Annual Report 2012

Contents

In brief

Year 2012

Corporate governance

Responsibility 26

Investments

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 and Russia. 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.

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 customers have access to our contacts with other financial institutions and our long experience in developing countries. Because Finnfund is state-owned, our participation may benefit dealings with local authorities.

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

Our network at your disposal

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's external economic relations and country brand, the internationalization of Finnish companies as well as foreign investment directed at Finland. More than 70 local teams around the world handle its activities abroad.

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

Finnpartnership

Finnfund manages Finnpartnership, a business partnership programme, which is financed by the Ministry for Foreign Affairs and has been operating since 2006. 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, importing and providing expert services for capacity building. In 2012 support could also be granted for pilot projects concerning Finnish environmental technology.

Year 2013 brings along changes to the general terms and conditions of the Business Partnership Support, and new supportable project phases are vocational education and training and support for local education, and piloting technology and solutions.

Finnpartnership's Matchmaking service helps companies in developing countries in their search for Finnish business partners.

www.finnpartnership.fi

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 fifteen 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 are shared.

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 participates in European Financing Partners (EFP), which is a sizable cofinancing scheme between European Investment Bank and EDFI.

In 2011 Agence Française de Développement AFD, European Investment Bank, Finnfund and other ten EDFI members established the Interact Climate Change Facility ICCF, which provides long-term financing for renewable energy and energy efficiency projects in poor countries suffering from energy shortages.

Team Finland -network

The Team Finland network promotes Finland's external economic relations and country brand, the internationalization of Finnish companies as well as foreign investment directed at Finland. Its aim is to intensify cooperation between Finnish players in these sectors.

The core of the Team Finland network consists of the Ministry of Employment and the Economy, the Ministry for Foreign Affairs and the Ministry of Education and Culture, as well as the publicly funded organizations and overseas networks whose performance they oversee. The Team Finland network is steered by the Government. More than 70 local teams around the world handle its activities abroad.

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. They also are a prime example of an area, where we, together with the other members of Team Finland wish to make a difference.

Managing Director's report

Finnish news headlines in 2012 were dominated by the European sovereign debt crisis but continents beyond our own were experiencing an upswing. Asia still had the fastest growth but in large areas of Africa, too, economies were growing, poverty was abating and living standards were rising.

Unfortunately alongside production, environmental problems were also growing. Air pollution made news in the metropolises of China and watercourses deteriorated in many lands. Emissions of greenhouse gases rose to a new record and the international community was unsuccessful in agreeing measures to curb global warming.

Despite cutbacks in support, via emissions trading and other ways, for energy savings and renewable energy, investment was spurred by technological development and falling prices. In the countries where lavish subsidies are being pruned, investments in renewable energy are now declining but they are increasing elsewhere. The focus is shifting from Europe to places with more sun, stronger winds or faster-growing energy plants.

In the next few years, substantial opportunities will be created in developing countries by better and cheaper clean technologies, in combination with improved general business conditions. Finnfund intends to seize these opportunities, often working with internationally competitive Finnish companies.

One of our focal areas is renewable energy. In 2012 Finnfund helped to finance small hydropower stations in Honduras and Uganda; a plant that makes biogas from wastewater in Laos; a factory producing pellets from agricultural waste in Indonesia; and thousands of small solar power systems in rural areas of Nicaragua and El Salvador.

Some of the plants are already in use, and the rest will be ready this year and next. On their completion, the projects will produce clean electricity for more than a hundred thousand households and provide more productive work and better living standards – in part directly but mainly by improving the potential for small enterprises – for tens of thousands of people.

In other investments too, we are seeking sustainable growth. We typically finance projects that utilise advanced technology and best practices leading to savings in energy or raw materials, improvements in product quality and reductions in emissions. We usually work in cooperation with Finnish companies that observe and spread advanced Finnish practices.

A relevant example is a steel foundry that was completed in Nigeria at the start of 2013. It uses scrap collected locally to make high-quality construction steel, not previously produced in the country at all. The electricity required is generated from natural gas that is a by-product of oil exploitation. Previously a large part of Nigeria's gas was flared off, meaning that it was burnt at oil rigs for safety reasons. Ending flaring and exploiting the gas is in line with international environmental accords and Nigeria's own energy policy.

Because of the uncertain situation in Europe, Finnish companies invested cautiously in 2012 but many were all the more enthusiastic in their pursuit of exports to expanding markets. While most deals and investments are in wealthier emerging markets, from China to Turkey to Brazil, horizons are gradually expanding. There is even nascent interest in Africa. In 2012 many Finnish companies realised that the continent hitherto dependent on development cooperation and disaster relief has in fact become a worthwhile market where Swedish and other competitors are already actively involved.

”Half of the financing was for projects that help check climate change.”

Finnfund’s investment decisions in 2012 concerned 18 projects and totalled EUR 56 million. Half of these projects were in sectors that will help check climate change: renewable energy and better energy efficiency, as well as projects to prevent deforestation and promote sustainable forestry. Disbursements were about the same value as investment decisions.

In autumn 2012 Finnfund’s Board of Directors outlined a policy to allow the company to seek greater development impacts and more significant value-added, by becoming more actively involved in some of the projects, at an earlier stage and with a greater willingness to take risks than before. The policy was supported by special risk finance approved by the government in 2012, in which the risk can be shared by the State of Finland when risk and potential benefits are particularly large. This arrangement facilitates Finnfund’s participation in high-risk projects without jeopardising its refinancing ability. Special risk financing is mainly intended for the poorest or otherwise challenging countries, as well as for projects that pilot Finnish cleantech innovations.

While still positive, our result last year was distinctly weaker than the year before. The decline in recorded profits is explained by project write-downs and the fact that two profitable exits took place in 2011 but only one in 2012. About a half of the company’s investment portfolio now consists of equity stakes and fund investments, so income is not a steady flow but mostly hard-to-predict capital gains at the time of exit. Annual results will continue to fluctuate in the future in line with the timing of exits and write-downs. It is therefore valuable that we have the strong support of our principal shareholder, the Government of Finland, as exemplified by the EUR 10 million allocated in the budget of 2013 for boosting Finnfund’s equity.

The business partnership programme, Finnpartnership, managed by Finnfund for the Ministry for Foreign Affairs, was evaluated in 2012. The findings were positive and the ministry has announced that it intends to continue the programme, first by extending the contract and then possibly as a permanent part of Finnfund’s operations. The terms of business partnership support were modified and the amount of support targeted particularly at vocational training was increased.

In 2012 Finnfund's supervision and administrative structure were modernised in line with the recommendations of the Ownership Steering department of the Prime Minister's Office. Ownership steering was separated from board duties, the company's general meeting was made responsible for appointing the board annually, financial reporting was increased and a board audit committee was established. To spearhead the administrative reform, Arto Honkaniemi, a financial counsellor from the Ownership Steering department, became chairman of the board. Now that the annual general meeting is scheduled to appoint a new chairman, I want to express my gratitude for his tireless work in developing the company.

My thanks also go to Finnfund's customers, staff and the other stakeholders that we have enjoyed working with in 2012.

Jaakko Kangasniemi
Managing director, CEO

Figures at a glance in 2008 - 2012

	2008	2009	2010	2011	2012
Number of project countries	21	24	29	27	30
Number of investments	106	132	142	137	143
New financing commitments, EUR million	116	152	87	32	56
Number of new financing commitments	28	32	21	14	18
Disbursements, EUR million	42	70	69	43	59
Number of disbursements	37	42	43	44	45
Portfolio, EUR million	135	188	241	253	274
Undisbursed investment decisions and commitments, EUR million	164	207	227	172	146
Income from financing operations, EUR million	22	24	23	30	20
Total assets/liabilities, EUR million	204	250	277	278	312
Shareholders' capital, EUR million	129	148	162	186	203
Solidity ratio, %	63.1	59.3	58.6	66.9	65.1
Return on equity p.a., %	2.8	3.1	-0.8	5.3	0.6
Number of personnel on average	41	43	46	49	49

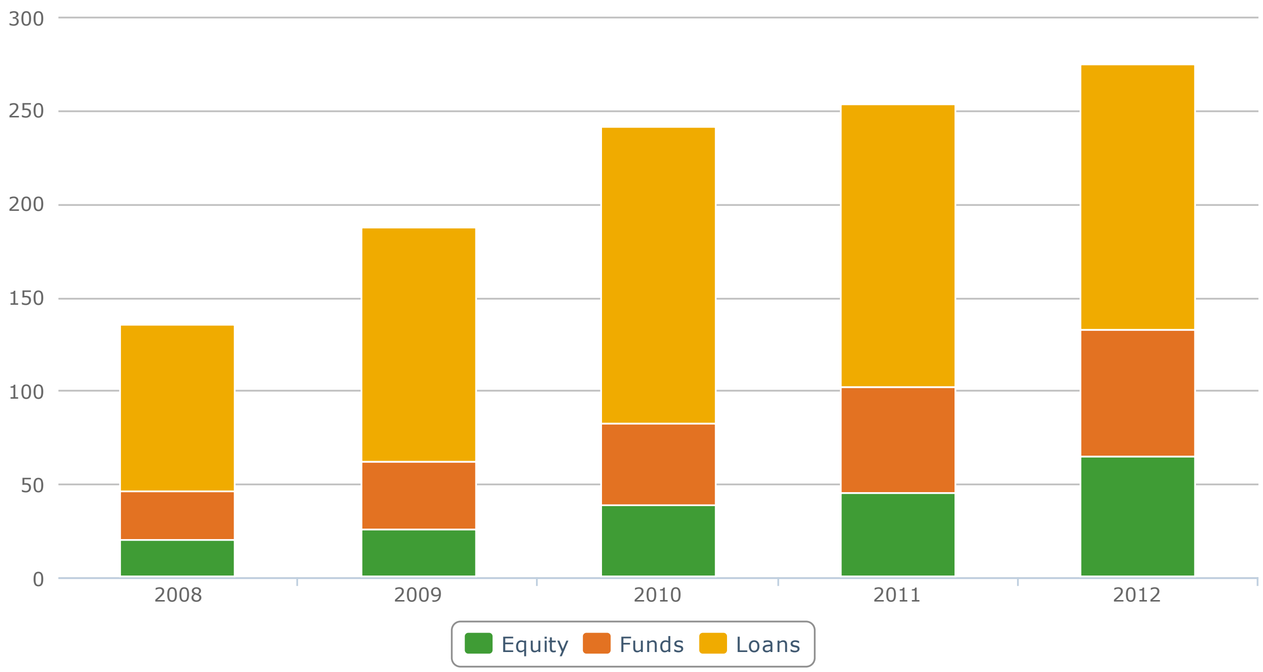
Five years in review, EUR million

Profit and loss account	2008	2009	2010	2011	2012
Income from financing activities	22.4	24.3	22.7	29.9	20
Costs from financing activities	-13.6	-14.4	-18.2	-13.8	-12.6
Net income from financing activities	**8.8**	**9.9**	**4.5**	**16.1**	**7.4**
Net operating costs	-4.9	-5.2	-5.6	-5.7	-5.8
Taxes	-0.6	-0.3	-0.2	-1.2	-0.4
Profit for the financial year	**3.3**	**4.4**	**-1.3**	**9.2**	**1.2**

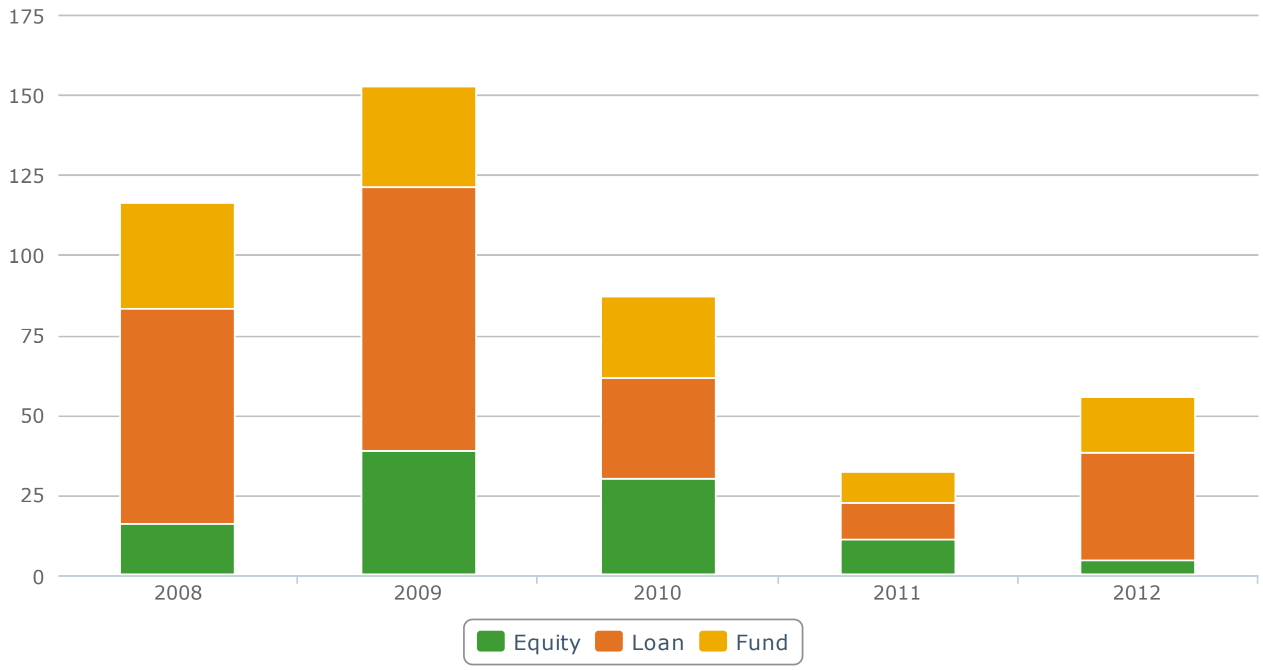
Balance sheet	2008	2009	2010	2011	2012
Assets					
Tangible and intangible assets	0.5	0.4	0.3	0.1	0.1
Portfolio	135.1	187.5	240.8	252.3	274.1
Current assets	68.4	62.1	35.5	25.5	38.2
	204	**250**	**276.6**	**277.9**	**312.4**
Liabilities					
Capital	128.8	148.3	162.1	186.3	202.6
Creditors	75.2	101.7	114.5	91.6	109.8
	204	**250**	**276.6**	**277.9**	**312.4**

Graphs

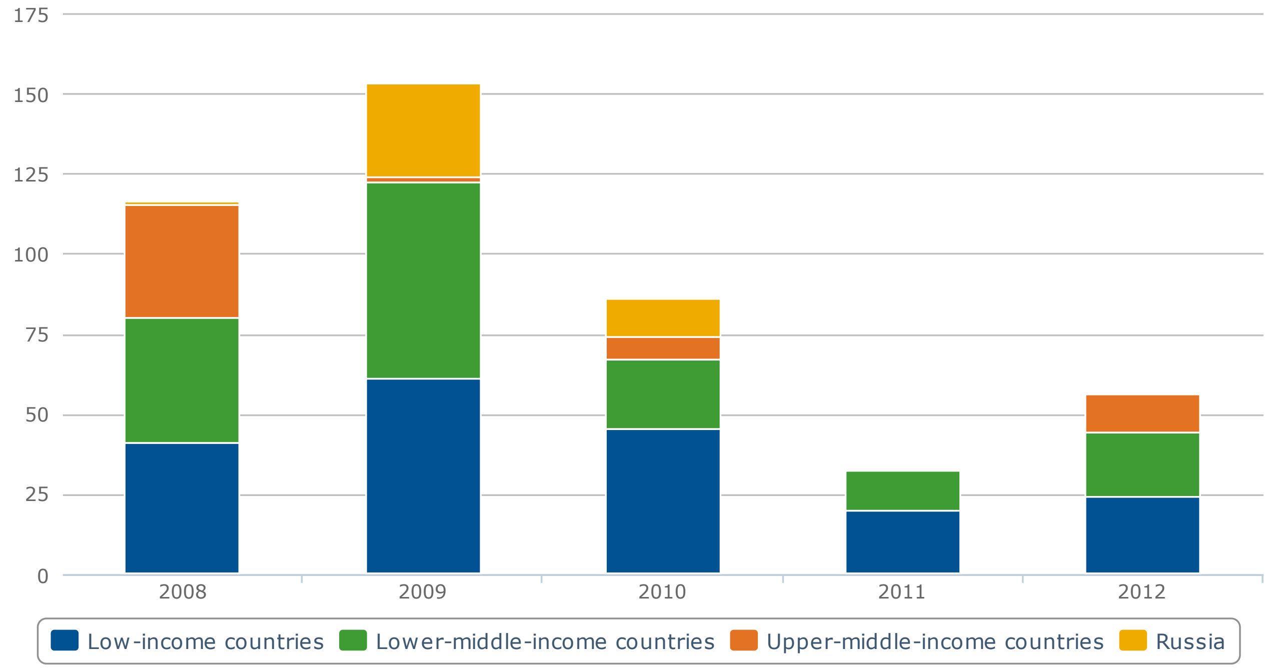
Portfolio 2008-2012



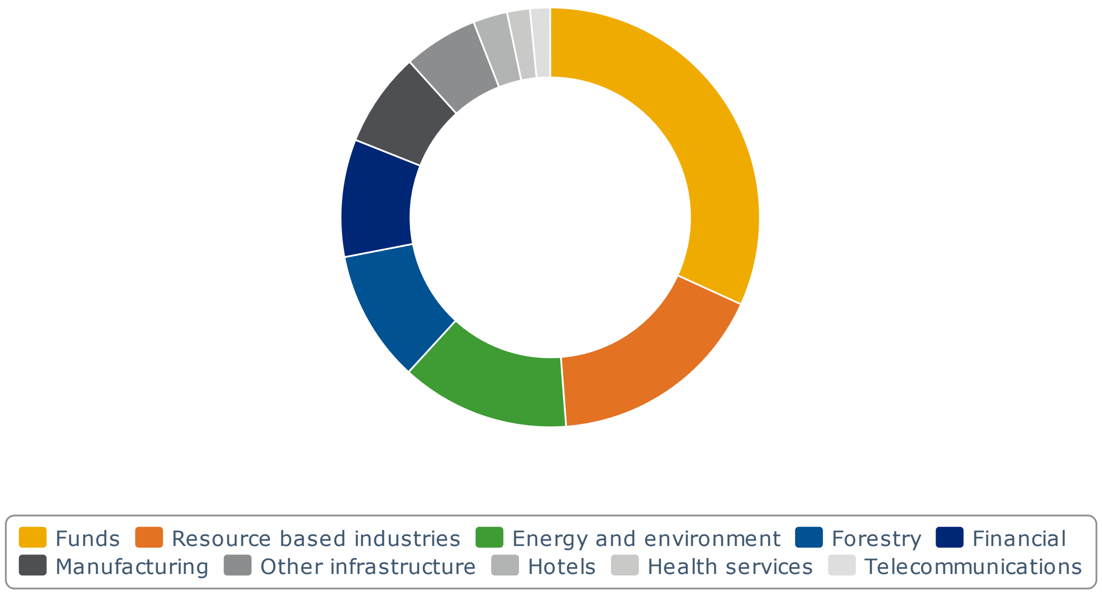
Annual investment decisions in 2008-2012 (at original value, EUR million)



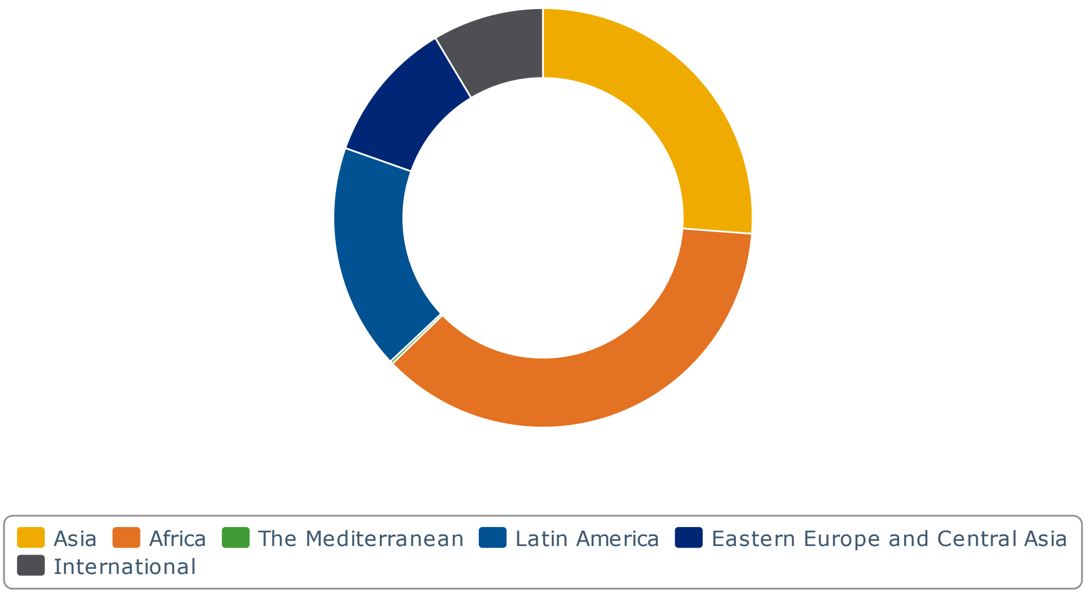
Annual investment decisions by DAC-groups including Russia in 2008-2012 (at original value, EUR million)



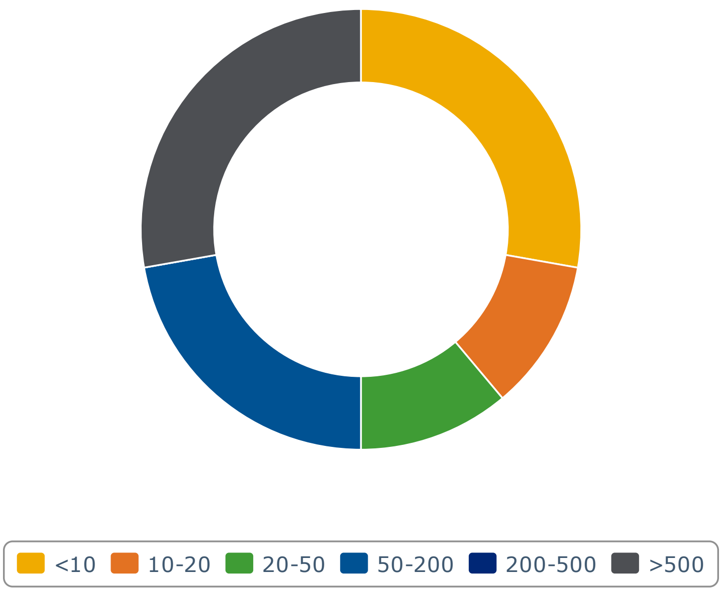
Portfolio and undisbursed investment decision and commitments by sector on 31 December 2012



Portfolio and undisbursed investment decision and commitments on 31 December 2012, geographical distribution



Number of Finnish clients by client's turnover on 31 December 2012 (number of clients)



Shareholders and share capital, 31 December 2012

Share capital	EUR 128 949 590

State of Finland	91.5%
Finnvera Plc	8.4%
The Confederation of Finnish Industries	0.1%

Concrete results from projects

In 2012 there was a slight decrease in demand for Finnpartnership's services. Finnpartnership received 86 new applications and granted Business Partnership Support for 77 projects, to the total sum of EUR 2.4 million. More detailed information can be found in the **Board of Directors' Report.**

Of the recipients of Business Partnership Support in 2009, 52 companies, who received a total of EUR 1.5 million, have submitted their final follow-up reports. Nearly half of them said operations were continuing well despite the continuing challenging economic situation in the world. The companies have invested EUR 35.7 million in their target countries, which is over twenty-four times the amount of support reimbursed. Another 12 per cent of companies said that their projects were still at the planning stage but predicted that a long-term business partnership would be formed in the near future.

The companies provide work for about 1672 people. 1283 persons are directly employed and as much as 40 per cent of these are women.

72 per cent of the projects reported development impacts related to the transfer of know-how and technology.

The aim of training included in the projects is to develop human capital in the working population of the target country. Personnel were trained in 72 per cent of projects.

The impacts of the project on the society of the target country are assessed in terms of working conditions and social benefits to employees. All projects comply with local legislation and with local standards for occupational health and safety. Of the projects that provide employment, 82 per cent also comply with international conventions on worker's rights and conditions, and 71 per cent with international standards on occupational health and safety.

79 per cent of companies that employ people reported other social impacts (including higher wages and HIV/AIDS prevention programmes). Companies have also had a positive influence on employment and working conditions for women, and on gender equality, e.g. by applying the equal pay for equal work principle.

General infrastructure has been improved in 24 per cent of the projects, and 68 per cent reported an impact on the market and production structure of the target country.

All projects comply with environmental legislation. 42 per cent said there had been other positive environmental effects, such as greater use of energy-efficient methods and environment-friendly raw materials.

In 24 per cent of projects, exports from a developing country to Finland or the EU had begun. Because support has been conditional on value-added importing from developing countries, all companies reported developmental effects of various degrees in this area.

Matchmaking service connects companies in Finland and developing countries

In 2012 Finnpartnership received 129 matchmaking requests from companies operating in developing countries.

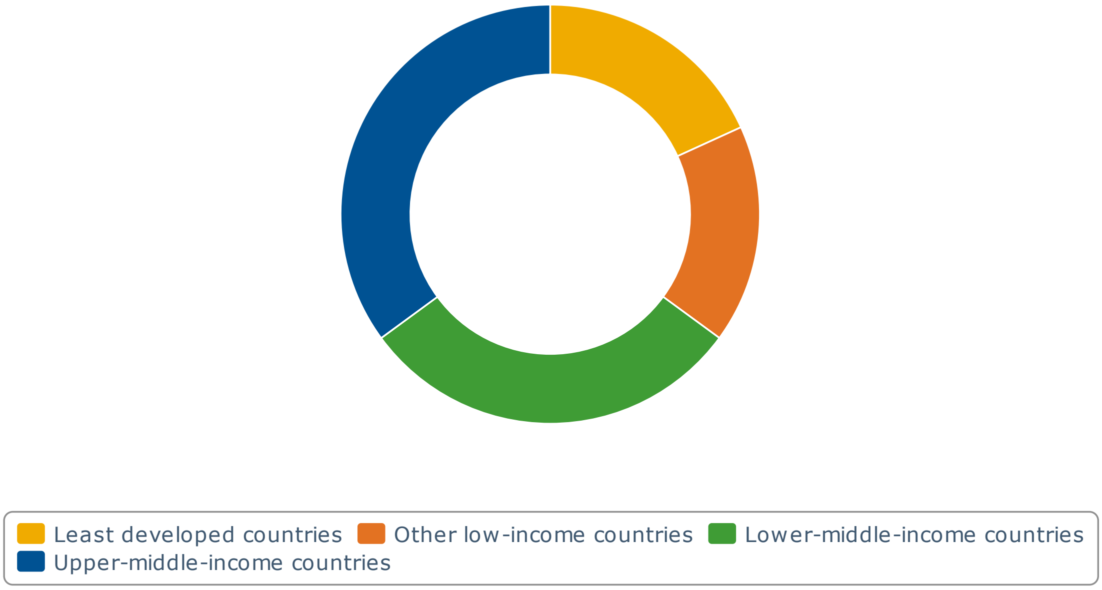
Between 2006 and 2012, 445 applications have been registered with the matchmaking service. In about 23 per cent of the cases there has been at least communication between Finnish companies and companies in developing countries, and about 14 per cent of these have advanced to the stage of concrete co-operation.

In the end of 2012, the Ministry for Foreign Affairs decided that Finnfund continues to manage Finnpartnership until the end of 2013. During the year 2013 the ministry will make further plans for the continuation of the programme.

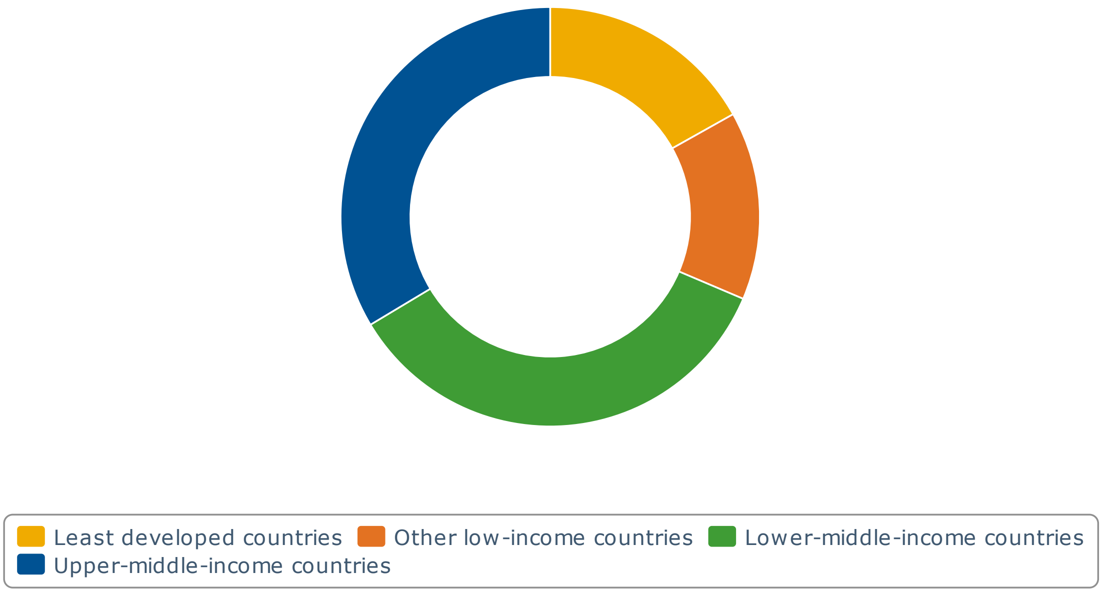
Examples of projects supported by Finnpartnership

Bangladesh	textile production
Brazil	import of jatropha oil
Chile	ICT services, electronics
China	responsibility management of supplier activities, subcontracting and development of quality management, testing and measurement systems, consultancy services, production of bioethanol, media logistics services, subcontracting construction equipment
Ethiopia	import of flowers, production and sale of construction materials
India	production of windmills, lifters and precast concrete, production and sale of low-tension products, mobile application services
Kazakhstan	setting up of a wireless network
Kenya	import of hand-made accessories, training of local staff
Mongolia	training of local staff
Mozambique	construction and infrastructure planning services, environmental consultancy services
Namibia	production of retorts
Nicaragua	training of local staff
Philippines	production of cold gels
Serbia	production of aluminium casting components
Sierra Leone	internet services
South Africa	licensing of an order and delivery management system, mobile learning and phone services
Tanzania	examining the possibility of implementation of biofuel
Turkey	import of food products
Ukraine	construction services, renewable energy products, production equipment, energy saving solutions
Vietnam	exercise and health services, consultancy services, recycling of cables, assembly of water purification devices, assembly and production of scooters, production of chemicals for treatment of water

Amount of approved business partnership projects in 2012 (%)



Business Partnership Support granted in 2012 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 2012, the Annual General Meeting was held in Helsinki on 20 April. The meeting discussed the matters specified in Article 11 of the Articles of Association and the increase in share capital. All of the company’s outstanding shares were represented at the meeting.

An extraordinary general meeting was held on 10 September 2012 in Helsinki. It discussed the increase in share capital. All 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

Until the Annual General Meeting on 20 April 2012, the chair of the Supervisory Board received a monthly fee of EUR 1,000, the deputy chair a monthly fee of EUR 600, and the other members a monthly fee of EUR 500. In addition, all members received a fee of EUR 200 for each meeting attended.

With effect from the Annual General Meeting, 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

	Fee	Present
Pertti Salolainen, chair until 12 June, thereafter deputy chair	5,832	5/5
Aila Paloniemi, chair as of 23 June	4,616	5/5
Seppo Kallio, deputy chair until 12 June	3,379	3/5
Tarja Kantola	3,716	5/5
Simo Karetie	3,716	5/5
Inkeri Kerola until 20 April	2,216	2/2
Risto Kuisma until 20 April	2,216	2/2
Antti Lindtman as of 20 April	1 500	3/3
Pirkko Mattila as of 20 April	1 000	2/3
Kirsi Ojansuu-Kaunisto until 20 April	2,216	2/2
Arto Satonen until 20 April	2,216	2/2
Katja Syvärinen	3,716	5/5
Seppo Toriseva as of 20 April	1,000	2/3
Tapani Tölli as of 20 April	1 500	3/3
Marjaana Valkonen	3,216	4/5
Anne-Mari Virolainen as of 20 April	1 000	2/3
Markus Österlund until 20 April	2,216	2/2

In 2012, the Supervisory Board met 5 times.

The average attendance rate for members was 90.6 per cent.

Board of Directors

Until the Annual General Meeting on 20 April 2012, the chair of the Board of Directors received a monthly fee of EUR 1,000, the deputy chair a monthly fee of EUR 600, and the other members a monthly fee of EUR 500. In addition, all members received a fee of EUR 200 per meeting attended.

With effect from the Annual General Meeting, 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.

Fees paid (EUR) and participation at meetings

	Fee	Present
Arto Honkaniemi, chair	17,100	13/13
Kari Alanko, deputy chair	12,300	13/13
Tuukka Andersén as of 20 April	7,721	9/9
Tuuli Juurikkala	10,800	12/13
Nora Kerppola	11,100	13/13
Riikka Laatu	11,100	13/13
Päivi Leiwo-Svensk	10,500	11/13
Markus Pietikäinen	10,500	11/13
Topi Vesteri until 20 April	3,379	4/4

There were no deputy board members.

In 2012 the board met 13 times. The average attendance rate for members was 95.7 per cent.

Audit Committee

In 2012, members of the Audit Committee of the Board of Directors received a fee of EUR per meeting attended.

Fees paid (EUR) and participation at meetings

	Fee	Present
Markus Pietikäinen, chair	1,200	4/4
Arto Honkaniemi	1,200	4/4
Tuuli Juurikkala	1,200	4/4
Nora Kerppola	1,200	4/4

There were no deputy members of the audit committee.

In 2012 the Audit Committee met 4 times. The average attendance rate for members was 100 per cent.

Managing director

In the financial year 2012, managing director Jaakko Kangasniemi received taxable income from the company of EUR 175,533. 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 2012.

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

The pension liability will be covered partly by the existing group pension insurance and partly by an annual reserve in the company's balance sheet. In the financial year ending 31 December 2012 a reserve of EUR 18,753 was made for the pension liability.

For 2013 and subsequent years, a reserve will be made in the accounts which, together with the group pension insurance contribution, is 26.51 per cent of the managing director's gross annual earnings.

From 2012 the managing director has no longer been paid separate compensation based on previous contracts, which has been taken into account in the reserve made in the financial statement of 31 December 2012.

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 has foregone net pension benefits of EUR 74,308.00 accrued in earlier years. This loss of pension benefit is being 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 2012 financial year, taxable income received from the company by the Management team, including the managing director and his deputy, totalled EUR 880,244.

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 month's salary if the targets set are met. The incentive system is based in part on the company's performance and partly on the team level performance. The Board of Directors decides on the incentive system and its key criteria on an annual basis.

In 2012, 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; Jyrki Halttunen, Treasurer (until 30 October); Minnamari Marttila, Director, Administration; Hanna Skelly, Associate Director; Mikko Kuuskoski, Associate Director (as of 1 June); and Antti Urvas, Associate Director (as of 1 June).

Supervisory Board, Board of Directors and Audit Committee

Supervisory Board

Pertti Salolainen
Member of Parliament
Chair until 12 June 2012
Vice Chair as of 12 June 2012

Seppo Kallio
Director, The Central Union of Agricultural Producers and Forest Owners (MTK)
Vice Chair until 12 June 2012
Member of the Board as of 12 June 2012

Tarja Kantola
Special Adviser to the Minister
Ministry for Foreign Affairs

Simo Karetie
Chief Policy Adviser
The Confederation of Finnish Industries EK

Risto Kuisma
Master of Laws
until 20 April 2012

Inkeri Kerola
Member of Parliament
until 20 April 2012

Antti Lindtman
Member of Parliament
as of 20 April 2012

Pirkko Mattila
Member of Parliament
as of 20 April 2012

Board of Directors

Arto Honkaniemi
Senior Financial Counsellor
Prime Minister's Office
Chair

Kari Alanko
Ambassador, Development Policy Adviser
Ministry for Foreign Affairs
Vice Chair

Tuukka Andersén
Director of Finance
Finnvera Plc
as of 20 April

Tuuli Juurikkala
Special Advisor
Ministry of Finance

Nora Kerppola
Managing Director
Nordic Investment Group Oy

Riikka Laatu
Director
Ministry for Foreign Affairs

Päivi Leiwo-Svensk
Chairman of the Board
Oilon International Oy

Markus Pietikäinen
Vice President
Wärtsilä Oyj

Aila Paloniemi
Member of Parliament
Member until 12 June 012
Chair as of 12 June 2012

Arto Satonen
Member of Parliament
until 20 April 2012

Kirsi Ojansuu-Kaunisto
Master of Arts (Education)
until 20 April 2012

Katja Syvärinen
Director for Employment Services, City of Vantaa

Seppo Toriseva
Entrepreneur
as of 20 April 2012

Tapani Tölli
Member of Parliament
as of 20 April 2012

Marjaana Valkonen
Master of Social Sciences

Anne-Mari Virolainen
Member of Parliament
as of 20 April 2012

Markus Österlund
Program Director
The Swedish Assembly of Finland (Folktinget)
until 20 April 2012

Topi Vesteri
Executive Vice President
Finnvera Plc
until 20 April 2012

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

Audit Committee as of 28 February 2012

Markus Pietikäinen
Chair

Arto Honkaniemi

Tuuli Juurikkala

Nora Kerppola

See also:

Supervisory Board on Finnfund's website ›

Board of Directors on Finnfund's website ›

Personnel on Finnfund's website ›

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, social and 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.

Finnfund's corporate social responsibility report is published in the autumn on this Annual Report -website. The publication of the report will be announced on **Finnfund's website** also. Please use the **feedback form** if you would like to receive the report by email.

Investments, 31 December 2012

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	
CHINA		
Ceiko China Ltd	Steel structures	Konepaja Ceiko Oy
China Finland Maanshan Steel Co. Ltd.	Metal products	Metalliset Oy
LVDU Lapland Food (Fushun) Co. Ltd	Dairy products	Lapland Food Oy
Detection Technology (Beijing) Ltd.	Radiation detectors	Detection Technology Oy
Norrhydro Hydraulics System (Changzhou) Co. Ltd.	Manufacturing of hydraulic cylinders	Norrhydro Group Oy
Outokumpu Stainless Steel (China) Co. Ltd.	Stainless steel products	Outokumpu Oyj
Shanghai Fimet Medical Instrument Co.	Dental chairs	Fimet Oy
Teknikum Suzhou Technology Co. Ltd.	Rubber and plastic products	Teknikum-yhtiöt Oy
Xian Xifen Manufacturing Company Ltd., Xian Xifen Software Technology Company Ltd.	Electrical equipment	SR-Instruments Oy, Inspex Oy
INDIA		
Ashley Alteams India Pvt. Ltd.	Aluminium components	Alteams Group
Bharti Airtel Limited	Telecommunications	Nokia Siemens Networks Oy
Incap Contract Manufacturing Services Pvt. Ltd.	Contract manufacturer of electromechanics	Incap Oyj
Ojala (India) Engineering Pvt. Ltd.	Metal products	Ojala-Yhtymä Oy
Polygenta Technologies Ltd.	Polyester manufacturing	
SREI Infrastructure Finance Limited	Leasing	
Stera Engineering (India) Pvt. Ltd.	Contract manufacturer of electromechanics	Stera Technologies Oy
VME Precast Pvt. Ltd.	Concrete elements	Valkeakosken Betoni Oy
West Coast Paper Mills Limited	Paper mill	Metso Paper Oy
LAOS		
Nam Sim Power Company Limited	Hydropower plant	
MALAYSIA		
Polar Twin Advance (M) Sdn. Bhd.	Electronics	Polar Electro Oy

MONGOLIA		
Radisson BLU Hotel Ulaanbaatar	Hotel	
PHILIPPINES		
mBank Philippines	Microfinance	
SRI LANKA		
Lanka Orix Leasing Company Ltd.	Leasing	
South Asia Energy Management Systems (SAEMS)	Small hydropower	
THAILAND		
A.T. Biopower Co., Ltd.	Biopower plant	Pöyry Oyj
Siam Investment Fund II L.P.	Private equity fund	
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	
Alios Finance SA	Leasing	
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	
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	
European Financing Partners	Development financing	
GroFin East Africa Fund LLC	Private equity fund	
Norsad Finance Limited	Development financing	
Silverlands Fund	Private equity fund	
ECP Africa Fund I LLC	Private equity fund	
CAPE VERDE		
Cabeólica S.A.	Wind power	

KENYA		
Elgon Road Developments Limited	Hotel	
Universal Corporation Ltd.	Medicines	
NIGERIA		
Access Bank Plc	Bank	
African Foundries Limited	Steel	Wärtsilä Oyj
SOUTH AFRICA		
DBC South Africa Ltd.	Physiotherapy and rehabilitation	DBC International Oy
Evolution One LP	Private equity fund	
Horizon Fund III Trust	Private equity fund	
SIERRA LEONE		
Goldtree Sierra Leone Limited	Food production	
TANZANIA		
Kilombero Valley Teak Company Ltd.	Teak plantation	
Precision Air Services Ltd.	Airline company	
Tanira Ltd.	Hand pumps	Lojer Oy
THE MEDITERRANEAN		
TURKEY		
PineBridge Blue Voyage Partners L.P.	Private equity fund	
Noksel A.S.	Steel pipes	Nokia Oyj
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		
La Vegona	Hydropower	
Los Laureles	Small hydropower	
Mezapa Hydroelectric Project	Small hydropower	

LATIN AMERICA		
CEA Latin America Communication Partners	Private equity fund	
CIFI - Corporación Interamericana para el Financiamiento de Infraestructura, S.A	Bank	
Latin American Agribusiness Development Corporation (LAAD)	Bank	
SEAF Latam Growth Fund	Private equity fund	
Solidus Investment Fund S.A.	Microfinance	
The Forest Company Ltd.	Forestry	
NICARAGUA		
Bancentro	Bank	
URUGUAY		
Forestal Oriental S.A.	Eucalyptus plantation	Oy Metsä-Botnia Ab, UPM-Kymmene Oyj
Ontur International S.A.	Port	Oy Metsä-Botnia Ab
CENTRAL AND EASTERN EUROPE		
BOSNIA AND HERZEGOVINA		
LOK Micro-Mikrokreditna Organizacija Sarajevo	Microfinance	
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		
Clinic Scandinavia	Clinic	Scanfert Oy
Mantsinen Machine Rental Oy	Logistics and material handling	Mantsinen Group Ltd. Oy
MP Russia Oy	Food products	Myllyn Paras Oy Konserni
OOO AVA-Peter	Hospital	Scanfert Oy
OOO Dan-Invest	Agriculture	Atria Oyj
OOO Volgastrap	Steel strips	Specta Group AG
Oy Nordic Russian Management Co - NORUM	Development financing	
Rani Plast Kaluga LLC	Plastic products	Ab Rani Plast Oy
ZAO Izhma Reindeer Meat	Meat processing	Kometos Oy
UKRAINE		
Aqueduct Ltd.	Metal products	Macring Oy
Slavutskiy Kombinat Budfarfor PJSC	Ceramic industry	Sanitec Oyj
ZAO Zaporozhkij Zavod Tjazhelogo Krasnostroenia	Cranes	Konecranes Oyj

INTERNATIONAL

Dasos Timberland Fund I	Forestry Fund	Dasos Capital Oy
Global Environment Emerging Markets Fund III, L.P.	Private equity fund	
Interact Climate Change Fund S.A.	Development financing	
MBH B.V.	Microfinance	
Private Energy Market Fund Ky	Energy fund	Electrowatt-Ekono
ShoreCap International Ltd.	Microfinance	
ShoreCap International Ltd. II	Microfinance	
Uniqoteq	Electronic equipment	Uniqoteq
WD Power Investment Ky	Energy fund	Wärtsilä Oyj
WWB Isis Fund	Microfinance	

*) Shareholder or significant technology provider

Direct investments and Finnish skills

About three-quarters of Finnfund's investments have been made directly to project companies in developing countries. In a large proportion of these investments there is a linkage to Finnish companies. Finnfund's direct investments are listed here.

Finnfund's direct investments are spread over many sectors varying from engineering to plantation forestry and from pharmaceuticals to power. About a half of investments made in recent years can be regarded as climate finance because they have been used for projects in renewable energy, prevention of deforestation, energy and material efficiency or to improve the ability of poor people to adapt to the challenges posed by climate change.

The investments are also geographically diverse. Co-investments with Finnish companies are mostly in middle-income developing countries such as India, China and Ukraine, as well as in Russia. In low-income countries Finnfund mostly finances infrastructure, often together with other development finance institutions, although Finnish companies are often involved in these projects, too, as technology suppliers.

Finnfund's mission is to catalyze the investments and expertise of Finnish companies to developing countries. A pivotal role is to collaborate with the Finnish companies that have solutions to the burning problems of the developing world and therefore also opportunities in the markets of growth countries. These opportunities are often related to clean technology, which Finland would like to encourage to be implemented in developing countries. We focus on medium-sized companies and projects that are large enough for internationalization but too small to partner with international development banks.

Finnfund's investment can be a loan or equity. We are always a minority shareholder in a project and the sponsor role is assumed by a partner with industry or country expertise, or both. Some investments are for expansion; others are greenfield.

Finnfund's investments are aimed at development impacts, such as the creation of proper jobs, a tax base, higher export earnings and better or cheaper services or products for the people of developing countries. Different projects serve development in very different ways. For example, the impact of our investment in a Kenyan pharmaceuticals plant is mainly in public health and will bear fruit when medicine of lower cost and higher quality become available. On the other hand, projects to generate electricity for poor households have a mostly indirect impact, created when electricity allows thousands of small enterprises and their employees to work more productively.

Data collected from customers demonstrates that the companies financed by Finnfund employ tens of thousands of people directly and even hundreds of thousands indirectly but our participation plays a very variable role in creating or maintaining these jobs. Looking only at directly financed customer companies during the period while Finnfund has financed them, the net increase in jobs is about 6700.

Finnfund expects its investee companies to assume corporate social responsibility and does not allow any corruption, tax avoidance or money-laundering. For example environmental affairs and working conditions are some of the aspects that have to meet international standards even if local legislation imposes looser demands or none at all.

Development impact via investments

About a quarter of Finnfund's investments are channelled to developing countries through private equity funds. Fund investments are targeted mainly at low-income countries, and especially Africa. Finnfund's fund investments are shown in the project list.

Using funds Finnfund supports mainly small and medium-sized local companies, where funding would be difficult or impossible to arrange directly cost-effectively. Finnfund concentrates on funds that provide capital for business expansion which often could not be implemented without the equity financing provided by funds.

Fund management companies usually have a local presence in their investee countries. Because risk capital for SMEs in low-income countries is a fairly recent phenomenon, the investments are usually made and managed by teams combining equity investment skills obtained in developed markets and a thorough understanding of the local market.

Finnfund has also invested in several sector funds that concentrate on industries such as renewable energy, sustainable forestry or microfinance. These funds typically operate in several countries, transferring skills across borders.

Other development finance institutions often co-invest in these funds with Finnfund. Sometimes insurance companies and pension funds of the investee country are also investing. However, foreign institutional investors do not usually participate until there is track record on successful investments. With the gradual development of a country or sector previously regarded as challenging, private equity investments become established and the funds begin to attract institutional investors too. Then, development finance institutions like Finnfund can move on to finance projects that do not yet have access to sufficient funding from commercial sources.

Funds are typically established for a term of approximately ten years. The fund usually invests the capital raised during the first few years, after which it concentrates on developing its investments and finally on exiting those. Finnfund's investment commitments to funds vary typically between 5 and 10 million euros. Finnfund participates in a total of 36 funds. At the end of 2012, its fund investments totalled some EUR 68 million, on average about EUR 1.9 million in each.

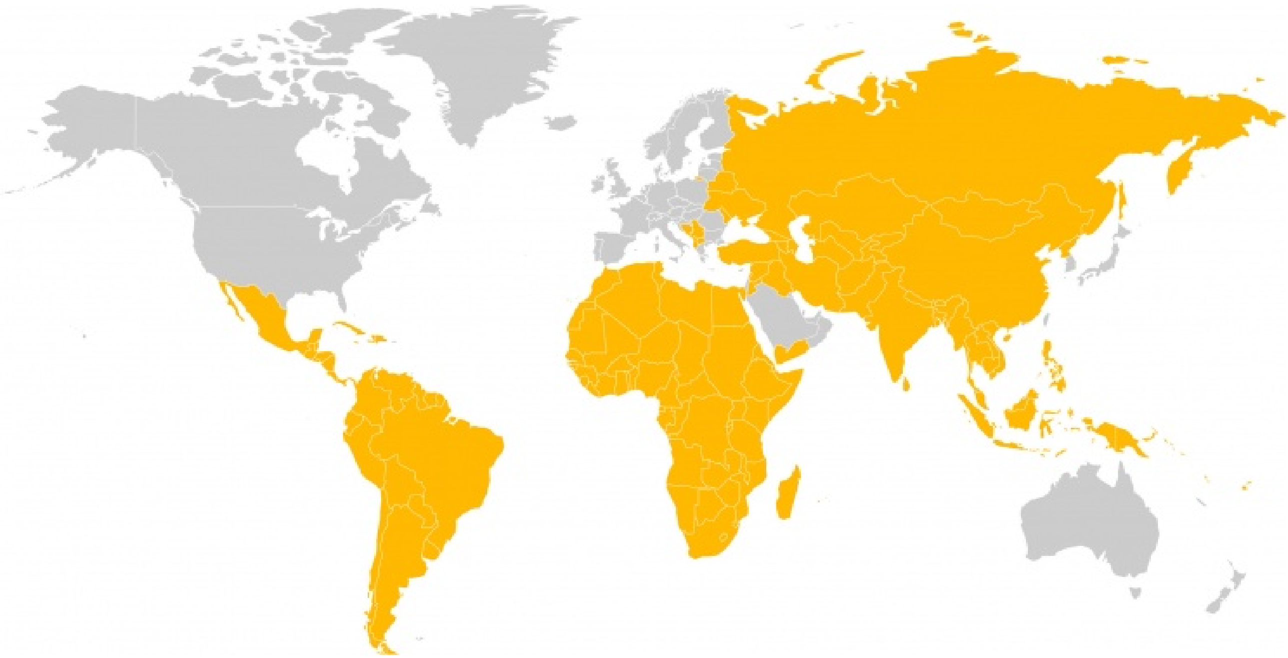
With fund investments, Finnfund aims at achieving development impacts in developing countries, such as job creation, improvements in productivity and living standards, products of higher quality or lower prices for poor consumers, an improvement in environmental conditions, and a broader tax base. In 2011 the companies funded through Finnfund's fund investments employed nearly 85,000 people, of which about 8,500 people are attributable to Finnfund's share.

Most of the funds that invest in developing countries are registered in international financial centres. Funds investing in Africa are often registered in Mauritius. Another much-used country is Luxemburg. These domiciles are conduits, where capital from many different countries is pooled to investee countries. Taxes are not paid in the country where the fund is registered, but the investors and investees pay taxes in their own countries. In 2011 the companies financed by Finnfund via investment funds paid 315 million euros in taxes and similar levies. Finnfund's allocated share is about EUR 23 million.

Finnfund opposes to tax avoidance, corruption and money laundering in target countries or domiciles. We conduct background checks of fellow investors and fund management companies and require thorough due diligence on fund investee companies and reports on e.g. taxes paid. Alongside many other development finance institutions, we encourage countries of registration to create transparent regimes by investing only in funds registered in countries that comply with the progressively stricter requirements introduced by the OECD Global Forum. In March 2013 there were 13 countries* which no longer are eligible jurisdictions for new fund investments by Finnfund. The list will be revised in the near future after the OECD Global Forum has reviewed some 50 countries in the light of stricter criteria. However some of the countries not currently in compliance are making efforts to get off the list, which is the very purpose of the OECD process and the financial institutions that complying with it.

* Botswana, Brunei Darussalam, Costa Rica, Dominica, Guatemala, Lebanon, Liberia, Marshall Islands, Niue, Panama, Trinidad and Tobago, United Arab Emirates, Vanuatu.

Finnfund's operational area



Norsad boosts finance for Southern African growth companies

Norsad Finance Ltd is a Nordic-African development finance company operating in Southern Africa. It provides growth companies with long-term finance directly or through intermediaries.

Last year four Nordic development finance institutions – Finnfund, IFU of Denmark, Norfund of Norway and Swedfund of Sweden – made a USD 34 million equity investment in Norsad Finance. This increased its capital base to over USD 100 million.

Norsad Finance was established in 2011 when “NORSAD Fund and Agency”, created in 1990 by four Nordic and eleven Southern Africa countries, was incorporated. The DFIs of the four Nordic countries and eleven Southern African countries became its shareholders.

New investment possibilities

Alongside traditional development financing, Norsad Finance is creating a new model for international financing which, with the extra equity from the Nordic shareholders, it hopes will attract more African equity and lending from local and international sources.

Norsad Finance has traditionally concentrated on SMEs. With greater equity it will be able to serve new customers and larger projects in future.

As of January 2013, Norsad Finance’s investment portfolio was about USD 54 million. Undisbursed commitments totalled USD 22 million dollars.

More dircect investments

About 60 percent of its investments have been made to small and medium-sized companies via banks but in future the proportion of direct investments in various sectors is expected to grow. Norsad Finance believes that new markets and opportunities will be opened by its recent decision to offer equity and mezzanine instruments in addition to loans. Traditionally the most active sectors have been agriculture and food processing. Most of Norsad’s investments are in Zambia, Malawi and Zimbabwe.

Its office, which used to operate in Lusaka, Zambia, moved at the beginning of the year to Gaborone in Botswana.

SaraRasa pioneers pellet production in Indonesia

Finnfund has invested in a production plant in Indonesia, where SaraRasa Bioindo Pte. Ltd makes pellets from agricultural residues. The operation has major environmental impacts. One of the company's shareholders is Dovre Group, listed on the Helsinki Stock Exchange.

Consumption of pellets produced from biomass is on the rise throughout the world. Used for generating heat and electricity, most pellets are consumed in Europe but Asian markets are now taking off.

Many Asian countries, like Japan, Korea and Taiwan, have passed laws encouraging power companies to use increasing amounts of renewable fuel. One of the least expensive renewables is biomass.

Pellets from biomass

SaraRasa is Indonesia's first commercial-scale pellet producer. The company's plant is located in Riau province, on the island of Sumatra.

To make the pellets, it uses agricultural biowaste, of which Indonesia produces an estimated 100 million tonnes a year. At present almost all of the residues from sugar cane, cassava and rice processing are discarded or disposed of by burning.

The technology needed to produce the pellets has been imported from Europe but SaraRasa has developed its own pre-processing system. In its plant, pulverised and dried biomass is compressed into a pellet a couple of centimetres long.

New production plants and jobs for a poor region

In addition to the positive environmental effects, SaraRasa is creating jobs in a poor rural area. The pellet plant directly employs about 100 local people and indirectly several hundred more. It is one of the main industrial employers in the area.

Indonesia is not an easy business environment for a start-up. It takes time and effort to obtain permits for example establishing a company and importing technology.

As the country's first pellet manufacturer, SaraRasa has a great opportunity to create a viable new business sector in Indonesia.

The company aims to build more pellet production plants in the years ahead.

SaraRasa believes that Finnfund's role is especially important in a country like Indonesia, where a wealthy, government-backed partner commands respect. Finnfund's grasp of sustainable development issues brings extra value to the project.

Finnpartnership has granted Business Partnership Support for the project.

Bringing forest cultivation work to rural Africa

Africa contains many regions suitable for forest cultivation but still has very few well-managed plantation forests.

A pioneer in this field is Green Resources AS, established by Mads Asprem of Norway. GRAS has been planting forests in Tanzania, Uganda and Mozambique since the mid-1990s.

One of its strategies is long-term leasing of land from local communities. Forest management provides work and income for the rural poor. GRAS trains employees and thus transfers skills to the local community. In the three main countries where it operates it employs a total of about 4000 workers. If family members and indirect jobs are taken into account, it can be said that GRAS provides a large part of the livelihood of several tens of thousands of people.

It also participates in the development of local infrastructure, repairing roads and building schools, health centres and wells.

Combat against deforestation

Sustainably managed plantations provide raw materials that would otherwise come from natural forests. This is a way of helping combat the advancing deforestation of Africa. In the areas managed by GRAS, alongside plantation forests, are natural forests, which it supervises to prevent illegal felling and forest fires. It supplies wood to local markets and intends to begin exports in the longer term. The growth markets of Asia are particularly interested.

Transmission poles and charcoal

In Tanzania and Uganda GRAS produces transmission poles and charcoal for local and East African markets. There are environmental reasons for increasing the use of charcoal from plantation forests because the charcoal is mainly produced by destroying natural forests. Charcoal is the most common fuel used by poor households for preparing food.

Norway’s development finance institution Norfund and the International Finance Corporation of the World Bank group have provided finance for GRAS. Finnfund has granted the company an investment loan. The participation of development finance institutions is important during the company’s expansion because it would be difficult to obtain finance from purely commercial sources. Alongside the investments by Finnfund and Norfund, the company’s current shareholders have also increased their capital investment in GRAS.

Clean energy alternatives for Central America

In 2007 Finnfund invested in the Central American Small Enterprise Investment Fund II (CASEIF II). CASEIF is a private equity fund for small and medium-sized companies in Central America. The fund size is USD 29 million and at the end of 2012 the fund had invested in fifteen companies.

Other investors in the fund are the Multilateral Investment Fund/Interamerican Development Bank (MIF/IDB), the Andean Corporation Development (CAF), the Norwegian Investment Fund for Developing Countries (NORFUND), the Swiss Investment Fund for Emerging Markets (SIFEM) and the Belgian Investment Company for Developing Countries (BIO).

Positive social impacts

CASEIF II promotes growth in profitable companies that generate employment and taxable income and promote positive social impacts in their countries. The fund is managed by LAFISE Investment Management Ltd.

The fund portfolio companies have created 1,479 direct and 8,066 indirect jobs of which 38 per cent are held by women. The total tax revenues amounted to almost eight million dollars in 2012. Portfolio companies help reduce carbon dioxide emission by 40 000 tonnes a year.

A good example of CASEIF's investments is TECNOSOL SA. In 2009 CASEIF made an equity investment of 1.15 million dollars in the company.

Clean energy

TECNOSOL provides clean energy alternatives for the lighting and refrigeration needs of rural Nicaraguan households, schools and hospitals that have no access to the main electricity grid. TECNOSOL has installed over 60,000 renewable energy systems like solar panels and thereby for the period 2008-2012 reduced carbon dioxide emissions by 16,000 tonnes.

CASEIF II takes an active approach towards its investees, providing them advice on strategic direction, corporate governance and business organization. CASEIF's investment strengthens TECNOSOL's Nicaraguan operation and has initiated its expansion to Panama, El Salvador and Honduras. TECNOSOL obtained ISO certification in 2011.

TECNOSOL improves living standards by providing energy solutions to poor families with no previous access to power. TECNOSOL currently employs 106 people directly of whom 36 per cent are women and 42 per cent young employees aged 18-30 years.

In 2010, for the third consecutive year, TECNOSOL was awarded the Excellence in Business Development Award by the Inter-American Development Bank. It also took second place in the 2010 London Ashden Awards in the category of Innovative and successful energy initiatives.

Small loans for women's big dreams

Finnfund has made an equity investment in WWB Isis Fund, which is a new microfinance investment fund established by Women's World Banking. The fund will make equity investments into microfinance institutions, which are members of Women's World Banking´s network in Africa, Asia and Latin America.

Women's World Banking is the global nonprofit devoted to giving more low-income women access to the financial tools and resources they require to achieve security and prosperity. Through innovation in product and leadership development, Women's World Banking works with a global network of microfinance institutions to design sustainable financial products that meet the needs of women in each stage of her life.

In 2012, Women's World Banking´s global network included 39 financial institutions in 28 countries. They served more than 19 million clients, 73 percent of whom were women. Women's World Banking´s network members had a loan portfolio of more than US dollars 6.9 billion and 4.4 billion in savings.

Examples from Women's World Banking's product development work with its network in 2012 included microinsurance in Jordan; youth savings in Ethiopia; financial education in India; and rural finance in Latin America.

The WWB Isis fund is targeting a second closing in 2013. Apart from Finnfund the fund has investors from European development finance institutions and financial services companies.

China underpins Norrhydro's growth strategy

Norrhydro's roots are in Rovaniemi, Lapland but it now has production in China, too. The factory in Changzhou, financed by Finnfund, is an important part of the growth strategy of this Finnish cylinder manufacturer.

Established in 1985, Norrhydro has come to concentrate on producing cylinders for hydraulic equipment used in forest machines, ships, ports and mines. Its main markets are in Finland and northern Europe but a few years ago it embarked on a plan to grow in the Far East. The Chinese market for hydraulic solutions has grown at an annual rate of 20-40 per cent since 2000. It is expected to grow even faster in the years ahead.

Norrhydro expanded operations into China and began operations in Changzhou in early 2012. Its factory is expected to be in full-scale operation in 2014 and will then employ 250.

Companies planning to set up in China should reserve plenty of time to get established. It is also important to build networks and develop personal relationships with customers and local officials.

China the best option

It was essential to expand operations into China. The growing markets for hydraulics are in Asia.

Production is not being shifted from Finland to China. The factory in Changzhou will make products for the Asian market while output from Finland goes to Europe.

It is difficult to serve customers operating in Asia from Rovaniemi when it takes eight weeks to ship products to the Far East.

Growth is an important part of Norrhydro's strategy, but product development has a key role, too. In partnership with Tampere University and others, it is developing an intelligent management system that will increase the effectiveness of hydraulic systems while reducing their energy demands and emissions. By applying digital technology to hydraulics power demands can be cut down by up to 80 per cent.

Project finance from Finnfund

The Norrhydro project is a good example of how Finnfund supports the efforts of Finnish SMEs to build up a presence in developing countries. Finnfund is still needed in more developed target countries like China.

The main development impacts of the project are in knowledge transfer and job creation in China.

Beginning local production is important for Norrhydro's future, too. It will be valuable, for example, when the company has developed smart, energy-saving hydraulic equipment and brings it to markets in Asia.

Support from Finnpartnership

When seeking partners for business operations in China, studying the project feasibility, drawing up a business plan, assessing environmental and social impacts, and training employees, Norrhydro received business partnership support from Finnpartnership.

In addition to its developmental impact in China, Norrhydro's investment will also have favourable consequences at home.

A successful presence in a developing market can reinforce a company's operations in Finland, too. In the best scenario, Asia will bring volume and leverage, helping to make it profitable to develop an energy-saving product in Finland.

Providing the unbanked of the Philippines with financial services

A new solution bringing microfinance and mobile phone technology together in an unprecedented way was introduced in 2012. Finnfund has been participating in the mBank project as a development partner since its early stages.

The primary driver for the new business model was financial inclusion, i.e. ability to offer banking services to people who currently have little or no access to banking services. This is caused by the traditional bricks-and-mortar operating model of banks and microfinance institutions, which results in a cost structure that makes it unprofitable to serve people with small balances. Those who are excluded live in a cash-based society and their small cash holdings remain subject to theft and loss. Without a bank account, they also lack a financial identity, making access to credit very difficult.

Quality services with lightweight organization

The mBank concept is based on a new application of mobile telephony. Financial institutions using the concept do not have physical branch offices but use an agent network, often in rural areas. A lightweight organization does not mean lower standards: financial institutions using the concept are subject to normal banking regulations concerning fraud, money-laundering and so on.

The first bank using the business model, mBank Philippines, is in the process of being established. The leading mobile phone operator in the Philippines, Smart, has been a partner in developing the concept from its infancy. Smart also has long experience of various mobile money solutions, and this experience has benefited the project greatly.

The concept is being rolled out to the Philippines by a company in which the shareholders are Finnfund, the Dutch development finance institution FMO, PLDT-Smart Foundation and PlaNet Finance Group, one of the world's leading microfinance groups.

Finnpartnership:

From hardships to success in Vietnam

Established in 1898, Niemen Tehtaat Oy is the oldest furniture manufacturer in Finland. The family business has long been exporting its products but at the beginning of the 21st century a completely new pace was set for internationalization when the company started investigating what Asia could offer.

China did not seem to be the logical place for a small to medium-sized business, and the Finnish entrepreneur ended up in Vietnam. The company had previously bought small shipments of furniture and sought to establish itself via familiar business partners. In 2004 a joint venture was founded with a company that manufactured wooden garden furniture but the project miscarried later.

In a difficult situation, as they moved onwards from a partnership to establishing their own subsidiary, Niemen Tehtaat received background support from Finnpartnership in the form of Business Partnership Support. Expert lawyers, accountants and other experts are not cheap in Vietnam either.

Since establishing Niemen Tehtaat Vietnam Ltd, development has been positive and the company intends to expand and develop operations in Vietnam. Only hard work and long-term operations yield results.

Local rules of play need to be thoroughly known

The legislation and business culture in Vietnam need to be thoroughly understood in order to succeed. It is worth seeking help from experts, who can sometimes be found in international accounting communities. Professional and reliable staff who can handle the complex bureaucracy are also vital.

The Vietnamese subsidiary has around 20 employees in their administration and goods inspection, all of whom are local. Indirectly the company employs well over a hundred people.

The company has over 50 suppliers ranging from small workshops to larger factories. Niemen Tehtaat is planning to manufacture products itself. At the moment, plastic polyrattan summer furniture and local carpets and crafts are bought from Vietnam. Finding trustworthy manufacturers that produce high-quality goods is not easy.

Responsible business to Vietnam

Long-term business partnerships also help to develop quality and ensure that the partner is acting responsibly. Niemen Tehtaat meets with their partners regularly and visit the site of operations. In this way they can contribute to responsible business and respect for employees.

The products produced in Vietnam complement the entire product range for Niemen Tehtaat. The production facilities located in Sastamala and Suodenniemi in Finland manufacture mainly wooden furniture. Production has not been moved from Finland to Vietnam. Vietnam makes Niemen Tehtaat a more interesting partner, so operating there also promotes Finnish operations.

Finnpartnership:

Betonimestarit Oy exports building expertise to India

A few years ago, Betonimestarit Oy went to India to identify opportunities for producing concrete frames and elements. The company is headquartered in Iisalmi and it has production at various locations across Finland. It had previous experience of international markets from Sweden.

The Indian government is supporting a residential housing programme which requires local construction companies and real estate investors to adopt new technologies and an international partner. Betonimestarit had received several contact requests and went to India to learn more about potential partners. It ultimately selected an Indian steel industry manufacturer to establish a joint venture.

The shareholders of the joint venture are the Indian Simplex Group and Sarga Energy and the main owner of the Betonimestarit Group, Invest Saarelainen Oy.

Production of elements launched

The joint venture’s concrete element factory has begun operations in Khopol, near Mumbai. The first production hall is complete and the production of wall elements has been started. A production line for hollow-core slabs is under construction.

Some of the equipment for the production facility has been supplied by Elematic, a Finnish concrete element manufacturer. The total value of the project exceeds 10 million euros. The funding is from Indian business partners and Betonimestarit is supplying the necessary know-how.

Finnpartnership providing support

Betonimestarit received business partnership support from Finnpartnership for preparing its business plan and seeking partners in India.

Identifying Indian business partners was successful, a joint organisation was established and production has been started. The form of funding provided by Finnpartnership has been good and functional.

Finnpartnership also granted support for training the personnel of the joint venture, but this support was not used by Betonimestarit. Starting of the training has been the greatest challenge of the project. Betonimestarit has negotiated with several vocational institutes and polytechnics but has not received quotations for training either in Finland or on-site in India.

A new way of construction in India

Element construction is still an unfamiliar construction method in India. Houses are usually built entirely on site. Constructing an apartment building takes typically 2-4 years, while the same project in Finland usually takes a year.

Besides shortening the building time, element construction preserves natural resources and improves safety. With concrete elements of consistent quality, the required strength is obtained with less cement and other raw materials.

An entrepreneur needs honesty, openness, hard work and above all patience in India. Finding the right partner is very important.

Report of the Board of Directors

Mission and strategy

Finnfund, formally Finnish Fund for Industrial Cooperation Ltd., 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 it operates on a self-supporting basis. The majority of Finnfund financing is directed at low-income and lower-middle-income developing countries, with the aim of building bridges between Finnish expertise and the needs of developing countries, and of augmenting the developmental impacts of Finnfund investments.

In 2012, the strategy of the company was revised: with the aid of the special risk funding approved in 2012, Finnfund will take a more active and risk-oriented role to provide a catalyst in projects with excellent development impact potential, but without compromising the requirement of being self-supporting.

Funding and investments

The general uncertainty in the economy dampened interest in investments especially for Finnish companies during 2012. This was reflected in Finnfund operations as a small number of projects and low project volumes. Nevertheless, the number of decisions taken was slightly higher than in the previous year, 18 in all (2011: 14), with a combined value of EUR 56 million (EUR 33 million).

The low volume of project production is explained not only by low demand but also by the fact that the projects that were completed almost without exception included elements that made them particularly laborious to prepare. Indeed, 72 per cent of the projects undertaken were ones where Finnfund participation was considered to provide substantial added value.

Of the decisions made, 61 per cent (2011: 100 per cent) concerned the least developed countries, low-income countries, or lower-middle-income countries. Specifically, joint projects with Finnish enterprises principally concerned upper-middle-income developing countries. The least developed and low-income countries accounted for 42 per cent (53 per cent) of the financing commitments by monetary value and 36 per cent (36 per cent) in terms of the number of commitments. The change in the distribution of target countries for investment decisions reflects funding demands on the one hand and the progress of projects long in preparation into the decision-making stage during the period under review on the other.

In 2012, 4 (2011: 4) commitments were made involving equity investment, of which two were additional investments in existing projects, the combined value of equity investment commitments being EUR 3.4 million (EUR 8 million); one of these projects was also granted an investment loan. A total of 10 (6) investment loan commitments were made, with a combined value of EUR 33.8 million (EUR 12 million); 1 (2) financing commitment that can be considered a mezzanine instrument was made, with a value of EUR 1.1 million (3 million); and 3 (2) fund investment commitments were made, with a combined value of EUR 17.6 million (EUR 10 million).

Of the financing commitments, 6 (7) went to Asia. These commitments had a combined monetary value of EUR 13.4 million (EUR 13 million), amounting to 24 per cent (38 per cent) of the total monetary value of financing commitments. As in the previous year, only 4 commitments were made to Africa, with a combined monetary value of EUR 10.4 million (EUR 14 million), or 19 per cent (42 per cent) of the total. The percentage of commitments to Latin America increased by 35 per cent in monetary terms (0 per cent), to EUR 19.7 million (EUR 0 million). The number of projects, however, was only 3 (0). Of the remaining 5 decisions, 2 (0) were directed at Belarus, and 3 (2) were directed at companies or funds making investments on several continents. There were 2 (3) projects in China.

The volume of disbursements increased to EUR 59 million (2011: EUR 43 million). Of this amount, EUR 28 million (EUR 17 million) was allocated to low-income countries, EUR 9 million (EUR 23 million) to lower-middle-income countries, EUR 11 million (EUR 2 million) to upper-middle-income countries, and EUR 11 million (EUR 1 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 2012, EFP made 11 (2011: 4) positive clearances-in-principle for various projects. For 3 of these, a final investment decision was also made; one clearance-in-principle was cancelled. In 2012, Finnfund disbursements to EFP projects amounted to only EUR 0.04 million (EUR 1.1 million). During the year, the ICCF made 6 (2011: 3) positive clearances-in-principle for various projects, and 5 (1) final investment decisions were made. Finnfund disbursements to ICCF projects amounted to approximately EUR 1.1 million (EUR 0).

At the end of 2012, undisbursed commitments totalled EUR 86 million (2011: EUR 108 million). In addition, EUR 60 million (EUR 64 million) was tied up in investment commitments that had not yet progressed to the agreement stage.

Development and priorities

In autumn 2012, Finnfund published its first corporate social responsibility report, for 2011, in accordance with the Government Resolution on State Ownership Policy adopted on 3 November 2011. The report is available on the company’s website.

The developmental impact assessment tool developed in 2011 was introduced for testing in 2012 and used to assess all projects submitted to the Board of Directors. Testing of the tool was also continued with assessments of earlier projects, the aim being to calibrate the versions of the tool developed for various sectors to make them compatible. The purpose of the tool is to identify and to some extent quantify the principal developmental impacts of projects in a transparent way. The factors that the tool measures and its operating logic were demonstrated to the Board of Directors in late autumn, and its introduction into production use was approved. As a result, a developmental impact assessment appendix was included in the Board of Directors investment memoranda for the first time in December.

In 2012, a second questionnaire on developmental impacts was sent to Finnfund customers to gather data on how many employees the enterprises have, how much they pay in taxes and tax-like fees, and what the impact of their projects on the current account balance in 2011 had been. The questionnaire was returned by 97 per cent of current project enterprises. According to the data collected, in 2011 the responding Finnfund project enterprises directly employed 44,622 persons (of whom 5,493 were women) and indirectly employed 370,974 persons (of whom 37,414 were women). In 2011, these enterprises paid a net amount of EUR 922.5 million in taxes and tax-like fees in their respective countries of operation, and their combined impact on the current account balance was EUR 264.5 million.

The project for developing the operating methods and processes for environmental and social impact assessment and reporting was continued through 2012, and the project is continuing in the current year. The description of the Finnfund financing process was updated to reflect the situation after the reorganisation.

Contacts with Finnish companies were actively maintained. The aim is to make companies engaging in activities that would be useful for developing countries aware of their market potential and of Finnfund's services in financing projects in developing countries.

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. Examples of such co-operation include European Financing Partners (EFP); the joint financing venture of European development finance institutions and the European Investment Bank, the investment committee of which Finnfund chaired until autumn 2012; and Afrinord, a joint venture for hotel projects in Africa, whose majority owners are Nordic development finance institutions. Finnfund also co-operated on various significant individual projects.

The Finnpartnership programme

Finnfund administers a business partnership programme called Finnpartnership. Launched in June 2006, it is financed by the Ministry for Foreign Affairs. Following competitive tendering, Finnfund will continue to manage the programme at least until the end of 2013. The aim is to decide on the continuation of the programme during the year. The services offered through Finnpartnership are designed to increase commercial co-operation between companies in Finland and those in developing countries, to promote economic growth in those countries, to diversify their production and export structure, and to provide general support for development in the target countries.

Finnpartnership provides advisory services and business partnership support for the planning, development, and implementation of commercially viable projects carried out by Finnish companies and other Finnish actors targeting developing countries; for technology pilot projects; and for vocational education and support for local training.

Partnership support basically falls under the de minimis rule. Under the de minimis rule, government funding that, over a period of three years, does not exceed EUR 200,000 does not have to be declared or reported to the European Commission.

Finnpartnership provides a matchmaking service for companies in developing countries, helping them find Finnish business partners. The matchmaking service has also been used by Finnish customers looking for business partners in developing countries.

In 2012, Finnfund processed 97 applications for business partnership support, about 24 per cent fewer than in the previous year. The annual average in recent years has been 102 applications. Of these, 77 applications were approved (2011: 114). The support granted totalled EUR 2.4 million (EUR 3.9 million).

Of the total support granted in 2012, 31 per cent in monetary terms was allocated to the least developed countries and low-income countries, and 35 per cent to lower-middle-income countries. The geographical distribution of the support was: Asia 66 per cent, Africa 18 per cent, Europe 5 per cent, and Latin America and the Caribbean 11 per cent.

In 2012, disbursements were made for support granted in 2010, 2011, and 2012. Business partnership support was paid out to 55 projects, totalling EUR 1.0 million. Of the projects that submitted their final reports in 2012, about 67 per cent led to the establishment of long-term business operations or a decision to launch a business; just over 19 per cent are still incomplete; and the remaining 14 per cent or so will never be implemented.

The 2009 recipients of partnership support submitted their last follow-up reports in 2012. A total of EUR 1.1 million in partnership support had been paid out in 2009–2011 to the 52 companies that submitted a report. The follow-up reporting indicates that three years later, about half of the enterprises set up are still in operation. These companies have invested a total of EUR 35.7 million in developing countries, which is more than 24 times the amount of the business partnership support paid out. The combined direct and indirect employment impact is roughly 1,672 employees.

In 2012, the matchmaking service received 129 business initiatives from companies in developing countries. Between 2006 and 2012, there have been 445 registered active applications in the service, of which about 23 per cent have established contact with a potential Finnish trade partner or similar enterprise through the service. Of these, 14 per cent have already proceeded to the concrete co-operation stage.

Risk management

The Finnfund Board of Directors confirms the company's risk management principles and instruments. The company's management is responsible for the practical implementation of risk management on the basis of the guidelines confirmed by the Board of Directors. The company guidelines on asset and risk management were updated during 2012, but no substantial changes were made to the risk management principles.

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.

Finnfund's business concept involves active risk-taking in projects. This is taken into consideration in the terms and conditions of financing and in the active monitoring and control exercised during the investment period. Taking risks also means that some investments inevitably lose money, but the aim is to price all investments so as to hedge against risks and to diversify them so as not to compromise the operation of the company. 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, that is, 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 finance to share investment risks between Finnfund and the Finnish government. The special risk finance is provided on the basis of a loss compensation commitment adopted by the Government on 20 September 2012, whereby the government undertakes to compensate Finnfund for a maximum of 60 per cent of credit losses and investment losses in projects covered by special risk finance during the validity of the commitment. The loss compensation commitment and the related Ministry for Foreign Affairs decision are valid until 31 December 2015.

The decision to enter a particular project under special risk finance is made by the Finnfund Board of Directors. In order to be eligible for special risk finance, a project must have extremely high developmental impact potential and be aimed at a low-income or lower-middle-income country; it must also be too risky to otherwise qualify for Finnfund financing.

In 2012, the Board of Directors decided to enter 2 projects under special risk funding. The aggregate value of the commitments is EUR 5.7 million. The loss compensation ceiling is EUR 50 million, and a maximum of EUR 5 million in compensation may be applied for in any given year.

The objective with regard to interest and exchange rate risks is to identify and hedge against any risks. Since the company's investments target developing countries and are often made in the local currency, managing exchange rate risks is exceptionally challenging. The objective is to cover the interest and exchange rate risks associated with lending fully and over the entire investment period. Managing exchange rate risks associated with equity and fund investments is more complicated. The general rule, applied on a case-by-case basis, is to cover currency positions that are certain or at least likely and that can be hedged at a reasonable cost in relation to the benefits gained.

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. In addition to the liquidity on its balance sheet, Finnfund has credit facilities at Finnish banks and a EUR 100 million commercial paper programme set up in 2010. In June 2012, Finnfund signed a five-year agreement with Nordea Bank for a EUR 50 million committed credit facility.

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 somewhat over 2 years.

During 2012, the company has taken action to improve its capacity for identifying, controlling, and combating data security risks.

Financial result and balance sheet

In 2012, Finnfund made a profit of approximately EUR 1.2 million (2011: approximately EUR 9.2 million). There were fewer profitable exits from projects than in the previous year. The result was encumbered by impairment losses that exceeded both those made in the previous year and the budget for the year under review. Interest rates have remained low, and as a result the revenue from investment loans and liquidity was modest. Administrative expenses came in under budget. While the financial result was not as good as in the previous year, it was on budget and satisfactory.

Income

Interest income from investment loans came to EUR 6.6 million (2011: EUR 6.8 million), and dividend income was EUR 3.1 million (EUR 1.5 million).

Capital gains came to EUR 2.2 million (EUR 10.0 million), and EUR 1.1 million was recognised as gains on fund investments (EUR 0). Other financial income, at EUR 1.0 million (1.4 million), consisted primarily of arrangement fees, commitment payments, and other financing income.

Investment income totalled EUR 14.1 million, down 25 per cent on the previous year (EUR 18.7 million).

Interest income from liquid assets came to EUR 0.3 million, roughly the same as in the previous year (EUR 0.4 million). Foreign exchange gains amounted to EUR 5.7 million (EUR 9.8 million) and losses to EUR 5.5 million (EUR 10.0 million).

The ‘other income’ item, at EUR 1.2 million (EUR 1.4 million), mainly comprises fees received for the administration of the Finnpartnership programme.

Impairment losses

New recognised individual impairment losses amounted to EUR 6.9 million (2011: EUR 5.9 million), representing about 2.5 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 1.2 million in 2012 (EUR 3.0 million).

In 2012, reversals of impairment losses recognised for specific asset categories allocated to investments with reimbursement before 2005 came to approximately EUR 0.5 million (EUR 1.2 million). From now on, only individual impairment losses and their reversals will be recognised for all investments; category-specific impairment losses will no longer be processed.

The net effect of impairments on financial performance was approximately EUR -5.1 million (EUR -1.8 million). Of this, EUR 1.8 million was due to the new bookkeeping practice, whereby the value of a fund investment in the Finnfund balance sheet after the end of the investment period may amount to no more than 90 per cent of the combined market value of the investments made by the fund, as assessed by the fund management company. Previously, fund investments were valued on the basis of market values as reported by fund managers, provided that it is no more than the original acquisition cost.

Expenses

Interest expenses came to EUR 1.1 million, slightly up on the previous year (2011: EUR 0.9 million). These interest expenses were primarily 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 2012. The increase in interest expenses was caused by an increase in margins, among other things.

Management fees of EUR 0.3 million (EUR 0.2 million) associated with fund investments were recognised as expenses. These fees were incurred for funds whose investment period has ended.

Administrative expenses totalled EUR 7.0 million, roughly the same as in the previous year (EUR 7.1 million).

Taxes recorded in the profit and loss account, totalling EUR 0.4 million (EUR 1.2 million), mainly consist of those paid to the target countries on dividends received, and capital gains on investments sold.

Balance sheet

The balance sheet total stood at EUR 312.4 million (EUR 277.9 million) as at the end of the year under review, an increase of 12.4 per cent on the end of 2011.

The balance sheet value of investment assets was EUR 274.1 million (EUR 252.3 million) as at the end of the year under review, an increase of 8.6 per cent on the end of 2011.

The breakdown of investment assets was as follows: loans (including subordinated loans and other mezzanine instruments) EUR 141.7 million (EUR 151.2 million) or 51.7 per cent (59.9 per cent); equity investments EUR 64.3 million (EUR 44.4 million) or 23.5 per cent (17.6 per cent); and fund investments EUR 68.1 million (EUR 56.7 million) or 24.8 per cent (22.5 per cent). The breakdown of investment assets by instrument changed slightly over the course of the year, with the percentage of equity and fund investments growing while that of loans decreased.

Liquidity stood at about EUR 33.4 million (EUR 19.0 million) at the end of the year, showing an increase of some 75.6 per cent on the previous year-end total. The liquid assets are invested in domestic money-market instruments in accordance with the asset and risk management guidelines.

At the end of the financial period, the company's equity (share capital and retained earnings) totalled EUR 202.6 million (2011: EUR 186.3 million) or 65 per cent of the balance-sheet total (67 per cent). The equity ratio fell slightly from the previous year-end figure.

The company executed two share issues in 2012. In the first share issue, a maximum of 65,060 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 20 April to 8 June 2012. As a result of the first share issue, the share capital was increased by EUR 10,014,700.00, with the Finnish government accounting for EUR 9,999,910.00 and the Confederation of Finnish Industries EK for the remaining EUR 14,790.00; 58,910 new shares were issued pursuant to the issue decision. Finnvera plc did not subscribe to any of the new shares it was offered.

After the registration of the first share issue (17 September 2012), the company's share capital was EUR 123,949,720.00, with 729,116 shares. After the first share issue and at the end of the financial period on 31 December 2012, the Finnish government owned 664,780 shares (91.2 per cent), Finnvera plc owned 63,349 shares (8.7 per cent) and the Confederation of Finnish Industries EK owned 987 shares (0.1 per cent).

In the second share issue, a maximum of 32,258 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 10 September to 16 November 2012. As a result of the second share issue, the company's share capital was increased by EUR 4,999,870.00, consisting solely of subscription payments for new shares from the Finnish government. Pursuant to the issue decision, 29,411 new shares were issued. These were subscribed on 12 November 2012 but not registered until after the end of the financial period, on 3 January 2013. The Confederation of Finnish Industries EK and Finnvera plc did not subscribe to any of the new shares they were offered.

After the registration of the second share issue, the company's share capital is EUR 128,949,590.00, with 758,527 shares. The Finnish government owns 694,191 shares (91.5 per cent), Finnvera plc owns 63,349 shares (8.4 per cent) and the Confederation of Finnish Industries EK owns 987 shares (0.1 per cent).

The company's shares have no nominal value. The equivalent value of a share in bookkeeping is EUR 170.

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 45.0 million (2011: EUR 68.4 million) and short-term interest-bearing debt at EUR 63.0 million (EUR 21.5 million), totalling EUR 108.0 million (EUR 89.9 million). All of the long-term interest-bearing debt is in US dollars, used to refinance Finnfund investment loans denominated in US dollars. Short-term interest-bearing debt included EUR 25 million in euro-denominated commercial papers.

The long-term debt as a percentage of all financing debt decreased during the period under review, to about 41.7 per cent at the end of the year. Financing liabilities increased by some 20 per cent on the previous year.

Guarantee commitments totalled EUR 0.2 million (EUR 0.6 million) at the end of the year.

Key figures

	2012	2011	2010
Financial income (EUR million)	20.0	30.0	23.2
Financial result (EUR million)	1.2	9.2	-1.3
Return on equity, %	0.6	5.3	-0.8
Equity ratio, %	64.8	67.0	58.6

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 2012, the Supervisory Board met 5 times, the Board of Directors met 13 times, and the audit committee of the Board of Directors met 4 times.

The Annual General Meeting, held on 20 April 2012, addressed the matters listed in Article 11 of the Articles of Association and decided to increase the company's share capital.

Members of the Supervisory Board at the Annual General Meeting were elected as follows: for the 2012–2015 period: Simo Karetie, Chief Policy Adviser, and Antti Lindtman, Pirkko Mattila and Aila Paloniemi, Members of Parliament; for the 2012–2014 period: Anne-Mari Virolainen, Member of Parliament; and for the 2012–2013 period: Seppo Toriseva, entrepreneur, and Tapani Tölli, Member of Parliament.

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

Arto Honkaniemi, Senior Financial Counsellor, Prime Minister's Office, Chair
Kari Alanko, Ambassador, Development Policy Adviser, Ministry for Foreign Affairs, Deputy Chair
Tuukka Andersén, Director of Finance, Finnvera plc
Tuuli Juurikkala, Special Advisor, Ministry of Finance

Nora Kerppola, Managing Director, Nordic Investment Group Oy
Riikka Laatu, Director, Ministry for Foreign Affairs
Päivi Leiwo-Svensk, Chairman of the Board, Oilon International Oy
Markus Pietikäinen, Vice President, Wärtsilä Oyj

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

An Extraordinary General Meeting held on 10 September 2012 decided to increase the company's share capital.

On 28 February 2012, the Board of Directors appointed an audit committee with the following members:

Markus Pietikäinen, Vice President, Wärtsilä Oyj, Chair
Arto Honkaniemi, Senior Financial Counsellor, Prime Minister's Office
Tuuli Juurikkala, Special Advisor, Ministry of Finance
Nora Kerppola, Managing Director, Nordic Investment Group Oy

The company's auditors are PricewaterhouseCoopers Oy, authorised public accountants, with Juha Wahlroos APA as the principal auditor.

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

During the year under review, the company employed an average of 49 people (2011: 49). At year end, the number of employees in contractual employment was 52, of whom 46 worked full-time. Of the 52 employees, 37 were women and 15 were men.

Total wages and salaries paid to personnel in 2010–2012 were as follows:

	2012	2011	2010
Average number of personnel	49	49	46
Total wages and salaries (EUR 1,000)	3,572	3,276	3,150

Employees were not paid incentive bonuses on top of fixed monthly salaries, because as a result of a change in the incentive system, the payment of bonuses was postponed to 2013. The final accounts for 2012 include a provision for incentive bonuses earned in 2012, amounting to 5.89 per cent of payroll expenses (3.75 per cent). Incentives are partly based on performance at company and function level, and partly based on individual performance.

A reorganisation was implemented in 2012, with project preparation being separated from project evaluation and monitoring, and divided among three investment teams. The Forestry, Environment, and Renewable Energy investment team (EMY) started up in spring 2010; the new teams are Infrastructure (INFRA) and Manufacturing and Services (TEPA).

Project evaluation and investment assets monitoring were organised in a new portfolio and risk management function that was also assigned responsibility for the investment committee and for risk classification. The portfolio and risk management function was also made centrally responsible for financial project analysis, environmental and social impact assessment and management, and developmental impact assessment and monitoring, as well as for Finnfund's own funding.

The new organisation entered into force in June 2012.

The company's administration was thoroughly overhauled in 2012, for instance by increasing internal reporting on the company's finances and operations. Administration is principally responsible for internal reporting and its development.

Outlook for 2013

In accordance with the development policy programme adopted by the Government in February 2012, and with the goals set for the company by the Ministry for Foreign Affairs, 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 aims to continue to work in close co-operation with Finnish enterprises in these countries in particular. In the future, investments in upper-middle-income developing countries will only be made selectively, mostly in projects that are estimated to generate significant environmental and developmental impacts, and to the achievement of which Finnfund can contribute substantial added value. In accordance with its strategy as updated in autumn 2012, Finnfund is prepared to assume a more active role as a catalyst in its projects.

New financing commitments are expected to increase from the 2012 level (both in terms of the number of commitments and their monetary value). In disbursements, growth is estimated to show later; and with an anticipated clear increase in repayments from investments, the company's investment assets will probably grow only slightly, if at all.

Liquidity will probably remain satisfactory. The central government budget for 2013 includes a EUR 10 million appropriation for an increase in the share capital of Finnfund. Terms for Finnfund borrowing are estimated to remain reasonable.

The special risk finance approved by the Ministry for Foreign Affairs in 2012 improves Finnfund's chances of financing projects with a high level of financial risk but with significant developmental impacts if successful.

The financial performance for 2013 is difficult to predict. The strategy selected will mean more work and more expenses in the short term, but will not produce results until later. The company's investments are generally rather high in risk, and almost half of them are equity investment instruments. The company's financial performance will be crucially affected by how the valuation of its investment assets changes during the financial period and whether any profitable exits from projects occur. These are very difficult to anticipate.

New terms will be introduced for business partnership support in the Finnpartnership programme in the new year; these are expected to increase demand. New resources are also available for matchmaking efforts, and better results are anticipated.

Proposal of the Board of Directors for the distribution of profit

The company recorded a profit of EUR 1,240,505.11 in 2012. 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. 2012	1 Jan. - 31 Dec. 2011
Other operating income	1	1,203	1,388
Staff expenses	2		
Wages and salaries	3	-3,636	-3,414
Social security expenses			
Pension expenses		-613	-558
Other social security expenses		-211	-171
Social security expenses		-824	-729
Staff expenses		-4,460	-4,143
Depreciation according to plan	4	-67	-229
Other operating charges	5 6	-2,449	-2,694
OPERATING LOSS		**-5,774**	**-5,678**
Financial income			
Income from participating interests		2,817	2,998
Income from other investments		3,887	8,754
Other interest and financial income		13,291	18,198
Financial income total		19,995	29,950
Reduction in value of investments		-5,106	-1,826
Financial expenses			
Interest and other financial expenses		-7,487	-12,032
Financial income and expenses	7	7,402	16,092
PROFIT BEFORE TAXES		**1,628**	**10,414**
Income taxes	8	-387	-1,197
PROFIT FOR THE FINANCIAL YEAR		**1,241**	**9,217**

Balance sheet

EUR 1 000

	Note	31 Dec. 2012	31 Dec. 2011
A S S E T S			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenses		29	24
Machinery and equipment		64	117
Intangible and tangible assets		93	141
Investments	10		
Participating interests		52,297	39,706
Loan receivables from participating interest	11	10,268	11,302
Other shares and similar rights of ownership		80,128	61,463
Other loan receivables	11	131,428	139,865
Investments total		274,122	252,336
NON-CURRENT ASSETS		**274,215**	**252,477**
CURRENT ASSETS			
Receivables			
Long-term			
Other debtors		1,884	3,069
Short-term			
Amounts owned by participating interest	12	403	192
Prepayments and accrued income	13	2,528	3,189
Short-term total		2,932	3,380
Receivables total		4,816	6,449
Financial securities	14		
Marketable securities		31,169	17,440
Cash in hand and at banks		2,181	1,556
CURRENT ASSETS		**38,166**	**25,444**
A S S E T S		**312,380**	**277,922**

	Note	31 Dec. 2012	31 Dec. 2011
LIABILITIES			
EQUITY	15		
Share capital	16	123,950	113,935
Share issue		5,000	0
Retained earnings		72,375	63,158
Profit for the financial year		1,241	9,217
EQUITY		**202,565**	**186,310**
CREDITORS			
Long-term	17		
Private placement	18	7,579	7,729
Loans from credit institutions		37,389	60,622
Other long-term liabilities		19	0
Long-term total		44,987	68,351
Short-term total			
Loans from credit institutions		62,995	21,525
Advances received		14	30
Trade creditors		263	334
Other creditors		151	245
Accruals and prepaid income	19	1,406	1,126
Short-term total		64,829	23,261
CREDITORS		**109,815**	**91,612**
LIABILITIES		**312,380**	**277,922**

Cash flow statement

EUR 1 000

	2012	2011
CASH FLOW FROM OPERATIONS		
Cash from operations	36,359	40,686
Disbursements to operations	-59,627	-43,205
Dividends received	2,427	1,097
Interest received	6,492	6,559
Interest paid	-1,118	-940
Payments received on other operating income	1,980	2,709
Payment of operating expenses	-6,944	-7,217
CASH FLOW FROM OPERATIONS (A)	**-20,431**	**-310**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-19	-66
Proceeds from assets sold	0	0
CASH FLOW FROM INVESTMENTS (B)	**-19**	**-66**
CASH FLOW FROM FINANCING		
New share issue	15,015	15,022
Short-term loans drawn	42,110	14,771
Short-term loans repaid	-16,254	-49,456
Long-term loans drawn		37,071
Long-term loans repaid	-6,256	-28,845
CASH FLOW FROM FINANCING (C)	**34,615**	**-11,437**
CHANGES IN EXCHANGE RATES (D)	**198**	**269**
CHANGE IN LIQUID ASSETS (A+B+C+D) increase (+) decrease (-)	**14,363**	**-11,545**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**18,996**	**30,540**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**33,358**	**18,996**
	14,363	**-11,545**

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.

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 are compared with the fund manager's estimate of the portfolio's 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 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 or the probable transfer price, whichever is lower.

Foreign currency items

Receivables, debts and liabilities denominated in foreign currency have been translated into euros at the exchange rate on the balance sheet date.

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 3-5 years

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

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

Notes to the profit and loss account

EUR 1000

		2012	2011
1	**Other operating income**		
	Operating income from participating interests	59	64
	Remunerations	669	667
	Other operating income	475	657
		1,203	**1,388**
2	**Average number of staff employed**		
	Employees	49	49
3	**Wages and salaries**		
	Managing Director and his alternate	300	300
	The Board of Directors and the Supervisory Board	145	142
	The Board of Directors		
	Chairman's monthly emoluments	1,100 €	
	Vice chairman's monthly emoluments	700 €	
	Board members' monthly emoluments	600 €	
	Emolument per meeting of Board of Directors and Audit Committee	300 €	
	Supervisory Board		
	Chairman's monthly emolument until 19 April 2012	1,000 €	
	Vice chairman's monthly emolument until 19 April 2012	600 €	
	Board members' monthly emolument until 19 April 2012	500 €	
	Board members' emolument per meeting until 19 April 2012	200 €	
	Chairman’s emolument per meeting as of 20 April 2012	800 €	
	Vice chairman’s emolument per meeting as of 20 April 2012	600 €	
	Board member's emolument per meeting as of 20 April 2012	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	14	115
	Machinery and equipment	53	114
		67	**229**

5	**Other operating charges**		
	Voluntary staff expenses	355	320
	Rents and building management, operating and maintenance, vehicles	353	343
	Purchases of furnishings and equipment	256	209
	Travel, accommodation and negotiation expenses	719	648
	Entertainment and PR expenses	98	118
	External services	426	801
	Other expenses	242	255
		2,449	**2,694**
6	**Auditor's remunerations**		
	Audit fee, end of financial year	4	4
	Audit fee, previous financial year	4	4
	Assignments	16	6
	Other services	50	48
		74	**62**
7	**Financial income and expenses**		
	Financial income		
	Dividends received		
	From participating interests	2,483	989
	From others	657	503
	Dividends received total	3,140	1,492
	Sales profit from investments		
	From participating interests	37	1,760
	From others	3,230	8,252
	Sales profit from investments total	3,267	10,012
	Interest income from investments		
	From participating interests	440	484
	From others	6,488	6,764
	Interest income from investments total	6,928	7,248
	Other interest income		
	From participating interests	347	252
	From others	651	1,152
	Exchange rate gain	5,662	9,794
	Other interest and financing income total	6,660	11,198
	Financial income	**19,995**	**29,950**

	Permanent write-offs of investments		
	Equity and funds	-3,627	-848
	Loans	-3,244	-5,040
	Cancellation of write-offs on shares and fund investments	330	1,326
	Cancellation of write-offs on loans	891	1,564
	Write-offs of investments	**-5,650**	**-2,998**
	Provisional write-offs of investments (investments made before 2005)	**544**	**1,172**
	Write-offs, total	**-5,106**	**-1,826**
	Interest and other financial expenses		
	Interest expenses to others	-1,100	-911
	Other financial expenses	-869	-1,096
	Exchange rate loss	-5,517	-10,025
	Interest and other financial expenses total	**-7,486**	**-12,032**
	Financial income and expenses	**7,403**	**16,092**
	The item Financing income and expenses includes loss of exchange (net)	**145**	**-231**
7	**Income from financing operations by income level**		
	Least develped countries (LDC)	1,572	1,966
	Other low-income countries (LIC)	974	1,492
	Lower-middle-income countries (LMIC)	6,812	15,076
	Upper-middle-income countries (UMIC)	5,113	2,950
	Other countries	1,160	4,637
		15,631	**26,121**
8	**Income taxes**		
	Taxes on capital gains abroad	0	1,043
	Withholding taxes on dividends	384	152
	Withholding taxes on emoluments	3	2
		387	**1,197**

Notes to the balance sheet

EUR 1000

9	Intangible and tangible assets	Other long-term expenses	Machinery and equipment	Total
	Acquisition cost 1 Jan. 2012	964	1,578	2,542
	Increases	19	0	19
	Decreases	0	0	0
	Acquisition cost 31 Dec. 2012	983	1,578	2,561
	Accumulated depreciations 1 Jan. 2012	-940	-1,461	-2,401
	Depreciation of the accounting period	-14	-53	-67
	Accumulated depreciations 31 Dec. 2012	-954	-1,514	-2,468
	Book value 31 Dec. 2012	**29**	**64**	**93**
	Book value 31 Dec. 2011	24	117	141

10	Investments / Shares and funds	Participating interests	Others	Total
	Acquisition cost 1 Jan. 2012	44,679	67,381	112,060
	Increases	14,373	29,184	43,557
	Decreases	-841	-8,423	-9,264
	Acquisition cost 31 Dec. 2012	58,211	88,142	146,353
	Individual write-offs accumulated as of 1 Jan. 2012	-4,886	-5,521	-10,407
	Reversal of write-offs	166	208	374
	Write-offs during the financial year	-1,194	-2,701	-3,895
	Individual write-offs accumulated as of 31 Dec. 2012	-5,914	-8,014	-13,928
	Write-offs by asset class accumulated as of 1 Jan. 2012	-86	-397	-483
	Reversal of write-offs	86	397	483
	Write-offs by asset class accumulated as of 31 Dec. 2012	0	0	0
	Book value 31 Dec. 2012	**52,297**	**80,128**	**132,425**

10	Investments / Loans	Participating interests	Others	Total
	Acquisition cost 1 Jan. 2012	16,467	155,148	171,615
	Increases	1,317	17,253	18,570
	Decreases	-2,307	-23,664	-25,971
	Acquisition cost 31 Dec. 2012	15,477	148,737	164,214

Individual write-offs accumulated as of 1 Jan. 2012	-5,165	-15,222	-20,387
Reversal of write-offs	149	963	1,112
Write-offs during the financial year	-192	-3,051	-3,243
Individual write-offs accumulated as of 31 Dec. 2012	-5,208	-17,310	-22,518
Write-offs by asset class accumulated as of 1 Jan. 2012	0	-61	-61
Reversal of write-offs	0	61	61
Write-offs by asset class accumulated as of 31 Dec. 2012	0	0	0
Book value 31 Dec. 2012	**10,269**	**131,427**	**141,696**

		2012	2011
11	**Subordinated receivables**		
	Capital loans to participating interests	5,147	4,206
	Capital loans to others	29,133	28,227
		34,280	**32,433**
12	**Receivables from participating interests**		
	Interests	81	140
	Other	322	44
		403	**184**
13	**Prepayments and accrued income**		
	Interests	1,370	1,687
	Other	1,158	1,502
		2,528	**3,189**
14	**Marketable securities**		
	Repurchase price	31,622	17,877
	Book value	31,169	17,440
	Difference	**453**	**437**
15	**Shareholders' equity**		
	Share capital 1 Jan.	113,935	98,913
	Increase of share capital	10,015	15,022
	Share issue	5,000	0
	Share capital as of 31 Dec.	128,950	113,935
	Retained earnings 31 Dec.	72,375	63,158
	Profit/loss for the financial year	1,240	9,217
		202,565	**186,310**
16	**Share capital**		
	Number of shares	729,116	670,206
	Nominal value, EUR	170.00	170.00

17	**Long-term loans**		
	Private placements	7,579	7,729
	Loans from credit institutions	37,389	60,622
	Other long-term liabilities	19	0
		44,987	68,351
17	**Loans with maturity more than 5 years**		
	Loans from credit institutions	30,317	0
	Other long-term liabilities	19	0
		30,336	0
18	**Private placements**		
	Private placement 2011/2014	3,790	3,864
	Private placement 2011/2014	3,789	3,864
		7,579	7,728
19	**Accruals and prepaid income**		
	Wages including social expenses	1,159	919
	Interest	202	207
	Other	45	1
		1,406	**1,127**

Other supplementary information

EUR 1000

	2012	2011
Other contingent liabilities		
Guarantees		
Total amount	955	1,388
Outstanding	239	578
Undisbursed commitments		
Contractual commitments	86,400	108,100
Special risk finance		
Decisions of the Board of Directors	5,656	0
Government's indemnity	2,393	0
Government's indemnity, %	42%	0%
Disbursements	0	0

Other

The company acts as a lender in financial arrangements amounting to USD 66.7 million. For USD 62.5 million the risks have been contractually transferred to other financial institutions.

According to the rental agreement signed on 16 March 2007 Finnfund's share of the renovation costs is about EUR 62,500.

Customer's funds under management

As of 31 December 2012 there were EUR 571,926.41 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 impelementation of the Finnpartnership business partnership programme.

Receivables, liabilities and transactions with related parties

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

Exchange rates	USD/EUR	1.32
31 December 2012	RUB/EUR	40.3295

Signatures of Board of Directors' report and financial statements

Helsinki, 27 March 2013

Arto Honkaniemi Chairman	Kari Alanko Member of the Board
Tuukka Andersén Member of the Board	Tuuli Juurikkala Member of the Board
Nora Kerppola Member of the Board	Riikka Laatu Member of the Board
Päivi Leiwo-Svensk Member of the Board	Markus Pietikäinen Member of the Board
Jaakko Kangasniemi Managing Director, CEO	

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 2 April 2013

PricewaterhouseCoopers Oy
Authorized Public Accountant

Juha Wahlroos
Authorized Public Accountant

Auditor’s Report (Translation from the Finnish original)

To the Annual General Meeting of Finnish Fund for Industrial Cooperation Ltd.

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Finnish Fund for Industrial Cooperation Ltd. for the year ended 31 December, 2012. 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 Supervisory Board and 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 whether they 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 on the Company´s Financial Statements and the Report of the Board of Directors

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 2 April 2013

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant

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 2012. 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.

The terms of office of the following members of the Supervisory Board expire this year: Pertti Salolainen, Seppo Toriseva, Tapani Tölli and Marjaana Valkonen.

Helsinki, 5 April 2013

Aila Paloniemi

Seppo Kallio

Tarja Kantola

Simo Karetie

Antti Lindtman

Pirkko Mattila

Pertti Salolainen

Katja Syvärinen

Seppo Toriseva

Tapani Tölli

Marjaana Valkonen

Anne-Mari Virolainen