finnfund

Financial statements 2019

Content

Board of Director's report 2019

Mission and strategy extending to 2025

Finnfund is a development financier, which builds a more sustainable world by investing in responsible, profitable businesses involving a Finnish interest in developing countries. Finnfund, formally Finnish Fund for Industrial Cooperation Ltd., is a development finance company in which the Finnish State has a majority holding; with its special development policy mission, Finnfund falls under the administration of the Ministry for Foreign Affairs.

Finnfund works with private companies operating in developing countries, offering equity financing and debt capital, as well as specialist expertise related to investments in developing countries. We require every project to be profitable, responsible in terms of the environment and society, and measurable in terms of development impact in the target country.

In line with its strategy extending to 2025, Finnfund's vision is to be a valued partner and impact pioneer in European development financing.

The strategy emphasises sectors of importance to sustainable development, including renewable and lower-emission energy generation, sustainable forestry, sustainable agriculture and the financial sector. Finnfund may also finance other sectors.

The company's strategy emphasises the following:

- Achieving the development impacts of projects and analysing and communicating impacts.
- Expanding business volumes and allocating resources to responsible, impactful and profitable projects.
- Acquiring additional financing and convincing investors in companies of the opportunities of joint investment.
- Developing working methods with an appreciation for the work of company personnel and stakeholders.

All of Finnfund's operations are steered by four principles: impact, responsibility, profitability and professionalism.

In 2019, Finnfund made wide-ranging progress in terms of its strategy. In order to expand our financing base, we publicised our intention to launch Finland's first global impact fund in collaboration with OP Financial Group. The impact fund will be targeted towards professional institutional investors. In relation to this, Finnfund has made several improvements to its investor communications, including the introduction of a portfolio profitability calculation. Work on *OP Finnfund Global Impact Fund I* progressed as planned at the end of the year, and we expect it to come to fruition in 2020.

The Finnish State increased Finnfund's share capital by EUR 10 million in 2019. The State also granted a long-term loan to Finnfund in the amount of EUR 210 million from the financial investment grants for development cooperation. Finnfund will allocate the borrowed money in its balance sheet to two virtual funds, one which invests in projects related to combating climate change and one which invests in projects seeking to improve the position of women and girls.

Finnfund began allocating projects to virtual funds in 2019, as soon as the loan was confirmed. In the first phase, we will use short-term commercial paper to cover the disbursements to investments allocated to the funds. Finnfund will withdraw at least EUR 130 million of the State loan in 2020, and the remainder in 2021.

Finnfund invests EUR 210 million government loan in gender and climate projects

Finnfund's strategy 2018–2025

Vision 2025

Valued partner and frontrunner in impact among European development finance institutions

Breakthroughs

Triple development impact
- Profitable and sustainable growth
- In project selection, emphasis on development impact, risk assessment and Finnish expertise
- Special focus on fragile states

Ensure sustainability
- Recognize and respond to sustainability challenges
- Show impact and responsibility
- Share our work, successes and challenges openly, honestly and proactively

Diversify funding base
- Convince owner of the need for additional funding
- Mobilise private funds to manage
- Successfully combine different financing instruments

Develop business culture
- Strengthen expertise and develop leadership
- Create an inspiring, stimulating and responsive working environment
- Bring processes, tools and working methods to frontrunner level

Strategy

Becoming frontrunner in impact

- Focus on delivering, analysing and communicating development impact of projects
- Double operational volume from 2018 level and be reliable partner in responsible, impactful and profitable investments
- Mobilise additional funding and convince private investors of our capacity to manage funds
- Improve policies and procedures while respecting the work of our colleagues and stakeholders

Principles

Impact, sustainability, profitability and professionalism

Mission

To build a better world by financing responsible companies that operate in developing countries

Funding and investments

The project preparation targets for 2019 (EUR 200 million and 25 projects) were surpassed comfortably. The preparation of a total of 29 new projects, worth EUR 237 million, progressed all the way to the investment decision.

As in the preceding year, the majority of Finnfund's new financing decisions were allocated to projects with excellent development impacts in terms of reducing poverty, combating climate change and promoting adaptation to climate change, and improving the position of women and girls.

The 29 new financing decisions made in 2019 (26 decisions in 2018), with a monetary value of EUR 237 million (EUR 154 million), targeted different income levels as follows:

Income level	Number of decisions	%	EUR million	%
Least developed countries	13	45	84	35
Low-income countries	0	0	0	0
Lower-middle-income countries	11	38	101	43
Upper-middle-income countries	5	17	52	22
TOTAL	29	100	237	100

Slightly more than half – 17 (14) – of the financing decisions involved investment loans, accounting for about 53 per cent (60 per cent) of the monetary value of the decisions.

Nine (9) of the projects that were approved were equity investments or mezzanine financing. When calculated in euros, they accounted for 28 per cent (25 per cent) of all approved projects. Two new fund investment decisions were made. In deviation from the preceding years, a decision was also made on a guarantee, which will later be split into two guarantees.

The financing decisions were divided fairly evenly among the continents. Approximately 35 per cent of the decisions, in terms of numbers and monetary value, were allocated to Africa. Approximately 20 per cent were allocated to Asia and Latin America.

Disbursements for investments totalled EUR 125 million (EUR 135 million).

Of the disbursements during the 2019 financial year, EUR 52.8 million (EUR 43.6 million) is considered official development assistance (ODA) by the Finnish State. According to the OECD/DAC classification, investment loans cannot be counted as official development aid, even if they give rise to significant development effects.

The amount of undisbursed commitments at the end of 2019 totalled EUR 177 million (EUR 154 million). In addition, EUR 162 million (EUR 95 million) was tied up in investment commitments that had not yet progressed to the agreement stage.

Development and priorities

In 2019, the execution of Finnfund's strategy featured strongly in all areas of the company's operations. The company's management, personnel targets and operational planning and control were more strongly tied to the strategy than before. The company's operations are monitored and reported on internally and externally in line with the four areas defined in the strategy as breakthroughs (multiplying our impact threefold, ensuring responsibility, extending our financing base and revamping our company culture).

In 2019, Finnfund updated its corporate responsibility policy, replacing the earlier environmental and social policy, which was published in 2014. The corporate responsibility policy covers various aspects of corporate responsibility and the means of realising these aspects within the investment process and Finnfund's own operations, linking them to the international corporate responsibility framework. The update process involved extensive collaboration with non-governmental organisations and other stakeholders. We made use of the comments we received when we finalised the policy. We will publish the corporate responsibility policy in March 2020.

In early 2019, we published the human rights and equality policies that we completed in 2018. The tools and working methods required for the practical implementation of these policies were developed in the preceding year. We also continued working on the practical implementation of the tax policy and, for each financing decision, tax compliance has been verified.

Finnfund committed itself to the common principles of impact investment prepared under the leadership of the International Finance Corporation. The international principles increase the transparency, credibility and discipline of impact investing.

Finnfund joined the G7 nations' 2X initiative, which aims to mobilise investment resources of USD 3 billion by the end of 2020 to finance businesses promoting the status of women.

In 2019, Finnfund continued its impact assessments related to the projects and sectors it finances. An impact assessment on forest projects in East Africa was published, along with an extensive literature review concerning the impacts of energy investments on wellbeing. In addition, we initiated a study into the effect of the Lake Turkana project on reducing poverty in the project area, as well as on the usefulness of collaboration between small-scale farmers and the project companies. We also began conducting a survey among employees of two of the project companies to discover their experiences related to the meaningfulness of their work.

In the autumn, we published our annual report on the development impacts of our project portfolio. For the first time, we collected all of the data we needed for the report from the project companies online. At the publication event for the impact report, we agreed to establish an impact network with our stakeholders. The network will consist of non-governmental organisations and other entities, and it will regularly convene to discuss means of impact measurement and reporting.

In the spring, we held two significant seminars on sustainable forestry, bringing together the key players in the industry. The external event focused on the role of investment in combating deforestation in Africa. At the internal seminar, development financiers and representatives from forestry companies discussed the industry's financial outlook.

In the spring, we conducted a stakeholder survey that involved interviewing about 100 people representing the entities Finnfund has invested in, co-investors, non-governmental organisations, political influences and researchers. The questions covered matters such as people's awareness and impressions of Finnfund, the company's duties and successes, and the quality of collaboration. Eighty-one per cent of the respondents said that the visibility of Finnfund's mission was either quite good or very good. All of the groups of respondents expected Finnfund to invest in climate change mitigation and adaptation.

Our communications focused on openness, corporate responsibility and impact. We made special investments in digital communications online and on social media. Our communications also placed a greater emphasis on supporting the origination of high-quality projects.

In early 2019, the Ministry of Foreign Affairs' internal audit unit commissioned an audit of private instruments from KPMG, which also examined the operations of Finnfund and Finnpartnership. We implemented the development measures proposed by the audit in the autumn. The most significant measure was to set up an internal audit function within Finnfund. This was implemented in the form of an outsourced service, which will begin operating in 2020.

In 2019, Finnfund continued the work that it began in the previous year with the European Commission towards obtaining a pillar assessment. Finnfund took the development measures required to obtain a pillar assessment in 2019, and it passed all eight of the pillars for which it sought assessment in December 2019. Now that Finnfund has passed the pillar assessment, it is able to manage and channel EU financing and guarantees to its projects.

In March 2019, the company moved to renovated offices in Ruoholahti, Helsinki, close to the other Team Finland entities. The office was designed together with the personnel and external advisors with the aim of strengthening the company culture in line with the strategy by offering opportunities for a more open working environment that supports teamwork.

We also invested in the environmental and climate impact of our new premises. Finnfund received Green Office certification from the WWF, demonstrating the organisation's commitment to taking tangible action to reduce its carbon footprint.

Supervisors and senior managers receive continuous training with the aim of permanently developing the quality of management while reinforcing the implementation of the strategy with consistent operating methods. In the autumn of 2019, Finnfund carried out a 270/360 evaluation of its entire personnel. The results of the evaluation showed that clear progress had occurred across the board since the previous evaluation in 2017, particularly in the areas of management and supervisory work. Similar results were obtained in the annual equality and non-discrimination survey and the Pulssi survey, which is conducted three times per year.

During the year under review, Finnfund continued to enhance its IT infrastructure and system environment. During the year under review, a substantial public tendering process was conducted for the procurement of a new financing system. The deployment of the new financing system is likely to take place in the second half of 2020. In addition, the content development for the new reporting environment and system integration continued in 2019 with the aim of harmonising reporting practices and raising the quality of reporting across the board.

In March 2019, Finnfund moved to renovated offices in Ruoholahti, Helsinki.

The Finnpartnership programme

Finnpartnership is a business partnership programme financed by the Ministry for Foreign Affairs of Finland and managed by Finnfund on the basis of a contract. Finnpartnership aims to promote sustainable development by establishing long-term company collaboration with positive development impacts.

For Finnpartnership, 2019 was a successful year in many ways. Finnpartnership solidified a strong position within the Team Finland network as an expert in business in developing countries and matters related to the Sustainable Development Goals (SDG). Finnpartnership garnered significant positive feedback from its stakeholders for its productive activities.

During the year under review, Finnpartnership arranged a total of 14 (12) Doing Business with Finland (DBF) seminars, which were held in Kenya, Ghana, Benin, Egypt, Tunisia, Rwanda, Mauritius, Bolivia, Peru, Côte d'Ivoire, Senegal, Bangladesh, Bhutan and Nepal. The seminars were highly popular, and they enabled several potential business partnerships to be formed between Finland and developing countries. In addition, the Somalia Business Summit was held in Mogadishu in January, and 31 people from Finland attended.

In 2019, a total of 94 (145) business partnership grant applications were received. The year-on-year reduction in the number of new applications is partly due to the removal of pilot projects from the category of projects eligible for ordinary grants (pilot projects returned to the list of grant-eligible phases on 1 January 2020). From 1 November 2018 to 31 October 2019, a total of 114 applications were received for processing, and 70 (82) were accepted. Grants were issued in a total amount of EUR 4.2 million (EUR 5.0 million). Business partnership grants were paid out to 88 (95) projects in a total amount of EUR 2.6 million (EUR 2.4 million).

A total of 425 (396) companies were either registered on the public database or proposed to Finnish companies via the matchmaking service in 2019. In 2019, a total of 261 (185) new business partnership connections were opened between Finnish companies and companies based in developing countries.

Finnfund will continue to manage Finnpartnership on the basis of its contract, which runs until the end of 2021.

In 2019, a total of 94 business partnership grant applications were received.

Risk management

The Finnfund Board of Directors confirms the company's risk management principles and instruments. The company's management is responsible for the practical implementation of risk management on the basis of the guidelines confirmed by the Board of Directors. The company's asset and risk management guidelines are assessed annually. No major changes were made to the management principles in 2019.

The objective of asset and risk management is to mitigate the negative effects of market risks, primarily changes in interest and exchange rates, on Finnfund's earnings, and to ensure sufficient liquidity.

The company is exposed to greater risks than those present in typical financial institution operations. The management of funding and liquidity risks includes risk identification, hedging, and reporting to the company's administrative bodies. The company carries out a comprehensive due diligence process with each financing decision that effectively identifies the investment risks.

The risk classification system developed by Finnfund, which has been in use since 2005, is a key instrument in the assessment and monitoring of project risks. A risk assessment is conducted on all projects in the Finnfund investment portfolio at least once a year, and more often if necessary, that is, if it is estimated that the risk level has changed. If the risk classification becomes weaker, the project's balance sheet value will be impaired and, conversely, if the risk classification becomes stronger, previous impairments will be reversed. Balance sheet value can not be higher than acquisition cost. The trends affecting projects identified as high-risk are monitored closely and measures to mitigate the risks to Finnfund are initiated if deemed necessary.

From 2012 to 2015, Finnfund had access to a special risk financing instrument worth a total of EUR 50 million. In September 2018, the Finnish State decided to bring back the special risk financing instrument in a total value of EUR 75 million. The instrument is valid from 2018 to 2023 for the purpose of distributing investment risks between the Finnish State and Finnfund. The instrument also covers a previous loss compensation commitment worth EUR 50 million, so the amount of the contingency increased by EUR 25 million.

Special risk financing is provided on the basis of a loss compensation commitment, whereby the State undertakes to compensate Finnfund for a maximum of 60 per cent of credit losses and investment losses on projects covered by special risk financing during the validity of the commitment. No new projects covered by special risk financing can be accepted after 31 December 2023. Projects that are approved for coverage by the special risk financing scheme while it is valid are covered by the Finnish State's risk-sharing arrangement until the projects are repaid, Finnfund exits the project or until the risk level has decreased to a level for which Finnfund can be liable on its own balance sheet. To be eligible for special risk financing, projects are required to have an extremely high developmental impact in low-income or lower-middle-income countries and carry risks that are otherwise considered too high for the project to qualify for Finnfund financing.

At the end of 2019, projects worth a total of EUR 112.9 million were covered by special risk financing. The Finnish State is liable for 49.7 per cent of the related risks, amounting to EUR 56.1 million. The loss compensation commitment covers a maximum of EUR 7.5 million in compensation per year.

The first compensation claim was submitted to the State in 2019. The claim concerned Mobisol's dollar-denominated loan. The amount claimed in ERR compensation was EUR 2,183,162.07. A corresponding amount will be deducted from the credit limit of EUR 75 million. After compensation, the credit limit will be EUR 72,816,837.93.

In 2019, suspicions arose that one of the equity investment targets was misusing the funds it had been granted, and we commissioned PwC to conduct a special audit of the company. The audit had not yet been completed when this annual report was written. The value of the investment was less than EUR 9 million. As such, the financial statements for 2019 contain a risk of this magnitude.

The objective with regard to interest and currency risks is to identify and hedge against potential risks.

Forward exchange agreements and interest rate and currency swap contracts are used as hedges against currency and interest rate risks resulting from investment loans granted by Finnfund. Interest derivatives are used as hedges against interest rate risks resulting from investment loans when the interest basis of the investment loans deviates from that of Finnfund's own funding.

Solvent Nordic banks comprise the contracting parties of Finnfund's derivatives contracts.

The general rule for share capital and fund investments, applied on a case-by-case basis, is to cover currency positions that are certain or at least likely and that can be hedged at a reasonable cost in relation to the benefits gained.

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. Finnfund has a committed credit facility of EUR 100 million, non-committed credit facilities with Nordic banks, and a commercial paper programme totalling EUR 300 million. The credit facilities provided by banks were not in use at the end of 2019.

At the end of 2019, the value of the commercial paper issued through the programme amounted to EUR 44 million.

The refinancing risk associated with borrowing is managed by trying to maintain a sufficiently extensive group of financiers and a versatile range of instruments. An additional aim is that at least half of the borrowing should be long-term financing. At the end of the year under review, the average time to maturity of interest-bearing debt was 2.7 years if the convertible bond granted by the State is not included in calculations, and 10.9 years if the State loan is included.

The company maintains continuous procedures in order to identify, manage and prevent cybersecurity risks. Key personnel risks are managed by maintaining replacement and succession plans for key members of personnel.

We strengthened Finnfund's capacity to manage the reputational risks related to its operations by providing key personnel with crisis communication training. Finnfund's crisis communications are based on the crisis communication guidelines approved by the Board of Directors at the end of 2018.

MLR Forestal de Nicaragua, a sustainable teak and cocoa plantation in Nicaragua, has clear and measurable positive impact on people, climate and the environment.

Net profit and balance sheet

In 2019, Finnfund made a profit of approximately EUR 0.7 million (approximately EUR 2.1 million). This profit was lower than in the previous year due to the unusually large amounts recognised in write-downs and investment and sale losses.

The operating income is shown in the table below.

Summary

Net financial income increased by 29 per cent year-on-year to EUR 23.7 million (EUR 18.4 million).

Financial income increased by 22 per cent to EUR 35.7 million (EUR 29.2 million), while financial expenses increased by only 11 per cent to EUR 12 million (EUR 10.9 million).

The growth was driven by interest income, which accounted for 76 per cent (EUR 27.0 million) of income. Dividend and fund income was EUR 5.4 million in 2019, slightly below the amount in 2018 (EUR 6.3 million).

Operating expenses (EUR 14.1 million) increased moderately year-on-year but remained below the budgeted amount (EUR 14.5 million).

Net profit before value adjustment items, sales and taxes increased by 71 per cent year-on-year to EUR 11.2 million (EUR 6.5 million).

Income

Dividend income amounted to EUR 0.5 million (EUR 0.8 million), and dividends were received from two companies.

Interest income was EUR 27.0 million (EUR 21.2 million).

Other income from long-term investments amounted to EUR 4.8 million (EUR 5.6 million), consisting of gains from fund investments. Capital gains from investments of EUR 1.4 million (EUR 3.6 million) were recognised as income.

Other financial income excluding foreign exchange gains, at EUR 2.1 million (EUR 1.7 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 37.1 million (EUR 32.8 million).

The exchange rate differential due to currency trading and hedging was EUR 1.2 million positive (EUR 0.1 negative)

Other operating income amounted to EUR 1.5 million (EUR 1.5 million) and this comprised fees received for the administration of the Finnpartnership programme and other income from fees and charges.

Operating income (EUR thousand)	2019	2018	Change (EUR)	Change %
Financial income	35,711	29,236	6,475	22
Financial expenses	-12,037	-10,851	-1,186	11
Net financial income	**23,674**	**18,385**	**5,289**	**29**
Other operating income	1,527	1,471	56	4
Administrative expenses, depreciation and other expenses	-14,051	-13,350	-701	5
Profit before value adjustments, sales and taxes	**11,150**	**6,506**	**4,644**	**71**
Value adjustments and sales	-10,433	-4,373	-6,060	139
Income taxes	-17	-15	-2	13
NET PROFIT	700	2,118	-1,418	-67

Impairment losses

Newly recognised individual impairment losses amounted to EUR 16.1 million (EUR 13.1 million), representing about 2.9 per cent (2.6 per cent) of the balance sheet value of investment assets at the end of the year under review.

Reversals of previously recognised individual impairment losses amounted to EUR 11.7 million (EUR 6.0 million) in 2019. Of this sum, EUR 8.8 million was recognised as final losses in the financial statements, where the sum had previously been recognised as impairment losses.

The net effect of impairments on financial performance was approximately EUR 10.4 million negative (EUR 4.4 million negative).

Expenses

Interest expenses increased from the previous year's figure to EUR 8.7 million (EUR 6.8 million). Derivatives accounted for EUR 5.5 million (EUR 4.5 million) of the realised interest expenses. The increase was due to the interest rates differential between the US dollar and the euro, as well as an increase in liabilities. Interest expenses were incurred through borrowing in both US dollars and euros.

Other financial expenses were EUR 3.3 million (EUR 4.0 million), including management fees of EUR 2.8 million (EUR 3.7 million) associated with fund investments.

Investment and sale losses amounted to EUR 7.5 million (EUR 0.9 million), which is attributable to previously recognised individual impairment losses. Sale losses were reduced by the EUR 2.18 million claimed in compensation from Mobisol under special risk funding.

Administrative expenses totalled EUR 14.1 million (EUR 13.4 million). The increase in expenses consists of several items that are related to the increase in the volume of operations and were, therefore, pre-planned.

The taxes recognised on the income statement, totalling EUR 17 thousand (EUR 15 thousand), consist of both sales gains taxes paid to the target countries and taxes on remuneration for work and on dividends.

Balance sheet

The balance sheet total stood at EUR 615.7 million (EUR 553.9 million) at the end of the year under review.

The balance sheet value of investment assets was EUR 556.7 million (EUR 494.2 million) at the end of the year under review.

The breakdown of investment assets was as follows: loans (including subordinated loans and other mezzanine instruments) EUR 330.5 million (EUR 295.9 million) or 59.4 per cent (59.9 per cent); equity investments EUR 146.7 million (EUR 120.0 million) or 26.4 per cent (24.3 per cent); and fund investments EUR 79.5 million (EUR 78.3 million) or 14.3 per cent (15.8 per cent).

Liquid assets stood at EUR 45.0 million (EUR 46.2 million) at the end of the year under review. The liquid assets are invested in domestic bank deposits and money-market instruments in accordance with the asset and risk management guidelines.

At the end of the financial period, the company's equity (share capital and unrestricted equity) totalled EUR 267.4 million (EUR 257.2 million) or 43 per cent of the balance-sheet total (46 per cent).

In 2019, the company executed one share issue. Under the share issue, a maximum of 62,961 new shares were offered to existing shareholders in proportion to their existing holdings at the issue price of EUR 170 per share. The subscription period was from 17 April 2018 to 31 May 2019. As a result of the share issue, the share capital was increased by EUR 9,999,910, corresponding to the proportion subscribed by the Finnish State. Pursuant to the issue decision, 58,823 new shares were issued. Finnvera Plc and the Confederation of Finnish Industries EK did not subscribe to any of the new shares they were offered.

At the end of the year under review, the company's registered share capital stood at EUR 196,988,860, divided between 1,158,758 shares, with the Finnish State holding 1,094,188 shares (94.4 per cent), Finnvera Plc holding 63,349 shares (5.5 per cent), and the Confederation of Finnish Industries EK holding the remaining 1,221 shares (0.1 per cent).

The company's shares have no nominal value. The equivalent value of a share in bookkeeping is EUR 170. The company has one share class. A minimum of 51 per cent of the company shares must be under the direct ownership and control of the Finnish government at all times. The company does not distribute its funds in dividends or in payments from its unrestricted equity fund; nor does it acquire or redeem its own shares.

The company has two long-term convertible bonds from the Finnish State.

At the end of 2016, Finnfund signed an agreement with State Treasury on a subordinated convertible bond of a total of EUR 130 million. The loan period is 40 years, of which the first 10 years are instalment-free. The interest on the loan is 0.5% per annum for the first five years. After this period, the State is entitled to adjust the interest rate if it so desires. The State is also entitled to convert the loan either entirely or partly as Finnfund's share capital.

The government may collect receivables from the company either completely or partly by subscribing to the company's new shares in one or several allotments in such a way that EUR 170.00 of debt equity entitles it to one share. The government can subscribe to at most 764,705 of the company's shares. The subscription corresponds to the equivalent value of a share in bookkeeping, and it is recorded in the company's invested unrestricted equity fund.

At the end of 2019, Finnfund signed an agreement with State Treasury on a conditional subordinated convertible bond of a total of EUR 210 million. The loan period is 40 years, of which the first 10 years are instalment-free. The interest on the loan is 0.5% per annum for the first five years. After this period, the State is entitled to adjust the interest rate if it so desires.

The State may collect receivables from the company either completely or partly by subscribing to the company's new shares in one or several allotments in such a way that EUR 170.00 of debt equity entitles it to one share. The State can subscribe to at most 1,235,294 of the company's shares. The subscription corresponds to the equivalent value of a share in bookkeeping, and it is recorded in the company's invested unrestricted equity fund.

In derogation from the foregoing, the loan agreed in 2019 will be automatically converted in full into share capital in the company if the company's equity ratio falls to 10 per cent.

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 290 million (EUR 263 million) and short-term interest-bearing debt at EUR 58 million (EUR 34 million), totalling EUR 348 million (EUR 297 million).

Long-term interest-bearing debt includes the EUR 100 million bond issued in summer 2017, as well as the long-term convertible bond of EUR 130 million granted by the State and withdrawn in 2017 and 2018. Otherwise, the long-term interest-bearing debt is in US dollars, used to refinance Finnfund investment loans denominated in US dollars.

Long-term debt as a percentage of all financing liabilities totalled approximately 83 per cent (90 per cent) at the end of the period.

The company had no guarantee commitments at the end of 2019 (EUR 0.0 million).

Key figures	2019	2018	2017
Financial income (EUR million)	46.6	50.6	67.4
Net profit (EUR million)	0.7	2.1	2
Return on equity (%)	0.3	0.8	0.8
Equity ratio (%)	43.4	46.4	52.6

Formulae

$$\text{Return on equity} = \frac{\text{Result}}{\text{Equity}} \times 100\%$$

$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Balance sheet total} - \text{advances received}} \times 100\%$$

Administration and personnel

In 2019, the Supervisory Board convened four times, the Board of Directors convened 13 times, the Board of Directors' audit committee convened five times, and the HR committee, which was established by the Board of Directors in spring 2019, convened three times.

The Annual General Meeting, held on 17 April 2019, addressed the matters listed in Article 11 of the Articles of Association and the proposal by the Board of Directors concerning an increase of the company's share capital.

In addition, the Annual General Meeting authorised the Board of Directors to decide on an issue of special rights carrying an entitlement to shares included the convertible bond between Finnish Fund for Industrial Cooperation Ltd and the Finnish State.

The following were elected at the Annual General Meeting as **members of the Supervisory Board** for the period 2019–2022: Jarkko Eloranta, Chair, Tiina Elovaara, Member of Parliament, Pertti Salolainen, Member of Parliament, and Tapani Tölli, Member of Parliament. In addition, Johanna Kotaviita, Member of Parliament, was replaced by Toimi Kankaanniemi, Member of Parliament, for the remainder of Kotaviita's term, which runs until the Annual General Meeting to be held in spring 2021.

Members of the Board of Directors elected at the Annual General Meeting:

Ritva Laukkanen (Board Professional), Chair
Robert Wihtol (independent development banking specialist), Deputy Chair
Jussi Haarasilta (Business Director)
Kristiina Kuvaja-Xanthopoulos (Deputy Director General)
Pirita Mikkanen (Director)
Lars-Erik Schöring (CEO)
Antero Toivainen (Justice of the Supreme Administrative Court)
Anu Hämäläinen (Finance Director)

The members of the Board of Directors do not have deputy members.

The Board of Directors has an audit committee, with the following members since 25 April 2019:

Jussi Haarasilta (Business Director), Chair
Anu Hämäläinen (Finance Director) and
Pirita Mikkanen (Director)

At its meeting on 25 April 2019, the Board of Directors established an HR committee, and the following were elected as members of the new committee:

Ritva Laukkanen (Board Professional), Chair
Robert Wihtol (independent development banking specialist)
Kristiina Kuvaja-Xanthopoulos (Deputy Director General)

The company's auditor is Deloitte Oy, with *Anu Servo* (Authorised Public Accountant and Chartered Public Finance Auditor), as the principal auditor.

The company CEO is *Jaakko Kangasniemi*, PhD (Agricultural Economics).

During the year under review, the company employed an average of 77 personnel (75 personnel in 2018). At year-end, the number of employees in contractual employment was 81 (80), of whom 77 (77) were full-time. Of the employees, 52 were women and 29 were men.

The final accounts include a provision for incentive bonuses earned in 2019, amounting to 12.7 per cent of payroll expenses (10.2 per cent). In 2019, the amount of incentives was partly based on the achievement of common targets and partly based on individual performance.

The Board of Directors decides on the incentive system and its key criteria annually. The company's remuneration follows the remuneration guidelines applying to state-owned companies.

The total salaries and bonuses paid to personnel in 2017–2019 were as follows:

	2019	2018	2017
Average number of personnel	77	75	71
Total salaries and bonuses (EUR thousand)	6,981	6,865	6,131

Outlook and strategic direction for 2020

In 2020, Finnfund will continue implementing its strategy for 2018-2025. In line with the strategy, Finnfund will double its volumes and triple its development impact by 2025. Early in the year, before the outbreak of the corona pandemic, we have been on a strong growth path in line with our strategy and goals, but at the time of writing this report, it is unclear whether this growth will continue in 2020.

The project preparation policy will continue to favour projects that are expected to have very positive development impacts, including those that are known to be laborious. The focal themes are combating climate change, improving the position of women and girls, and Africa. Finnfund's focal sectors will remain unchanged: we are focusing on renewable energy, the financial sector, sustainable agriculture and the plantation forestry sector.

From the perspective of expanding the financing base and mobilising private capital, the establishment of the OP-Finnfund Impact fund is a major event that we are looking forward to in 2020.

Finnfund's finances and liquidity are strong, thanks to the convertible loan issued by the Finnish State in 2019 in the amount of EUR 210 million. We will withdraw at least EUR 130 million of the State loan in 2020.

The earnings prospects for 2020 are challenging and uncertain, although the value of loans issued by the company has increased, the impact of the coronavirus on target companies will also negatively impact Finnfund's earnings. The company's financial performance will be crucially affected by how the measurement of its investment assets changes during the financial period and whether any profitable exits from projects occur. In development financing, these aspects are usually difficult to forecast, and the the coronavirus epidemic is expected to further increase uncertainty.

Proposal of the Board of Directors for the distribution of profit

The company recorded a profit of EUR 700,318.47 in 2019. The Board of Directors proposes that the profit be transferred to the retained earnings account and set aside for disbursement in accordance with Article 2 of the Articles of Association.

Profit and loss account

EUR 1,000

	Note	1 Jan. - 31 Dec. 2019	1 Jan. - 31 Dec. 2018
Other operating income	1	1,527	1,471
Staff expenses	2		
Wages and salaries	3	-6,981	-6,865
Social security expenses			
Pension expenses		-1,207	-1,161
Other social security expenses		-627	-110
Social security expenses		-1,835	-1,270
Staff expenses		-8,816	-8,135
Depreciation according to plan	4	-202	-96
Other operating expenses	5, 6	-5,033	-5,120
OPERATING LOSS		**-12,523**	**-11,880**
Financial income			
Income from participating interests		3,171	4,423
Income from other investments		3,735	5,736
Other interest and financial income		39,682	40,404
Financial income total		46,588	50,562
Reduction in value of investments		-4,358	-7,105
Financial expenses			
Interest and other financial expenses		-28,989	-29,445
Financial income and expenses	7	13,241	14,013
PROFIT BEFORE TAXES		**718**	**2,133**
Income taxes	8	-17	-14
PROFIT FOR THE FINANCIAL YEAR		**700**	**2,118**

Balance sheet

EUR 1,000

	Note	31 Dec. 2019	31 Dec. 2018
ASSETS			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		534	35
Machinery and equipment		441	10
Total		976	45
Investments	10		
Participating interests		54,223	63,557
Receivables from participating interest	11	21,768	16,263
Other shares and similar rights of ownership		172,009	134,704
Other receivables	11	308,719	279,669
Total		556,719	494,194
NON-CURRENT ASSETS		**557,694**	**494,238**
CURRENT ASSETS			
Debtors			
Long-term	12		
Other long-term debtors		2,304	3,293
Short-term			
Amounts owned by participating interest undertakings	13	77	23
Other receivables	14	3,338	412
Prepayments and accrued income	15	7,296	9,717
Total		10,710	10,152
Debtors total		13,014	13,445
Financial securities	16		
Marketable securities		11,779	11,423
Cash in hand and at banks		33,178	34,824
CURRENT ASSETS		**57,972**	**59,691**
ASSETS		**615,666**	**553,930**

	Note	31 Dec. 2019	31 Dec. 2018
LIABILITIES			
EQUITY	17		
Share capital		196,989	186,989
Retained earnings		69,675	68,127
Profit for the financial year		700	2,118
EQUITY		**267,364**	**257,234**
CREDITORS			
Long-term	18, 19		
Private placement		99,844	99,781
Convertible loans		130,000	130,000
Loans from credit institutions		59,344	32,606
Other long-term creditors		700	307
Total		289,888	262,694
Short-term	20		
Loans from credit institutions		53,493	29,315
Advances received		9	
Trade creditors		319	269
Other creditors		252	751
Accruals and deferred income	21	4,341	3,666
Total		58,414	34,002
CREDITORS		**348,302**	**296,696**
LIABILITIES		**615,666**	**553,930**

Cash flow statement

EUR 1,000

CASH FLOW FROM OPERATIONS	2019	2018
Payments received from operations	61,007	58,614
Disbursements to operations	-124,744	-134,607
Dividends received	531	1,101
Interest received	20,854	13,074
Interest paid	-8,944	-6,294
Payments received on other operating income	9,023	3,565
Payments of operating expenses	-16,173	-17,370
CASH FLOW FROM OPERATIONS (A)	**-58,446**	**-81,917**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-1,133	-42
CASH FLOW FROM INVESTMENTS (B)	**-1,133**	**-42**
CASH FLOW FROM FINANCING		
Short-term loans drawn	43,998	20,000
Short-term loans repaid	-20,000	-6,999
Long-term loans drawn	35,358	120,000
Long-term loans repaid	-9,316	-56,671
New share issue	10,000	10,000
CASH FLOW FROM FINANCING (C)	**60,040**	**86,330**
CHANGES IN EXCHANGE RATES (D)	**-2,106**	**-3,909**
CHANGE IN LIQUID ASSETS (A+B+C+D) increase (+) decrease (-)	**-1,645**	**462**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**45,822**	**45,360**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**44,177**	**45,822**
NONMONETARY CHANGES IN LIQUID ASSETS	**780**	**424**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**44 957**	**46 246**

Accounting policy

Portfolio

Equities and fund investments as well as loan receivables are valued at the lower of the acquisition cost or fair value in the financial statements. The value of investment is based on risk classification and other factors affecting the value. The value of the investments is monitored continuously.

Some of capital loans are in practice equity investments. Income from these investments is paid only when the company's financial situations allows. Interest from such capital loans is recorded in accounting only when paid. Also a part of interest income from loans that are written off is recorded only when paid.

In the profit and loss statement write-offs and their cancellations have been included in the item of Reduction in value of investments.

The fair value of investments reported by the fund manager has been compared with Finnfund's balance sheet value of the investment. When necessary, payments to investments made after the report have been added to the fair value reported by the fund manager, in order to ensure its comparability with the value of Finnfund's investment. The balance sheet value of investments may not exceed 100% of the valuation by the fund manager. Errors in the previous financial year have been adjusted to increase free equity and, respectively, fixed assets by EUR 773,663.84.

Special risk finance

Special risk finance is the term used to describe the class of projects in which Finnfund has been indemnified, by a decision of the Finnish government on 20 September 2012 and in force until 31 December 2015 or decided on 20 September 2018 and in force until 31 December 2023, against investment losses or write-offs. Projects that were indemnified before the deadline remain within this class afterwards. The indemnified investments and loans were separately approved by the Board of Directors.

Projects with the company's risk classification of C, CC or CCC are eligible for special risk finance. The corresponding level of losses indemnified by the government will be 40%, 50% and 60%. The investment risk is carried partly by Finnfund and partly by the government. Government's share of the risk is a percentage of the disbursed investments deducted by repayments. Yearly write-offs and their cancellations of the projects included in the special risk finance class are made using the same principles as for other investments.

The deferred value of claims on the government for its share of net losses from special risk finance projects is stated separately in the company's accounts. Separate application must be presented to the government for payment of the indemnity, which cannot exceed EUR 7.5 million annually.

Other investments in current assets

Securities have been valued at lower of the acquisition cost or estimated market value.

Derivatives

Derivatives are presented in the financial statements in accordance with the fair value principle according to the IFRS standards. The IFRS treatment of derivatives is based on chapter 5, section 2 of the Finnish Accounting Act (1336/1997) and a statement issued by the Accounting Board in December 2016 (KILA 1963/2016). Forward exchange agreements, interest rate swaps and currency and interest rate swaps were initially recorded at fair value on the date of agreement and valued to their fair value in the financial statement. In the valuation to fair value, valuation reports issued by banks have been used to perform a recalculation using accepted valuation methodologies. Positive and negative changes to fair value have been recorded as financial income and expenses in the profit and loss account. In the balance sheet, derivatives are listed under other receivables and other creditors. Although its derivatives are acquired for the purpose of hedging, Finnfund does not practice hedge accounting under IFRS.

Items denominated in foreign currencies

Receivables and payables denominated in foreign currencies have been translated to EUR using the exchange rates at the end of the accounting period.

Intangible and tangible assets

Intangible and tangible assets are entered in the balance sheet at their aquisition cost less depreciation. The depreciation period has been extended compared to the previous year when the company moved to new premises in March 2019. The depreciation plan is drawn up according to the rental period. The costs of renovating the new premises, machinery and furniture have been capitalised on other long-term expenditure and machinery and equipment in the balance sheet.

Planned depreciations:

Other capitalised long-term expenses	7 years
Machinery and equipment	5 years

Pensions

Pensions for the company's employees have been arranged in an external pension insurance company. Pension expenditure is booked in the year of accrual.

The managing director's pension liability is covered partly by an existing group pension insurance and partly by an annual reserve in the company's balance sheet. The annual payment is 26.51% of the managing director's gross annual earnings.

Notes to the profit and loss account
EUR 1,000

	2019	2018
1 Other operating income		
Operating income from participating interests	5	7
Remunerations	779	377
Other operating income	743	1,087
	1,527	**1,471**
2 Average number of staff employed		
Employees	77	75
3 Wages and salaries		
Managing Director and his alternate	420	396
The Board of Directors and the Supervisory Board	124	121
The Board of Directors		
Chair's monthly emoluments	1,100 €	
Vice chair's monthly emoluments	700 €	
Board members' monthly emoluments	600 €	
Emolument per meeting of Board of Directors and Audit Committee	300 €	
Supervisory Board		
Chair's emolument per meeting	800 €	
Vice chair's emolument per meeting	600 €	
Board member's emolument per meeting	500 €	

Managing Director has the right to retire at the age of 63.
Retirement age is based on the contract renewed in 2012.

4 Depreciation		
Other capitalised long-term expenses	92	18
Machinery and equipment	110	77
	202	**96**
5 Other operating charges		
Voluntary staff expenses	736	631
Office	751	649
ICT	777	653
Travel and negotiation expenses	1,181	1,019
Entertainment and PR expenses Including support in 2018 and a partial refund in 2019 of community projects in Honduras	44	383

External services	1,335	1,408
Other expenses	208	378
	5,033	**5,120**
6 Auditor's remunerations		
Audit fee	15	14
Assignments	6	1
Tax services	3	0
Other services	46	9
	71	**24**
7 Financial income and expenses		
Financial income		
Income from participating interests		
Dividends	335	279
Income from funds	1,312	762
Profit from sales of assets	1,378	3,208
From others	145	174
Income from participating interests	3,171	4,423
Income from other investments		
Dividends	213	479
From funds	3,522	4,817
Profits from investments and sales assets	0	439
Income from other investments	3,735	5,736
Other interest and financial income		
Interest income	23,018	18,518
Interest income from participating interests	3,938	2,710
Financial income	2,008	1,439
Financial income from participating interests	10	57
Exchange rate gain	10,708	17,679
Other interest and financial income	**39,682**	**40,404**
Financial income total	**46,588**	**50,562**
Permanent write-offs of investments and their reversals		
Equity and funds	-9,757	-9,351
Loans and other receivables	-6,318	-3,743
Reversal of write-offs on shares and fund investments	1,452	4,972
Reversal of write-offs on loans	10,265	1,017
Write-offs of investments and their reversals	**-4,358**	**-7,105**

Interest and other financial expenses		
Interest expenses to others	-3,208	-6,751
Other financial expenses	-8,830	-4,004
Loss from investments, funds and sales of assets including loss compensation from the State	-7,453	-915
Exchange rate loss	-9,499	-17,775
Interest and other financial expenses total	**-28,989**	**-29,445**
Financial income and expenses total	**13,241**	**14,013**
The item Financing income and expenses includes loss of exchange (net)	**1,210**	**-96**
7 Income from financing operations by income level		
(**does not include income from EU territory, liquidity and funding**)		
Least developed countries (LDC)	16,368	18,307
Other low-income countries (LIC)	3,849	5,983
Lower-middle-income countries (LMIC)	18,128	15,744
Upper-middle-income countries (UMIC)	6,492	6,033
Russia	104	3,354
	44,940	**49,420**
8 Income taxes		
Tax on capital gains outside Finland	0	1
Withholding taxes on emoluments	1	1
Withholding taxes on dividends	16	12
	17	**14**

Notes to the balance sheet
EUR 1,000

9 Intangible and tangible assets	Other long-term expenses	Machinery and equipment	Total
Acquisition cost 1 Jan. 2019	1,173	2,085	3,258
Increases	592	542	1,133
Acquisition cost 31 Dec. 2019	1,765	2,627	4,392
Accumulated depreciations 1 Jan. 2019	-1,138	-2,075	-3,214
Depreciation of the accounting period	-92	-110	-202
Accumulated depreciations 31 Dec. 2019	-1,230	-2,185	-3,416
Book value 31 Dec. 2019	**534**	**441**	**976**
Book value 31 Dec. 2018	35	10	45
10 Investments / Shares and funds	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2019	76,903	149,615	226,519
Adjustments to transfers to funds recorded during the previous year	0	774	774
Increases	12,046	33,706	45,751
Transfer between items	-11,728	11,728	0
Decreases	-3,330	-6,920	-10,250
Acquisition cost 31 Dec. 2019	73,891	188,903	262,794
Individual write-offs accumulated as of 1 Jan. 2019	-13,346	-14,911	-28,257
Reversal of write-offs	0	1,452	1,452
Write-offs during the financial year	-6,322	-3,436	-9,757
Individual write-offs accumulated as of 31 Dec. 2019	-19,668	-16,894	-36,562
Book value 31 Dec. 2019	**54,223**	**172,009**	**226,232**
10 Investments / Loans	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2019	19,713	303,262	322,975
Adjustment to the acquisition cost recorded in the previous year	0	-289	289
Increases	1,347	107,582	108,929
Capitalised interest	3,253	1,714	4,966
Transfer between items	8,655	-8,655	0
Decreases	-9,965	-73,068	-83,032
Acquisition cost 31 Dec. 2019	23,003	330,545	353,549

Individual write-offs accumulated as of 1 Jan. 2019	-3,450	-23,593	-27,043
Reversal of write-offs	2,214	8,085	10,299
Write-offs during the financial year	0	-6,318	-6,318
Individual write-offs accumulated as of 31 Dec. 2019	-1,235	-21,826	-23,062
Book value 31 Dec. 2019	**21,768**	**308,719**	**330,487**

	2019	2018
11 Subordinated receivables		
Capital loans to participating interests	21,768	16,263
Capital loans to others	54,232	23,010
	76,000	**39,273**
12 Other long-term receivables		
Acquisition cost 1 January	1,339	1,340
Deductions	0	-1
Acquisition cost 31 December	1,339	1,339
Impairment losses	-670	-670
Book value 31 December	669	669
Derivative receivables	1,635	2,625
	2,304	**3,293**
13 Receivables from participating interests		
Interests	0	2
Other	77	21
	77	**23**
14 Other receivables		
Loss compensation from the State according to the special risk financing commitment	2,183	0
Derivative receivables	1,057	412
Other	97	0
	3,338	**412**
15 Prepayments and accrued income		
Prepayment for account of a company to be established	0	900
Interests	6,364	7,734
Other	932	1,083
	7,296	**9,717**
16 Marketable securities		
Fair value	11,780	11,685
Book value	11,779	11,423
DIFFERENCE	**1**	**263**

17 Shareholders' equity		
The purpose of the company is not to generate a profit for the shareholders. The company does not pay dividends or distribute its unrestricted equity fund nor does it redeem its own shares.		
Restricted equity		
Share capital 1 Jan.	186,989	176,989
Increase of share capital	10,000	10,000
Share capital as of 31 Dec.	196,989	186,989
Unrestrected equity		
Profit from previous financial years 1 Jan.	70,245	67,105
Adjustments to interest and fund entries made in the previous year, refund of sales tax on capital gains from India in 2011-2012	-570	1,022
Retained earnings 31 Dec.	69,675	68,127
Profit/loss for the financial year	700	2,118
Total unrestricted equity	70,376	70,245
Total equity	**267,364**	**257,234**
17 Share capital		
Number of shares	1,158,758	1,099,935
Nominal value, EUR	170,00	170,00
18 Loans with maturity more than 5 years		
Loans from credit institutions	24,000	5,333
Loans from government	130,000	130,000
	154,000	**135,333**
19 Private placements		
Private placement 2017/2022 Bullet Fixed 0.625%	100,000	100,000
20 Other short-term debt		
Loans from financial institutions	53,493	29,315
Derivative liabilities	9	386
Accounts payable	319	269
Other	251	365
	54,073	**30,335**
21 Accruals and prepaid income		
Deferral of personnel expensed	3,487	2,611
Interest	850	988
Taxes	0	57
Other	4	10
	4,341	**3,666**

Other supplementary information

EUR 1,000

Other contingent liabilities

The company terminated the leases of its current premises and lease payment obligation expired on 31 March 2019. The company entered into a non-fiexed-term contract for its new premises. The lease period and the tenure begun on 1 March 2019 and may be terminated for the first time on 31 May 2025 with a 12 month notice period. Monthly rent excluding VAT is EUR 49.341.00, from 1 March 2020 EUR 49,977,61. The obligation to pay rent begun on 1 June 2019.

	2019	2018
Payable in the next financial period	598	475
Payable later	3,249	3,799
Other commitments		
Undisbursed commitments		
Contractual commitments	177,000	153,600
Special risk finance (**cumulative**)		
Decisions of the Board of Directors	112,920	122,074
Government's indemnity	56,065	61,189
Government's indemnity, %	50 %	50 %
Disbursements	58,263	76,417

Derivative contracts EUR 1,000

Fair values of derivatives in financial assets and liabilities

	2019			2018		
Receivables	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	1,051		1,051	390		390
Interest rate swaps	6	207	213	22	86	108
Currency and interest rate swaps		1,429	1,429		2,539	2,539
Total	1,057	1,635	**2,693**	412	2,625	**3,037**
Liabilities	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	9		9	386		386
Interest rate swaps		348	348		12	12
Currency and interest rate swaps			0			0
Total	9	348	**357**	386	12	**398**

Fair value hierarchy of derivatives

Level 1) Fair values are based on the quoted (unadjusted) prices of identical assets or liabilities in active markets that the entity has access at the measurement date.

Level 2) Fair values are based on inputs obtained from active markets other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly. Fair values are determined based on these inputs using generally used valuation models for derivatives.

Level 3) Fair values are determined by means other than observable inputs on the asset or liability.

	2019				2018			
Receivables	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		1,051		1,051		390		390
Interest rate swaps		213		213		108		108
Currency and interest rate swaps		1,429		1,429		2,539		2,539
Total	0	2,693	0	**2,693**	0	3,037	0	**3,037**
Liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		9		9		386		386
Interest rate swaps		348		348		12		12
Currency and interest rate swaps				0				0
Total	0	357	0	**357**	0	398	0	**398**

Asset and risk management

The objective of asset and risk management is to mitigate the negative effects of market risks, i.e. changes in interest and exchange rates, on Finnfund's earnings, and to ensure sufficient liquidity. The leading principles of asset and risk management are described in the asset and risk management guideline approved by the Board of Directors. Their implementation is the responsibility of the Chief Financial Officer.

Interest and exchange rate risks

Forward exchange agreements and interest rate and currency swap contracts are used as hedges against currency and interest rate risks resulting from investment loans granted by Finnfund. Interest derivatives are used as hedges against interest rate risks resulting from investment loans, when the interest basis of the investment loans deviates from that of Finnfund's own funding.

Sensitivity analysis

The sensitivity analysis of the value of derivatives instruments presumes a change of +/- 1% in Euribor and Libor interest rates. Change of the EUR/USD exchange rate is presumed at +/- 10% (USD weakens/strengthens 10%). The impact of the changes on Finnfund's financial result is described below.

Sensitivity analysis, derivatives

Effect on result, EUR 1,000	2019	2018
Change of +/- 1% in EURIBOR interest	0 / 0	0 / 0
Change of +/- 1% in LIBOR interest	-807 / 807	-921 / 921
Change of +/- 10% in EUR-USD exchange rate	10,167 / -10,167	10,049 / -10,049

Credit risk

Solvent Nordic banks comprise the contracting parties of Finnfund's derivatives contracts.

Liquidity risk

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. Finnfund has a committed credit facility of EUR 100 million, non-committed credit facilities in Nordic banks, and a commercial paper programme set up in 2010 totalling EUR 300 million. The credit facilities provided by banks were not in use at the end of 2019.

Undiscounted cash flow resulting from derivatives

	2019			2018		
Receivables	Under 1 year	1–5 years	**Total**	Under 1 year	1–5 years	**Total**
Forward exchange agreements	94,323	0	94,323	109,335	0	109,335
Interest rate swaps	629	1,322	1,951	495	570	1,065
Currency and interest rate swaps	625	101,250	101,875	625	101,875	102,500
Total	**95,577**	**102,572**	**198,149**	**110,455**	**102,445**	**212,900**
Liabilities	Under 1 year	1–5 years	**Total**	Under 1 year	1–5 years	**Total**
Forward exchange agreements	94,001	0	94,001	110,147	0	110,147
Interest rate swaps	662	1,379	2,042	421	525	946
Currency and interest rate swaps	2,829	103,484	106,313	3,756	106,704	110,460
Total	**97,492**	**104,863**	**202,355**	**114,325**	**107,229**	**221,553**

Receivables, liabilities and transactions with related parties

There has been no related party transactions which come under the disclosure obligation during the financial year.

Off-balance sheet assets

There were EUR 2,322,726.80 of other contractual funds in the company's possession.

Exchange rate

31 December 2019	EUR/USD	1.1234

Signatures of Board of Directors' report and financial statements

Helsinki, 26 March 2020

Ritva Laukkanen
Chairman

Jussi Haarasilta
Member of the Board

Anu Hämäläinen
Member of the Board

Kristiina Kuvaja-Xanthopoulos
Member of the Board

Pirita Mikkanen
Member of the Board

Lars-Erik Schöring
Member of the Board

Antero Toivainen
Member of the Board

Robert Wihtol
Member of the Board

Jaakko Kangasniemi
Managing Director, CEO

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 1. April 2020

Deloitte Oy
Audit Firm

Anu Servo
APA, CPFA

Auditor’s report (Translation of the Finnish Original)

To the Annual General Meeting of The Finnish Fund for Industrial Cooperation (Finnfund)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Finnish Fund for Industrial Cooperation (business identity code 0356880-6) for the year ended 31 December, 2019. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

In our opinion, the financial statements give a true and fair view of the company’s financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor’s Responsibilities for the Audit of Financial Statements section of our report. We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the company’s ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations. If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki, April 3, 2020

Deloitte Oy
Audit Firm

Anu Servo
KHT (APA), JHT (CPFA)

Statement of the Supervisory Board

At the meeting held today, the Supervisory Board of the Finnish Fund for Industrial Cooperation Ltd. examined the report of the Board of Directors and the corporation's financial statements prepared by the Board of Directors and the Managing Director, and the Auditors' Report for 2019. The Supervisory Board reports to the Annual General Meeting of Shareholders that the report of the Board of Directors and the accounts give no cause for comment neither does the proposal of the Board of Directors on how to deal with the distributable funds for the year.

Helsinki, 3 April 2020

Emma Kari

Tiina Elovaara

Jarkko Eloranta

Veronika Honkasalo

Marko Kilpi

Jouni Ovaska

Sakari Puisto

Juha Ruippo

Kristiina Salonen

Saara-Sofia Sirén

Erkki Tuomioja

Petri Vuorio