		40 764
Capital adequacy						
Primary assets		431 712		399 316		416 907
Secondary assets		5		0		5
Total assets after deductions		390 902		384 490		380 493
Risk-weighted receivables, investments and off-balance-sheet commitments		2 466 272		2 263 321		2 320 006
Capital adequacy ratio - %		15,8		17,0		16,4
Ratio between primary assets and risk-weighted receivables, investments and off-balance-sheet commitments - %		17,5		17,6		18,0
The profit shown by the Interim Report is included in primary assets.						
Key indicators						
Return on equity - %		8,4		8,8		9,5
Income-expense ratio		2,5		2,5		2,9

Return on equity - %	$\frac{\text{operating profit/loss - taxes}}{\text{equity + minority holding + voluntary provisions and depreciation difference minus deferred tax liability (mean between the start and the end of the year)}} \times 100$
Income-expense ratio	$\frac{\text{net income from financial operations + income from equity-linked investments + commissions income + net income from securities transactions and currency operations + other operating income}}{\text{commissions expenses + administrative expenses + depreciation + other operating expenses}}$

The figures have not been audited.