FINNFUND

Annual Report 2015

Printout of the online Annual Report
www.annualreport.finnfund.fi/2015

Contents

Financials

Finnish Fund for Industrial Cooperation Ltd. (Finnfund) is a Finnish development finance company that provides long-term investment loans and risk capital for private projects in developing countries. We support profitable projects in challenging markets where commercial financing is hard to obtain.

Projects with links to Finland

Finnfund invests mainly with Finnish companies but we also finance their partners such as long-term customers, suppliers, subcontractors and companies that license technology. We can also provide financing for other projects that use Finnish technology or know-how, or generate significant environmental or social benefits.

Our financing is on market terms and depends on the risk profile of the project. In addition to long-term investment loans, we can also invest equity and offer subordinated loans or other mezzanine financing. Regardless of the form of finance, we always participate as a financial investor with a minority stake.

Most of our investments are in manufacturing but we also invest in other sectors such as telecommunications, forestry, renewable energy and health care.

Finnpartnership is a business partnership programme financed by the Ministry for Foreign Affairs of Finland and operated by Finnfund. Finnpartnership provides financial support for Finnish companies' projects in developing countries and assists in seeking out new business opportunities and partners.

Solid experience of developing markets

Finnfund's clients have access to our contacts at other financial institutions and our comprehensive experience in developing countries.

Apart from the projects of Finnish companies and their partners, Finnfund selectively finances the private sector in developing countries via venture capital funds. Cooperation with funds and development finance institutions provides us with valuable contacts and information about local markets in developing countries.

Finnfund is a member of the **Team Finland network** that promotes Finland and boosts the success of Finnish companies abroad. The Team Finland network brings together all of state-funded actors and their services to promote the internationalisation of Finnish companies, to attract foreign investments to Finland, and to promote Finland's country brand.

Finnfund collaborates closely with other European development financiers. Finnfund is a member of **EDFI, the Association of European Development Finance Institutions.**

www.finnfund.fi

Photo: Kilombero Valley Teack Company, Tanzania

Finnpartnership

Finnpartnership is a business partnership programme financed by the Ministry for Foreign Affairs and operated by Finnfund. Finnpartnership offers financial support and advisory services for Finnish companies and other organisations planning commercially viable projects in developing countries.

Finnpartnership's services aim to increase commercial co-operation between companies in Finland and those in developing countries, to promote imports from developing countries, to stimulate their economic growth, to diversify their production and export structures and otherwise foster their development.

Business Partnership Support and new partners

Business Partnership Support is available for conducting feasibility studies, identifying business partners, training employees of the partner, providing expert services for capacity building, and importing from a developing country. Support can also be granted for vocational education and training and support for local education, and piloting and demonstrating technology and solutions.

Finnpartnership's Matchmaking service helps companies in developing countries in their search for Finnish business partners and creating new business opportunities for all.

www.finnpartnership.fi

”The interest to do business in developing countries with Finland and Finnish companies has exploded. Don't miss out on the business opportunities offered.”

- Siv Ahlberg, Programme Director - Finnpartnership

Cofinancing especially in low-income countries

Finnfund collaborates closely with other European development financiers. Especially in projects characterized by large scale and/or significant risks, it may be advisable to share risks and the burden of project preparation and monitoring. Natural partners for this are other public development financiers that also share similar objectives and business principles.

Along with fourteen other development financiers, Finnfund is a member of EDFI, the **Association of European Development Finance Institutions**. Within the group we share information on cofinancing opportunities, target markets and best practices.

Most of Finnfund's investments in low-income countries involve cofinancing with other development financiers. We have collaborated extensively with the other Nordic development financiers (Swedfund, Norfund, and Danish IFU) as well as with our Dutch, British, German, Belgian, Swiss and French counterparts (FMO, CDC, DEG, BIO, Sifem and Proparco respectively).

In addition, Finnfund has participated in a sizable European Financing Partners (EFP) cofinancing scheme through which the European Investment Bank and EDFIs finance projects prepared by one of the EDFI members. Finnfund has also been a member of the Interact Climate Changes Facility ICCF which provides long-term financing for renewable energy and energy efficiency projects in poor countries suffering from energy shortages. Other members of the ICCF are Agence Française de Développement AFD, European Investment Bank, Finnfund and other ten EDFIs. Merger preparations of EFP and ICCF have been launched.

Team Finland

The Team Finland network promotes Finland and boosts the success of Finnish companies abroad. The Team Finland network brings together all of state-funded actors and the services they offer to promote the internationalisation of Finnish companies, to attract foreign investments to Finland, and to promote Finland's country brand.

We offer information, tools and networks to support the international success of Finnish companies. The network-based approach intensifies the use of public resources promoting export and attracting investments to Finland, and enhances the quality of services offered to companies.

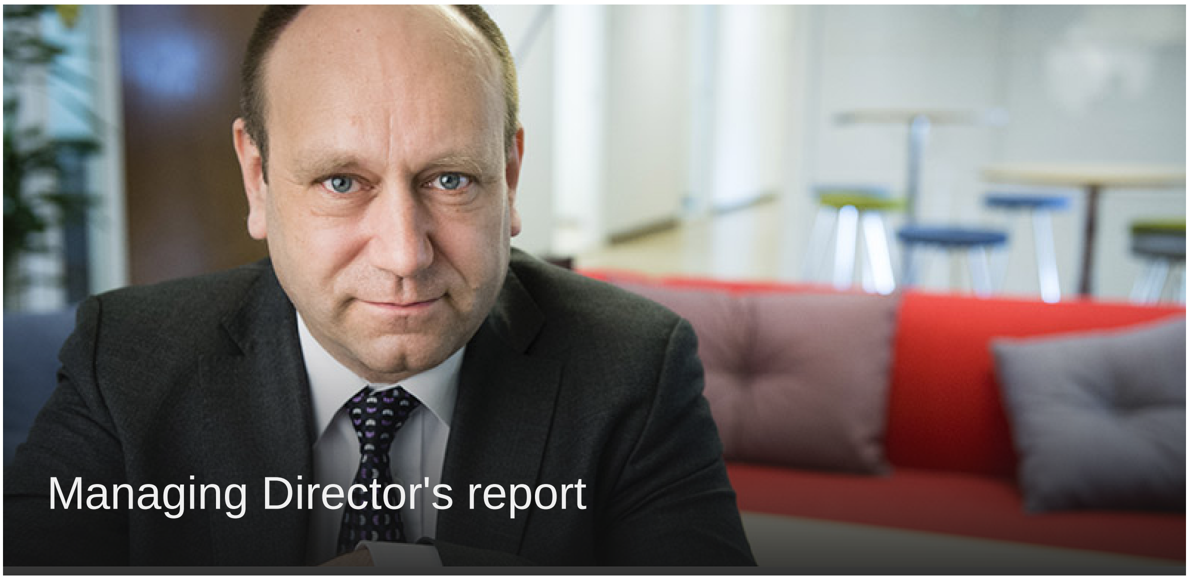
The core of the Team Finland network consists of the Ministry of Employment and the Economy, the Ministry for Foreign Affairs, the Ministry of Education and Culture, and the publicly funded organisations and service points abroad operating under their guidance (Finpro, Tekes, Finnvera, Finnfund, Finnpartnership, Finnish Industry Investment, VTT, the Centres for Economic Development, Transport and the Environment, Finland’s cultural and academic institutes, the Finnish-Russian Chamber of Commerce, the Finnish-Swedish Chamber of Commerce). Abroad, the Team Finland network is represented by over 70 local teams.

Finnfund’s mission is to promote economic and social development in its target countries through investments in the private sector. Catalyzing Finnish know-how for projects in developing countries is Finnfund’s main niche. We seek to invest in win-win-win projects that bring local and Finnish parties together while also improving the environment. Clean technologies ranging from energy efficiency and renewable energy to waste management and recycling are a sector where Finnish companies have invested heavily over the decades becoming global leaders in a number of sub-sectors

For more information about Team Finland's services, please visit the **website**.

”Development requires responsible profitable companies.”

- Antti Urvas, Associate Director - Manufacturing and Services



Managing Director's report

There was a breakthrough in 2015, globally and in Finland, in how the relevance of responsible business for development was recognized.

The International Conference on Financing for Development, held in Addis Ababa in July 2015, underlined the role of private investment. In September, the world's nations agreed on sustainable development goals (Agenda 2030), recognizing that the private sector would be needed to achieve them. The Climate Change Conference in Paris in December, which called for large-scale investments in renewable energy and energy savings, noted the utter inadequacy of public funds, particularly in developing countries, and that investments by companies would play a key role.

The debate on Finnish development policy had long recognised the need to promote responsible private sector investments but this was not much reflected in the practice of development cooperation. This suddenly changed in May 2015. The programme of the new government emphasised the role of the private sector in development policies and promised to support business investments in developing countries. In December, Parliament approved the budget that provided more capital for Finnfund.

Although the increase had long been under preparation and had cross-party support, it was unfortunate that it took place at a time of drastic cuts in other development cooperation. This created a public clash. The capitalisation of Finnfund seemed to be happening at the expense of non-governmental organisations engaged in development. An understandable concern for these organisations led many to question the benefits of business investments to development.

For Finnfund, this was an unfortunate situation. Civil society organisations and others involved in development cooperation do important work that we appreciate greatly. Different players often have the same goals but different methods. All are needed.

Traditional development cooperation typically involves building schools and clinics, developing public services, promoting democracy, etc. with financial support from Finland. The idea behind Finnfund's investments, on the other hand, is to boost productivity and incomes of people in developing countries so that they can themselves finance their own schools and clinics. We also seek to do it profitably, so that the money is not used up but can be constantly recirculated to new projects.

Many private projects have a rather direct impact on the living standards of the poor. With the completion of a solar power plant in Honduras in 2015, more than a million people in various countries already obtain electricity for their homes from power plants constructed with finance from Finnfund. Replacing smoky kerosene lamps with electric light creates cleaner air in the homes and makes it easier for children to study and families to breathe.

An even more obvious link between human conditions and business investments can be found at the UCL pharmaceutical company in Kenya. Thanks to financing from Finnfund, UCL raised the quality of its production to international standards and multiplied its annual output to more than one billion pills. The alternatives for African consumers are often poor or expensive so, even at a cautious estimate, UCL has saved thousands of lives.

The project has not consumed Finnish tax euros. Finnfund sold its UCL shareholding in 2015 and recovered the funds it had invested a decade ago with interest. As frequently happens in business projects, our exit does not mark the end but the next step. In the skilled hands of the buyer, a plant created largely with Finnfund finance will probably produce even more drugs and development impacts.

Business projects also often have indirect development effects. If the aim is to produce coffee or shoes for export or to serve tourists or wealthy segments of the country's own population, its benefits in reducing poverty are not derived from what is produced but from how production creates jobs and livelihoods, develops exports and broadens the tax base. For a sustainable reduction in poverty, the world needs projects such as these. No country can produce everything that it requires, and exports are necessary to pay import bills.

Employment, income-earning opportunities and decent living conditions should also be offered to those who have been forced to flee their homes and are waiting in a neighbouring country for conditions to improve. Finland grasped this in 2015 when hundreds of thousands of refugees from the conflicts in Syria and Iraq tried to cross the Mediterranean to Europe. Countries in Africa have populations of refugees that are relatively much larger but there is far less international support for caring for them.

If they have no home to return to, most refugees look for opportunities in nearby countries, although in many cases the countries have limited resources. At a time of scarce international support for aiding refugees, it is important for refugees to be able to work and thereby raise their own living conditions. This in turn requires investments in job creation and infrastructure.

Finnfund’s mandate to operate in refugee crisis countries was strengthened in late 2015. In 2016 several solar power plants partly financed by Finnfund will be completed in Jordan. This is a country with an urgent need for extra electricity after a million refugees crossed its borders from Syria and Iraq in a short period of time.

More generally, renewable energy is an important focus for Finnfund. The oil price collapse in 2015 was a challenge but Finnfund’s renewable energy projects withstood it well. Solar power in particular is becoming more competitive as the technology improves and costs fall. Despite a temporary reverse, the direction is from coal and oil to renewable energy, a field where Finland has much to offer. In the more prosperous and stable developing countries there is already good access to commercial finance for renewable energy but, in more challenging markets, development finance institutions have a key role to play.

I would like to thank Finnfund’s customers, staff and other stakeholders for their support in 2015.

Jaakko Kangasniemi
CEO

Key figures 2011 - 2015

	2011	2012	2013	2014	2015
Number of project countries	27	30	33	32	33
Number of investments	137	143	149	160	160
Financing commitments, EUR million	32	56	90	115	84
Number of financing commitments	14	18	20	25	18
Disbursements, EUR million	43	59	34	73	77
Undisbursed investment decisions and commitments, EUR million	172	146	178	221	235
Portfolio, EUR million	253	274	250	294	329
Shareholders' capital, EUR million	186	203	215	236	251
Total assets/liabilities, EUR million	278	312	311	317	377
Number of personnel on average	49	49	49	51	56

Five years in review

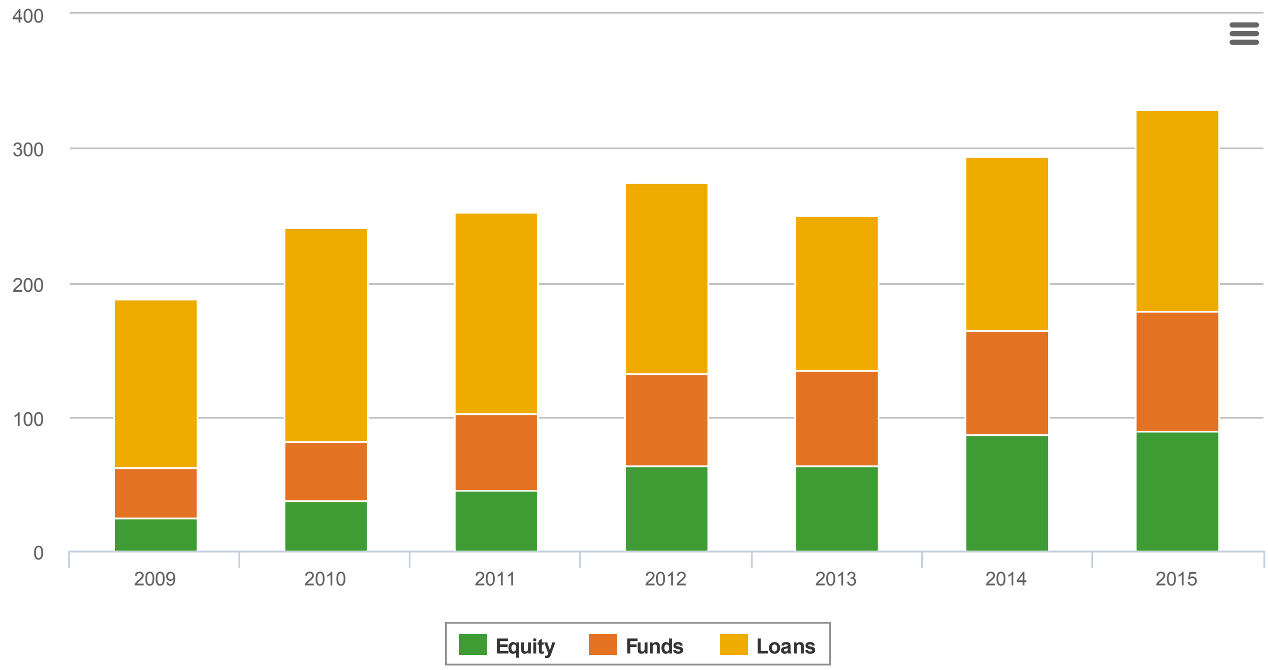
Operational analysis, EUR million	2011	2012	2013	2014	2015
Financial income	10.1	12.3	13.6	12.9	16.2
Financial expenses	-1.4	-1.6	-1.6	-1.8	-2.7
Net financial income	**8.7**	**10.7**	**12.0**	**11.1**	**13.5**
Other operating income	1.4	1.2	1.5	1.6	1.8
Administration, depreciation and amortisation and other operating expenses	-7.1	-7	-7.8	-8.4	-9.3
Profit before impairment, sales of assets and taxes	**3.0**	**4.9**	**5.7**	**4.3**	**6.0**
Impairment and sales of assets	7.4	-3.3	-3	-1.9	-0.8
Taxes	-1.2	-0.4	0	0	-0.1
Net profit	**9.2**	**1.2**	**2.7**	**2.4**	**5.1**

Balance sheet, EUR million	2011	2012	2013	2014	2015
Assets					
Tangible and intangible assets	0.1	0.1	0.1	0.2	0.2
Investments	252.3	274.1	250.0	293.6	329.6
Current assets	25.5	38.2	60.5	23.4	47.3
	277.9	**312.4**	**310.6**	**317.2**	**377.1**
Liabilities					
Equity	186.3	202.6	215.3	235.7	250.8
Liabilities	91.6	109.8	95.3	81.5	126.3
	277.9	**312.4**	**310.6**	**317.2**	**377.1**

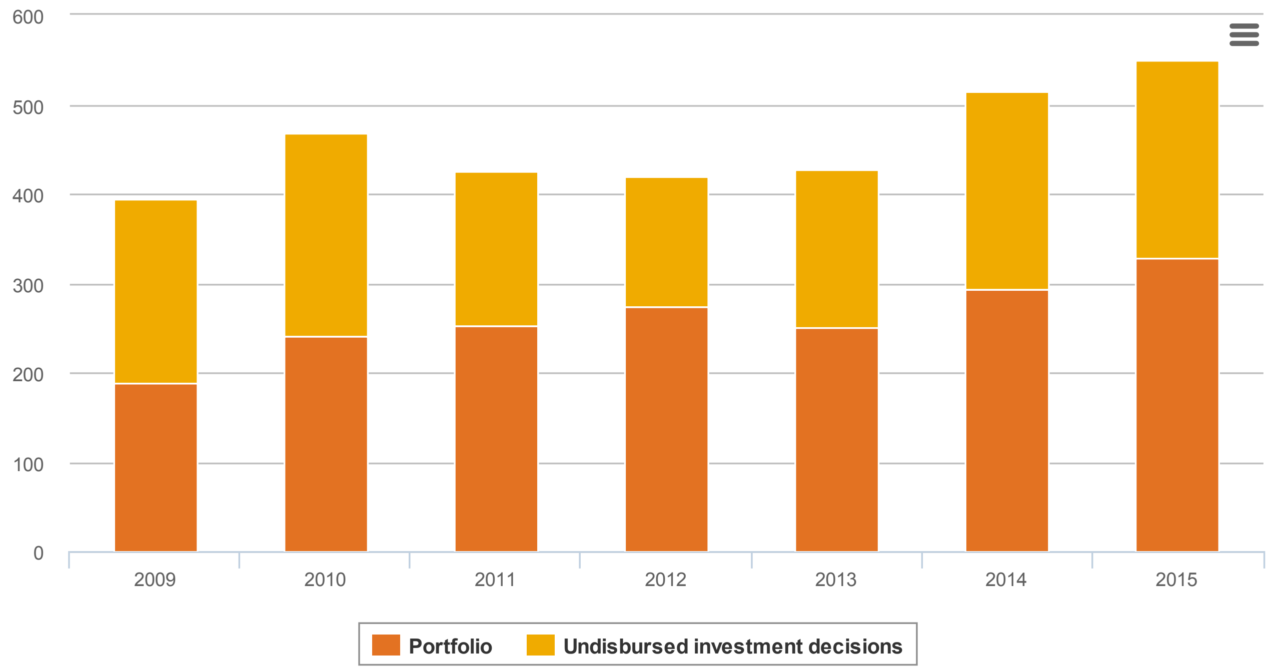
Financial indicators	2011	2012	2013	2014	2015
Equity ratio, %	67	65	69	74	67
Return on equity p.a., %	4.9	0.6	1.3	1.1	2.1

Graphs

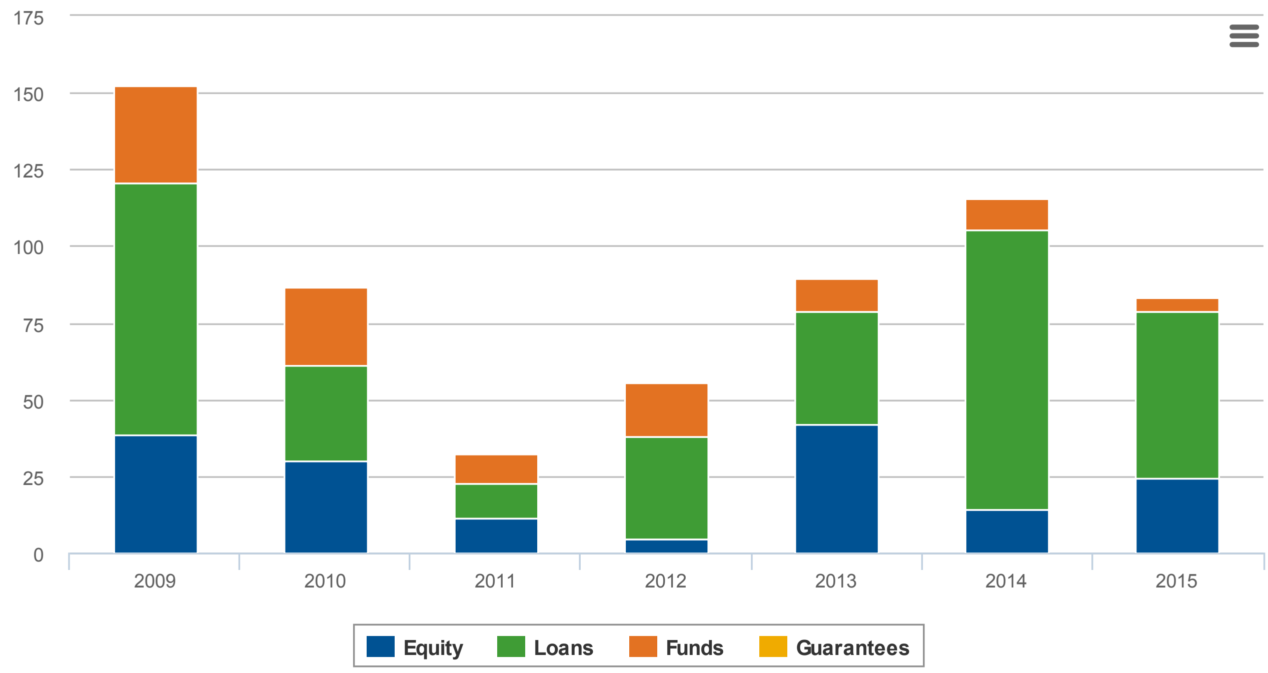
Portfolio, EUR million



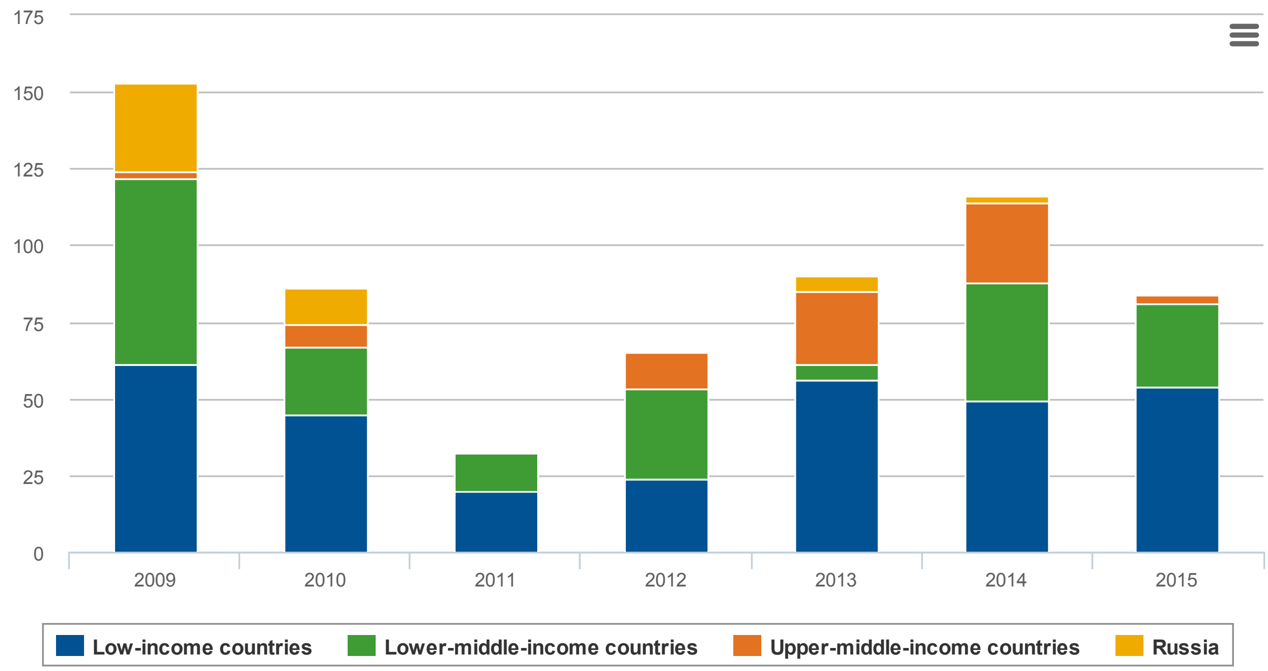
Portfolio and undisbursed investment decisions, EUR million

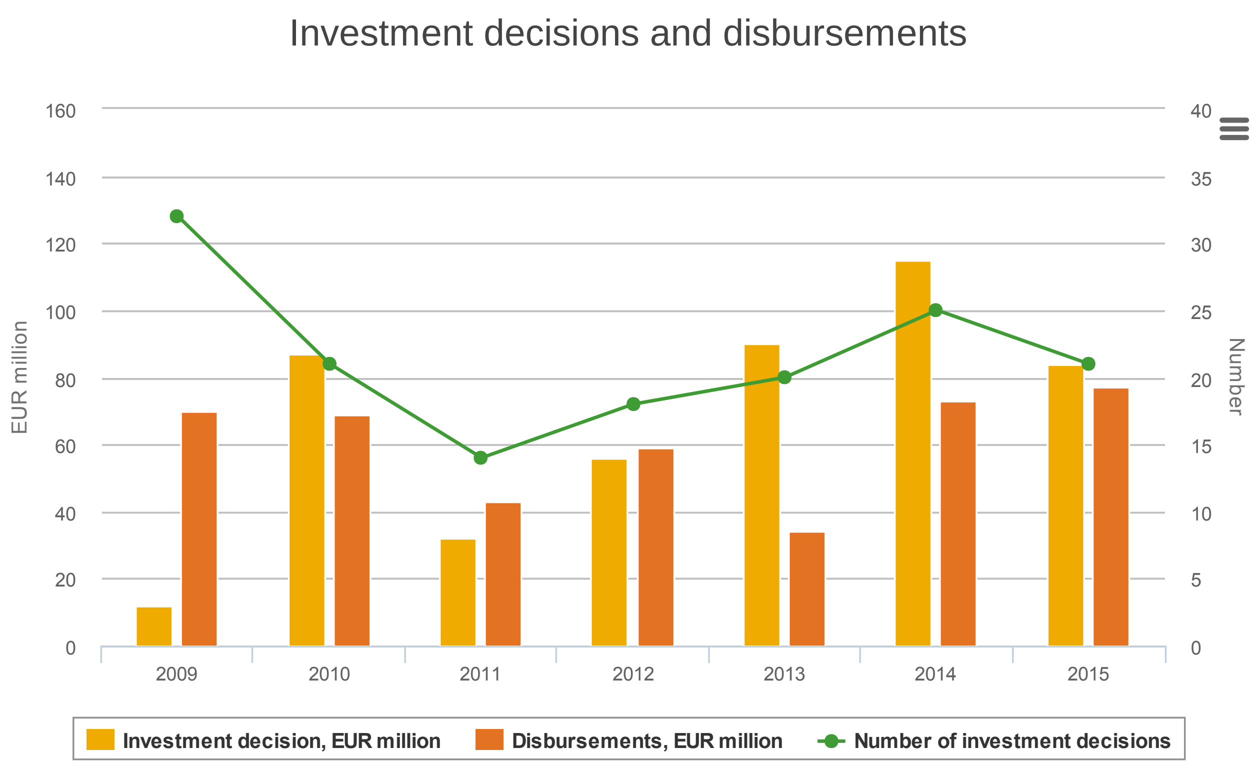


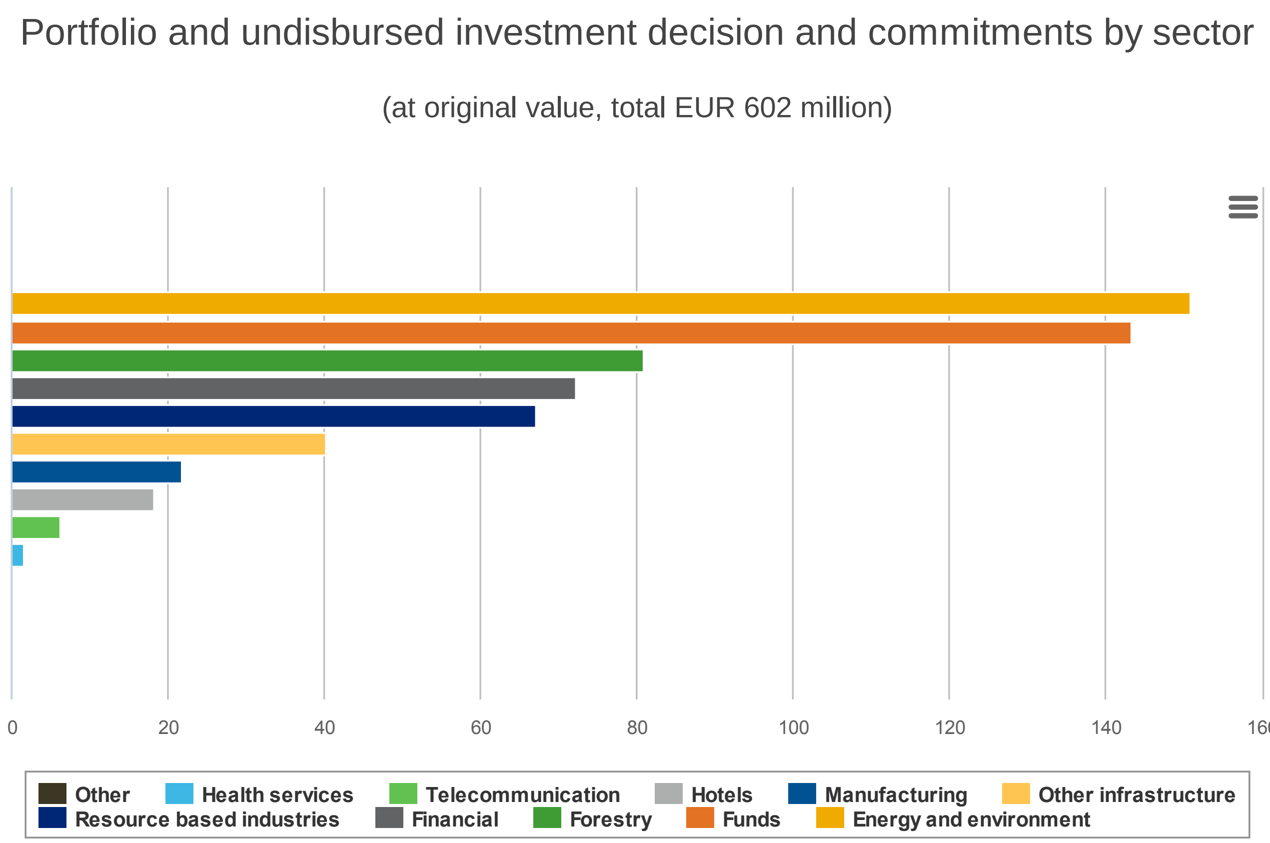
Investment decisions by instrument, EUR million



Investment decisions by income level of the country, EUR million

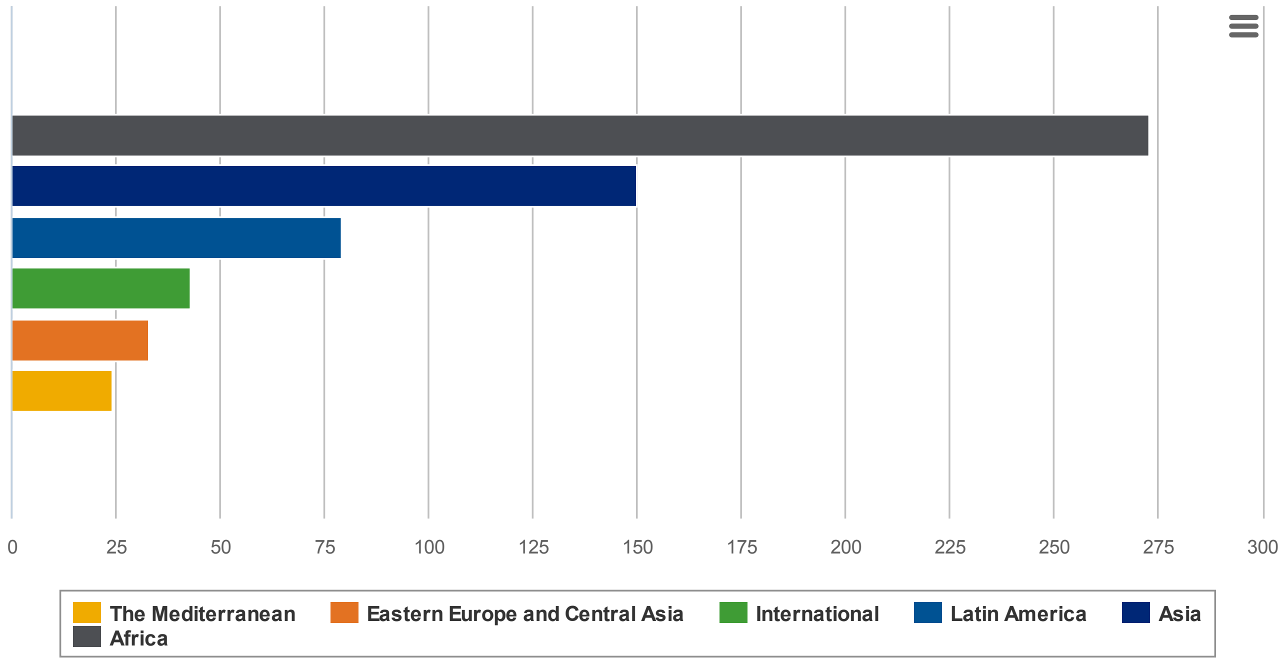



Investment decisions and disbursements
160
140
120
100
80
60
40
20
0
40
35
30
25
20
15
10
5
0
EUR million
Number
2009
2010
2011
2012
2013
2014
2015
Investment decision, EUR million
Disbursements, EUR million
Number of investment decisions


Portfolio and undisbursed investment decision and commitments by sector
(at original value, total EUR 602 million)
0
20
40
60
80
100
120
140
160
Other
Health services
Telecommunication
Hotels
Manufacturing
Other infrastructure
Resource based industries
Financial
Forestry
Funds
Energy and environment

Portfolio and undisbursed investment decision and commitments, geographical distribution

(at original value, total EUR 602 million)



Shareholders and share capital, 31 December 2015

Share capital	EUR 166,989,130

State of Finland	93.4%
Finnvera Plc	6.5%
The Confederation of Finnish Industries	0.1%

Jobs, know-how and training with Finnpartnership's support

In 2015 the demand for Finnpartnership's services increased tremendously. Finnpartnership received 191 new applications and granted Business Partnership Support for 167 projects, to the total sum of EUR 7.4 million. More detailed information can be found in the Board of Directors' **Report**.

Of the recipients in 2011 of Business Partnership Support in 74 companies, who received a total of EUR 1.5 million, have submitted their final follow-up reports. Of the companies 40 per cent said the operations were continuing well, whereas 8 per cent of the companies said the project was still at the planning stage. The companies have invested EUR 20.3 million in their target countries, which is around sixteen times the amount of support reimbursed.

The companies provide work for about 2 000 people. 636 persons are directly employed and 36 per cent of these are women. 38 per cent of the projects reported development impacts related to the transfer of know-how and technology. Personnel were trained in half of the projects.

New partners and business opportunities

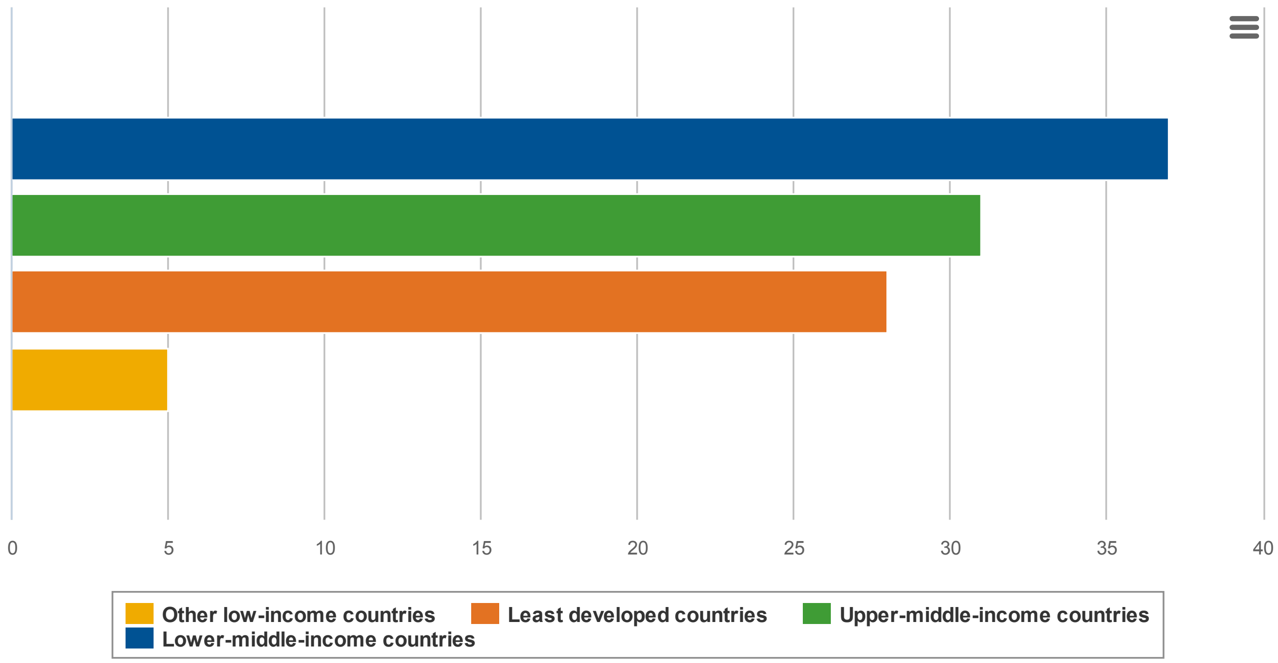
In 2015 Finnpartnership received 364 matchmaking requests from companies operating in developing countries. During the year 161 applications have been registered with the matchmaking data base and 82 one-to-one assignments have been made. Of these 72 companies (38 per cent) informed that there has been at least communication between Finnish companies and companies in developing countries.

Examples of projects supported by Finnpartnership

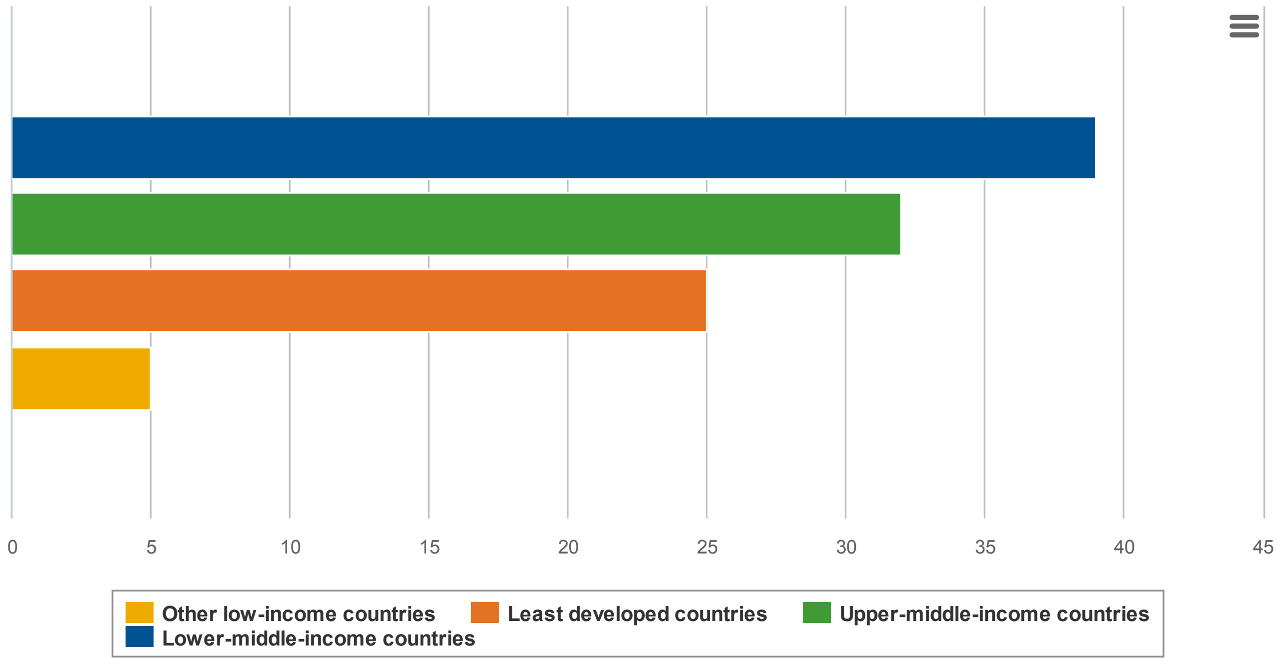
Afghanistan	subcontracting security services
Algeria	assembly of sewage treatment plant equipment
Bolivia	sale of renewable energy solutions
Brazil	services and processing solutions for biomass plants
Chile	rubber and plastic products for mining industry
Costa Rica	management training
Egypt	design, sales, installation and service for air purification equipment and clean rooms
Eritrea	licensing training services in developing countries
Ethiopia	coffee roasting plant and exporting organic coffee to Europe
Philippines	waste-to-energy treatment plants
Gambia	sawmill plant

Ghana	install and service of eco toilets in India, Ghana and Kenya
Indonesia	license training services
India	testing and laboratory services
Iraq	manufacturing, distribution, installation and maintenance of institutional kitchens and catering equipment
Iran	online health care services
Jordan	license technology for recruitment and personnel development
Kazakhstan	artificial grass export to Finland
Kenya	license films and other media content online distribution
Cuba	map communications solutions
Namibia	export of silk products
Nigeria	sale and maintenance of solar powered devices
Myanmar	Maritime College
Pakistan	solar power plant
Somalia	develop and operate infrastructure projects
South-Africa	biogas plants
Uganda	tourism
Vietnam	exports of Aloe Vera drinks to Finland
Zimbabwe	sale, production of spare parts, training and maintenance services

Amount of approved business partnership projects in 2015 (%)



Business Partnership Support granted in 2015 in euros (%)



Corporate governance

Finnfund is governed in accordance with the Act on a Limited Liability Company named Teollisen yhteistyön rahasto Oy (291/79 amended, ‘the Finnfund Act’), the Finnish Limited Liability Companies Act, and the Articles of Association of the company. In addition, it observes the corporate governance guidelines issued by the owner, the Finnish government, for state majority-owned unlisted companies and state special-purpose companies.

The governance principles laid out here are based on the Articles of Association that came into force on 1 January 2012.

Finnfund is governed by the General Meeting of Shareholders, the Supervisory Board, the Board of Directors, and the Managing Director. Their responsibilities are determined by the Finnish Limited Liability Companies Act and the Articles of Association of the company.

General meeting

The highest decision-making body in Finnfund is the General Meeting of Shareholders, which convenes at least once a year. The Annual General Meeting shall be held each year on a day, set by the Board of Directors, that is within six months of the end of the financial period.

The Annual General Meeting handles all of the matters designated for it in the Limited Liability Companies Act and the Articles of Association, such as the adoption of the financial statements; the assignment of the balance sheet result; the release from liability of the Supervisory Board members, directors and managing director; the election of Supervisory Board members, the directors and the auditor; and the determination of their remuneration.

In 2015, the Annual General Meeting was held in Helsinki on 24 April. The meeting discussed the matters specified in Article 11 of the Articles of Association and it was resolved to increase the share capital. All of the company’s outstanding shares were represented at the meeting.

Supervisory Board

The Supervisory Board is composed of 12 members. The Annual General Meeting elects the members, who serve for three years at a time. The term of office of a member of the Supervisory Board ends at the close of the third Annual General Meeting following election. Four members are up for re-election annually.

The Supervisory Board elects a chair and vice chair from among its members, for one year at a time.

List of the members of the **Supervisory Board.**

The task of the Supervisory Board is to supervise the administration of the company as attended to by the Board of Directors and the Managing Director, and to give a statement to the Annual General Meeting about the financial statements and the audit.

In addition, the Supervisory Board can give the Board of Directors instructions on matters of broad importance or significant principle.

Board of Directors

The Board of Directors has at least six and at most eight members. The board chair, a possible vice chair and its other members are chosen by a general meeting.

The term of a board member ends at the close of the next annual general meeting.

List of the members of the **Board of Directors.**

The tasks of the Board of Directors include but are not limited to making decisions regarding financing and investments and confirming the company's practical operating policy; deciding on authorisation to sign on behalf of the company; appointing the managing director and determining his or her salary and other compensation; and deciding on the calling of General Meetings and preparing material on the matters they will deal with.

Audit Committee of the Board of Directors

The Chair and 2 - 3 members of the Audit Committee are chosen by the Board from among its own members. The members shall be independent of the company and at least one must be independent of a major shareholder. Members are required to have the competence required for the committee's duties and at least one member shall be skilled particularly in accounting, bookkeeping or auditing. The Audit Committee is chosen for the term of the Board of Directors.

The task of the Audit Committee is to assist the Board in ensuring that the bookkeeping and financial control of the company is properly organised and that internal control and risk management, auditing and internal auditing are conducted in accordance with the law, regulations and the operating principles confirmed by the Board of Directors.

Managing Director

The task of the Managing Director is to attend to the company's day-to-day administration in accordance with the instructions and regulations issued by the Board of Directors.

The Board of Directors determines the salaries of the Managing Director, his deputy, and the members of the Management Team.

Management team

Finnfund's management constitutes the Management team, which is an advisory body assisting the managing director.

Remuneration

Supervisory Board

Members of the Supervisory Board have received fees as follows. The chair of the Supervisory Board received EUR 800 per meeting, the deputy chair EUR 600 per meeting and other members EUR 500 per meeting.

Fees paid (EUR) and participation at the meetings

Member	Fee	Present
Paloniemi, Aila, chair until 1.12.2015	2,800	4/5
Tuomioja Erkki, chair as of 1.12.2015	400	1/1
Salolainen, Pertti, vice chair	3,000	5/5
Hietanen, Eija	2,500	5/5
Hyötynen, Kalle until 1.12.2015	2,000	4/4
Kallio, Seppo	2,500	5/5
Karetie, Simo	2,000	4/5
Karimäki, Johanna as of 1.12.2015	500	1/1
Kotaviita, Johanna as of 29.9.2015	500	1/1
Lindtman, Antti until 1.12.2015	1,500	3/4
Lohela, Maria until 21.4.2015	500	1/2
Myller, Riitta	2,500	5/5
Mäntylä, Hanna in 21.4.-29.5.2015		
Raatikainen, Mika as of 1.12.2015	500	1/1
Toriseva, Seppo until 1.12.2015	1,500	3/4
Tölli, Tapani	2,000	4/5
Virolainen, Anne-Mari	2,000	4/5

In 2015, the Supervisory Board met 5 times. The average attendance rate for members was 88 per cent.

Board of Directors

Members of the Board of Directors have received monthly fees and fees per meetings as follows. The chair of the Board of Directors received a monthly fee of EUR 1,100, the deputy chair a monthly fee of EUR 700, and the other members a monthly fee of EUR 600. In addition, all members received a fee of EUR 300 per meeting attended. The Chair has also been paid a fee per meeting for attending the Supervisory Board and Audit Committee meetings.

Fees paid (EUR) and participation at meetings

Member	Fee	Present
Laukkanen, Ritva, chair	17,100	11/11
Alanko, Kari, vice chair	11,700	11/11
Andersén, Tuukka	10,500	11/11
Antila, Sinikka as of 28.9.2015	1,882	2/3
Hukka, Pekka until 31.8.2015	6,900	5/6
Juurikkala, Tuuli until 21.4.2015	2,760	2/2
Mikkanen, Pirita	10,300	11/11
Schöring, Lars-Erik as of 21.4.2015	7,440	8/9
af Ursin, Anne as of 21.4.2015	7,740	9/9
Ylhäinen, Tuula	10,200	10/11

In 2015 the board met 11 times. The average attendance rate for members was 95 per cent.

Audit Committee

In 2015, members of the Audit Committee of the Board of Directors received a fee of EUR 300 per meeting attended.

Fees paid (EUR) and participation at meetings

Member	Fee	Present
Andersén, Tuukka, chair	1,200	4/4
Juurikkala, Tuuli until 21.4.2015	300	1/1
Mikkanen, Pirita as of 21.4.2015	900	3/3
Ylhäinen, Tuula	1,200	1/1

In 2015 the Audit Committee met 4 times. The attendance rate for members was 100 per cent.

Managing Director

In the financial year 2015, managing director Jaakko Kangasniemi received taxable income from the company of EUR 200,520. The remuneration of the managing director consists of a fully fixed monthly salary. The managing director is not subject to the company's incentive system and was not paid a bonus in the financial year 2015.

The managing director's executive contract, agreed in 2002, was revised in 2012 in relation to pension rights. The retirement age was raised from 60 to 63 years and the pension type changed from defined-benefit to defined-contribution. The annual contribution level is 26.51 per cent of gross annual earnings.

The pension liability is covered partly by the group pension insurance and partly by an annual reserve in the company's balance sheet. In the financial year ending 31 December 2015 a reserve of EUR 44,658 was made for the pension liability.

The company may terminate the managing director's employment at six months' notice. Upon termination by the company, in addition to the salary for the term of notice, the managing director will receive an amount equal to six months' salary.

Because of the pension benefit change in the executive contract, the managing director forewent net pension benefits of EUR 74,308 accrued in earlier years. This loss of pension benefit has been counterbalanced by raising his gross monthly wage with effect from 1 January 2013 by EUR 1,347 which will provide full compensation by the time he reaches the age of 63.

If his employment ends before the age of 63 years, the company will pay him the amount of pension benefit lost through early termination of the contract. This compensation will be paid regardless of the reason for termination of contract and in addition to other entitlements under the law or his executive contract.

Management team

In the 2014 financial year, taxable income received from the company by the Management team, including the managing director and his deputy, totalled EUR 982,111.

The members of the Management team, with the exception of the managing director, are included in the incentive system covering all the company's personnel, according to which employees can receive an incentive corresponding to, at most, one and a half or two month's salary depending on the area of responsibility if the targets set are met. The incentive system is based on the company's performance, on the team level and personal performance. The Board of Directors decides on the incentive system and its key criteria on an annual basis.

In 2015, the members of the Management Team were Jaakko Kangasniemi, Managing Director, CEO; Jukka Ahmala, Director, Legal Affairs and Alternate to the Managing Director; Helena Arlander, Director, Portfolio and Risk Management; Minnamari Marttila, Director, Administration; Hanna Skelly, Director; and Associate Directors Mikko Kuuskoski and Antti Urvas.

Supervisory Board, Board of Directors and Audit Committee

Supervisory Board as of 21 April 2015	Board of Directors as of 21 April 2015
Erkki Tuomioja member of Parliament, Chair as of 1 December 2015	**Ritva Laukkanen** Board Professional, Chair
Aila Paloniemi Member of Parliament Chair until 10 December 2015	**Kari Alanko** Deputy Director General Ministry for Foreign Affairs Vice Chair
Pertti Salolainen Member of Parliament Vice Chair	**Tuukka Andersén** Director of Finance Finnvera Plc
Eija Hietanen Director of Administration The Central Organization of Finnish Trade Unions SAK	**Sinikka Antila** Ambassador, Senior Advisor on Trade and Development Ministry for Foreign Affairs as of 28 September 2015
Kalle Hyötynen Vice Chairperson Left Alliance until 1 December 2015	**Pekka Hukka** Counsellor of Foreign Affairs Ministry for Foreign Affairs until 31 August 2015
Seppo Kallio Director The Central Union of Agricultural Producers and Forest Owners (MTK)	**Tuuli Juurikkala** Special Advisor Ministry of Finance until 21 April 2015
Simo Karetie Chief Policy Adviser The Confederation of Finnish Industries EK	**Pirita Mikkanen** Partner TM Systems Finland Oy
Johanna Karimäki Member of Parliament as of 1 December 2015	**Lars-Erik Schöring** CEO Leinolat Group

Johanna Kotaviita
Practical Nurse
as of 28 September 2015

Antti Lindtman
Member of Parliament
until 1 December 2015

Maria Lohela
Member of Parliament
until 21 April 2015

Riitta Myller
Member of Parliament

Hanna Mäntylä
Member of Parliament
until 28 May 2015

Mika Raatikainen
Member of Parliament
as of 1 December 2015

Seppo Toriseva
Entrepreneur
until 1 December 2015

Tapani Tölli
Member of Parliament

Anne-Mari Virolainen
Member of Parliament

Anne af Ursin
Financial Councellor
Ministry of Finance

Tuula Ylhäinen
CFO
Oras Invest Ltd

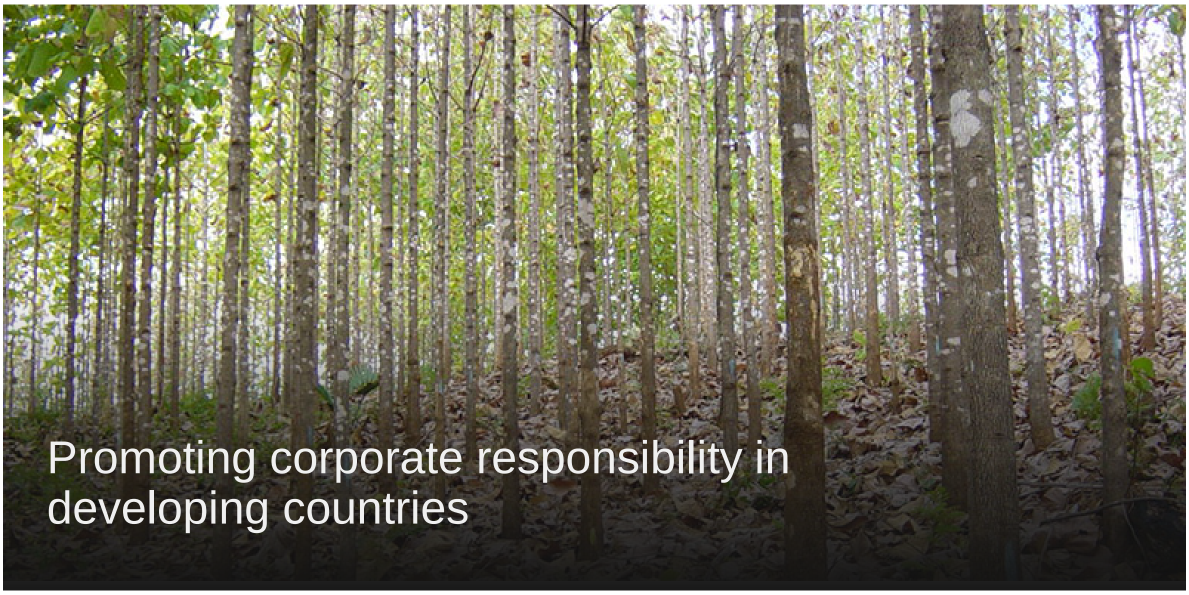
All members of the Supervisory Board and the Board of Directors are independent from the company.

Audit Committee as of 21 April 2015

Tuukka Andersén, Chair

Pirita Mikkanen

Tuula Ylhäinen



Finnfund's mission is to generate positive development impacts in the target countries. Finnfund follows responsible practices in its own operations and expects high standards also from its clients and partners. Responsibility of the economic, environmental development including transparent corporate governance are important factors in our decision-making.

Prior to investment decisions, Finnfund assesses anticipated development impacts. Information on realized developmental impacts is gathered annually from investee companies.

Read more from the online **corporate sustainability report** or download a pdf-file **here**.

Photo: Kilombero Valley Teak Company, Tanzania

Organisation, administration and operating principles

Organisation

Finnfund, the Finnish Fund for Industrial Cooperation, is governed in accordance with the Act on a Limited Liability Company named Teollisen yhteistyön rahasto Oy (291/79, the ‘Finnfund Act’).

The mission of Finnfund is to promote economic and social development in developing countries by financing responsible private business operations on a self-supporting basis. The purpose of the company is not to generate a profit for the shareholders.

Finnfund can finance manufacturing, service, infrastructure and financial sectors as well as capital markets. It finances companies to be established or already operating which involve a Finnish interest. In addition to commercial profitability, Finnfund emphasizes positive development and environmental impacts in the projects it finances.

Finnfund provides its customers with equity capital, long-term investment loans and expertise in operating in developing countries.

Finnpartnership, a business partnership programme managed by Finnfund and financed by the Ministry for Foreign Affairs of Finland, provides advisory services for the business activities of Finnish companies in developing countries as well as financial support in the planning and development phases of a project and for training.

At the end of 2015, the State of Finland owned 93.4 per cent of Finnfund’s share capital, Finnvera plc 6.5 per cent and the Confederation of Finnish Industries (EK) 0.1 per cent. Finnfund is a company entrusted with a special assignment by the State and belongs to the administrative sector of the Ministry for Foreign Affairs. The detailed content of the company’s special development policy mission is assigned annually by the Ministry for Foreign Affairs on the basis of the development policy programme currently in force.

Finnfund’s principles of corporate governance are described in the 2015 Annual Report under the Corporate **Governance section**.

Corporate social responsibility management

The Managing Director is in charge of corporate social responsibility management and the implementation of related key principles with the assistance of the company’s management.

The Director of Administration is responsible for corporate social responsibility reporting and the development of reporting in accordance with the current decisions and guidelines of the principal shareholder, the State of Finland.

The Board of Directors monitors corporate social responsibility management as a part of guiding the operations of the company.

Every employee or other person working for the company is obliged to act in accordance with the principles of corporate social responsibility followed by the company.

Questions related to corporate social responsibility have been considered extensively in the company's operations, guiding decision-making at all levels from the overall strategy to individual investment decisions.

Special assignment and development policy mission of the company

The Ministry for Foreign Affairs defines Finnfund's special development policy assignment and sets goals for the company in terms of development policy, financial profitability and cost-efficiency. The Ministry for Foreign Affairs also monitors the achievement of the goals annually.

The goals set by the Ministry for Foreign Affairs and their achievement are reported to the company's Board of Directors, which participates in guiding the company's operations in accordance with the goals set for it.

The company believes that in 2015 it was successful in achieving and largely exceeding the main objectives set for it. This concerns operations that were cost-effective and self-supporting; their positive development impacts; the proportion of new investment decisions related to investments in low-income and lower-middle-income countries; and the net tax revenues created by the projects financed.

Finnfund's mission is geared towards supporting the development of the private sector and improving its operating conditions in developing countries in a manner that promotes economically, socially and environmentally sustainable development.

Finnfund aims to promote corporate social responsibility both in its own operations and its partners' operations. In 2009, Finnfund endorsed the principles for sustainable development and responsible financing of the Association of European Development Finance Institutions (EDFI) and is committed to implementing them in its operations. The EDFI principles are in line with the ten principles of the UN Global Compact initiative.

In the autumn of 2011, Finnfund and 24 other development finance institutions signed the Corporate Governance Development Framework, including a common set of guidelines on promoting good corporate governance in the companies they invest in, thus supporting sustainable economic development in developing countries.

The operations of Finnfund and all the companies it invests in must be sustainable both environmentally and socially.

Environmentally sustainable operations include using raw materials economically, recycling effectively, protecting the environment against pollution and climate change and preventing the loss of biodiversity.

Socially sustainable operations include respecting the rights of indigenous peoples, promoting the working conditions and rights of employees, considering health and safety issues, avoiding involuntary resettlement of populations and protecting cultural heritage.

The goals set for Finnfund stress the importance of generating positive development impacts. Since 2009, the company has been developing a tool for the systematic assessment and reporting of development impacts. Since 2012 all new projects have been assessed with the tool.

Values

The values guiding Finnfund's operations were determined in cooperation with the entire personnel. The work was completed in the autumn of 2010, when the values and their definitions took the following form:

Responsibility

- We finance responsible business operations in developing countries.
- The Finnfund team always does its best.

Respect

- We respect different cultures, their people and their ways of working.
- We appreciate each other and the work done by others.

Development

- We have the courage to develop new ways of working under challenging conditions.
- Finnfund supports and encourages its team in continuous development and learning from experience.

Effectiveness

- Our successful investment projects reduce poverty and inequality.
- We focus on the essentials and use our resources as effectively as possible.

A set of common ground rules has been derived from the values in order to make them a more tangible part of the daily work of all Finnfund employees. Implementation of these values by the company and in the activities of all employees is assessed annually in development discussions.

Environmental policy

Environmental issues have always played a pivotal role in Finnfund's operations. Finnfund's first environmental policy was approved by the administrative bodies as early as 2005.

In 2013 the environmental policy was reshaped into environmental and social policy, which is available on **Finnfund's website**. An in-house environment manual was completed in 2014, laying out the details of the company's environmental process.

Stakeholders and stakeholder interaction

The company's most important external stakeholders include the owners, key development policy operators (including non-governmental organisations), operators in the Finnish business sector (particularly the company's client organisations), the company's European sister organisations and co-investors and, on a case-by-case basis, local authorities in the target countries and other parties related to the projects financed by Finnfund.

Finnfund aims to maintain regular and open interaction with its various stakeholders; identify their expectations and possible concerns; and respond to these quickly and openly.

In 2015 the company's interaction with stakeholders was guided by a debate aroused by the government's development cooperation budget and the need for information. There was more public discussion about Finnfund than ever before. Stakeholder operations and communications were aimed at reacting to public claims made about the company's activities and at improving understanding of it.

Stakeholder work and communications were the responsibility of the Managing Director, aided by company management, the Senior Adviser and the Communications Coordinator. In a reorganisation at the end of the year it was decided to establish a separate team to promote communications and awareness and to allocate additional resources to these operations. Stakeholder communications and interaction continue to be led by the Managing Director, supported by the new team and company management.

In 2015 special attention was paid to human rights in projects financed by Finnfund. The company reviewed its investment process tools' compatibility with international standards and the company's commitment to human rights was expressed even more clearly than before.

Finnfund expects its investment targets and investee companies to have a channel for interaction with local communities when this is required by the nature of the project.

Financial responsibility

Efficiency and profitability of Finnfund's operations

As stipulated in the Finnfund Act, the purpose of the company is not to generate a profit for the shareholders. However, in accordance with the state ownership policy, the company must operate on a self-supporting basis, covering its operational costs and risks through the profits it generates. The state ownership policy defines profitability and cost-efficiency as the goals of the State as an owner. It also says that companies entrusted with special state assignments should strive for financially profitable operations.

The cost-efficiency of Finnfund's operations was assessed in 2015 by comparing operational costs to investment assets and the value of investment decisions. Finnfund's profitability is assessed primarily by looking at return on equity. The nature of the operations may cause return on equity to vary significantly from year to year, and for this reason return on equity is also calculated as a five-year moving average. Other indicators include impairment losses and the debt-equity ratio.

A detailed report on Finnfund's efficiency and profitability can be found in the Report of the Board of Directors published in the **Financials section** of the 2015 Annual Report.

Cash flows to stakeholders

Public sector taxation

Under the Income Tax Act (30.12.1992/1535), Finnfund is a corporation exempted from income tax, and therefore the company does not pay tax on its profits to the State of Finland.

In its accounts for 2015, Finnfund reported total tax payments of EUR 103,166.59. These consisted of capital gains taxes and withholding taxes paid to target countries as follows.

Country	Type	EUR
Kenya	Capital gains tax	91,852.67
Zambia	Capital gains tax	8,617.08
Total	Capital gains tax	100,469.84
Turkey	Withholding tax on wages	2,696.84
Total	All taxes	103,166.59

Shareholders

The purpose of the company is not to generate a profit for the shareholders, and it does not distribute its profits to the owners in the form of dividends or other yields. The taxes paid by project companies in the countries where they operate are among the development impacts that Finnfund seeks. For this reason, and because of its exemption from tax in Finland, the company has no incentive for active tax planning and does not do it.

Investments

Due to the nature of the company's operations, the need for investments related to its operations is very small and mainly consists of capital expenditure.

In 2015, Finnfund made new investment decisions worth EUR 83.5 million in the target countries. Eighteen new investment decisions were made.

Financial support and donations for the public good

Finnfund mostly refrains from providing financial support or making donations for the public good and does not engage in any activities regarded as sponsorship.

Reporting and accounting principles

Finnfund's financial statements and the Report of the Board of Directors are prepared in accordance with the Finnish Accounting Standards (FAS) and the profit and loss account and balance sheet formats of regular companies. Finnfund is not a credit institution referred to in the Act on Credit Institutions (9.2.2007/121) and does not use the profit and loss account or balance sheet formats intended for credit institutions. Since 2013 Finnfund has presented an operational analysis in its Annual Report.

The company reports on its financial position three times a year. The annual financial statements are published in the Annual Report on the company's website after being adopted by the General Meeting of Shareholders. At the same time, the company announces the reporting and accounting principles it followed in the preparation of the financial statements as well as any changes in the principles. In addition, the company prepares two interim reports for internal use, for the periods January to April and January to August. The interim reports are not audited or published.

Finnfund generally requires its investee companies to comply with the International Financial Reporting Standards (IFRS) in their reporting in order to ensure reliability and comparability.

Under certain circumstances, Finnfund may accept financial statements and other financial reports prepared in accordance with the local standards of the target country, provided that there is no reason to doubt their reliability and the procedure is considered justified in the current situation of the reporting company.

Personnel

Human resource management

As an employer, Finnfund acts responsibly and with a long-term view, encouraging its personnel in continuous learning and professional development.

The Management Team makes decisions concerning personnel policy, while operative responsibility lies with the Director of Administration. Decisions about the remuneration and incentive systems and the salaries of the Management Team members are made by the Board of Directors.

Since 2012, management and leadership have been developed through management team self-assessments, carried out with the assistance of outside consultants, and with comprehensive 360-degree feedback. In an organisational reform carried out at the end of 2015, management methods were reviewed and modernised, placing special emphasis on work systematisation and long-termism.

Personnel goals

Every year, Finnfund carries out a cooperation procedure in order to prepare a personnel and training plan for the coming year. The company also engages in annual development and goal-setting discussions with all employees, identifying their training needs, following up on the achievement of the previous year's goals and setting new goals for the coming year.

In addition, Personnel Development and Planning Days are held for all employees where current topics are discussed with the aim of promoting interaction between staff and management.

Number and structure of personnel

At the end of 2015, the company employed 57 people. During the entire year, the average number of employees was 56. All employees work in Finland at the company's office in the centre of Helsinki.

During 2015, one permanent employee left the company and two joined. Exit and entry turnovers were therefore 1.75 per cent and 3.5 per cent.

The following shows permanent employees grouped according to years of service in the company:

0-1	2-5	6-10	11-15	16-20	21-25	26-30	31-34
2	15	18	7	1	3	4	2

The average duration of employment among permanent employees is 11 years.

In terms of age, the structure of permanent employees is as follows:

25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-
0	9	7	3	11	8	11	3

The average age of employees is 46.

The company did not reduce the number of its employees or make any other adjustments in 2015.

In 2015, personnel expenses amounted to EUR 5.6 million, including pension expenses, other social security expenses and voluntary personnel expenses. The company paid wages and salaries totalling EUR 4.5 million in 2015.

Equality

At the end of 2015, the company employed 40 women (70.2 percent of all employees) and 17 men (29.8 per cent).

Four of the members of the company’s Board of Directors were women (57.1 percent) and three were men (42.9 percent).

Three members of the company’s internal Management Team were women (37.5 percent) and five were men (62.5 percent).

Finnfund has an equality plan that emphasises the equality and parity of employees. The fulfilment of the obligations set forth in the Act on Equality between Women and Men is a part of Finnfund’s personnel policy and operating culture, both of which are based on transparency, justice, equality and the protection of privacy.

Remuneration

Finnfund’s remuneration system consists of three parts: basic salary, fringe benefits and short-term incentives.

At Finnfund, payroll primarily consists of fixed monthly salaries based on the complexity of duties and the employees’ competence and performance. All duties are classified into job grades every few years, and a pay comparison is conducted annually with an external consultant in order to assess the market level.

The company has an incentive system covering the entire personnel, with the exception of the Managing Director. Employees can receive an incentive bonus corresponding to, at most, 1½-2 months' salary if the annual targets are met. The incentive system is based partially on the achievement of company-level goals and partially on function-specific goals.

In addition, an individual employee can receive an incentive bonus of up to 1½ months' salary for an exceptional, above-target achievement. The Board of Directors decides annually on the incentive system and its main conditions.

In terms of cost effect, the incentives paid in 2015 amounted to approximately 9.7 percent of the entire payroll.

Competence development and training

The entire personnel of Finnfund participates in development discussions every year.

Development discussions are carried out in spring, by the end of February, using special forms developed for this purpose. The forms were updated in 2014 in connection with management and leadership development measures. The discussions focus on matters related to professional competence, quality in work, development and motivation, and consistency with Finnfund's values. They also involve assessing the achievement of the personal goals set in the previous year and setting new personal goals for the coming year.

During the development discussions, all employees have the opportunity to provide feedback on the behaviour and management skills of their supervisor, either directly to the supervisor or to the Director of Administration or the Managing Director.

Finnfund perceives training as a means of implementing its personnel policy and achieving the set goals, and therefore the company has adopted a positive approach to training its employees and continuously developing their competence.

New employees are inducted into the organisation and their duties as they begin working at Finnfund (induction training). During employment, the company aims to maintain and develop the competence of its personnel by offering different types of supplementary and language training as well as training related to current affairs. The training plan and areas of focus at company and function level are reviewed annually as a part of the cooperation procedure and, more specifically, the preparation of the personnel and training plan. The training needs of individual employees are addressed by the employees and their supervisors in annual development discussions, while also agreeing on personal training plans, if necessary.

Occupational well-being, health and safety

Finnfund always pays attention to its employees' well-being and ability to cope at work as well as their job satisfaction. Job satisfaction and work atmosphere are evaluated from time to time, and the feedback is used in planning operational changes.

Finnfund carries out regular evaluations of the employees' well-being with the health care service and retirement pension insurance providers. Since 2015, the opportunity to provide feedback has been increased by regularly asking employees for their responses to rapid questionnaires, and other such methods. The company has a systematic approach to work in this area. Developments are monitored continuously and it tries to respond rapidly to deviations.

Employees also have an opportunity in development discussions to raise questions of occupational well-being and job satisfaction, and to provide anonymous feedback via the company's intranet.

The Director of Administration, acting as a labour protection officer, is responsible for occupational health and safety management together with the rest of the company's management. The labour protection committee convenes to deal with matters falling within its field of competence.

The labour protection organisation has assessed the risks of the workplace. It concluded that the most significant safety risks were related to the safety of travel, the health risks associated with frequent travel and ergonomic issues. In the same context, measures were agreed in order to manage and prevent these risks.

The company updates its workplace risk assessments from time to time and aims to respond without delay to changes in risk levels as well as possible new risks.

At the start of 2016 the company acquired additional space at its present offices. This was combined with the space that it began to occupy at the start of 2014. Since this time, all employees have been working in the same office premises.

Ergonomics is reviewed periodically when new employees join the company or changes are made to workstations. Every employee is offered an electrically adjustable desk so as to avoid the health problems of excessive sedentary work.

The employer is not aware of any accidents during working hours or otherwise related to work, nor have there been any deaths related to work.

Finnfund monitors the number of sickness absences, developments in the number of sickness absences and the identified reasons for sickness absences continuously in cooperation with the company providing occupational health care services. As a whole, the number of sickness absences is at a normal level and has not changed dramatically over the years.

Finnfund encourages its employees to look after their health and well-being by offering more comprehensive occupational health care services than required by law and by supporting its employees’ hobbies related to sports and culture.

The occupational health care services include the limited right to seek specialist medical care and dental care as well as reimbursement for prescription medicine expenses, among other things. Furthermore, people travelling frequently for work purposes have the opportunity to have regular health examinations in order to prevent travel-related health hazards.

In 2015 the work fitness model for early support and intervention was modernised. A programme for preventing and treating substance abuse was developed, discussed by the occupational health committee and explained to all employees.

Environment and society

Environmental and social management

One of Finnfund's key objectives is to generate positive environmental and social impacts in the target countries. Any negative effects are to be prevented and reduced. One of the conditions for receiving financing from Finnfund is that the investee company must meet the corporate environmental and social responsibility requirements set for it. For each project, the company carries out a separate environmental impact assessment and environmental classification before making the investment decision. The greater the possible environmental and social responsibility risks associated with any project, the more strictly Finnfund imposes conditions on the project company and the more closely it monitors their fulfilment.

In order to qualify for financing, a project must, among other things, meet the environmental requirements set forth in local legislation and the relevant international standards. The target company must be committed to developing an environmental management system covering the matters relevant to its operations, and to reporting to Finnfund on environmental issues regularly.

The Managing Director is responsible for the management of environmental and social risks in cooperation with the Director of Portfolio and Risk Management. The company has two Environmental and Social Advisers and one Development Impact Adviser. The Environmental and Social Advisers ensure that the environmental and social risks of all Finnfund projects are assessed and monitored throughout the project life cycle. The Development Impact Adviser makes an advance assessment of the impacts of every project financed and reports on their realisation.

The Environmental and Social Advisers and the Development Impact Adviser are also responsible for developing Finnfund's work processes and methods, organising training for the personnel and maintaining international cooperation.

Environmental and social responsibility, and risk management

Ensuring the responsibility of activities financed is a key principle of Finnfund's operations. The environmental and social risks and opportunities related to a project vary significantly depending on the sector, target country and a number of other factors. In its financing operations, Finnfund pays special attention to the management and mitigation of environmental and social risks, and to reinforcing positive impacts.

Finnfund has prepared environmental guidelines in order to supplement the company's environmental and social policy. The environmental guidelines document the procedures and responsibilities related to the assessment of environmental and social risks and describe the assessment and monitoring of Finnfund's projects.

In its corporate environmental and social responsibility assessments, Finnfund complies with the standards of the International Finance Corporation (IFC), a member of the World Bank Group, as well as the procedures and standards Finnfund shares with the other European Development Finance Institutions.

The assessment of environmental and social risks covers the environmental and social risk management systems used by the client companies. An assessment is carried out for all investment projects and, on a case-by-case basis, their subcontracting chains, if these are considered to involve environmental or social risks. This procedure has been integrated into Finnfund's financing process.

Finnfund aims to maintain close cooperation with its clients in order to avoid adverse environmental and social impacts and improve its clients' capabilities in related issues.

Climate change

Finnfund aims to finance projects that reduce greenhouse gas emissions or help adapt to climate change. The company's current strategy focuses on projects involving renewable energy or improving energy and material efficiency as well as projects for sustainable forestry. The company does not finance any coal-fired power plants, or hydropower projects involving large dams that cause extensive displacement of populations.

In compliance with the requirements of the Organisation for Economic Co-operation and Development (OECD), Finnfund reports to the Ministry for Foreign Affairs of Finland regularly on those projects that are significant in terms of climate change prevention and adaptation. Finnfund's operations create climate finance flows and thus serve to meet Finland's international climate finance commitments.

With the aid of external experts the company has developed a tool for calculating greenhouse gas emissions (CO_2) in accordance with international practices. Two versions have been created; one for renewable energy projects and the other for forestry projects. These allow the company to calculate the gross emissions and the net emission reductions of projects. Calculations have been made for applicable energy and forest projects since the start of 2015.

The tools have been constructed to apply the guidelines of the Intergovernmental Panel on Climate Change IPPC and the Greenhouse Gas Protocol. They also employ the methodology of the International Financial Institutions (IFI) to harmonize project-level greenhouse gas accounting.

At the end of 2015 Finnfund's portfolio contained 160 projects in fields that differed greatly from each other in some respects. Because of this heterogeneity it is impossible to assess the greenhouse gas emissions of all projects and the tools have been concentrated on the two main sectors. A precise assessment of the emissions or reductions of the whole project portfolio is therefore unobtainable.

Due to the nature of Finnfund's operations, the company's employees must travel to the target countries quite frequently. Therefore, air travel is the most significant factor in the company's operations causing greenhouse gas emissions, but as a whole and in comparison with the impact generated by the investee companies it is regarded as minor.

The company aims to control the need for air travel by, for example, developing electronic tools that may replace personal attendance and communication under certain circumstances.

Commuting-related greenhouse gas emissions are curbed by encouraging employees to use public transport, by offering them the opportunity to use employer-subsidised commuter tickets and by work partially from home.

Water, waste and energy saving

The water consumption and waste generation within the organisation is insignificant.

However, the company aims to improve material efficiency in its operations by, among other things, reducing office paper consumption by means of duplex printing, promoting electronic document management, sorting waste and using energy-saving office equipment and lighting solutions.

The company is not aware of any environmental damage caused by its operations.

In accordance with the international standards followed by Finnfund, the investee companies must improve their resource efficiency by aiming to prevent the generation of waste, recycling the waste that has been generated and operating in a manner that saves water and energy.

Social impact

Bribery and corruption

Finnfund has zero tolerance towards bribery, corruption and potential conflicts of interest. Finnfund requires its personnel, consultants and investees to comply with the principles it follows. Finnfund's participation in financing a certain project is intended to signal that corruption will not be approved, thereby reducing the possible corrupt demands faced by the investee company. In some target countries, this is an essential part of the added value generated by the company for its clients.

The company has internal guidelines on the giving and receiving of gifts and hospitality. The company requires its personnel to behave in a good but restrained manner suitable for somebody representing a development finance institution and to avoid potential conflicts of interest and influence attempts.

Furthermore, the company has drawn up internal guidelines on potential conflicts of interest and insider information that all employees are expected to follow.

The guidelines were presented to all employees and discussed in detail when they were being implemented. New employees are familiarised with the guidelines during induction. The guidelines are permanently available on the company's intranet.

Any consultants used by the company are contractually required to follow the same guidelines.

Finnfund aims to communicate its zero-tolerance attitude towards corruption and potential conflicts of interest to all investees even before making the investment decision. Finnfund also monitors the operations of the target companies throughout the financing process. Finnfund requires that all investee companies undertake to refrain from corruption as they sign an agreement with Finnfund. Any suspicions of abuse are taken very seriously by Finnfund and lead immediately to countermeasures.

The company follows an established procedure in investigating the background and potential conflicts of interest of individuals working for clients and investee companies. These investigations are carried out during project preparation.

Measures against money laundering and terrorist financing

Finnfund has registered as a party subject to the reporting obligation set forth in the Act on Detecting and Preventing Money Laundering and Terrorist Financing. The company has guidelines on anti-money laundering and terrorist financing procedures. The company has an organisation required by law, and it has implemented the procedures required by its guidelines. Employees have received training on the procedures required by the guidelines in several sessions.

Political influence

Finnfund does not support political activity. It does not offer monetary gifts or other support to political parties, politicians or other parties it identifies as being close to these.

However, this does not apply to minor anniversary gifts or comparable tokens of appreciation provided to members of the company's Supervisory Board or natural persons in a corresponding relation to the company.

At the project level, the company reviews the political conflicts of interest of all parties involved in a specific project and assesses the implications of these conflicts on a case-by-case basis.

Restriction of competition

Finnfund does not generally compete for clients with commercial investors, as its operations are guided by the requirement to focus on generating positive development impacts in the company's target countries and to operate on a self-supporting basis in the long term. However, Finnfund may co-invest and share risks with commercial investors, provided that the other requirements set for the investment decision are met.

Increasing market competition for the benefit of consumers in the target countries is one of the developmental impacts pursued by Finnfund through financing and considered in the assessment of developmental impacts.

Compliance with laws and regulations

Finnfund aims to comply with all applicable laws, regulations best practices in its operations and does not deliberately violate any of these or allow its personnel to do so.

The company also requires similar commitment from its investees, consultants and service providers.

Human rights

Several Finnfund target countries have widely known problems in human rights matters. Finnfund upholds human rights as enshrined in their international proclamations [1)] and seeks, through its own operations and participation, to advance the realisation of human rights in the projects it funds with the means at its disposal.

The human rights perspective is embedded in Finnfund's **Environmental and Social Policy**, and it also endorses the **Principles for Responsible Finance** of the European Development Finance Institutions (EDFI). In human rights questions Finnfund's Environmental and Social Policy tracks the UN Global Compact, the UN Guiding Principles on Business and Human Rights [2)] and the fundamental principles of the ILO. Finnfund does not finance enterprises and projects with human rights violations that cannot be prevented or corrected.

The examination of human rights aspects is a central part of Finnfund's financing process. The human rights dimensions of potential projects are defined at an early stage of project preparation during the project's environmental and social responsibility assessment.

Projects financed by Finnfund observe the environmental and social performance standards [3)] of the IFC (International Finance Corporation), part of the World Bank Group. It is a prior condition of Finnfund financing that the recipient makes a contractual commitment to observe these standards.

Finnfund steadily develops its own human rights tools and arranges the necessary training for its employees.

”Everyone has a right to work and to free choice of employment. Finnfund's investments promote these human rights in developing countries.”

- Tapio Wallenius, Director - Impact and Communications

1) International Bill of Human Rights ja ILO Declaration on Fundamental Principles and Rights at Work

2) Guiding Principles on Business and Human Rights

3) Performance Standards, PS

Development effects

In addition to the “do no harm” principle of its environmental and social responsibility assessments, as a development finance institution, Finnfund seeks to achieve significant direct environmental and social effects in the companies it finances and among their closest stakeholders. Finnfund financing can also achieve positive development impacts indirectly, benefitting the whole of society in the projects’ target countries.

Many companies financed by Finnfund are significant taxpayers, directly or indirectly, in their target countries. For example companies financed directly or indirectly by Finnfund in 2014 reported payments of corporate tax and other tax-like payments to government totalling about EUR 277 million[1)]. EUR 86 million of this, 31 per cent, was paid as corporate tax. At the time of writing, data for 2015 is not yet available.

Of corporate taxes and other payments to government, EUR 114 million was paid by projects located in African countries (both direct Finnfund investments and fund investments by Finnfund portfolio companies). Projects located in Latin America paid EUR 75 million in corporate taxes and similar charges. Projects in Asian countries and Russia paid EUR 72 million, of which Russia accounted for EUR 13 million and China EUR 6 million.

Grouped by type of project, corporate taxes and other payments to government were distributed as follows: direct investments (in manufacturing, infrastructure and forests) EUR 84 million; financial institutions and leasing companies EUR 44 million; and fund portfolio companies EUR 149 million. Payments by fund portfolio companies constituted about 54 per cent of all taxes and similar charges paid by Finnfund direct and indirect investments. About 30 per cent, about EUR 45 million, of taxes and similar charges paid by fund portfolio companies were corporate tax; the rest consisted of other official payments to government.

International Development Finance Institutions have jointly agreed that jobs and corporate tax and other payments to government are development effects to be monitored and reported by all EDFI members. The target set for Finnfund by ownership steering is that 75 per cent of projects should be located in lower and lower-middle income countries. In 2015 92 per cent of new investment decisions were for projects located in such countries. Directing capital to these countries is a significant development effect in line with Finnfund’s mandate.

The assessment of development effectiveness is a procedural part of Finnfund's investment process. In addition to monitoring at the portfolio level, Finnfund studies projects under preparation to assess:

- their compatibility with Finnfund strategy and function: for example, in managing environmental and social affairs and in their impact on curbing climate change
- their economic sustainability and effects on different stakeholder groups: for example, the effect on customers and consumers of final products
- and Finnfund's own role in the project: for example, the catalytic role of finance and its expert/non-financial role.

1) This is the total of all corporate tax and other payments to government paid by the companies financed.

There is no technically reliable way to isolate the proportion attributable to financing from Finnfund.

Investment	Operation	Finnish company*
ASIA		
Cambodia-Laos Development Fund	Private equity fund	
Mekong Brahmaputra Clean Development Fund L.P.	Private equity fund	
Tropical Asia Forest Fund	Private equity fund	
BANGLADESH		
Everest Power Generation Co. Ltd.	Power Plant	Wärtsilä Oyj
CAMBODIA		
First Finance Plc.	Financial institution	
Sathapana Limited	Microfinance	
CHINA		
Avain China Holding Oy	Telecommunications	Avain Technologies Oy
China Finland Maanshan Steel Co.Ltd.	Metal products	Metalliset Oy
GreenStream Energy Efficiency Investments Ltd.	Energy efficiency	Several Finnish technology providers
LVDU Lapland Food Co., Ltd.	Dairy products	Lapland Food Oy
Norrhydro Hydraulic System (Changzhou) Co. Ltd.	Manufacturing of hydraulic sylinders	Norrhydro Group Oy
Peikko Construction Accessories (Zhangjiagang) Co., Ltd	Metal products	Peikko Group Oy
XTC Company Oy	Electrical equipment	Mekitec Oy

INDIA		
Ashley Alteams India Pvt. Ltd.	Aluminium components	Alteams Group
Bharti Airtel Limited	Telecommunications	Nokia Siemens Networks Oy
Ojala (India) Engineering Pvt. Ltd.	Metal products	Ojala-Yhtymä Oy
Polygenta Technologies Ltd.	Polyester manufacturing	
Stera Engineering (India) Pvt. Ltd.	Contract manufacturer of electromechanics	Stera Technologies Oy
VME Precast Pvt. Ltd.	Concrete elements	Valkeakosken Betoni Oy
INDONESIA		
SaraRasa Biomass	Biofuels	Dovre Group
LAOS		
Nam Sim Power Company Limited	Hydro power	
MONGOLIA		
Radisson BLU Hotel Ulaanbaatar	Hotel	
NEPAL		
Dolma Impact Fund I	Private equity fund	
PHILIPPINES		
mBank Philippines	Microfinance	
SRI LANKA		
Commercial Leasing and Finance PLC (CLC)	Microfinance	
THAILAND		
A.T. Biopower Co., Ltd.	Biopower plant	Private Energy Market Fund Ky, Pöyry Oyj
Siam Investment Fund II L.P.	Private equity fund	
Thai Biogas Energy Company Ltd.	Biogas	Private Energy Market Fund Ky
VIETNAM		
Mekong Enterprise Fund, Ltd.	Private equity fund	
SEAF Blue Waters Growth Fund Limited	Private equity fund	
AFRICA		
AfriCap Microfinance Investment Ltd.	Microfinance	
AfricInvest Fund Ltd.	Private equity fund	
Afrinord Hotel Investments A/S	Hotels	
Atlantic Coast Regional Fund	Private equity fund	

Aureos Africa Fund LLC	Private equity fund	
B.O.A. Group S.A.	Bank	
Catalyst Fund	Private equity fund	
Creditinfo East Africa	Credit information	
ECP Africa Fund I LLC	Private equity fund	
European Financing Partners	Development financing	
Fanisi Venture Capital Fund	Private equity fund	
Fidelity Equity Fund II Limited	Private equity fund	
GEF Africa Sustainable Forestry Fund, L.P.	Forestry Fund	
Green Resources AS	Forestry and wood products	
GroFin East Africa Fund LLC	Private equity fund	
Miro Forestry Company	Forestry and wood products	
Norsad Finance Limited	Development financing	
SFC Finance Limited	Bank	
Silverlands Fund	Private equity fund	
UpEnergy Group	Wholesale trade	Climate Wedge Oy
CAPE VERDE		
Cabeólica S.A.	Wind power	
ETHIOPIA		
M-Birr Ltd.	Telecommunications	
Schulze Global Ethiopia Growth and Transformation Fund I	Private equity fund	
SINI Furniture Interior Design PLC	Furniture	Henrik Puustinen
GHANA		
Ghana Airport Cargo Centre	Transport	Mafi Oy
KENYA		
Elgon Road Developments Limited	Hotel	
Lake Turkana Wind Power	Wind power	Peikko Group Oy
NIGERIA		
African Foundries Limited	Steel	Wärtsilä Oyj
SIERRA LEONE		
Goldtree Sierra Leone Limited	Food production	
SOUTH AFRICA		
Evolution One LP	Private equity fund	
Horizon Fund III Trust	Private equity fund	

TANZANIA		
Kilombero Valley Teak Company Ltd.	Forestry and wood products	
New Forest Company (Tanzania) Limited	Forestry and wood products	
Precision Air Services Ltd.	Airline company	
Tanira Ltd.	Hand pumps	Lojer Oy

UGANDA		
New Forests Company (Uganda) Limited	Forestry and wood products	

THE MEDITERRANEAN

TURKEY		
Noksel A.S.	Steel pipes	Nokia Oyj

THE MIDDLE EAST

JORDAN		
Arabia One For Clean Energy Investments PSC	Solar power	
Falcon Ma'an for Solar Energy LLC	Solar power	
Jordan Solar One (Cayman) / Jordan PSC	Solar power	

LATIN AMERICA AND THE CARIBBEAN

CENTRAL AMERICA		
CASEIF II Corporation Ltd.	Private equity fund	
Central American Mezzanine Infra Fund (CAMIF)	Private equity fund	
Central American Renewable Energy and Cleaner Production Facility (CAREC)	Private equity fund	

HONDURAS		
Desarrollos Energéticos S.A. de C.V.	Small hydropower	Pöyry Oyj
La Vegona	Hydropower	
Los Laureles	Small hydropower	
Mezapa Hydroelectric Project	Small hydropower	
Valle Solar Power Project	Solar power	ABB Finland

LATIN AMERICA		
CIFI - Corporación Interamericana para el Financiamiento de Infraestructura, S.A	Financial institution	
Latin American Agribusiness Development Corporation (LAAD)	Bank	
SEAF Latam Growth Fund	Private equity fund	
The Forest Company Ltd.	Forestry and wood products	
MEXICO		
Pro Eucalipto Holding S.A.P.I de C.V.	Forestry and wood products	Dieffenbacher Panelboard Oy
NICARAGUA		
Banco Lafice-Bancentro S.A.	Bank	

CENTRAL AND EASTERN EUROPE

SEAF Central and East European Growth Fund LLC	Private equity fund	
SEAF South Balkan Fund B.V.	Private equity fund	
RUSSIA		
MP Russia Oy	Food products	Myllyn Paras Oy Konserni
OOO AVA-Peter	Hospital	Scanfert Oy
OOO Dan-Invest	Agriculture	Atria Oyj
OOO Skaala	Windows and doors	Skaala Oy
Oy Nordic Russian Management Co - NORUM	Development financing	
Rani Plast Kaluga LLC	Plastic products	Ab Rani Plast Oy
ZAO Betset	Building materials	Betset Oy
UKRAINE		
Aqueduct Ltd.	Metal products	Macring Oy
ZAO Zaporozhkij Zavod Tjazhelogo Krasnostroenia	Cranes	Konecranes Oyj

INTERNATIONAL

Althelia Climate Fund SICAV-SIF	Environment fund	
Dasos Timberland Fund I	Forestry fund	Dasos Capital Oy
Global Environment Emerging Markets Fund III, L.P. (GEEMF)	Private equity fund	
Interact Climate Change Fund S.A.	Development financing	
MBH B.V.	Microfinance	

Moringa S.C.A. Sicar	Agroforestry fund	
Private Energy Market Fund Ky	Energy fund	Pöyry Oyj
ShoreCap International Ltd. II	Microfinance	
WWB Capital Partners, LP	Microfinance	
*) Shareholder or significant technology provider		

Investment agreements of new projects signed in 2015*)

Investment	Amount of Finnfund's investment
Commercial Leasing and Finance PLC (CLC)	USD 11 000 000
CreditInfo East Africa	EUR 2 400 000
SINI Furniture Interior Design PLC	EUR 1 000 000
New Forests Company (Uganda) Limited	USD 10 000 000

*) does not include agreements to provide additional financing to previously signed projects

Photo: Shutterstock

Investing in private projects

The terms on which we provide finance are market-based and depend on overall project risk. Along with long-term investment loans, we make equity-rated investments and offer customers subordinated loans or other mezzanine financing. Some of our investments are for expanding existing activities, others for establishing entirely new operations. Whatever the form of financing, we always participate with a minority stake; Finnfund does not seek a dominant position in the companies it finances

Investment projects are assessed not merely for profitability but also for how they promote economic and social advance in developing countries. Projects that meet the conditions of the **Finnfund Act** and are in accordance with company strategy can be accepted for project preparation. The initial stage of this process contains an examination of whether the project meets the company's policy on environmental and social responsibility, including the standards of the International Finance Corporation, which specialises in World Bank private sector financing. The assessment of environmental and social responsibility also helps to set the financing terms to be negotiated with customers.

Finnfund expects good corporate citizenship from the companies it invests in, and does not condone corruption, tax evasion or money laundering in its projects. Environmental matters and working conditions are two of the issues that must meet international standards even if local legislation is less stringent or entirely absent.

Finance for diverse development support

Viable enterprises are a precondition for sustainable growth and development. Profitable companies create jobs and generate tax revenues used by public sector for its operations. Tax revenues also reduce the dependence of the country on external aid. Private sector entities creates export earnings and offer consumers cheaper or better services and products. Well-managed companies also safeguard the environment by operating responsibly and using resources efficiently.

Foreign direct investment (FDI) in companies of developing countries has increased in recent years, but it has been spread unevenly. Investing especially in the poorest countries, has been regarded as too risky. The slow growth of global economy and declining prices of raw materials - crucial to developing economies' export industries - have exacerbated the situation. In many low-income countries, companies suffer from a shortage of long-term, reasonably priced, risk-tolerant funding. Finance from Finnfund alleviates these market failures.

In addition to providing finance, Finnfund catalyses the skills and knowledge of Finnish companies to developing countries. In 2015, 11 new financing decisions were made on projects with participation of Finnish companies.

”Finnfund's hydro, solar and wind power projects produce clean power, electricity and lightning for poor households in developing countries.”

- Helena Teppana, Senior Investment Manager - Forestry, environment and renewable energy

Finnfund is especially oriented towards cooperating with Finnish companies that have solutions to the pressing problems of the developing world, and so also have opportunities in growth markets. These opportunities are often related to clean technology. Finnfund prioritises companies and projects that are large enough to succeed but too small to partner with international development banks.

Examples of cooperation with Finnish companies can be found in the **investment list** of the annual report.

Finnfund also provides finance for companies of developing countries with involvement of Finnish companies as technology suppliers, operators, designers or customers. In the poorest countries, especially in Africa, Finnfund can additionally finance local companies indirectly, via private equity funds and financial institutions.

Jobs and tax revenues through investments

Each year Finnfund gathers information on the development effects of its portfolio companies. This information is compiled with cross-sectoral indicators (such as jobs and government revenues) and sector specific indicators where relevant (for example power production, micro- and SME loans) for all Finnfund portfolio projects. The raw data comes from customers themselves so summary reports are subject to a small lag while it is being checked. At the end of 2014, for example, companies financed by Finnfund directly employed some 24,870 people, about 35 percent of them women (8,600).

Various payments to government paid by companies financed directly and indirectly by Finnfund totalled about EUR 277 million in 2014[1)]. Of this amount direct investments totalled EUR 80 million, financial and leasing companies EUR 44 million and funds investee companies EUR 149 million euros. Most of these were paid by investees of the private equity funds in which Finnfund has invested in Africa. Of all payments to government paid by Finnfund's direct and indirect investee companies income taxes totalled 31 per cent, approximately EUR 86 million euros.

Tax revenues to target countries in 2014 (total EUR 277 million)

Companies financed directly by Finnfund delivered 490 GWh of electricity in 2014. Among other effects are loans to microenterprises (about 2,390,000 million loans totalling EUR 940 million) and to small and medium-sized companies (about 152,860 loans totalling EUR 2,786 million) and housing loans (about 4,334 loans totalling EUR 298 million) by companies financed directly or indirectly by Finnfund. In addition, the companies financed by Finnfund reported reaching 13,475 farmers as e.g. suppliers, buyers or subcontractors for the projects. Many projects also have voluntary programs for developing the surrounding communities and their livelihoods.

Project portfolio by region and sector

At the end of 2015 Finnfund's portfolio contained 160 projects. About three-quarters of these, measured both by the number of projects and their value, were in low-income and lower-middle-income countries, which is a good achievement for Finnfund's development policy mission. Most co-investment with Finnish companies was in middle-income developing countries such as India, China and Ukraine, and also in Russia. In low-income countries, Finnfund largely finances infrastructure, and usually jointly with other development finance institutions, but even these projects generally have an involvement by Finnish companies as technology suppliers.

There were 101 direct investments and 59 investments via private equity funds and financial institutions. Finnfund's direct investments are spread over many sectors, from engineering workshops to forest plantations, and from pharmaceuticals to power generation. About 45 per cent of investment decisions and about half of total investments in euros made in 2015 can be classed as climate-related because they produce renewable power, prevent deforestation, save energy and raw materials, or improve the adaptability of poor people to the challenges of climate change.

1) This is the total of all payments to government paid by the companies financed. There is no technically reliable way to isolate the proportion attributable to financing from Finnfund.

For the most challenging markets, equity-rated investments via funds

About a quarter of Finnfund's investments in developing countries have been channelled via private equity funds. Fund investments are targeted mainly at low-income countries and especially Africa. At the end of 2015 Finnfund was a participant in 37 private equity funds to the total of about EUR 95 million, an average of some EUR 2.6 million per fund.

Most of the funds invest in micro, small and medium-sized local enterprises that would be hard or impossible to finance directly in a cost-effective way. Our focus is on funds that provide capital for business expansion where the investment would not be possible without the equity-rated financing that the fund offers.

Funds' investments are generally made and managed by teams that combine skills in equity investment, obtained in developed markets, with in-depth knowledge of the local market. By using private equity funds, Finnfund reduces the risk of operating in low-income countries.

Rest of Finnfund's fund investments are in sectoral funds that concentrate on matters like renewable energy, sustainable forestry, agriculture or micro-financing. These funds typically operate in many countries, transferring skills across borders.

Most fund co-investors are other development finance institutions but there are also insurance companies and pension funds from the investee countries. Foreign institutional investors, on the other hand, usually postpone their involvement until there is a track record of success. As and when a country or sector previously regarded as challenging begins to develop and private equity operations become established, institutional investors start showing an interest in the fund. Then, development finance institutions like Finnfund can move on to new projects where commercial financing is not yet adequately available.

Funds are typically established for a fixed duration of about 10 years. A fund generally invests the subscriptions it receives in its first few years; then its focus shifts to developing its investments and finally to exiting them. Finnfund's private equity fund commitments generally range from five to ten million euros.

Tax revenues of 149 million euros to investee countries

Most of the private equity funds that invest in developing countries are registered in international financial centres. Africa-based funds are generally registered in Mauritius. Another common domicile is Luxembourg. The countries of registration are conduits, channelling investments from many different places to investee countries. Funds do not pay taxes in their country of registration but investors and investees pay taxes in their home countries. In 2014 companies financed by Finnfund's private equity funds paid a total of about EUR 149 million euros in taxes and similar charges in investee countries. 30 per cent was income taxes and the rest other payments to government.

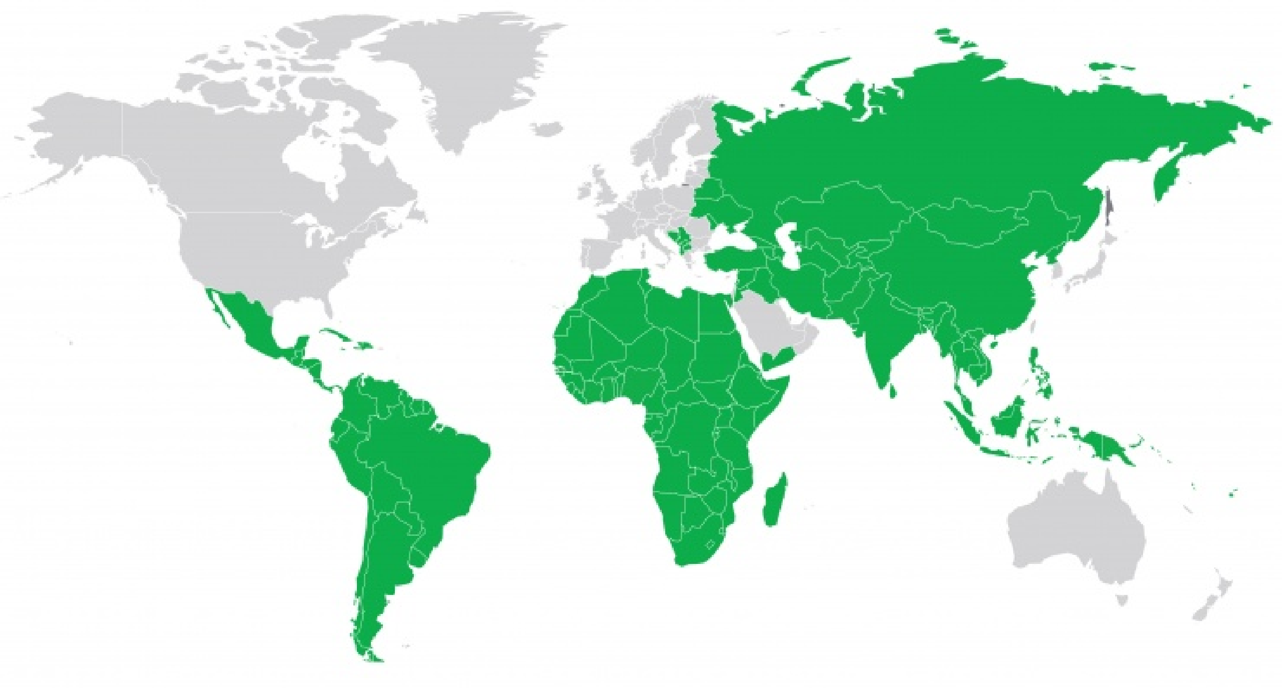
Finnfund is opposed to tax evasion, corruption and money-laundering in investee countries and domiciles. We conduct background checks on co-investors and management companies, and require diligent reports from funds on their investee companies, taxes paid, and so on. Alongside many other development finance institutions, we urge countries of registration to create transparent regimes by investing only in the funds that are registered in countries observing the progressively stricter demands agreed in the OECD Global Forum. In 2015 there were 20 countries on the updated list of domiciles of funds that Finnfund does not invest in (Micronesia, Guatemala, Kazakstan, Lebanon, Liberia, Nauru, Trinidad and Tobago, Vanuatu, Andorra, Anguilla, Antigua and Barbuda, Barbados, Costa Rica, Indonesia, Israel, St Lucia, Samoa, Sint Maarten, Turkey).

Banks and financial institutions are vital for economic development

Finnfund provides finance for banks and financial institutions, especially in Africa and Latin America. The form of finance, such as a long-term loans or mezzanine financing, generally supports the institutions in meeting capital adequacy requirements, and improves their ability to grant loans to companies, households, etc. Banks financed by Finnfund usually have a clear focus on SMEs, small infrastructure projects, family companies, households or similar areas.

Finance granted to banks and financial institutions has a great multiplier effect on national economic development. The loans and the conditions attached also promote operational transparency and risk management in environmental and social affairs, among others. Local banks, especially in many African countries, are often too small to be profitable. Risk-tolerant finance from a development finance institution like Finnfund supports their growth in local and regional markets.

Finnfund's operational area



New Forests Company - sustainable forestry in Africa

Over 85 per cent of East Africa's population does not have access to the electricity grid and therefore use charcoal as their main source of cooking fuel. Together with 5 per cent annual population growth in the region, deforestation is a major driver of environmental degradation and global warming.

Lying on the equator, East Africa is one of the most fertile places in the world, benefitting from intense sun and two rainy seasons every year. Therefore, it is crazy that the region does not have its own sustainable timber resource, instead importing the majority of its timber products.

The New Forests Company (NFC) was founded in 2004 with the vision of reversing deforestation. The sustainable forestry company is establishing green field forests, the majority of which are Forest Stewardship CouncilTM (FSCTM) certified. NFC is the second largest private tree planter in the region, currently managing 24,000 hectares of planted timber and 9,000 hectares of conservation land.

NFC is East Africa's largest local producer of transmission poles with four treatment plants in Rwanda, Uganda and Tanzania. The company recently diversified into sawn timber as well with three sawmills. Through these operations, NFC has created over 2,000 local jobs, most in rural areas where they are needed most.

As a large land holding investment in Africa, NFC is deeply committed to social impact having invested over USD 6.5 million to date on its community development programme. This programme reaches over 400,000 people and includes 32 schools and double classroom blocks, 23 clean water points, 9 health centres, and 6.5 million tree seedlings for outgrowers. The communities have become strongly aligned partners in preventing grazing, fire, theft and other risks, achieving a mutually beneficial relationship for the investment and its neighbours.

NFC has a long-term investment horizon due to the 10-20 years it takes for the trees to mature and the limited early revenue opportunities available. Therefore, it could not have achieved this level of scale or success without financing from investment partners like Finnfund who are willing to delay their financial returns because of the significant environmental, social and economic benefits created by their investment. Finnfund has worked with NFC since 2014, providing them crucial financing to their Ugandan and Tanzanian operations in a joint debt facility with the Dutch development financier FMO.

New hotel helps create hundreds of jobs in Kenya

A new Radisson Blu hotel was opened in the Kenyan capital at the end of 2015. Finnfund is one of the financiers of the real estate company Elgon Road Developments responsible for building the hotel in Nairobi's Upper Hill business district.

Tourism is an important source of employment in developing countries such as Kenya. The new Radisson Blu hotel employs about 350 local people. The hotel also provides indirect demand for services and products from the local community, and creates jobs for subcontractors and small entrepreneurs in the area.

Permanent employment and a responsible employer are important. Globally, the Carlson Rezidor Hotel Group operates more than 1300 hotels in 100 countries. Each hotel has an action plan for responsible business, covering matters like health and safety, continuous training, environmental protection and contributions to the local communities.

Finnfund has been working with The Rezidor Hotel Group since 2005. In recent years the hotel group has expanded to sub-Saharan Africa and also established a separate company, Afrinord Hotel Investments, together with Nordic development finance institutions. So far Afrinord has invested in five hotel projects with Rezidor in South Africa, Ethiopia, Kenya, Mali and Sierra Leone.

Both business travellers and tourists need places to stay. Hotels provide much needed employment in poor countries that helps uplift the quality of life of local residents and improve the environment. Hotels also offer many jobs for women.

The hotel industry can also offer meaningful jobs to people that are not so privileged in life, and are otherwise considered hard to employ by other industries. One good example is the Park Inn by Radisson hotel in Cape Town, South Africa, where one-third of employees have hearing disabilities. Finnfund is one of the financiers of this hotel which opened its doors in 2014.

Air cargo centre boosts Ghana's exports

Produce from Ghana will have faster access to international markets in spring 2016, when a new air cargo centre is complete at Accra.

Ghana Airport Cargo Centre is being built at Kotoka International Airport. GAAC is co-owned by Air Ghana, a private passenger aviation and freight service company, and the state-owned Ghana Airports Company Limited.

Finnfund and Access Bank Ghana have provided finance for GAAC. Access Bank Ghana is a subsidiary of Nigeria's Access Bank, with which Finnfund has been cooperating since 2006.

As a lower-middle-income country, Ghana needs to develop and diversify its foreign trade. Greater air cargo capacity and more efficient service will mainly benefit the country's fruit producers.

Their main exports are pineapples but they also airfreight papaya, passion fruit, vegetables and yams to foreign markets. Local producers have begun to export prepacked peeled fruit, too.

When the cargo centre is complete it will employ about 300 workers in Accra. The growth of airfreight capacity will create extra jobs inter alia in forwarding and in all those sectors where export possibilities are improved by the cargo centre.

Photo: Ghana Airport Cargo Centre

Local panelboard for Mexican homes

Mexican forest company Proteak has begun operations at its MDF board plant, the first in the country.

Finnfund has provided financing of USD 10 million for the project, located in the south of Mexico.

Some of the equipment for its MDF line is from Finland. Dieffenbacher Panelboard Oy, based in Nastola, supplied machinery and process solutions via its German parent company, Dieffenbacher GmbH.

Mexico expects demand for building materials to grow because tens of millions of its people have inferior living conditions. Domestically produced MDF board will serve to promote the use of wood in local construction.

MDF is also an ecological alternative because the feedstock used by Proteak will come entirely from sustainably managed eucalyptus forests close to the plant.

The company has obtained international FSC certification for its responsible forestry. It has also endorsed the UN’s Global Compact to promote human rights, labour conditions and environmental responsibility, and to eliminate corruption.

Based in the poor state of Tabasco, the plant and plantation forests will, directly and indirectly, provide work, livelihoods and skills for several thousand people.

Credit information for better access to finance in East Africa

East Africa now has better banking and financial services for ordinary people but not everyone still has automatic access to them. An important way of improving availability is to make credit information more transparent and easier to obtain. Unless the bank knows who pays back, even a good client may not get the loan or may have to pay too much.

CreditInfo of Iceland specialises in establishing credit databases and bureaus in developing countries. It was the first such company to obtain a permit to open a bureau in Tanzania, and in 2015 it began operating in Kenya, too. Finnfund has provided a loan for investments to set up CreditInfo's credit information operations in Tanzania and Kenya.

One challenge faced by the financial sector in Tanzania has been the difficulty of establishing the identity of individual clients. The country does not have social security IDs or any other simple method of reliable identification. Many people are still unfamiliar with banking and there is sometimes a great temptation to seek loans from several banks at the same time. CreditInfo has supplied the Tanzanian central bank with a system for compiling an effective credit database from information, supplied by financial institutions and companies, about loans and repayment performances.

In addition to credit performance reports, CreditInfo's bureaus can supply financial institutions and companies with analytical tools and processes for checking credit information and forecasting creditworthiness. These are a way of increasing the quality and efficiency of lending, improving risk management, reducing opportunities for abuse, and shrinking the margins that customers pay. Responsible customers who generate an impeccable credit history can then seek competing offers of finance. Employers have also begun to ask job applicants for credit information records in order to assess their dependability.

CreditInfo Tanzania and Kenya are active in arranging training events for customers and other stakeholders on the uses and advantages of credit information.

Finnish furniture maker thrives in Ethiopia

After moving to Ethiopia, the Puustinen family found that local shops had no furniture suitable for their home. Other expatriate residents seemed to be having the same problem so the Puustinens decided to begin making their own.

Henrik and Sini Puustinen established SINI Furniture Interior Design Plc in 2010. They purchased second-hand woodworking machinery from Finland and started production of furniture in 2011 in an industrial building in Addis Ababa.

The start-up was assisted by Finnpartnership, which provided business partnership support for part of the training costs of SINI Furniture employees. The support covered also the wages and travel costs of Finnish instructors.

SINI Furniture designs and produces sofas, armchairs, television stands and kitchen tables and chairs that reflect Nordic design. Customers can also order bespoke furniture.

The company now has 70-75 employees and three stores in Addis Ababa. Demand for its furniture has been even stronger than expected. Demand has been boosted by Ethiopia's brisk rate of economic growth, expected to approach 10 percent in 2015.

In response to strong demand, the Puustinens decided on a large expansion to their production facilities, due to be completed in 2016. With Finnfund's loan production volume is increased and quality greatly improved.

Finnfund supports Sini Furniture's corporate responsibility in environmental and social matters. Hereafter SINI Furniture will stand out from the local competition because of its stock of machinery, its working practices, occupational safety and environmental and social responsibility. The production increase will create 100 new jobs. In time, the skilled employees will improve the level of the general carpentry industry in Ethiopia.

Finnpartnership

Pure Waste turns textile waste into business in India

Pure Waste Textiles is creating a production model in India to turn textile waste into new products. The company has received Finnpartnership's assistance for preparing the new business model.

The business idea for recycling the surplus materials from textile industries came about when a group of Finnish clothing professionals launched the Costo brand in 2006. In 2013, the team founded Pure Waste Textiles Oy and started investigating potential uses for textile waste from the tricot industry in Tamil Nadu, a southern province in India and one of the world's major producers of tricot fabrics.

Finnpartnership provided business partnership support to help Pure Waste identify potential partners and develop its business model. The company also took advantage of other Team Finland services, namely the funding offered by Tekes for international growth plans.

Pure Waste only uses 100% recycled materials. The end products must be high quality yet competitively priced.

Production plant built by Pure Waste's Indian partner outside the city of Coimbatore opened in early 2016. At the plant, textile waste is processed into fibres and spun into thread. Recycled materials are turned into finished garments at the nearby sewing shop owned by an Indian partner.

At the same time, Pure Waste is looking for markets for its Indian-made products. Although some textile manufacturers are only interested in buying recycled fibre material, Pure Waste is also well placed to start supplying thread, fabric and even finished garments to international brands.

Textile waste recycling has plenty of potential. The world's population is growing, and not enough cotton and other raw materials can be produced to meet the demand. We have no choice but to increase the use of recycled materials. Currently, only about fifteen per cent of the world's textile waste is reused.

Own production plant will give the company proper oversight of environmental and social responsibility in its Indian business. The plant will employ approximately 200 local people. The plant is located in a poor rural area, where jobs offered by responsible employers are vitally important.

It is important to ensure that the production does not contaminate or deplete the area's already sparse natural resources. The plant is located in an area of low rainfall, which is why it has a rainwater collection system. The intention is to cover some of the energy consumption needs with solar power and methane produced from toilet waste. The company also has plans to support local communities by offering funding for sustainable development projects from a separate Pure Waste Fund to be set up.

See Pure Waste Textile's YouTube video "Making of Slush T-shirt"

Photo: Pure Waste Textiles "This T-shirt saves 2700 litres water"

Finnpartnership

Haaga-Helia makes headway in education exports

Haaga-Helia is increasing its education exports to developing countries. Finnpartnership has provided the institution with important support in mapping new markets and identifying partners.

Haaga-Helia University of Applied Sciences was among the first higher education institutions in Finland to explore international growth opportunities for education and training services. Its first steps were the sale of a teacher training package to Sweden and Saudi Arabia in 2008.

Developing countries will play a key role in the coming years when institutions seek growth abroad. Finnpartnership's business partnership support has provided decisive support in mapping the education markets and identifying potential partners.

Haaga-Helia has utilised Finnpartnership's business partnership support in Vietnam, Malaysia, Peru and Botswana. Haaga-Helia will launch a study programme in hospitality at Disted College in Penang, Malaysia. It continues to explore the markets in Vietnam and Peru to identify collaboration opportunities with local institutions. In Botswana the government commissioned Haaga-Helia to produce a training package for 60 vocational teachers. Haaga-Helia has also made inroads in South Africa, where it has reached a deal with the Tshwane University of Technology in the capital city of Pretoria on a training package for 32 vocational teachers.

Haaga-Helia has benefited greatly from the Team Finland networks and export promotion trips. Organisations can join business delegations which are headed by ministers or high officials and offer opportunities for making contact with local ministries and potential partners.

Haaga-Helia sells its services to ministries, higher education institutions and other education providers both public and private. The new act on the tuition fees for non-EU foreign students also creates new opportunities for the consumer market. Finnish operators should promote Finnish expertise in the education sector.

Growth programme Education Export Finland EEF (previously Future Learning Finland) was launched in 2015 to bring together Finnish companies in the education sector. It promotes the growth of Finnish education service business on the international market.

Report of the Board of Directors

Mission and strategy

Finnfund, formally the Finnish Fund for Industrial Cooperation Ltd. (FINNFUND), is a development finance company in which the Finnish government has a majority holding; it belongs to the administrative sector of the Ministry for Foreign Affairs and has a special development policy mission. The mission of the company is to promote economic and social development in target countries by providing financing for private-sector projects involving Finnish interest. Finnfund provides long-term risk capital to complement funding obtained from the financial markets, and operates on a self-supporting basis. Finnfund targets financing at low-income and lower-middle-income developing countries, builds bridges between Finnish expertise and development needs, and augments the developmental impacts of investments catalysed by Finnfund.

In 2015, Finnfund continued to focus on balanced growth and risk management. The project preparation focus was still on financing in the form of loans for projects that generate regular cash flow, although more long-term equity investments were made than a year earlier. Regardless of Finnfund's role in any given project and the financial instruments used, the key requirement is the economic viability of the projects and their positive development impact in the target countries.

Funding and investments

Finnfund's portfolio continued to grow from the previous year, and cooperation with Finnish companies intensified, with companies participating in an increasingly large number of projects as technology suppliers or partners. The majority of Finnfund's new financing decisions involved projects with an excellent development impact potential and a positive effect on climate change, particularly in the renewable energy and forestry sectors.

In 2015, 18 (23 in 2014) new financing decisions were made, amounting to a total of EUR 83.5 million (EUR 115 million). The targeting of financing decisions at various income levels is shown in the table below.

Income level	number	%	EUR million	%
Least developed countries	7	38.9	38.7	46.3
Low-income countries	3	16.7	14.9	17.8
Lower-middle-income countries	6	33.3	27.4	32.8
Upper-middle-income countries	2	11.1	2.5	3.0
Russia	0	0	0	0
Total	**18**	**100**	**83.5**	**100**

The majority, or nine (16) of the financing decisions made involved investment loans, accounting for about 60 per cent (75 per cent) of the value of the decisions in euros.

According to Finnfund's risk management principles, equity investments must be covered from Finnfund's shareholders' equity. Shortage of shareholders' equity limited the opportunities for making equity investments but investments were still made due to the prospect of a significant increase in capital. Eleven (8) of the projects that were approved were equity investments or mezzanine financing, showing an increase from the previous year. When calculated in euros, they accounted for 32 per cent (16 per cent) of all approved projects. As in the previous year, the number of fund investment decisions remained modest, as planned, and only one (1) decision was made.

In terms of both the number and value of the financing decisions made, Africa with 7 (11) decisions and Asia with 8 (7) decisions were the leading continents. In terms of euros, Africa remained the leading target area with 44 per cent (49 per cent) of the funding. Asia grew significantly from the previous year, representing 40 per cent (16 per cent) of the total value of decisions in euros. Projects were evenly distributed between different countries to an exceptional extent. One decision per country was made, with the exception of Ethiopia which accounted for 2 (1) decisions.

The volume of disbursements grew to EUR 77 million from EUR 73 million, representing a historic high for Finnfund. Of this amount, EUR 53 million (EUR 37 million) was allocated to low-income countries or the least developed countries, EUR 8 million (EUR 16 million) to lower-middle-income countries, EUR 16 million (EUR 13 million) to upper-middle-income countries, and EUR 0.5 million (EUR 7 million) to Russia.

Finnfund is actively involved in European Financing Partners (EFP), founded in 2004 as a joint financing venture of European development finance institutions and the European Investment Bank (EIB), and in the Interact Climate Change Facility (ICCF) founded by the same actors and the French development funding provider AfD in 2011. ICCF invests in projects aimed at curbing climate change, such as renewable energy and energy efficiency. In 2015, a plan for the merger of ICCF with EFP was prepared. This is largely an administrative change, and EFP and ICCF portfolio management will continue to be separate within the new company. The execution of the merger will take place in 2016.

At the end of 2015, undisbursed commitments totalled EUR 131.5 million (EUR 146 million). In addition, EUR 104 million (EUR 75 million) were tied up in investment commitments that had not yet progressed to the agreement stage.

Development and priorities

An organisational reform was carried out in 2015 involving the establishment of a functional matrix organisation working in parallel with the funding process and focusing on project preparation and follow-up, complex project exits and reorganisations. The matrix organisation will supplement the traditional, hierarchical reporting-based organisation. The number of investment teams was reduced from three to two, and the remaining resources were strengthened with internal employee transfers and new recruitments. In addition, a new function focusing on project exits and complex reorganisations and a function for impact and communications were set up.

Internal processes were extensively assessed and developed throughout the year, with a special emphasis on internal cooperation and on the more efficient utilisation of electronic tools and processes.

A call for tenders covering Finnfund's case and document management system was arranged in 2015 and a decision was made to procure a system that would facilitate document management and improve efficiency. The system will be introduced in 2016. A new payroll accounting system was introduced at the end of 2015 and a decision was made to initiate the procurement process for a new CRM system in 2016. In addition, several system updates and version changes were implemented.

To streamline and enhance operations, several small changes were made to the documentation and policies essential to the financing process, and to the working practices of the internal investment committee. Electronic signature was adopted for several documents, which accelerated the approval process for e.g. disbursements.

Co-operation with other members of the European Development Finance Institutions (EDFI) continued as in earlier years, through both concrete projects and the sharing and harmonisation of operating methods.

In early 2016, majority of employees moved to new premises connected to those introduced in early 2014. The old premises, which have been in use since 2007, were divested. Following the relocation, all personnel now work in the same premises in central Helsinki.

The Finnpartnership programme

Finnfund administers a business partnership programme called Finnpartnership. Launched in June 2006, the programme is financed by the Ministry for Foreign Affairs. The programme period ended on 31 December 2015. A call for tenders for the administration of the revised programme was organised in autumn 2015. Finnfund was awarded the contract, which means that it will continue as the programme administrator, although with smaller resources, in 2016–2018 and, if the option is exercised, in 2019–2021.

In 2015, a total of 185 (113) business partnership support applications were processed. Of these, 168 (90) applications were approved. Total support granted amounted to EUR 7.4 million (EUR 4.3 million).

Business partnership support was paid out to 81 (54) projects, totalling EUR 1.5 million (EUR 1.0 million).

In 2015, the matchmaking service received 364 (222) business initiatives from companies in developing countries.

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. Guidelines on asset and risk management are assessed annually. No changes were made to the risk management principles in 2015.

Owing to the nature of its activities, the company is exposed to greater than average risks. Risk management includes risk identification, hedging, and reporting to the company's administrative bodies.

The risk classification system developed by Finnfund and 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, if it is estimated that the risk level has changed.

On 8 October 2012, the Ministry for Foreign Affairs decided on the introduction of special risk financing to share investment risks between Finnfund and the Finnish government. Special risk financing was provided on the basis of a loss compensation commitment adopted by the government on 20 September 2012, whereby the government undertook to compensate Finnfund for a maximum of 60 per cent of credit losses and investment losses in projects covered by special risk financing while the commitment remained valid. As of 31 December 2015, no new projects covered by special risk financing can be accepted. Projects accepted for coverage by the special risk financing during the term of the programme will be covered by

Government risk-sharing until repayment or Finnfund's exit. To be eligible for special risk financing, an extremely high developmental impact aimed at low-income or lower-middle income countries was required of projects; or the risk was otherwise considered too high for the project to qualify for Finnfund financing.

In 2015, the Board of Directors decided to enter 10 (3) projects under special risk financing. The aggregate value of the commitments was EUR 55 million (EUR 2.7 million). The government is responsible for EUR 28 million (EUR 1.4 million), or 51 per cent (53 per cent) of the investment risk associated with commitments made in 2015. By the end of 2015, commitments with a value of EUR 111 million (EUR 52.8 million) had been made for projects under special risk financing. The government answers for EUR 50 million (EUR 26.5 million), or 45 per cent (50 per cent) of the risks involved in these commitments. The loss compensation commitment covers a maximum of EUR 5 million in compensation per year.

The objective with regard to interest and exchange rate risks is to identify and hedge against any risks. The company's lending is either in euro or United States dollars and the objective is to cover the interest and exchange rate risks associated with lending fully and over the entire maturity of the loans. In 2015 the company did not lend in the local currencies of target countries. Basically the company does not cover exchange rate risks associated with equity and fund investments but may on a case-by-case basis cover currency positions that are certain or at least likely, and can be hedged at a reasonable cost.

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 50 million, non-committed credit facilities, and a commercial paper programme set up in 2010 totalling EUR 100 million. At the end of 2015, the value of commercial papers issued through the programme amounted to EUR 7 million. The credit facilities provided by banks were not in use at the end of 2015.

The refinancing risk associated with borrowing is managed by maintaining 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 3.7 (3.5) years.

Finnfund maintains a continuous capacity for identifying, controlling, and combating data security risks.

Financial result and balance sheet

For Finnfund, careful project preparation is essential to ensuring operational profitability in demanding operating conditions and groundbreaking projects. This goal was achieved in 2015.

In 2015, Finnfund made a profit of approximately EUR 5.1 million (approximately EUR 2.4 million). The result was stronger than a year earlier and over budget. This could be partly attributed to certain sales gains from 2014 being delayed and materializing under the year under review, and higher than expected income from certain fund investments.

The operational result is shown in the table below. Income from financing activities stood at EUR 13.5 million (EUR 11.1 million) and the result before value adjustment, sales and taxes was EUR 6.0 (EUR 4.3 million).

During the year under review, Finnfund exited four investments. Administrative expenses grew as planned from the previous year, mainly due to an increase in the number of personnel.

Operational result, EUR 1,000	2015	2014	Change EUR	Change %
Financial income	16,168	12,929	3,239	25.1
Financial expenses	-2,704	-1,802	-902	50.1
Income from financing activities	**13,464**	**11,127**	**2,337**	**21.0**
Other operating income	1,865	1,612	253	15.7
Administrative expenses, depriciation and other expenses	-9,342	-8,419	-923	11.0
Result before value adjustment, sales and taxes	**5,987**	**4,320**	**1,667**	**38,6**
Value adjustment and sales	-827	-1,877	1,050	-56,0
Income taxes	-103	-35	-68	194.3
Net profit	**5,057**	**2,408**	**2,649**	**110.0**

Income

Dividend income was EUR 0.2 million (EUR 0.3 million).

Interest income from investment loans came to EUR 7.5 million (EUR 5.6 million), and other interest income totalled EUR 0.3 million (EUR 0.5 million). Overall interest income amounted to EUR 7.8 million (EUR 6.1 million). Other interest income primarily consisted of interest income from liquid assets, which decreased from the previous year following the fall in liquidity.

Other income from long-term investment amounted to EUR 7.1 million (EUR 5.1 million), consisting of gains from fund investments. Capital gains from sale of investments of EUR 5.5 million (EUR 0.1 million) were recorded as income.

At EUR 1.1 million (EUR 1.4 million), other financial income excluding foreign exchange gains mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 21.7 million (EUR 12.8 million).

Foreign exchange gains amounted to EUR 15.3 million (EUR 11.0 million) and losses to EUR 15.2 million (EUR 11.0 million). The foreign exchange difference was EUR 0.1 million positive.

Other operating income amounted to EUR 1.9 million (EUR 1.6 million) and this comprises fees received for the administration of the Finnpartnership programme and other income from fees and charges.

Impairment losses

New recognised individual impairment losses amounted to EUR 10.2 million (EUR 6.7 million), representing about 3.1 per cent (2.3 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 5.2 million in 2015 (EUR 5.4 million).

The net effect of impairments on financial performance was approximately EUR -5.0 million (EUR -1.4 million).

Expenses

Interest expenses were EUR 0.8 million and remained nearly unchanged from the previous year (EUR 0.7 million). Interest expenses were incurred through borrowing in US dollars, which is used to refinance Finnfund investment loans denominated in US dollars, and through euro-denominated commercial papers issued in 2015 and the bond issued in autumn 2013.

Other financial expenses were EUR 2.0 million (EUR 0.8 million), including management fees of EUR 1.4 million (EUR 0.6 million) associated with fund investments. These fees were incurred for funds whose investment period has ended. The increase in total fund expenditure is due to the fund portfolio lifecycle, in other words several funds have reached the exit point at the same time. Other financial expenses also include costs of EUR 0.4 million (EUR 0.08 million) from derivatives.

Investment and sales losses amounted to EUR 1.3 million (EUR 0.6 million), which is attributable to previously recognised individual impairment losses.

Administrative expenses totalled EUR 9.3 million (EUR 8.4 million). The increase in expenses consists of several items, the most significant ones being higher personnel costs and increased use of external services. The increase in the volume of operations and the resulting increase in operating costs were pre-planned.

Taxes recorded in the profit and loss account, totalling EUR 0.1 million (EUR 0.04 million), mainly consisted of sales gains taxes paid to the target countries.

Balance sheet

The balance sheet total stood at EUR 377.1 million (EUR 317.2 million) as at the end of the year under review.

The balance sheet value of investment assets was EUR 330.0 million (EUR 294.0 million) as at the end of the year under review, investment assets grew by about 12 per cent.

Loans (including subordinated loans and other mezzanine instruments) accounted for EUR 151.0 million or 46 per cent (129.2 million, 44 per cent), equity investments for EUR 89.4 million or 27 per cent (86.8 million, 30 per cent), and fund investments for EUR 89.3 million or 27 per cent (77.5 million, 26 per cent) of total investments assets.

Liquid assets stood at EUR 42.7 million (EUR 19.0 million) as 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 treasury policy.

At the end of the financial period, the company's equity (share capital and retained earnings) totalled EUR 250.8 million (EUR 235.7 million) or 67 per cent of the balance sheet total (74 per cent).

In 2015, the company executed one share issue. In the share issue, a maximum of 63,501 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 21 April to 5 June 2015. As a result of the share issue, the share capital was increased by EUR 9,999,910, representing the proportion of the Finnish government. A total of 58,823 new shares were issued pursuant to the decision. 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 financial period, the company's registered share capital stood at EUR 166,989,130 with 982,289 shares, with the Finnish government accounting for 917,719 shares (93.4 per cent), Finnvera plc for 63,349 shares (6.5 per cent), and the Confederation of Finnish Industries EK for 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.

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 106.3 million (EUR 72.0 million) and short-term interest-bearing debt at EUR 11.9 million (EUR 4.7 million), totalling EUR 118.2 million (EUR 76.7 million). Long-term interest-bearing debt includes the EUR 50 million bond issued in autumn 2013. In other respects, the interest-bearing liabilities are mainly denominated 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 90 per cent at the end of the period. Total financing liabilities increased by some 54 per cent on the previous year following the signing of a new 10-year USD-denominated loan agreement in August 2015 and commercial paper issues.

Finnfund had no guarantee commitments at the end of 2015 (EUR 0.0 million).

Key figures

	2015	2014	2013
Financial income, EUR million	36.9	23.5	13.5
Net profit, EUR million	5,1	2.4	2.7
Return on equity, %	2.0	1.1	1.3
Equity ratio, %	66.5	74.3	69.2

Formulae:

$$\text{Return on equity} = \frac{\text{Result before extraordinary items – taxes}}{\text{Equity}} \times 100\ \%$$

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

Administration and personnel

In 2015, the Supervisory Board met five times, the Board of Directors met 11 times, and the Audit Committee of the Board of Directors met four times.

The Annual General Meeting, held on 21 April 2015, addressed the matters listed in Article 11 of the Articles of Association and decided to increase the company's share capital.

The following members were elected at the Annual General Meeting to the Supervisory Board for the period 2015–2018: Simo Karetie, Chief Policy Adviser; Antti Lindtman, Member of Parliament; Hanna Mäntylä, Member of Parliament; and Aila Paloniemi, Member of Parliament.

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

Ritva Laukkanen, Partner, Sagacitas Finance Partners Oy Ltd., Chair
Kari Alanko, Deputy Director General, Ministry for Foreign Affairs, Vice Chair
Tuukka Andersén, Director of Finance
Pekka Hukka, Counsellor
Pirita Mikkanen, Partner
Lars-Erik Schöring, CEO
Tuula Ylhäinen, CFO
Anne af Ursin, Senior Adviser

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 22 April 2015:

Tuukka Andersén, Director of Finance, Chair
Tuula Ylhäinen, CFO`
Pirita Mikkanen, Partner

An extraordinary General Meeting was held on 28 September 2015. At the meeting, Johanna Kotaviita, practical nurse, was elected member of the Supervisory Board to replace Hanna Mäntylä who stepped down from the position, and Sinikka Antila, Ambassador, was elected member of the Board of Directors to replace Pekka Hukka, who stepped down from the position.

Another extraordinary General Meeting was held on 1 December 2015. At the meeting, the following were elected members of the Supervisory Board to replace members who had stepped down: Mika Raatikainen, Member of Parliament, to replace Seppo Toriseva; Erkki Tuomioja, Member of Parliament, to replace Antti Lindtman; and Johanna Karimäki, Member of Parliament, to replace Kalle Hyötynen.

The company's auditors are Deloitte & Touche Oy, authorised public accountants, with Jukka Vattulainen, APA, as the principal auditor.

The company CEO is Jaakko Kangasniemi (Ph.D., Agricultural Economics).

During the year under review, the company employed an average of 56 people (51). At year-end, the number of employees in contractual employment was 57 (54), of whom 55 (52) worked full-time. Of the 52 employees, 40 were women and 17 were men.

Total wages and salaries paid to personnel in 2013-2015 were as follows:

	2015	2014	2013
Average number of personnel	56	51	49
Total wages and salaries, EUR 1,000	4,462	4,121	3,840

The final accounts for 2015 include a provision for incentive bonuses earned in 2015, amounting to 9.7 per cent of payroll expenses (7.1 per cent). Incentives are partly based on meeting performance targets at company and function level, and partly based on individual performance.

Outlook for 2016

In accordance with the guidelines specified in the State Ownership Policy, Finnfund aims to improve the positive developmental impacts of its financing and to focus primarily on low-income and lower-middle-income developing countries. Finnfund will intensify its co-operation with Finnish enterprises in these countries in particular. As before, priority will be assigned to projects where Finnish know-how and competence is used to curb climate change, to improve environmental conditions, and to improve the living conditions of poor people. Several project ideas with a significant expected impact are being investigated, some in extremely poor or fragile states, but their progress depends on the resources available to Finnfund.

The budget approved by the Parliament for 2016 includes EUR 140 million for financial investments in development co-operation. Details of the allocation and use of the funds are not yet available but according to the Ministry for Foreign Affairs a considerable amount, possibly as much as EUR 130 million, will be used to improve Finnfund's operating possibilities. Without additional resourcing, the company is facing a downscaling of operations, especially in high-risk investing activities, as the EUR 50 million special risk financing commitment expires.

Plans for 2016 are based on the assumption that additional resources will be available in one form or another. At the beginning of the year, a record number of projects are under way. We expect to see a notable increase in the number of decisions made compared to previous years. In uncertain circumstances, the focus of investments will remain on investments in the form of loans. If necessary, preparation of equity investments will be discontinued for the remainder of the year.

Liquidity is expected to remain good in 2016. If the planned additional resourcing does not move forward during the year, Finnfund will limit its project preparations to ensure the fulfilment of its commitments in any given situation.

The outlook for 2016 is positive, albeit slightly uncertain. The company's financial performance will be crucially affected by how the estimated value of its investment assets changes during the financial period and whether any profitable exits from projects occur. Although these tend to be difficult to predict in development finance, the outlook is positive, even based on cautious assumptions.

With the contract for the Finnpartnership programme awarded to Finnfund in 2015, programme work will continue but with smaller resources. The Ministry for Foreign Affairs will be responsible for accepting and processing applications for business partnerships, but Finnfund will continue to provide the Ministry with support services related to the programme.

Proposal of the Board of Directors for the distribution of profit

The company recorded a profit of EUR 5,057,148.41 in 2015. The Board of Directors proposes that the profit be transferred to the retained earnings account and set aside for disposal in accordance with Article 2 of the Articles of Association.

Profit and loss account

EUR 1 000

	Note	1 Jan. - 31 Dec. 2015	1 Jan. - 31 Dec. 2014
Other operating income	1	1,865	1,612
Staff expenses	2		
Wages and salaries	3	-4,462	-4,121
Social security expenses			
Pension expenses		-803	-750
Other social security expenses		-287	-212
Social security expenses		-1,090	-963
Staff expenses		-5,553	-5,084
Depreciation according to plan	4	-131	-116
Other operating expenses	5 6	-3,658	-3,220
OPERATING LOSS		**-7,477**	**-6,807**
Financial income			
Income from participating interests		2,861	276
Income from other investments		10,055	5,527
Other interest and financial income		23,974	17,724
Financial income total		36,890	23,528
Reduction in value of investments		-4,994	-1,386
Financial expenses			
Interest and other financial expenses		-19,259	-12,891
Financial income and expenses	7	12,637	9,251
PROFIT BEFORE TAXES		**5,160**	**2,444**
Income taxes	8	-103	-35
PROFIT FOR THE FINANCIAL YEAR		**5,057**	**2,408**

Balance sheet

EUR 1 000

	Note	31 Dec. 2015	31 Dec. 2014
A S S E T S			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		29	58
Machinery and equipment		185	122
Total		214	180
Investments	10		
Participating interests		48,885	55,912
Receivables from participating interest	11	15,240	14,812
Other shares and similar rights of ownership		129,816	108,446
Other receivables	11	135,654	114,423
Total		329,595	293,593
NON-CURRENT ASSETS		**329,809**	**293,773**
CURRENT ASSETS			
Debtors			
Long-term			
Other debtors		1,480	1,570
Short-term			
Amounts owned by participating interest undertakings	12	70	502
Prepayments and accrued income	13	2,922	2,362
Total		2,992	2,863
Debtors total		4,472	4,433
Financial securities	14		
Marketable securities		5,393	12,381
Cash in hand and at banks		37,406	6,589
CURRENT ASSETS		**47,270**	**23,404**
A S S E T S		**377,079**	**317,178**

	Note	31 Dec. 2015	31 Dec. 2014
L I A B I L I T I E S			
EQUITY	15 16		
Share capital		166,989	156,989
Retained earnings		78,726	76,317
Profit for the financial year		5,057	2,408
EQUITY		**250,772**	**235,715**
CREDITORS			
Long-term	17 18		
Private placement	19	50,000	50,000
Loans from credit institutions		56,336	21,964
Other long-term creditors		151	107
Total		106,488	72,071
Short-term	20		
Loans from credit institutions		11,893	4,736
Trade creditors		854	354
Other creditors		4,817	2,674
Accruals and deferred income	21	2,255	1,628
Total		19,820	9,392
CREDITORS		**126,307**	**81,463**
L I A B I L I T I E S		**377,079**	**317,178**

Cash flow statement

EUR 1 000

	2015	2014
CASH FLOW FROM OPERATIONS		
Payments received from operations	55,946	40,857
Disbursements to operations	-77,257	-72,747
Dividends received	183	332
Interest received	7,601	6,351
Interest paid	-588	-650
Payments received on other operating income	3,008	2,563
Payments of operating expenses	-10,377	-9,101
CASH FLOW FROM OPERATIONS (A)	**-21,484**	**-32,395**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-165	-138
Proceeds from assets sold	0	0
CASH FLOW FROM INVESTMENTS (B)	**-165**	**-138**
CASH FLOW FROM FINANCING		
New share issue	10,000	18,025
Short-term loans drawn	6,994	0
Short-term loans repaid	0	0
Long-term loans drawn	35,082	0
Long-term loans repaid	-4,736	-19,515
CASH FLOW FROM FINANCING (C)	**47,340**	**-1,490**
CHANGES IN EXCHANGE RATES (D)	**-1,868**	**-2,150**
CHANGE IN LIQUID ASSETS (A+B+C+D) increase (+) decrease (-)	**23,823**	**-36,173**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**18,583**	**54,756**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**42,406**	**18,583**
	23,823	**-36,173**

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 permits. 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 account write-offs and their cancellations have been included in the item of Reduction in value of investments.

Fund balance sheet values deducted by the paid management fees are compared with the fund manager’s estimate of the portfolio’s fair value. When the fund’s investment period is ending or has ended, the balance sheet value can be no more than 90% of the manager’s valuation.

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, against investment losses or write-offs. Projects indemnified before the deadline remain within this class afterwards. To be subject to indemnification, investments and loans must be separately approved by the Board of Directors.

Projects with the company’s risk classification of C, CC or CCC are eligible for the special risk finance class. The corresponding level of losses indemnified by the government is 40%, 50% and 60%. The investment risk is borne partly by Finnfund and partly by the government. Government's share of the risk is a percentage of the disbursed investments deducted by repayments.

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 made to the government for payment of the indemnity, which cannot exceed EUR 5 million annually.

Other investments in current assets

Securities have been valued at the acquisition cost.

Derivatives
Derivatives include foreign exchange forwards, interest rate swaps and cross currency swaps. The fair values of these derivatives are the banks' mark-to-market valuations on the balance sheet date. Changes in fair values from open derivative contracts are recognised on the profit and loss account under the other financial expenses/income. Foreign exchange forwards and cross currency swaps are used to hedge the principals of the loan investments. Interest rate swaps are used to hedge interest rate risk arising from mismatch between assets and liabilities.

Intangible and tangible assets
Intangible and tangible assets are entered in the balance sheet at their acquisition cost less depreciation according to plan.

Planned depreciations:

Other capitalised long-term expenses 4-5 years
Machinery and equipment 3-4 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 1000

		2015	2014
1	**Other operating income**		
	Operating income from participating interests	29	78
	Remunerations	1,107	1,004
	Other operating income	729	530
		1,865	**1,612**
2	**Average number of staff employed**		
	Employees	56	51
3	**Wages and salaries**		
	Managing Director and his alternate	334	327
	The Board of Directors and the Supervisory Board	117	120
	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	29	34
	Machinery and equipment	102	82
		131	**116**
5	**Other operating charges**		
	Voluntary staff expenses	419	345
	Office	483	506
	ICT	341	382
	Travel and negotiation expenses	743	730
	Entertainment and PR expenses	138	105
	External services	1,207	859
	Other expenses	327	293
		3,658	**3,220**

6	**Auditor's remunerations**		
	Audit fee	9	10
	Assignments	1	11
	Other services	16	3
		26	**24**
7	**Financial income and expenses**		
	Financial income		
	Income from participating interests		
	From funds	4	26
	Profit from sales of assets	2,646	0
	From others	211	250
	Income from participating interests	2,861	276
	Income from other investments		
	Dividends	183	334
	From funds	7,068	5,107
	Profit from investments and sales of assets	2,804	86
	Income from other investments	10,055	5,527
	Other interest and financial income		
	Interest income	7,378	5,805
	Interest income from participating interests	478	265
	Financial income	842	1,140
	Financial income from participating interests	4	2
	Exchange rate gain	15,272	10,512
	Other interest and financial income	23,974	17,724
	Financial income total	**36,890**	**23,527**
	Permanent write-offs of investments and their reversals		
	Equity and funds	-4,373	-3,318
	Loans	-5,808	-3,423
	Reversal of write-offs on shares and fund investments	3,689	4,006
	Reversal of write-offs on loans	1,498	1,348
	Write-offs of investments and their reversals	**-4,994**	**-1,387**
	Interest and other financial expenses		
	Interest expenses to others	-789	-747
	Other financial expenses	-2,033	-847
	Loss from investments and sales of assets	-1,284	-577
	Exchange rate loss	-15,153	-10,720
	Interest and other financial expenses total	**-19,259**	**-12,891**
	Financial income and expenses total	**12,637**	**9,249**
	The item Financing income and expenses includes loss of exchange (net)	**119**	**-209**

7	**Income from financing operations by income level**		
	Least developed countries (LDC)	11,902	6,669
	Other low-income countries (LIC)	8,638	4,241
	Lower-middle-income countries (LMIC)	8,271	6,745
	Upper-middle-income countries (UMIC)	2,906	2,565
	Other countries Russia	790	1,112
		32,507	**21,332**
8	**Income taxes**		
	Tax on capital gains outside Finland	100	0
	Withholding taxes on dividends	0	2
	Withholding taxes on emoluments	3	3
	Stamp duty	0	30
		103	**35**

Notes to the balance sheet

EUR 1000

9	Intangible and tangible assets	Other long-term expenses	Machinery and equipment	Total
	Acquisition cost 1 Jan. 2015	1,083	1,775	2,858
	Increases	0	165	165
	Acquisition cost 31 Dec. 2015	1,083	1,940	3,023
	Accumulated depreciations 1 Jan. 2015	-1,025	-1,653	-2,678
	Depreciation of the accounting period	-29	-102	-131
	Accumulated depreciations 31 Dec. 2015	-1,054	-1,755	-2,809
	Book value 31 Dec. 2015	**29**	**185**	**214**
	Book value 31 Dec. 2014	58	122	180

10	Investments / Shares and funds	Participating interests	Others	Total
	Acquisition cost 1 Jan. 2015	59,615	117,815	177,430
	Increases	6,089	30,291	36,380
	Transfer between items	1,357	-200	1,157
	Decreases	-10,272	-10,347	-20,619
	Acquisition cost 31 Dec. 2015	56,789	137,559	194,348
	Individual write-offs accumulated as of 1 Jan. 2015	-3,703	-9,369	-13,072
	Reversal of write-offs	1,604	2,085	3,689
	Write-offs during the financial year	-5,805	-459	-6,264
	Individual write-offs accumulated as of 31 Dec. 2015	-7,904	-7,743	-15,647
	Book value 31 Dec. 2015	**48,885**	**129,816**	**178,701**

10	Investments / Loans	Participating interests	Others	Total
	Acquisition cost 1 Jan. 2015	17,024	133,283	150,307
	Increases	2,405	46,897	49,302
	Transfer between items	-1,000	-157	-1,157
	Decreases	-1,017	-21,160	-22,177
	Acquisition cost 31 Dec. 2015	17,412	158,863	176,275
	Individual write-offs accumulated as of 1 Jan. 2015	-2,211	-18,860	-21,071
	Reversal of write-offs	39	1,459	1,498
	Write-offs during the financial year	0	-5,808	-5,808
	Individual write-offs accumulated as of 31 Dec. 2015	-2,172	-23,209	-25,381
	Book value 31 Dec. 2015	**15,240**	**135,654**	**150,894**

		2015	2014
11	**Subordinated receivables**		
	Capital loans to participating interests	15,240	13,412
	Capital loans to others	30,629	32,405
		45,869	**45,817**
12	**Receivables from participating interests**		
	Interests	18	43
	Other	51	459
		69	**502**
13	**Prepayments and accrued income**		
	Interests	1,349	1,298
	Other	1,573	1,064
		2,922	**2,362**
14	**Marketable securities**		
	Repurchase price	5,580	12,540
	Book value	5,393	12,381
	Difference	**187**	**159**

	Derivatives	**Fair value**	**Changes in fair value recognized in P&L**
	Interest rate swaps, maturity less than 5 years	23	23
	Fair value and changes in the fair value recognized in P&L 2014	0	0
	Cross currency swaps, maturity less than 5 years	4532	115
	Fair value and changes in the fair value recognized in P&L 2014	2082	132
	Foreign exchange forward agreements, maturity less than 1 year	34	28
	Fair value and changes in the fair value recognized in P&L 2014	411	-114
	Total 2015	**4589**	**166**
	Total 2014	2493	18

		2015	2014
15	**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.	156,989	138,964
	Increase of share capital	10,000	18,025
	Share capital as of 31 Dec.	166,989	156,989

	Unrestected equity		
	Retained earnings 31 Dec.	78,726	76,317
	Profit/loss for the financial year	5,057	2,408
		83,783	78,725
		250,772	**235,714**
16	**Share capital**		
	Number of shares	982,289	923,466
	Nominal value, EUR	170.00	170.00
17	**Long-term loans**		
	Private placements	50,000	50,000
	Loans from credit institutions	56,336	21,964
	Other long-term liabilities	151	107
		106,487	**72,071**
18	**Loans with maturity more than 5 years**		
	Loans from financial institutions	36,741	21,964
19	**Private placements**		
	Private placement 2013/2018	50,000	50,000
20	**Other short-term debt**		
	Loans from financial institutions	11,893	4,736
	Derivatives	4,589	2,493
	Accounts payable	854	354
	Other	228	181
		17,564	**7,764**
21	**Accruals and prepaid income**		
	Wages including social expenses	1,708	1,350
	Interest	375	174
	Taxes	152	54
	Other	19	50
		2,254	**1,628**

Other supplementary information

EUR 1000

Other contingent liabilities		
The company has entered into two long-term lease agreements of its office. The term of the agreement A began on 1 January 2014 as a fixed-term tenancy for the first three years until 31 December 2016 after which it will continue as a periodic lease with a 12 months' notice. The agreement B will begin on 1 January 2016 as a fixed-term tenancy for 3 + 2 + 2 years to be terminated on 31 December 2018, 31 December 2020 or 31 December 2022 after which it will continue as a periodic lease with a 12 months' notice. Rental payments will start on 1 March 2016.		
	2015	**2014**
Payable in the next financial period	441	382
Payable later	815	282
Other commitments		
The company acts as a lender in financial arrangements amounting to USD 24.9 million. For USD 23.4 million the risks have been contractually transferred to other financial institutions.		
Undisbursed commitments		
Contractual commitments	131,500	140,800
Special risk finance (cumulative)		
Decisions of the Board of Directors	111,060	52,812
Government's indemnity	50,000	26,480
Government's indemnity, %	45%	50%
Disbursements	26,147	18,614
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		
As of 31 December 2015 there were EUR 725,941.70 of government's funds in the company's possession. The company manages government's funds according to the agreement with the Ministry for Foreign Affairs of the implementation of the Finnpartnership business partnership programme.		
Exchange rate		
31 December 2015	EUR/USD	1.0887

Signatures of Board of Directors' report and financial statements

Helsinki, 31 March 2016

Ritva Laukkanen
Chairman

Kari Alanko
Member of the Board

Tuukka Andersén
Member of the Board

Sinikka Antila
Member of the Board

Pirita Mikkanen
Member of the Board

Lars-Erik Schöring
Member of the Board

Anne af Ursin
Member of the Board

Tuula Ylhäinen
Member of the Board

Jaakko Kangasniemi
Managing Director, CEO

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 4 April 2016

Deloitte & Touche Oy
Authorized Public Accountant

Jukka Vattulainen
Authorized Public Accountant

Auditor’s Report (translation from the Finnish original)

To the Annual General Meeting of Teollisen yhteistyön rahasto Oy

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Teollisen yhteistyön rahasto Oy for the year ended 31 December, 2015. The financial statements comprise the balance sheet, the income statement, the cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of financial statements and report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company’s accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor’s responsibility

Our responsibility is to express an opinion on the financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements and report of the Board of Directors that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit for the financial period is in compliance with the Limited Liability Companies Act and the articles of association of the company. We support that the members of the Supervisory Board as well as the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki, 4 April 2016

Deloitte & Touche Oy
Authorized Public Accountants

Jukka Vattulainen
APA

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 also the Auditors' Report for 2015. 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, 6 April 2016

Erkki Tuomioja

Eija Hietanen

Seppo Kallio

Simo Karetie

Johanna Karimäki

Johanna Kotaviita

Riitta Myller

Aila Paloniemi

Mika Raatikainen

Pertti Salolainen

Tapani Tölli

Anne-Mari Virolainen