FINNFUND

# Annual Report 2014

**Printout of the online Annual Report**
**www.annualreport.finnfund.fi/2014**

# Contents

# Financials


**Finnish Fund for Industrial Cooperation Ltd. (Finnfund)** is a Finnish development finance company that provides long-term investment loans and risk capital for private projects in developing countries 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 at other financial institutions and our comprehensive experience in developing countries. In addition, the involvement of a stable state-owned investor such as Finnfund often brings credibility to a project.

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

# 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 internationalisation 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.**

## www.finnfund.fi

*Photo: La Vegona, Honduras*

# Finnpartnership

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

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

## Business Partnership Support and new partners

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

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

**www.finnpartnership.fi**

**”Even Africa now has emerging markets and growing interest in Finnish know-how. Finnpartnership promotes business that serves both local and Finnish companies.”**

- Siv Ahlberg, Programme Director

# Cofinancing especially in low-income countries

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

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

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

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

Agence Française de Développement AFD, European Investment Bank, Finnfund and other ten EDFIs are also members of 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.

Since the summer of 2014 Finnfund's CEO, Mr Jaakko Kangasniemi, has been acting as the Chairman of EDFI.

# Team Finland

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

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. Catalysing 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 and the other members of Team Finland wish to make a difference.

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

**"Finnfund is an expert of financing in developing countries with comprehensive networks. We support Finnish companies and their partners in funding projects in new markets. Please be in contact to learn more."**

- Mikko Kuuskoski, Associate Director


## Solar became reality

A new sun began to shine in millions of small homes in 2014. Solar panels, once an expensive luxury of the rich, became a competitive way of generating electricity in sunny countries. Solar power attracted greater investment than ever before, and the focus of construction shifted from countries of generous subsidies to places of generous sunshine.

This breakthrough was underpinned by long-term efforts to develop technology and production. A large number of Finns, including many working for ABB, have been involved in this work; solar technology has become a Finnish export sector employing thousands of people. It is one of the many fields of clean technology where Finnish companies have tackled some of the thorniest problems that humanity needs to solve.

Solar power plants are inexpensive to operate but costly to build. If they are to be viable alternatives to backyard generators, smoky kerosene lamps and other forms of using fossil fuels, a lot of long-term finance will be required. It is readily available in wealthy, stable countries but the progress of projects in poor countries often depends on development finance institutions.

Finnfund made investment decisions in 2014 on participating in finance for four different solar power projects. The plants will produce clean electricity for more than a million people in Jordan and Honduras. Solar power plants are quick to build so last year's investment decisions will already produce relief this year for an acute shortage of electricity.

In all the projects, calculations showed that solar energy was a less expensive way of generating electricity than the other alternatives. This is important because the poorest people should not have to foot the bill for mitigating climate change.

Last year, solar energy joined other forms of renewable energy and sustainable forestry as focal areas for Finnfund. We are continuing in close cooperation with Finnish players and their partners, as well as other development finance institutions. More projects are under preparation.

## Efficiency helps environment

Another gratifying breakthrough that we backed in 2014 concerns energy efficiency. Finland is a land of engineers, where countless small and medium-sized enterprises in various sectors have developed solutions that save energy and materials. The world is already using these to save more energy than Finland in total consumes but many of the solutions have not been adopted much in developing countries and emerging markets.

One way of spreading energy-efficient technology is via an energy service company that looks for opportunities for greater efficiencies, implements the necessary investments on behalf of its customers, and receives revenue from the savings made. With finance from Finnfund, a model like this has been established by a Finnish company – Greenstream Network – and its partners in China. The project company surged forward last year, and the energy-efficiency investments it manages now involve several Finnish companies. For the participants and for Greenstream Network itself, these are reference projects that are intended to unlock new opportunities in China and other new markets, and have already done so.

## Bigger role for private sector

The energy sector exemplifies the growing role of the private sector and development finance in development and climate policy. There may have been in the past a place for generous support, in the developing countries, to state-owned companies in general and climate projects in particular. Today it is increasingly hard to justify, as many more companies using a great range of technologies, are seeking to put together profitable projects. Ensuring that good private projects get funded is now more efficient and productive than providing vast subsidies to favoured projects and technologies.

The same is true in many other sectors and circumstances. Even in countries recovering from conflicts, providing enterprise with access to finance is crucial for creating new jobs and expanding the tax base. In complementing and catalysing commercial finance, the aim of development finance is to make the recipients of humanitarian aid into masters of their own destiny. Fragile countries can become new markets.

Finnfund has financed private sector projects in developing countries since 1980. As some of the early target countries have become richer, it today operates mostly in relatively poor countries, particularly in Africa. Operations have been self-supporting, meaning that the funds allocated for Finnfund’s equity have not been spent but invested and then reinvested in one project after another. While bringing jobs and other development benefits in the developing countries, the projects have also created opportunities for Finnish partners. Finnfund has accumulated lots of experience, skills and partners to invest successfully in developing countries.

## Good results, more opportunities

In 2014 decisions were made to invest a total of EUR 115 million in 25 projects. Disbursements were at the record level of EUR 73 million and the total invested in projects reached almost EUR 300 million. If undisbursed investment decisions are included, Finnfund's project portfolio exceeded half a billion euros for the first time.

Although the business environment in many target countries is difficult, operations were profitable. Projects financed by Finnfund involved dozens of investments large and small, created jobs and better living standards for thousands of people, and improved the quality or availability of products and services for millions of consumers.

Compared with other Nordic development finance institutions, Finnfund's resources are limited but they are in full use. The increased amount of investment in recent years and the results achieved have been possible thanks to increases in Finnfund's equity, the access to a risk sharing facility with the Finnish government as well as the moderate borrowing that these and Finnfund's profitable operations have made possible. We work at full speed in our lending operations but have had to raise the threshold for equity investments.

Operating prospects from next year onwards will be in the hands of policy-makers elected in spring 2015. Even without new capital, funds can be reinvested from old projects to new ones. This, however, will spell marginalisation in a world where developing country markets are growing and where the role of the private sector expands in development and climate policy. If the equity injections continue and the risk sharing facility is replenished, Finnfund can construct many more bridges between Finnish skills, the needs and demands of developing countries, and international financing possibilities.

I would like to thank Finnfund's customers, staff and other stakeholders for their support in 2014.

**Jaakko Kangasniemi**
**CEO**

# Key figures 2010 - 2014

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Number of project countries | 29 | 27 | 30 | 33 | 32 |
| Number of investments | 142 | 137 | 143 | 149 | 160 |
| Financing commitments, EUR million | 87 | 32 | 56 | 90 | 115 |
| Number of financing commitments | 21 | 14 | 18 | 20 | 25 |
| Disbursements, EUR million | 69 | 43 | 59 | 34 | 73 |
| Undisbursed investment decisions and commitments, EUR million | 227 | 172 | 146 | 178 | 221 |
| Portfolio, EUR million | 241 | 253 | 274 | 250 | 294 |
| Shareholders' capital, EUR million | 162 | 186 | 203 | 215 | 236 |
| Total assets/liabilities, EUR million | 277 | 278 | 312 | 311 | 317 |
| Number of personnel on average | 46 | 49 | 49 | 49 | 51 |

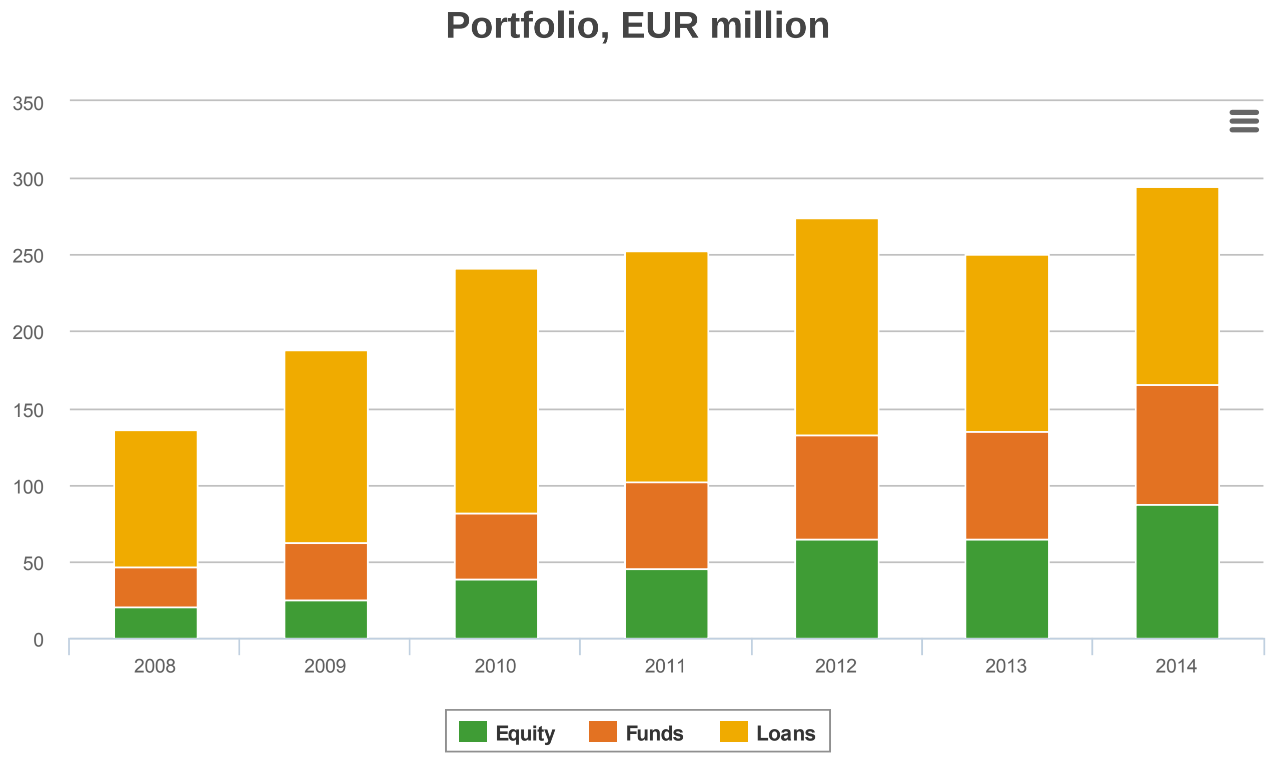
# Five years in review

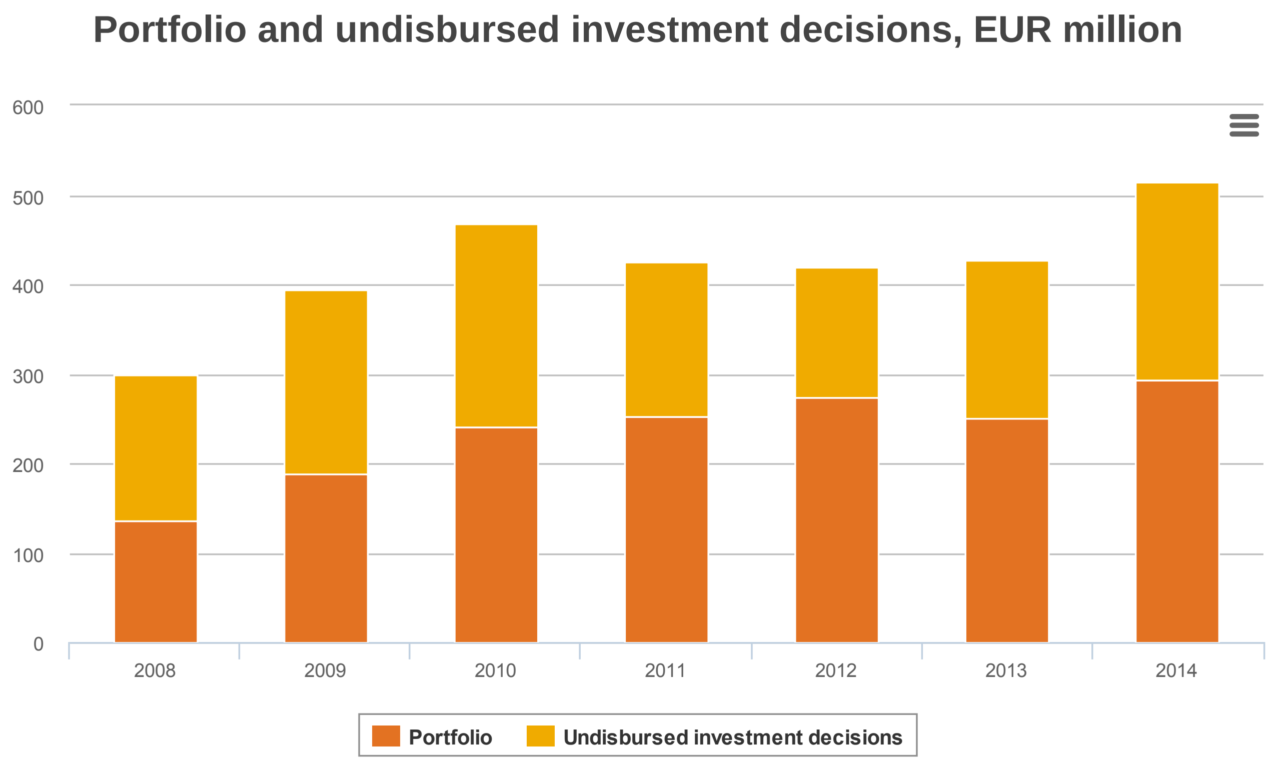
| Operational analysis, EUR million | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Financial income | 11.7 | 10.1 | 12.3 | 13.6 | 12.9 |
| Financial expenses | -1.8 | -1.4 | -1.6 | -1.6 | -1.8 |
| **Net financial income** | **9.9** | **8.7** | **10.7** | **12.0** | **11.1** |
| Other operating income | 1.1 | 1.4 | 1.2 | 1.5 | 1.6 |
| Administration, depreciation and amortisation and other operating expenses | -6.8 | -7.1 | -7 | -7.8 | -8.4 |
| **Profit before impairment, sales of assets and taxes** | **4.2** | **3.0** | **4.9** | **5.7** | **4.3** |
| Impairment and sales of assets | -5.3 | 7.4 | -3.3 | -3 | -1.9 |
| Taxes | -0.2 | -1.2 | -0.4 | 0 | 0 |
| **Net profit** | **-1.3** | **9.2** | **1.2** | **2.7** | **2.4** |

| Balance sheet, EUR million | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Tangible and intangible assets | 0.3 | 0.1 | 0.1 | 0.1 | 0.2 |
| Investments | 240.8 | 252.3 | 274.1 | 250.0 | 293.6 |
| Current assets | 35.5 | 25.5 | 38.2 | 60.5 | 23.4 |
| | **276.6** | **277.9** | **312.4** | **310.6** | **317.2** |
| **Liabilities** | | | | | |
| Equity | 162.1 | 186.3 | 202.6 | 215.3 | 235.7 |
| Liabilities | 114.5 | 91.6 | 109.8 | 95.3 | 81.5 |
| | **276.6** | **277.9** | **312.4** | **310.6** | **317.2** |

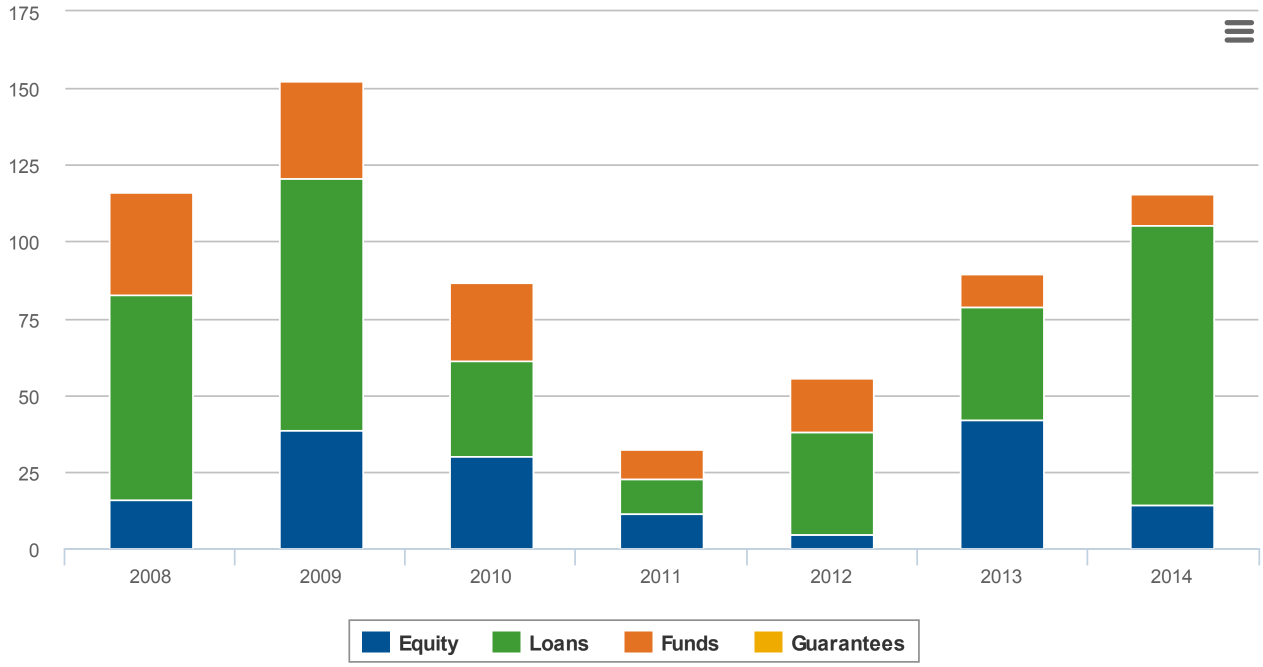
| Financial indicators | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Equity ratio, % | 59 | 67 | 65 | 69 | 74 |
| Return on equity p.a., % | -0.8 | 4.9 | 0.6 | 1.3 | 1.1 |

# Graphs

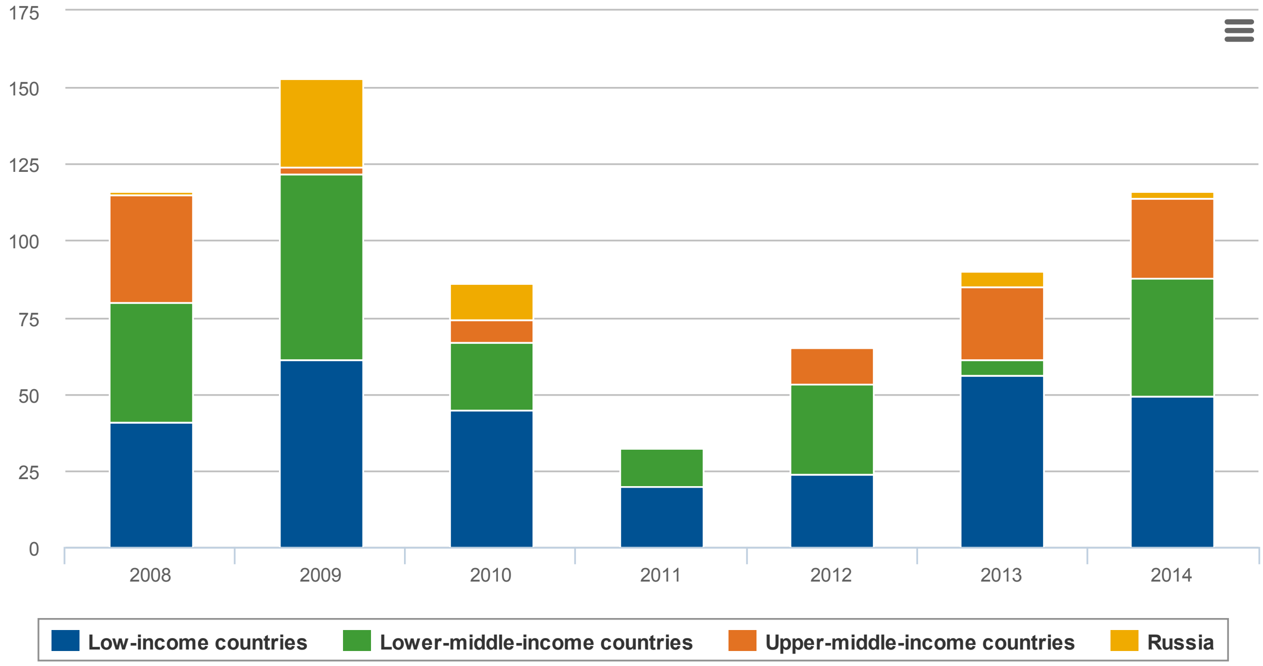

Portfolio, EUR million
350
300
250
200
150
100
50
0
2008
2009
2010
2011
2012
2013
2014
Equity
Funds
Loans


Portfolio and undisbursed investment decisions, EUR million
600
500
400
300
200
100
0
2008
2009
2010
2011
2012
2013
2014
Portfolio
Undisbursed investment decisions

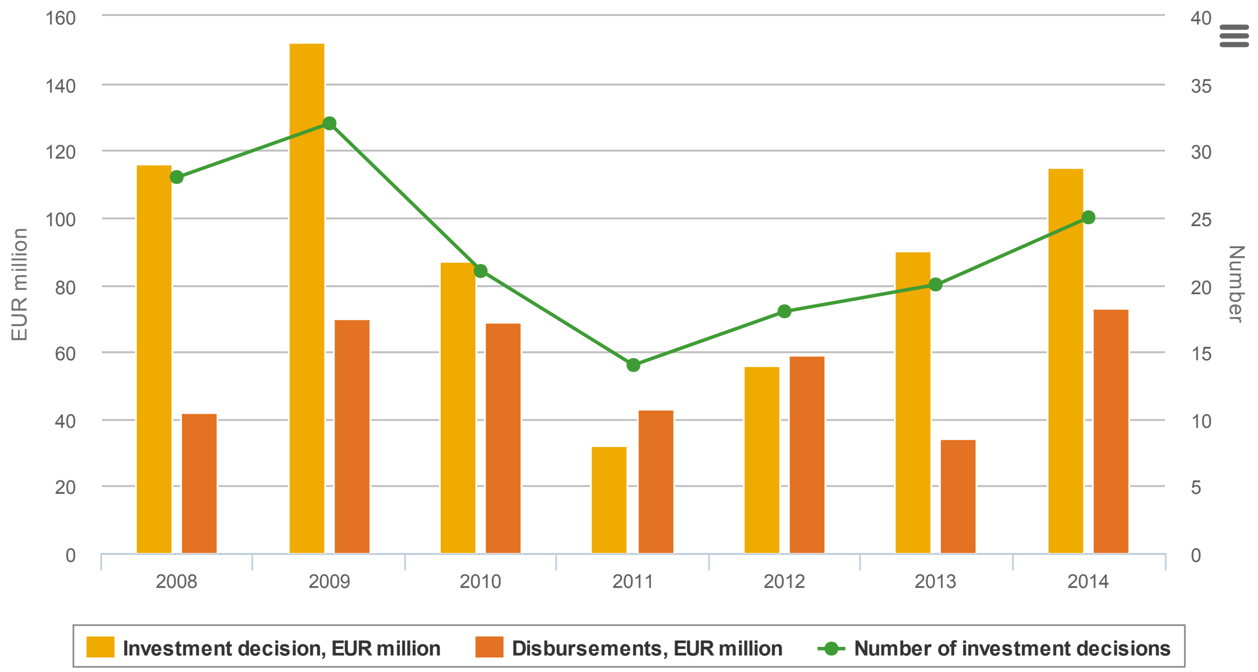
## Investment decisions by instrument, EUR million




## Investment decisions by income level of the country, EUR million

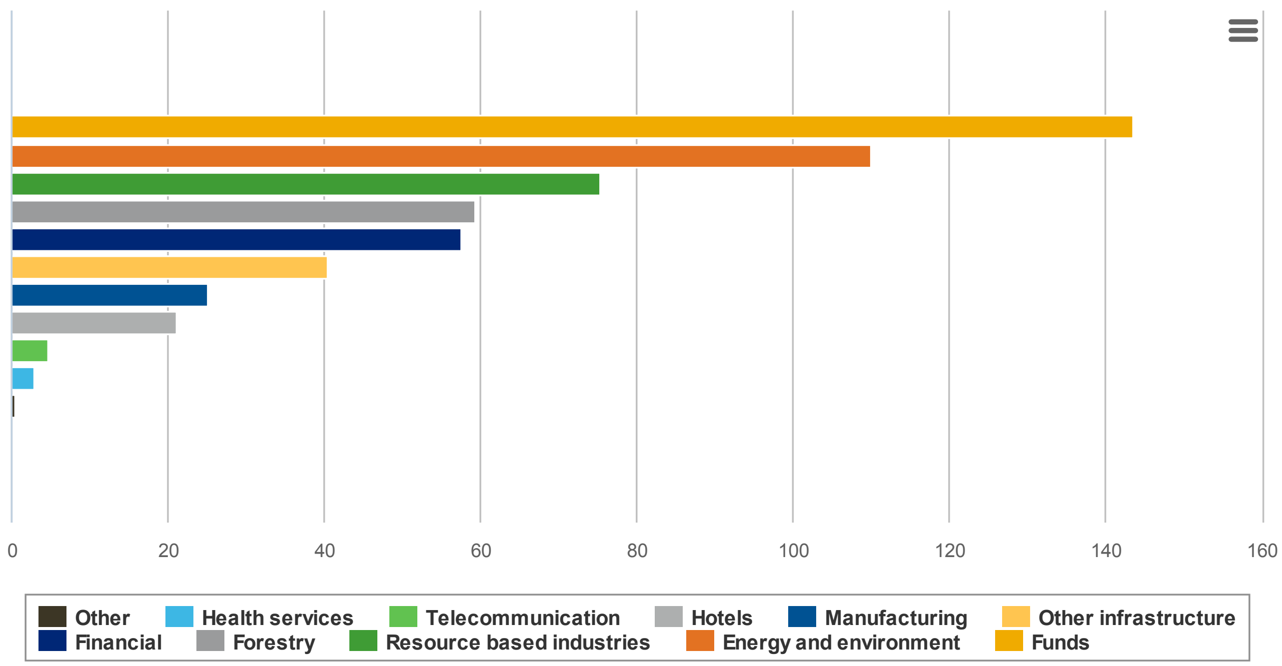


## Investment decisions and disbursements



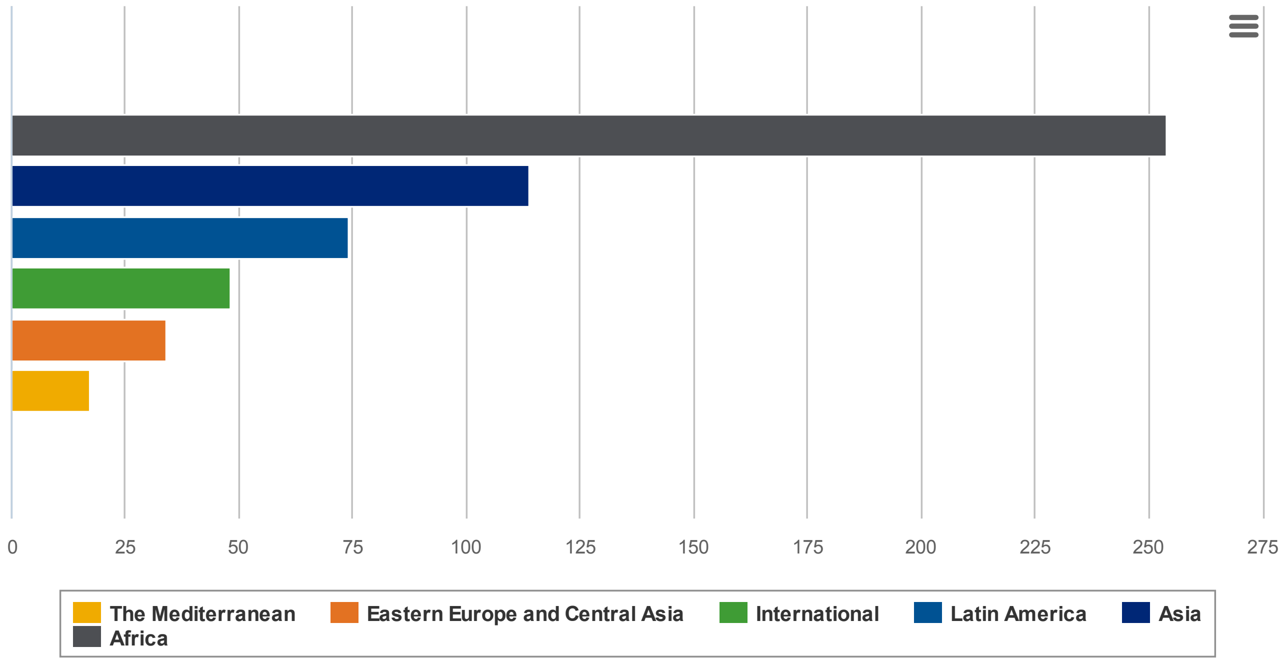

## Portfolio and undisbursed investment decision and commitments by sector

(at original value, total EUR 541 million)



## Portfolio and undisbursed investment decision and commitments, geographical distribution

(at original value, total EUR 541 million)



# Shareholders and share capital, 31 December 2014

| | |
|---|---|
| Share capital | EUR 156,989,220 |

| | |
|---|---|
| State of Finland | 93% |
| Finnvera Plc | 6.9% |
| The Confederation of Finnish Industries | 0.1% |

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

In 2014 the demand for Finnpartnership's services was stable. Finnpartnership received 121 new applications and granted Business Partnership Support for 90 projects, to the total sum of EUR 4.3 million. More detailed information can be found in the **Board of Directors' Report**.

Of the recipients of Business Partnership Support in 2010, 65 companies who received a total of EUR 1.25 million, have submitted their final follow-up reports. One-third of them said operations were continuing well, whereas one-fourth of the companies said the project was still at the planning stage. The companies have invested about EUR 20 million in their target countries, which is around sixteen times the amount of support reimbursed.

The companies provide work for about 860 people. 620 persons are directly employed and 29 per cent of these are women. 60 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 half of the projects.

## New partners and business opportunities

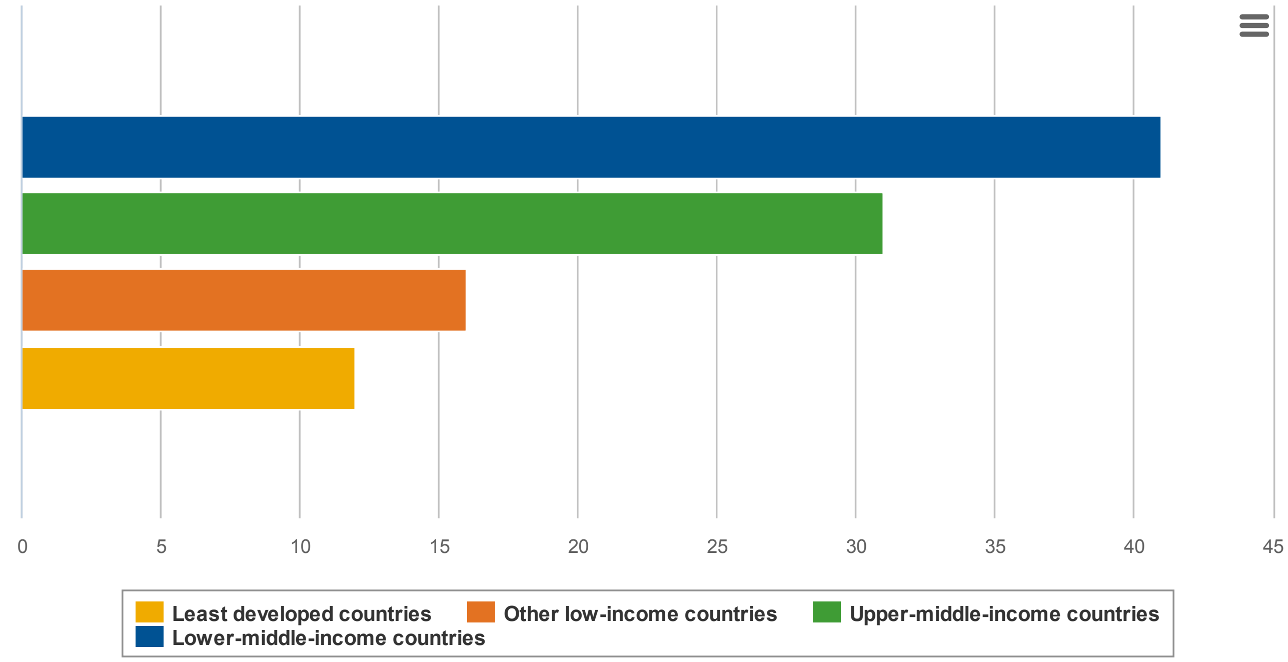
Finnpartnership received 222 matchmaking requests from companies operating in developing countries. During the year 80 applications have been registered with the matchmaking data base. In a follow-up survey about 38 per cent of the companies registered with the matchmaking service stated that there has already been at least communication between Finnish companies and companies in developing countries.

## Examples of projects supported by Finnpartnership

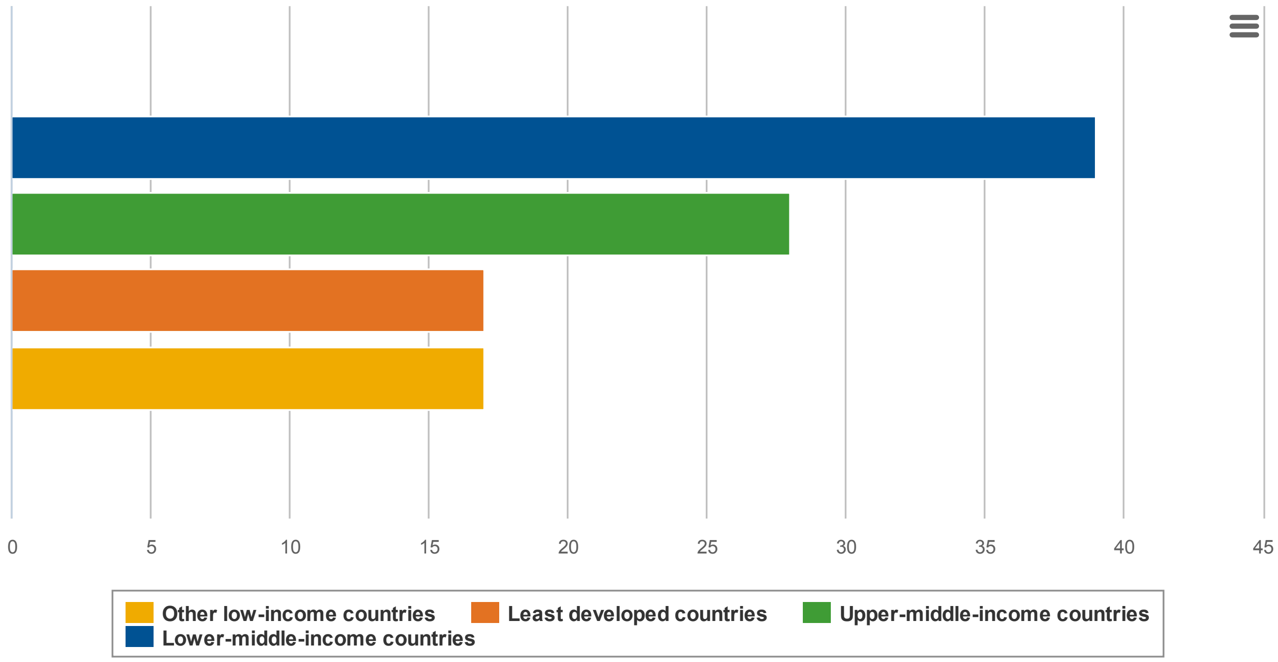
| | |
|---|---|
| Bangladesh | subcontracting textiles |
| Botswana | IT services |
| Chile | information security appliances |
| China | financial services, wafers, subcontracting office furniture, educational services, health care, transport and logistics, assembly of hydraulic units |
| Colombia | packaging materials, IT services |
| Ecuador | franchising in jewelry |
| Ethiopia | consulting services on environment and climate matters |
| Ghana | establishing a bioenergy factory |
| India | components for microelectronics, particle counter meters, mobile services |
| Kenya | import of clothes and handicrafts |
| Mexico | maintenance services for cathode plates |

| | |
|---|---|
| Mongolia | training for staff |
| Nepal | training for staff |
| Peru | import of jewelry, import of fish products |
| Rwanda | import of handicrafts |
| Thailand | improvement of refuse disposal plant, software development |
| Turkey | import of home textiles |
| Uganda | recycling of electronics |
| Vietnam | educational services, software/IT services |

## Amount of approved business partnership projects in 2014 (%)



## Business Partnership Support granted in 2014 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 2014, the Annual General Meeting was held in Helsinki on 17 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.

# 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.

*Photo: Kilombero Valley Teak Company, Tanzania*

# Remuneration

## Supervisory Board

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

**Fees paid (EUR) and participation at the meetings**

| Member | Fee | Present |
|---|---|---|
| Paloniemi, Aila, chair | 4,000 | 5/5 |
| Salolainen, Pertti, vice chair | 3,000 | 5/5 |
| Hietanen, Eija | 1,000 | 2/3 |
| Hyötynen, Kalle as of 17.4.2014 | 1,000 | 3/3 |
| Kallio, Seppo | 1,000 | 2/5 |
| Kantola, Tarja until 17.4.2014 | 1,000 | 2/2 |
| Karetie, Simo | 2,000 | 4/5 |
| Lindtman, Antti | 1,000 | 2/5 |
| Lohela, Maria | 1,500 | 3/5 |
| Myller, Riitta as of 17.4.2014 | 1,000 | 2/3 |
| Syvärinen, Katja | 1,000 | 2/2 |
| Toriseva, Seppo | 2,500 | 5/5 |
| Tölli, Tapani | 2,000 | 4/5 |
| Virolainen, Anne-Mari | 2,000 | 4/5 |

In 2014, the Supervisory Board met 5 times. The average attendance rate for members was 75 per cent.

## Board of Directors

Members of the Board of Directors have received monthly fees and fees per meetings as follows. The chair of the Board of Directors received a monthly fee of EUR 1,100, the deputy chair a monthly fee of EUR 700, and the other members a monthly fee of EUR 600. In addition, all members received a fee of EUR 300 per meeting attended.

**Fees paid (EUR) and participation at meetings**

| Member | Fee | Present |
|---|---|---|
| Laukkanen, Ritva, chair | 16,800 | 12/12 |
| Alanko, Kari, vice chair | 11,700 | 11/12 |
| Andersén, Tuukka | 10,500 | 11/12 |
| Hukka, Pekka | 10,800 | 12/12 |
| Juurikkala, Tuuli | 10,500 | 11/12 |
| Kerppola, Nora until 17.4.2014 | 2,760 | 2/3 |
| Leiwo-Svensk, Päivi until 17.4.2014 | 3,060 | 3/3 |
| Mikkanen, Pirita as of 17.4.2014 | 7,740 | 9/9 |
| Pietikäinen, Markus | 9,900 | 9/12 |
| Ylhäinen, Tuula as of 17.4.2014 | 6,540 | 5/9 |

In 2014 the board met 12 times. The average attendance rate for members was 89 per cent.

# Audit Committee

In 2014, members of the Audit Committee of the Board of Directors received a fee of EUR 300 per meeting attended.

**Fees paid (EUR) and participation at meetings**

| Member | Fee | Present |
|---|---|---|
| Pietikäinen, Markus, chair | 1,800 | 5/5 |
| Andersén, Tuukka | 1,800 | 5/5 |
| Juurikkala, Tuuli | 1,500 | 4/5 |

In 2014 the Audit Committee met 5 times. The average attendance rate for members was 93 per cent.

# Managing Director

In the financial year 2014, managing director Jaakko Kangasniemi received taxable income from the company of EUR 200,510. 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 2014.

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

The pension liability is covered partly by the group pension insurance and partly by an annual reserve in the company's balance sheet. In the financial year ending 31 December 2014 a reserve of EUR 44,655 was made for the pension liability.

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

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

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

# Management team

In the 2014 financial year, taxable income received from the company by the Management team, including the managing director and his deputy, totalled EUR 933,969.

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 2014, the members of the Management Team were Jaakko Kangasniemi, Managing Director, CEO; Jukka Ahmala, Director, Legal Affairs and Alternate to the Managing Director; Helena Arlander, Director, Portfolio and Risk Management; Minnamari Marttila, Director, Administration; Hanna Skelly, Director; and Associate Directors Mikko Kuuskoski and Antti Urvas.

# Supervisory Board, Board of Directors and Audit Committee

| Supervisory Board as of 17 April 2014 | Board of Directors as of 17 April 2014 |
|---|---|
| **Aila Paloniemi**<br>Member of Parliament<br>Chair as of 28 May 2014 | **Ritva Laukkanen**<br>Partner<br>Sagacitas Finance Partners Oy Ltd.<br>Chair |
| **Pertti Salolainen**<br>Member of Parliament<br>Vice Chair as of 28 May 2014 | **Kari Alanko**<br>Deputy Director General<br>Ministry for Foreign Affairs<br>Vice Chair |
| **Eija Hietanen**<br>Director of Administration<br>The Central Organization of Finnish Trade Unions SAK | **Tuukka Andersén**<br>Director of Finance<br>Finnvera Plc |
| **Kalle Hyötynen**<br>Vice Chairperson<br>Left Alliance | **Pekka Hukka**<br>Counsellor of Foreign Affairs<br>Ministry for Foreign Affairs |
| **Seppo Kallio**<br>Director<br>The Central Union of Agricultural Producers and Forest Owners (MTK) | **Tuuli Juurikkala**<br>Special Advisor<br>Ministry of Finance |
| **Simo Karetie**<br>Chief Policy Adviser<br>The Confederation of Finnish Industries EK | **Pirita Mikkanen**<br>Partner<br>TM Systems Finland Oy |
| **Antti Lindtman**<br>Member of Parliament | **Markus Pietikäinen**<br>Vice President<br>Wärtsilä Oyj |
| **Maria Lohela**<br>Member of Parliament | **Tuula Ylhäinen**<br>CFO<br>Oras Invest Ltd. |

**Riitta Myller**
Member of Parliament

**Seppo Toriseva**
Entrepreneur

**Tapani Tölli**
Member of Parliament

**Anne-Mari Virolainen**
Member of Parliament

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

## Audit Committee as of 22 April 2014

**Markus Pietikäinen,** Chair

**Tuukka Andersén**

**Tuuli Juurikkala**

# Promoting corporate responsibility in developing countries

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 on the Annual Report -website and it can be downloaded also as a **pdf-file** (generated from the website).

**"Responsibility is more that just minimizing harmful side-effects. Finnfund financing promotes development and strengthens accountability to stakeholders."**

- Tapio Wallenius, Senior Adviser

*Photo: Miro Forestry Company and Finnfund*

# Organisation, administration and operating principles

## Organisation

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

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

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

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

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

At the end of 2014, the State of Finland owned 93.0 per cent of Finnfund's share capital, with Finnvera plc owning 6.9 per cent and the Confederation of Finnish Industries (EK) owning 0.1 per cent. Finnfund is a company entrusted with a special assignment by the State and belongs to the administrative sector of the Ministry for Foreign Affairs. The detailed content of the company's special development policy function is assigned annually by the Ministry for Foreign Affairs on the basis of the development policy programme currently in force.

Finnfund's principles of corporate governance are described in the 2014 Annual Report under the **Corporate Governance** section.

## Corporate social responsibility management

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

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

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

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

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

# Special assignment and development policy mission of the company

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

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

The company believes that in 2014 it successfully achieved the main objectives set for it and exceeded them in terms of positive development impacts and cost-effective operations.

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

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

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

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

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

The goals set for Finnfund stress the importance of generating positive development impacts. Since 2009, the company has been developing a tool for the systematic assessment and reporting of development impacts. From 2013 all new projects have been assessed with the tool.

# Values

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

## Responsibility

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

## Respect

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

## Development

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

## Effectiveness

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

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

# Environmental policy

Environmental issues have always played a pivotal role in Finnfund's operations. In 2013 the environmental policy was updated to corporate environmental and social policy which is available on **Finnfund's website**. An in-house environment manual was completed in 2014, laying out the details of the company's environmental process.

# Stakeholders and stakeholder interaction

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

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

In 2014 the company was in active interaction with stakeholders as a result of the interest aroused by certain individual projects.

The Managing Director is responsible for Finnfund's stakeholder communication and interaction in cooperation with the company's management, the Senior Adviser and the Communications Coordinator.

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

# Financial responsibility

## Efficiency and profitability of Finnfund's operations

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

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

A detailed report on Finnfund's efficiency and profitability can be found in the **Report of the Board of Directors** published in the Financials section of the 2014 Annual Report.

# Cash flows to stakeholders

## Public sector taxation

Under the Income Tax Act (30.12.1992/1535), Finnfund is a corporation exempted from income tax, and therefore the company does not pay tax on its profits to the State of Finland. In accordance with the act, Finnfund does not distribute dividends to shareholders but reinvests all profits in line with its development policy mission.

Taxes paid in the countries where it operates depend on local laws and in some places on international tax treaties. Substantial payments are generally the consequence of taxable capital gains at project exit. No such capital gains arose in 2014.

In its financial statement for 2014, Finnfund reported tax payments totalling EUR 0.04 million, consisting of withholding taxes and stamp duty in Kenya, China and Turkey.

Numerous companies financed by Finnfund are major direct or indirect taxpayers in the countries where they operate. In 2013, for example, companies financed directly or indirectly by Finnfund reported payments of taxes and similar levies totalling about EUR 434 million. Figures for 2014 are not yet available.

## Shareholders

The purpose of the company is not to generate a profit for the shareholders, and it does not distribute its profits to the owners in the form of dividends or other yields.

## Investments

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

In 2014, Finnfund made new investment decisions worth EUR 115 million to the target countries. The number of new decisions made was 23 in total of 25 investments.

## Financial support and donations for the public good

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

# Reporting and accounting principles

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

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

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

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

# Personnel

## Human resource management

As an employer, Finnfund acts responsibly and perseveringly, encouraging its personnel in continuous learning and professional development.

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

Since 2012, management and leadership have been developed through management team self-assessments, carried out with the assistance of outside consultants. Using the results of this programme, the company has targeted continuous improvement in the work of the management team and the standard of leadership.

With the same aim, a comprehensive 360 Assessment of management and leadership was carried out at the end of 2014.

## Personnel goals

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

In addition, Personnel Development and Planning Days are held for the entire personnel with the aim of discussing current topics and promoting interaction between the company's personnel and management.

## Number and structure of personnel

At the end of 2014, the company employed 54 people. During the entire year, the average number of employees was 51. The entire personnel of the company is located in Finland in the centre of Helsinki.

During 2014, three permanent employees resigned and three employees were hired by Finnfund. Therefore, exit and entry turnover was approximately 6 per cent.

Based on the duration of employment in years, permanent employees fall into the following categories:

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

The average duration of employment is 10 years for permanent employees.

In terms of age structure, permanent employees fall into the following five-year age brackets:

| 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60- |
|---|---|---|---|---|---|---|---|
| 1 | 9 | 6 | 5 | 9 | 8 | 7 | 1 |

The average age of employees is 45.

The company did not reduce the number of its employees or make any other adjustments in 2014.

In 2014, personnel expenses amounted to EUR 5.1 million, including pension expenses, other social security expenses and voluntary personnel expenses. The company paid wages and salaries totalling EUR 4.1 million in 2014.

# Equality

At the end of 2014, the company employed 38 women, accounting for approximately 70.4 per cent of all employees, and 16 men, accounting for 29.6 per cent of all employees.

Four of the members of the company's Board of Directors were women (57.1 per cent) and three were men (42.9 per cent).

Three members of the company's internal Management Team were women (42.9 per cent) and four were men (57.1 per cent).

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

# Remuneration

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

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

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

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

In terms of cost effect, the incentives paid in 2014 amounted to approximately 7 per cent of the entire payroll.

# Competence development and training

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

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

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

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

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

# Occupational well-being, health and safety

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

Finnfund carries out regularly an evaluation of the employees' well-being with the health care service and retirement pension insurance providers. Evaluation was done in the autumn of 2013, and the results have been dealt with the employees in an event leaded by an occupational psychologist. Based on numerical review, the results are slightly above the reference material used, but there are also some clear areas for development. These areas are improved systematically, and progress is monitored at regular intervals by conducting a workplace well-being survey.

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

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

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

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

Part of the personnel moved to new premises in the beginning of 2014 and the risk assessment, rescue plan and personnel has been reorganized during 2014. In 2014 the company arranged training in first aid and fire extinguishing, evacuation drills and a visit to the civil defence shelters of the premises.

Ergonomics is reviewed periodically when new employees join the company or changes are made to workstations. In 2014 there was ergonomics training and an ergonomic assessment of workstations for all staff. Every employee was offered an electrically adjustable desk so as to avoid the health problems of excessive sedentary work.

The employer is not aware of any accidents during working hours or otherwise related to work. In addition, there have been no deaths related to work.

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

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

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

In 2014 a systematic model of early support and intervention for work fitness was developed, adopted by the occupational health committee and explained to all employees.

# Environment and society

## Environmental and social management

One of Finnfund's key objectives is to generate positive environmental and social impacts in the target countries. Any negative effects are to be prevented and reduced. One of the conditions for receiving financing from Finnfund is that the investee company must meet the corporate environmental and social responsibility requirements set for it. For each project, the company carries out a separate environmental impact assessment and environmental classification before making the investment decision.

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

The Managing Director is responsible for the management of environmental and social risks in cooperation with the Director of Portfolio and Risk Management. The company has two Environmental and Social Advisers and one Development Impact Adviser. The Environmental and Social Advisers ensure that the environmental and social risks of all Finnfund projects are assessed and monitored throughout the project life cycle.

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

## Key environmental and social impacts and risk management

Finnfund aims to create significant direct environmental and social impacts in the companies it finances and among their immediate stakeholders. It also focuses its finance on achieving indirect environmental and social impacts in the countries where projects are implemented. The environmental and social risks as well as the opportunities related to the projects vary significantly based on the sector, target country and a number of other factors. In its financing operations, Finnfund pays special attention to the management and mitigation of environmental and social risks, while also focusing on reinforcing the positive impacts.

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

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

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

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

# Climate change

Finnfund aims to finance projects that reduce greenhouse gas emissions or help adapt to climate change. A significant part of the company's financing is targeted at projects involving renewable energy or improving energy and material efficiency as well as projects that mitigate climate change. The company does not finance any coal-fired power plants or hydropower projects involving large dams that cause extensive displacement of populations.

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

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

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

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

# Water, waste and energy saving

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

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

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

# Social impact

## Bribery and corruption

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

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

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

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

Any consultants used by the company are required to follow the same guidelines by way of agreement.

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

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

## Measures against money laundering and terrorist financing

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

# Political influence

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

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

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

# Restriction of competition

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

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

# Compliance with laws and regulations

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

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

# Human rights

It is well known that human rights problems have been identified in several of Finnfund's target countries. Through its activities and participation, Finnfund aims to promote human rights in the projects it finances by using the means available to it.

Generally, one of the conditions for receiving financing from Finnfund is that the investee company must, by way of agreement, undertake to comply with the core labour standards of the International Labour Organization (ILO) as well as the Performance Standards on Environmental and Social Sustainability of the International Finance Corporation (IFC), a member of the World Bank Group. Human rights issues are addressed extensively by both standards.


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

| | | |
|---|---|---|
| **INDIA** | | |
| Ashley Alteams India Pvt. Ltd. | Aluminium components | Alteams Group |
| Bharti Airtel Limited | Telecommunications | Nokia Siemens Networks Oy |
| 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 | |
| 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 |
| | | |
| **INDONESIA** | | |
| SaraRasa Biomass | Biofuels | Dovre Group |
| | | |
| **LAOS** | | |
| Nam Sim Power Company Limited | Hydro power | |
| | | |
| **MALAYSIA** | | |
| Polar Electro Malaysia (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 | |
| | | |
| **THAILAND** | | |
| A.T. Biopower Co., Ltd. | Biopower plant | Private Energy Market Fund Ky, Pöyry Oyj |
| Siam Investment Fund II L.P. | Private equity fund | |
| Thai Biogas Energy Company | Biogas | Private Energy Market Fund Ky |
| | | |
| **VIETNAM** | | |
| Mekong Enterprise Fund, Ltd. | Private equity fund | |
| SEAF Blue Waters Growth Fund Limited | Private equity fund | |

| | | |
|---|---|---|
| **AFRICA** | | |
| AfriCap Microfinance Investment Ltd. | Microfinance | |
| AfricInvest Fund Ltd. | Private equity fund | |
| Afrinord Hotel Investments A/S | Hotels | |
| 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 | |
| ECP Africa Fund I LLC | Private equity fund | |
| European Financing Partners | Development financing | |
| Fanisi Venture Capital Fund | Private equity fund | |
| Fidelity Equity Fund II Limited | Private equity fund | |
| GEF Africa Sustainable Forestry Fund, L.P. | Forestry Fund | |
| Green Resources AS | Forestry and wood products | |
| GroFin East Africa Fund LLC | Private equity fund | |
| Miro Forestry Company | Forestry and wood products | |
| Norsad Finance Limited | Development financing | |
| SFC Finance Limited | Bank | |
| Silverlands Fund | Private equity fund | |
| UpEnergy Group | Wholesale trade | Climate Wedge Oy |
| | | |
| **CAPE VERDE** | | |
| Cabeólica S.A. | Wind power | |
| | | |
| **ETHIOPIA** | | |
| M-Birr Ltd. | Telecommunications | |
| Schulze Global Ethiopia Fund I | Private equity fund | |
| | | |
| **GHANA** | | |
| Ghana Airport Cargo Centre | Transport | Mafi Oy |
| | | |
| **KENYA** | | |
| Elgon Road Developments Limited | Hotel | |
| Lake Turkana Wind Power | Wind power | Peikko Group Oy |
| Universal Corporation Ltd. | Medicines | |
| | | |
| **NEPAL** | | |
| Dolma Impact Fund I | Private equity fund | |

| | | |
|---|---|---|
| **NIGERIA** | | |
| Access Bank Plc | Bank | |
| African Foundries Limited | Steel | Wärtsilä Oyj |

| | | |
|---|---|---|
| **SIERRA LEONE** | | |
| Goldtree Sierra Leone Limited | Food production | |

| | | |
|---|---|---|
| **SOUTH AFRICA** | | |
| Evolution One LP | Private equity fund | |
| Horizon Fund III Trust | Private equity fund | |

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

## THE MEDITERRANEAN

| | | |
|---|---|---|
| **TURKEY** | | |
| Noksel A.S. | Steel pipes | Nokia Oyj |

## THE MIDDLE EAST

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

## LATIN AMERICA AND THE CARIBBEAN

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

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

| | | |
|---|---|---|
| **LATIN AMERICA** | | |
| 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 and wood products | |

| | | |
|---|---|---|
| **MEXICO** | | |
| Proteak MDF Holding Co. | Forestry and wood products | |

| | | |
|---|---|---|
| **NICARAGUA** | | |
| Banco Lafice-Bancentro S.A. | Bank | |

## CENTRAL AND EASTERN EUROPE

| | | |
|---|---|---|
| SEAF Central and East European Growth Fund LLC | Private equity fund | |
| SEAF South Balkan Fund B.V. | Private equity fund | |

| | | |
|---|---|---|
| **RUSSIA** | | |
| MP Russia Oy | Food products | Myllyn Paras Oy Konserni |
| OOO AVA-Peter | Hospital | Scanfert Oy |
| OOO Dan-Invest | Agriculture | Atria Oyj |
| OOO Skaala | Windows and doors | Skaala Oy |
| Oy Nordic Russian Management Co - NORUM | Development financing | |
| Rani Plast Kaluga LLC | Plastic products | Ab Rani Plast Oy |
| ZAO Betset | Building materials | Betset Oy |

| | | |
|---|---|---|
| **UKRAINE** | | |
| Aqueduct Ltd. | Metal products | Macring Oy |
| ZAO Zaporozhkij Zavod Tjazhelogo Krasnostroenia | Cranes | Konecranes Oyj |

## INTERNATIONAL

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

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

*Photo: Kilombero Valley Teak Company, Tanzania*

# Investing in private projects

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

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


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

## Finance for diverse development support

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

Foreign direct investment (FDI) in companies of developing countries has increased in recent years, but it has been spread unevenly. Investing especially in the poorest countries, has been regarded as too risky. In many low-income countries, companies suffer from a shortage of long-term, reasonably priced, risk-tolerant funding. Finance from Finnfund alleviates these market failures.

In addition to providing finance, Finnfund catalyses the skills and knowledge of Finnish companies to developing countries. Since 2009, for example, more than 50 Finnish companies have participated in projects financed by Finnfund. In 2014, 11 new financing decisions were made on projects with participation of Finnish companies.

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

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

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

## Jobs and tax revenues through investments

Each year Finnfund gathers information on the development effects of its past investments. This information is compiled to produce cross-sectoral indicators (such as jobs and tax revenue) for all Finnfund portfolio projects. The raw data comes from customers themselves so summary reports are subject to a small lag while it is being checked. At the end of 2013, for example, companies financed by Finnfund directly employed some 22,800 people, about 30 percent of them women (7,100).

Various taxes and charges paid by companies financed directly and indirectly by Finnfund totalled about EUR 434 million in 2013. Most of these were paid by investees of the private equity funds in which Finnfund has invested in Africa.

## Tax revenues to target countries in 2013 (total EUR 434 million)


Companies financed by Finnfund delivered 290 GWh of electricity in 2014. Among other distinct development impacts are loans to microenterprises (about 3.4 million loans totalling EUR 1,800 million) and to small and medium-sized companies (about 87,500 loans totalling EUR 980 million).

## Project portfolio by region and sector

At the end of 2014 Finnfund's portfolio contained 160 projects. About three-quarters of these, measured both by the number of projects and their value, were in low-income and lower-middle-income countries, which is a good achievement for Finnfund's development policy mission. Most co-investment with Finnish companies was in middle-income developing countries such as India, China and Ukraine, and also in Russia. In low-income countries, Finnfund largely finances infrastructure, and usually jointly with other development finance institutions, but even these projects generally have an involvement by Finnish companies as technology suppliers.

There were 97 direct investments and 63 investments via private equity funds and financial institutions. Finnfund's direct investments are spread over many sectors, from engineering workshops to forest plantations, and from pharmaceuticals to power generation. In recent years, about a half of investments can be classed as climate-related because they produce renewable power, prevent deforestation, save energy and raw materials, or improve the adaptability of poor people to the challenges of climate change.

*Photo: Shutterstock.com*

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

About a quarter of Finnfund's investments in developing countries have been channelled via private equity funds. Fund investments are targeted mainly at low-income countries and especially Africa. At the end of 2014 Finnfund was a participant in 40 private equity funds to the total of about EUR 80 million, an average of some EUR 2 million per fund.

Finnfund uses private equity funds to reach small and medium-sized local enterprises that would be hard or impossible to finance directly in a cost-effective way. It concentrates on funds that provide capital for business expansion where the investment would not be possible without the equity-rated financing that the fund offers.

## Investments in funds reduce risks of operating in poor countries

Fund management companies usually have a local presence in the target area. Because risk finance for SMEs is a fairly new thing in low-income countries, the investments are generally made and managed by teams that combine skills in equity investment, obtained in developed markets, with in-depth knowledge of the local market. By using private equity funds, Finnfund reduces the risk of operating in low-income countries.

It has also invested in a few sectoral funds that concentrate on matters like renewable energy, sustainable forestry or micro-financing. These funds typically operate in many countries, transferring skills across borders.

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

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

## Tax revenues of 300 million euros to investee countries

Most of the private equity funds that invest in developing countries are registered in international financial centres. Africa-based funds are generally registered in Mauritius. Another common domicile is Luxembourg (Finnfund not allowed to make new investments in funds registered in the country). The countries of registration are conduits, channelling investments from many different places to investee countries. Funds do not pay taxes in their country of registration but investors and investees pay taxes in their home countries. In 2013 companies financed by Finnfund's private equity funds paid a total of about EUR 300 million euros in taxes and similar charges in investee countries. This is more than paid by companies financed via other instruments (EUR 133 million).

Finnfund is opposed to tax evasion, corruption and money-laundering in investee countries and domiciles. We conduct background checks on co-investors and management companies, and require diligent reports from funds on their investee companies, taxes paid, and so on. Alongside many other development finance institutions, we urge countries of registration to create transparent regimes by investing only in the funds that are registered in countries observing the progressively stricter demands agreed in the OECD Global Forum. In 2014 there were 24 countries on the updated list of domiciles of funds that Finnfund does not invest in (Brunei, Dominican Republic, Micronesia, Guatemala, Lebanon, Liberia, the Marshall Islands, Nauru, Panama, Switzerland, Trinidad and Tobago, Vanuatu, Andorra, Anguilla, Antigua and Barbuda, Austria, Barbados, Cyprus, Israel, Luxembourg, St Lucia, the Seychelles, Turkey, the British Virgin Islands).

*Photo: Kilombero Valley Teak Company, Tanzania*

# Banks and financial institutions are vital for economic development

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

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

*Photo: Shutterstock.com*

# Finnfund's operational area

# Stera establishes its position in India

Stera Technologies Oy, a contract manufacturer of mechanics and electronics, began production in Chennai, India in 2010 and expanded into a new factory building there in 2011.

Finnfund granted it an investment loan for the expansion and has also financed investments in equipment for the new factory.

Among the most important development impacts from its growth have been new jobs. The number of Stera's Indian employees has doubled in three years to about 130. The plant also provides work for a large number of people in services related to logistics, catering, material procurement, etc.

Stera has brought modern technology to India and new production and business skills that emphasise quality, management, human resources and environmental matters.

Stera has an exeptional programme in the manufacturing industry in India encouraging equality and employment of women. The gender roles in India are largely traditional, and only in the last few years, working life has opened up to women.

The number of its customers in India, all international companies, has grown steadily in the past few years. Future prospects are being enhanced by the rapid growth of the Indian economy, which is benefiting many Stera customers.

Operations in India have bolstered Stera Group performance in economically uncertain times. In 2014 group turnover reached 65 million euros, 10 percent more than the year before. In the same year the company took on 100 new employees, ten of them in India and 70 in Finland.

*Photo: Stera Technologies, India*

# Cautious advance in Asia for Peikko Group

Production of Peikko concrete connections and composite structures has expanded rapidly in recent years as the Group has internationalised. The Lahti-based family-owned company is now looking for new growth from Asia, with a long-term strategy for creating a strong foothold.

Production in China, begun in 2011, will play a key role. In 2013 it expanded its output there when it moved into new premises in Zhangjiang, Shanghai.

Finnfund has provided finance for the expansion project, which has trebled its production area. Peikko has also invested in new machinery and production lines in China. It employs about 100 people there.

Its other Asia-Pacific customers are in Australia, Singapore, Malaysia and Indonesia. The key customer groups are producers of concrete elements and contractors who build specialized flooring, such as the high load-bearing floors of factories and logistics centres.

The company is aiming at a gradually expansion of its clientele in the Asia-Pacific region. Its new production plant in China will provide a reliable response to growing regional demand. It believes that its business strengths lie in innovative solutions that make construction faster, easier and safer.

In spring 2015 Peikko Group signed a major contract to supply the foundation solution for a large wind park being built near Lake Turkana in north-eastern Kenya. Deliveries will begin in April 2015. Finnfund is one of the institutions financing the Lake Turkana project.

*Photo: Shutterstock.com*

# Finnfund's first investment in solar power

Finnfund is providing some of the finance for three solar power plants in Jordan by means of 20 million dollar senior loan. These are part of a project to construct seven solar power plants in Jordan, funded by loans from a group of financial institutions led by the International Finance Corporation, a member of the World Bank Group.

The seven plants have a combined capacity of 102 megawatts, and will be able to generate 212 gigawatt hours of electricity annually. They will be constructed and operated by various consortiums of Jordanian and international investors and technology suppliers.

This is the first major solar energy project in the entire Middle East and North Africa, as well as being the largest private-sector solar project in the region.

Jordan is ideally suited for generating electricity from solar plants. Relative to land area it receives about twice as much solar radiation as Finland.

At present almost all of its electricity is generated from imported fossil fuels. Non-polluting, renewable power produced from the seven new solar plants will cut carbon dioxide emissions by an estimated 123,000 tonnes a year, equivalent to the annual emissions of some 41,000 cars.

One of the advantages of solar power is that plant construction can be completed in months rather than years. Jordan has an urgent need for extra electricity because it has accepted hundreds of thousands of refugees from Iraq and Syria.

The Jordanian solar plants are Finnfund's first investment in a fast-growing sector that already employs hundreds of people in Finland. Finnfund intends to increase its solar involvement in future.

Finland's technology suppliers also have an interest in solar. Finnish exports of power electronics used in solar power generation are already worth tens of millions of euros annually, and are growing fast.

*Photo: Shutterstock.com*

# Plantation forests reduce pressure for illegal logging

Miro Forestry Company is promoting sustainable forest use in Africa by establishing plantation forests in Ghana and Sierra Leone. The company sells the wood it produces on local and regional markets.

West African demand for wood – for construction, fuel, etc. – is steadily rising. Poor monitoring of natural forests and the lack of sustainably grown plantation forests have led to extensive illegal logging.

The arrival of players like Miro in the timber market is important for protecting dwindling natural forests by improving the availability of trees from verified legitimate sources.

By the end of 2014 Miro had planted 1,800 hectares of forest. It aims to plant 1,500 hectares annually in the years ahead.

The company has made long-term leasing agreements with private landowners and the government for a total of some 30,000 hectares of land. Diligent assessment of environmental and social impacts is another part of its preparations.

It directly employs about 350 people but its influence extends much farther. In West Africa the average wage earner supports five family members.

The company also trains local farmers in the use of more sustainable agricultural methods. In Ghana it has been involved in building a local vocational school, too.

Finnfund has provided Miro with an early-stage project preparation grant, for commissioning a report from Pöyry consultants about the end market. This helped to place the company's business plan on a more concrete footing.

Finnfund and the British development finance institution CDC Group have shareholdings in Miro.

*Photo: Miro Forestry Company*

# Rapid solar response to Honduran power shortfall

Latin America's largest solar power project is coming online in Honduras in spring 2015, promising rapid relief to a country beset by power outages.

The project has a total rated output of 100 megawatts and consists of two similar solar parks. Among the institutions providing finance for one of them, Valle Solar, is Finnfund.

Sited in Nacaome on the Pacific coast, this is a solar project of Larach Group, a Honduran family-owned company specialising in renewable energy. In addition to Valle Solar, Finnfund has financed La Vegona, a Larach hydropower project in Honduras.

As well as relieving an acute shortage of electricity, Ville Solar will improve the country's current account by reducing the need for oil imports. The solar park is expected to generate an average 120 gigawatt hours of electricity annually, equivalent to the consumption of about 152,000 Honduran households.

The solar park will provide jobs in a poor rural area. It will also produce about 72,000 tonnes less carbon dioxide annually, compared with generating the same amount of electricity from fossil fuels. The reduction is equivalent to the annual emissions of more than a quarter of a million cars.

A second major link with Finland is that the Finnish ABB company is responsible for the solar technology of both solar parks. The connection between the companies was made via Finnfund, and Larach selected ABB as the technology supplier in competitive tendering.

ABB's contract, worth about 20 million US dollars, is an important reference and a breakthrough for Finnish solar power technology and know-how in the Central American market.

*Photo: Valle Solar Project*

# MOSS brings technology for the first mobile money service in Ethiopia

Payments systems using mobile devices are spreading rapidly in Africa. The first to offer mobile payment services in Ethiopia has been M-BIRR. Finnfund is one of the shareholders of the Technology Provider (MOSS) which initiated the M-BIRR service.

MOSS has partnered with Ethiopian microfinance institutions; they deliver the M-BIRR service allowing their customers to make deposits and withdrawals from mobile wallets, transfer money or top up prepaid mobile phone accounts.

Fewer than 10 percent of Ethiopians have a bank account. Mobile payments will improve banking services, particularly in the poor countryside.

M-BIRR's system operates in all areas with mobile network coverage. Via agents of microfinance institutions, money can be deposited or withdrawn throughout the country.

The service makes it easy for people who have moved to the towns to send money to family members in the countryside. These remittances are an important source of income in poor villages.

M-BIRR is used by aid organisations in Ethiopia. Recipients of their grants are sent money electronically rather than in cash.

Some recipients have no mobile telephone. An application has been developed to identify these from an NFC (Near Field Communication) wristband.

The M-BIRR service started operations in early 2015. It aims to reach one million customers by the end of the year, and to spread mobile payments to shops and restaurants.

The growth of electronic payment systems is important in a country with an underdeveloped banking sector. Lower transaction costs and easier money transfers will in turn improve the prospects for other types of business in Ethiopia.

*Photo: MOSS, Ethiopia*

# Finnpartnership

## Skilful staff an asset in Mongolia

Kristec Oy is a family business from Kirkkonummi and specialises in the sales of paper and cardboard products in Asia and Eastern Europe. In Mongolia, the company's subsidiary Finpack manufactures packaging.

The early years of the plant in the capital Ulan Bator were not easy. It was impossible to find employees in Mongolia who had training or previous experience in package manufacture. All workers were trained by Finnish experts with Finnpartnerhip's Business Partnership Support.

Excellent leadership is the cornerstone of Finpack's business. There is one Finn in the management of the company and the rest of the management consists of Mongolians.

Finpack manufactures, for example, paper bags, shopping bags and pizza boxes for fast food restaurants, as well as packages for medicine, coffee, tea and cigarettes. In addition to package manufacture, Finpack is the largest paper wholesaler in Mongolia.

The company's customers in Mongolia are mainly small and medium-sized businesses. Finpack's toughest competition consists of Chinese companies. The main asset of Finpack is the capability to make also high-quality small batches with a quick delivery schedule. The packages are always made out of Finnish paper and cardboard.

Over the last few years, the Mongolian economy has boomed, especially due to the growing mining industry. For the present, there is only a handful of Finnish companies operating in Mongolia. One of these is Outotec, which has provided the country with equipment for the mining industry, and another one is Honkarakenne, which has sold log houses there.

There is an agency Fingate in Mongolia to promote import and export. Together with Finpro, it offers its services for Finnish entrepreneurs who are interested in the Mongolian market.

*Photo: Shutterstock.com*

# Finnpartnership

## Good partners worth seeking further afield

Machine workshop company Siimet chose a different route than its competitors and got itself a subcontractor in Vietnam, with Finnpartnership's support.

A few years ago, Siimet Oy, which manufactures oversize transport equipment, found itself facing a choice. The company would continue making its custom-made oversize truck trailers in Mikkeli, but the new serial production of trailers would have to be outsourced to retain the company's competitive strength.

Finpro's expert recommended Siimet to look for a partner in Vietnam instead of a country as vast as China. Siimet received Finnpartnership’s Business Partnership Support for identifying potential partners.

The pilot project with a new partner based in Ho Chi Minh City took three years. The Vietnamese company is responsible for manufacturing steel frames for trailers according to designs made in Finland. Final equipment are installed in Mikkeli.

The first steel frames for trailers have now been delivered to Finland and put on the road. The subcontractor’s price-quality ratio and delivery reliability have been very good. Siimet's target is a long-term partnership. Siimet also receives Finnpartnership’s support for training of the Vietnamese company's staff.

Carrying the heavy steel frames to Finland by sea is not free. In addition to fluctuations in sea freight prices, you have to be prepared for changes in exchange rates and wage levels. Competition is very tough in Siimet's field too. With more competitive products it will put up a good fight against its competitors.

The company’s most important clients are businesses that need heavy-duty equipment for transporting earth moving and forestry machines. In other industries, oversize transport equipment is needed to transport chemical pulp, paper reels and scrap metal. The Finnish Defence Forces, for example, use Siimet’s trailer chassis for transporting their equipment.

Founded in 1946, Siimet employs 25–30 metalworkers and a dozen clerical employees in Mikkeli. In the last few years, the company’s net turnover has amounted to approximately EUR 3.5 million.

*Photo: Shutterstock.com*


# Report of the Board of Directors

## Mission and strategy

Finnfund, formally the 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 interests. Finnfund provides long-term risk capital to complement funding obtained from the financial markets, and operates on a self-supporting basis. Finnfund targets financing at low-income and lower-middle-income developing countries, builds bridges between Finnish expertise and development needs, and augments the developmental impacts of investments catalysed by Finnfund.

In 2014, Finnfund focused on balanced growth and risk management. In a situation where long-term equity investments in proportion to the company's assets were growing as a result of decisions made, the project preparation focus has shifted to financing in the form of loans with a quicker turnaround. Besides investments requiring active participation, projects were sought that would allow better risk diversification and cost-efficiency through cooperation between financing providers. Regardless of Finnfund's role in any given project, the key requirement is the generation of a positive development impact in the target countries.

# Funding and investments

The volume of financing activities continued to grow on the previous year, and cooperation with the business sector intensified, with Finnish companies participating in several projects as technology suppliers or partners. Most of Finnfund's funding was allocated to projects with excellent development impact potential and a positive effect on climate change, particularly in the renewable energy and forestry sectors.

In 2014, 23 new financing decisions (20 in 2013) were made in 25 projects, amounting to a total of EUR 115 million (EUR 90 million). Both the number of projects and their average size grew from the previous year. Calculated in euros, growth on the previous year can be regarded as considerable.

The targeting of financing decisions made in 2014 at various income levels is shown in the table below.

| Income level | number | % | EUR million | % |
|---|---|---|---|---|
| Least development countries | 7 | 30 | 41.9 | 36 |
| Low-income countries | 2 | 9 | 6.9 | 6 |
| Lower-middle-income countries | 8 | 35 | 38.6 | 33 |
| Upper-middle-income countries | 5 | 22 | 26.0 | 23 |
| Russia | 1 | 4 | 2.0 | 2 |
| **Total** | **23** | **100** | **115.4** | **100** |

Most of the 16 (9) financing decisions were for investment loans, which accounted for three quarters of the value of decisions in euros. This trend was intentional and reflects the current situation, in which the amount of Finnfund's equity is beginning to limit its opportunities to make equity investments. According to Finnfund's risk management principles, equity investments must be covered from Finnfund's shareholders' equity.

Eight (9) of the projects that were approved were equity investments or mezzanine financing that, when calculated according to their value in euros, accounted for just 16 per cent whereas the year before they represented more than half of all commitments made. The number of fund investment decisions decreased as planned, and only one was made compared to two the year before.

Both in terms of the number and value of the financing decisions made, Africa was the leading continent with 11 (7) decisions representing 49 per cent (60 per cent) of the total value in euros. Asia was next with 7 (9) decisions. The value of decisions was lower for Asia than Africa: 16 per cent (20 per cent) of the total value in euros. Similarly to last year, China was the most popular individual country, with three (four) financing decisions of relatively low monetary value allocated to the country.

One decision was allocated to Jordan, exceptionally for three different projects.

The volume of disbursements grew to EUR 73 million from EUR 34 million, representing a historic high for Finnfund. In addition to the previous year's disbursements, projects for which a decision was made in 2014 were also included.

Of this amount, EUR 37 million (EUR 23 million) was allocated to low-income countries or the least developed countries, EUR 16 million (EUR 7 million) to lower-middle income countries, EUR 13 million (EUR 2 million) to upper-middle income countries, and EUR 7 million (EUR 1.5 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 2014, a decision was made to commit additional funding to the ICCF. This decision was conditional on the transfer of the company's domicile away from Luxembourg, which does not currently meet the OECD criteria on tax transparency.

At the end of 2014, undisbursed commitments totalled EUR 146 million (EUR 97 million). In addition, EUR 75 million (EUR 81 million) were tied up in investment decisions that had not yet progressed to the agreement stage.

# Development and priorities

The most significant development project in 2014 involved putting Finnfund's financing policy into a documented format and having this document approved by the Board of Directors. The financing policy now includes all existing written instructions and guidelines, as well as established practices and procedures not previously presented in a single written document.

To facilitate long-term planning, a financial model was created for Finnfund, in order to enable future portfolio development and profitability simulation by simply changing some default assumptions. This model was used in the preparation of the budget for 2015.

The Environmental and Social Policy was documented into an environmental handbook, which provides information which is supplementary to the existing financing process description.

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. Since the summer of 2014, Finnfund's CEO Jaakko Kangasniemi has been acting as the Chairman of the EDFI.

At the beginning of 2014, additional facilities were provided to Finnfund in the property where the company has had its premises since 2007.

Determined measures were taken in 2014 to develop the company's administration, particularly human resources. The 360 Degree Feedback tool was used to conduct an assessment of management and supervisory work in the second half. This assessment's results will be used in personnel, supervisory and managerial development projects. The performance management and incentive scheme covering the entire personnel was revised. The revised system and new practices will be adopted in 2015.

# The Finnpartnership programme

Finnfund administers a business partnership programme called Finnpartnership. Launched in June 2006, this is financed by the Ministry for Foreign Affairs. Continuance of the programme depends on the competitive tendering process to be organised in 2015.

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 and solution pilot projects; and for education and training.

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

In 2014, a total of 113 (121) business partnership support applications were processed. Of these, 90 (96) applications were approved. Total support granted amounted to EUR 4.3 million (EUR 3.5 million).

Business partnership support was paid out to 54 (80) projects, totalling EUR 1.0 million (EUR 1.3 million).

In 2014, the matchmaking service received 222 (245) business initiatives from companies in developing countries.

# Risk management

The Finnfund Board of Directors confirms the company’s risk management principles and instruments. The company’s management is responsible for the practical implementation of risk management on the basis of the guidelines confirmed by the Board of Directors. The company guidelines on asset and risk management were assessed during 2014, but no material 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.

The risk classification system developed by Finnfund and in use since 2005 is a key instrument in the assessment and monitoring of project risks. A risk assessment is conducted on all projects in the Finnfund investment portfolio at least once a year, and more often if necessary, if it is estimated that the risk level has changed.

On 8 October 2012, the Ministry for Foreign Affairs decided on the introduction of special risk financing to share investment risks between Finnfund and the Finnish government. Special risk financing 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 financing 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 financing is made by the Finnfund Board of Directors. In order to be eligible for special risk financing, 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 2014, the Board of Directors decided to enter 3 (6) projects under special risk financing. The aggregate value of the decisions is EUR 2.7 million (EUR 41.8 million). The government is responsible for EUR 1.4 million (EUR 21.3 million), or 53 per cent (51 per cent) of the investment risk associated with decisions made in 2014. By the end of 2014, decisions with a value of EUR 50.2 million (EUR 47.5 million) had been made for projects under special risk financing. The government answers for EUR 25.1 million (EUR 23.7 million), or 50 per cent (50 per cent) of the risks involved in these decisions. 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 are targeted at 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. Here, the objective, on a case-by-case basis, is to cover currency positions that are certain or at least likely, and that can be hedged at a reasonable cost in relation to the benefits gained.

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. Finnfund has a committed credit facility of EUR 50 million at Nordea Bank, non-committed facilities in other Nordic banks, and a commercial paper programme totalling EUR 100 million set up in 2010, which were not in use at the end of 2014.

The refinancing risk associated with borrowing is managed by maintaining a sufficiently extensive group of financiers and a versatile range of instruments. An additional aim is that at least half of the borrowing should be long-term financing. At the end of the year under review, the average time to maturity of interest-bearing debt was 3.5 years.

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

# Financial result and balance sheet

In 2014, Finnfund made a profit of approximately EUR 2.4 million (approximately EUR 2.7 million). The result fell slightly short of last year, but clearly exceeded budget.

The operational result is shown in the table below. Income from financing activities stood at EUR 11.1 million (EUR 11.9 million) and the result before value adjustment items, sales and taxes was EUR 4.3 (EUR 5.7 million).

No exits from projects occurred during the reporting period. The administrative-expenses increased over the year before, but they came in under budget.

| Operational result, EUR 1,000 | 2014 | 2013 | Change EUR | Change % |
|---|---|---|---|---|
| Financial income | 12,929 | 13,558 | -629 | -4.6 |
| Financial expenses | -1,802 | -1,643 | -159 | 9,7 |
| **Income from financing activities** | **11,127** | **11,915** | **-788** | **-6.6** |
| Other operating income | 1,612 | 1,558 | 54 | 3.5 |
| Administrative expenses, depriciation and other expenses | -8,419 | -7,797 | -622 | 8.0 |
| **Result before value adjustment items, sales and taxes** | **4,320** | **5,676** | **-1,356** | **-23.9** |
| Value adjustment items and sales | -1,877 | -2,945 | 1,068 | -36.3 |
| Income taxes | -35 | -29 | -6 | 20.7 |
| **Net profit** | **2,408** | **2,702** | **-294** | **-10.9** |

## Income

Dividend income was EUR 0.3 million (EUR 1.6 million). The dramatic drop in dividend income could be attributed to the discontinuation of dividend payment in one of the project companies.

Interest income from investment loans came to EUR 5.6 million (EUR 6.4 million), and other interest income was EUR 0.5 million (EUR 0.6 million). Interest income totalled EUR 6.1 million (EUR 7.0 million). Other interest income consisted primarily of interest income from liquid assets, and this increase was due to the increase in liquidity.

Other income from long-term investment amounted to EUR 5.1 million (EUR 3.8 million), consisting of gains from fund investments. Similar to the previous year, no capital gains from sales were recognised as income.

Other financial income without foreign exchange gains, at EUR 1.4 million (EUR 1.3 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 12.8 million (EUR 13.6 million).

Foreign exchange gains amounted to EUR 11.0 million (EUR 5.0 million) and losses to EUR 11.0 million (EUR 5.0 million).

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

## Impairment losses

New recognised individual impairment losses amounted to EUR 6.7 million (EUR 9.1 million), representing around 2.3 per cent (3.6 per cent) of the balance sheet value of investment assets at the end of the year under review.

Reversals of previously recognised individual impairment losses amounted to EUR 5.4 million in 2014 (EUR 12.8 million).

The net effect of impairments on financial performance was approximately EUR 1.4 million (EUR 3.7 million).

## Expenses

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

Other financial expenses were EUR 0.8 million (EUR 0.8 million), including management fees of EUR 0.6 million (EUR 0.5 million) associated with fund investments. These fees were incurred for funds whose investment period has ended.

Investment and sales losses amounted to EUR 0.6 million (EUR 6.6 million), which is attributable to previously recognised individual impairment losses.

Administrative expenses totalled EUR 8.4 million (EUR 7.8 million). The increase in expenses consists of several items, the most significant ones being higher personnel and premises costs and increased use of external services.

Taxes recorded in the profit and loss account, totalling EUR 0.04 million (EUR 0.03 million), consist of stamp duties and withholding tax paid in investee countries.

## Balance sheet

The balance sheet total stood at EUR 317.2 million (EUR 311.0 million) as at the end of the year under review.

The balance sheet value of investment assets was EUR 294.0 million (EUR 250.0 million) at the end of the year under review. Investment assets grew by about 18 per cent during the year under review, following the disbursement of many of the investment decisions and commitments made in the second half of 2013.

Loans (including subordinated loans and other mezzanine instruments) accounted for EUR 129.2 million or 44 per cent (114.5 million, 46 per cent), equity investments for EUR 86.8 million or 30 per cent (64.4 million, 26 per cent), and fund investments for EUR 77.5 million or 26 per cent (71 million, 28 per cent) of investment assets.

Liquidity stood at about EUR 19 million (EUR 55.1 million) at the end of the year, showing a decrease of approximately 66 per cent on the previous year-end. Liquidity decreased because the assets generated by the EUR 50 million bond issued in 2013 have now been invested in projects. 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 235.7 million (EUR 215.3 million) or 74 per cent of the balance sheet total (69 per cent).

In 2014, the company executed one share issue. In the share issue, a maximum of 114,939 new shares were offered to existing shareholders in proportion to their existing holdings, at the issue price of EUR 170 per share. The subscription period was from 17 April to 6 June 2014. As a result of the share issue, the share capital was increased by EUR 18,025,440 with the Finnish government accounting for EUR 17,999,940 and the Confederation of Finnish Industries EK for EUR 25,500. A total of 106,032 new shares were issued pursuant to the issue decision. Finnvera plc did not subscribe to any of the new shares it was offered.

At the end of the financial period, the company’s registered share capital stood at EUR 156,989,220 and 923,466 shares, with the Finnish government holding 858,896 shares (93 per cent), Finnvera plc 63,349 shares (6.9 per cent), and the Confederation of Finnish Industries EK 1,221 shares (0.1 per cent).

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

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 72.0 million (EUR 74.0 million) and short-term interest-bearing debt at EUR 4.7 million (EUR 20.0 million), totalling EUR 76.7 million (EUR 94.0 million). Long-term interest-bearing debt includes the EUR 50 million bond issued in autumn 2013. In other respects, the interest-bearing liabilities are mainly denominated in US dollars, used to refinance Finnfund investment loans denominated in US dollars.

Long-term debt as a percentage of all financing liabilities increased during the period under review with the reversal of short-term debt to about 93.9 per cent at the year-end. Financing liabilities decreased by some 18 per cent on the previous year.

Guarantee commitments totalled EUR 0 million (EUR 0.08 million) at the end of 2014.

## Key figures

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Financial income, EUR million | 23.5 | 18.5 | 20.0 |
| Net profit, EUR million | 2.4 | 2.7 | 1.2 |
| Return on equity, % | 1.1 | 1.3 | 0.6 |
| Equity ratio, % | 74.3 | 69.2 | 64.8 |

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 2014, the Supervisory Board met five times, the Board of Directors met 12 times, and the Audit Committee of the Board of Directors met five times.

The Annual General Meeting, held on 17 April 2014, addressed the matters listed in Article 11 of the Articles of Association and decided to increase the company's share capital.

The following members were elected at the Annual General Meeting to the Supervisory Board for the period 2014−2017: Kalle Hyötynen, Vice Chairman; Seppo Kallio, Director; Riitta Myller, Member of Parliament; and Anne-Mari Virolainen, Member of Parliament.

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

Ritva Laukkanen, Partner, as Chair
Kari Alanko, Deputy Director General, as Vice Chair
Tuukka Andersén, Director of Finance
Pekka Hukka, Counsellor
Tuuli Juurikkala, Special Adviser
Pirita Mikkanen, Partner
Markus Pietikäinen, Vice President
Tuula Ylhäinen, CFO

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

The Board of Directors has an audit committee, with the following members since 22 April 2014:

Markus Pietikäinen, Vice President, Chair
Tuukka Andersén, Director of Finance
Tuuli Juurikkala, Special Advisor

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 51 people (2011: 49). At year-end, the number of employees in contractual employment was 54 (51), of whom 52 (47) worked full-time. Of the 52 employees, 38 were women and 16 were men.

Total wages and salaries paid to personnel in 2012-2014 were as follows:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Average number of personnel | 51 | 49 | 49 |
| Total wages and salaries, EUR 1,000 | 4,121 | 3,840 | 3,636 |

The final accounts include a provision for incentive bonuses earned in 2014, amounting to 7.1 per cent of payroll expenses (6.7 per cent). Incentives are partly based on meeting performance targets at company and function level, and partly based on individual performance.

# Outlook for 2015

In accordance with the guidelines specified in the State Ownership Policy, Finnfund aims to improve the positive developmental impacts of its financing and to focus primarily on low-income and lower-middle-income developing countries. Finnfund will intensify its co-operation with Finnish enterprises in these countries in particular. As before, priority will be assigned to projects where Finnish know-how and competence is used to curb climate change, to improve environmental conditions, and to improve the living conditions of poor people. Due to Finnfund's equity limitations, capital investments will be made cautiously and focus in project preparation will remain in investments in the form of loans.

The amount of new investment decisions is estimated to remain at approximately the same level as in 2014, while investment assets are expected to show sustained growth.

Liquidity is expected to remain good in 2015. The central government budget for 2015 includes a EUR 10 million appropriation for an increase in the share capital of Finnfund in 2015. Company liquidity will be further enhanced by the bonds issued in 2013. It is estimated that the terms for Finnfund borrowing will remain reasonable.

The special risk financing approved by the Ministry for Foreign Affairs in 2012, effective until the end of 2015, improves Finnfund’s chances of financing projects with a high level of financial risk but which have significant developmental impacts if successful.

The outlook for 2015 is positive. The company’s financial performance will be crucially affected by how the estimated value of its investment assets changes during the financial period and whether any profitable exits from projects occur. Although these tend to be difficult to predict, one significant exit which was anticipated to occur in 2014 but which was delayed is expected to materialise this year. Thanks to this exit and the repayments expected on fund investments, the forecast for financial performance is positive.

The administration of the Finnpartnership programme will continue as before, until the close of the contract period at the end of 2015.

# Proposal of the Board of Directors for the distribution of profit

The company recorded a profit of EUR 2,408,430.64 in 2014. 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. 2014 | 1 Jan. - 31 Dec. 2013 |
|---|---|---|---|
| Other operating income | 1 | 1,612 | 1,558 |
| Staff expenses | 2 | | |
| Wages and salaries | 3 | -4,121 | -3,840 |
| Social security expenses | | | |
| Pension expenses | | -750 | -707 |
| Other social security expenses | | -212 | -197 |
| Social security expenses | | -963 | -904 |
| Staff expenses | | -5,084 | -4,744 |
| Depreciation according to plan | 4 | -116 | -94 |
| Other operating expenses | 5 6 | -3,220 | -2,959 |
| **OPERATING LOSS** | | **-6,807** | **-6,239** |
| Financial income | | | |
| Income from participating interests | | 276 | 1,658 |
| Income from other investments | | 5,527 | 3,815 |
| Other interest and financial income | | 17,724 | 13,044 |
| Financial income total | | 23,528 | 18,517 |
| Reduction in value of investments | | -1,386 | 3,698 |
| Financial expenses | | | |
| Interest and other financial expenses | | -12,891 | -13,245 |
| Financial income and expenses | 7 | 9,251 | 8,970 |
| **PROFIT BEFORE TAXES** | | **2,444** | **2,731** |
| Income taxes | 8 | -35 | -29 |
| **PROFIT FOR THE FINANCIAL YEAR** | | **2,408** | **2,702** |

# Balance sheet

EUR 1 000

| | Note | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|---|
| **A S S E T S** | | | |
| **NON-CURRENT ASSETS** | | | |
| Intangible and tangible assets | 9 | | |
| Other capitalised long-term expenditure | | 58 | 92 |
| Machinery and equipment | | 122 | 66 |
| Total | | 180 | 158 |
| Investments | 10 | | |
| Participating interests | | 55,912 | 52,608 |
| Receivables from participating interest | 11 | 14,812 | 10,428 |
| Other shares and similar rights of ownership | | 108,446 | 82,764 |
| Other receivables | 11 | 114,423 | 104,110 |
| Total | | 293,593 | 249,910 |
| **NON-CURRENT ASSETS** | | **293,773** | **250,068** |
| **CURRENT ASSETS** | | | |
| Debtors | | | |
| Long-term | | | |
| Other debtors | | 1,570 | 1,570 |
| Short-term | | | |
| Amounts owned by participating interest undertakings | 12 | 502 | 314 |
| Other debtors | 13 | 0 | 498 |
| Prepayments and accrued income | 14 | 2,362 | 2,989 |
| Total | | 2,863 | 3,801 |
| Debtors total | | 4,433 | 5,371 |
| Financial securities | 15 | | |
| Marketable securities | | 12,381 | 53,290 |
| Cash in hand and at banks | | 6,589 | 1,848 |
| **CURRENT ASSETS** | | **23,404** | **60,509** |
| **A S S E T S** | | **317,178** | **310,577** |

| | Note | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|---|
| **L I A B I L I T I E S** | | | |
| **EQUITY** | 16 | | |
| Share capital | 17 | 156,989 | 138,964 |
| Retained earnings | | 76,317 | 73,615 |
| Profit for the financial year | | 2,408 | 2,702 |
| **EQUITY** | | **235,715** | **215,281** |
| **CREDITORS** | | | |
| Long-term | 18 | | |
| Private placement | 19 | 50,000 | 50,000 |
| Loans from credit institutions | | 21,964 | 23,506 |
| Other long-term creditors | | 107 | 62 |
| Total | | 72,071 | 73,568 |
| Short-term | | | |
| Loans from credit institutions | | 4,736 | 19,516 |
| Trade creditors | | 354 | 459 |
| Other creditors | 20 | 2,674 | 181 |
| Accruals and deferred income | 21 | 1,628 | 1,572 |
| Total | | 9,392 | 21,728 |
| **CREDITORS** | | **81,463** | **95,296** |
| **L I A B I L I T I E S** | | **317,178** | **310,577** |

# Cash flow statement

EUR 1 000

| | 2014 | 2013 |
|---|---|---|
| **CASH FLOW FROM OPERATIONS** | | |
| Payments received from operations | 40,857 | 57,906 |
| Disbursements to operations | -72,747 | -34,815 |
| Dividends received | 332 | 1,532 |
| Interest received | 6,351 | 5,656 |
| Interest paid | -650 | -857 |
| Payments received on other operating income | 2,563 | 3,192 |
| Payments of operating expenses | -9,101 | -7,927 |
| **CASH FLOW FROM OPERATIONS (A)** | **-32,395** | **24,687** |
| | | |
| **CASH FLOW FROM INVESTMENTS** | | |
| Investments in tangible and intangible assets | -138 | -159 |
| Proceeds from assets sold | 0 | 0 |
| **CASH FLOW FROM INVESTMENTS (B)** | **-138** | **-159** |
| | | |
| **CASH FLOW FROM FINANCING** | | |
| New share issue | 18,025 | 10,014 |
| Short-term loans drawn | 0 | 0 |
| Short-term loans repaid | 0 | -40,933 |
| Long-term loans drawn | 0 | 50,000 |
| Long-term loans repaid | -19,515 | -22,062 |
| **CASH FLOW FROM FINANCING (C)** | **-1,490** | **-2,981** |
| | | |
| **CHANGES IN EXCHANGE RATES (D)** | **-2,150** | **-141** |
| | | |
| **CHANGE IN LIQUID ASSETS (A+B+C+D) increase (+) decrease (-)** | **-36,173** | **21,406** |
| | | |
| **LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)** | **54,756** | **33,350** |
| **LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)** | **18,583** | **54,756** |
| | **-36,173** | **21,406** |

# Accounting policy

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

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

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

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

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

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

The deferred value of claims on the government for its share of net losses from special risk finance projects is stated separately in the company’s accounts. Separate application must be made to the government for payment of the indemnity, which cannot exceed EUR 5 million annually.

**Other investments in current assets**
Securities have been valued at the acquisition cost or the probable transfer price, whichever is lower.

**Derivatives**
Derivatives include foreign exchange forwards and a cross currency swap. The fair values of these derivatives are the banks' mark-to-market valuations on the balance sheet date. Changes in fair values from open derivative contracts are recognised on the profit and loss account under other financial expenses. Derivatives are used to hedge the principals of the loan investments.

**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

| | | 2014 | 2013 |
|---|---|---|---|
| 1 | **Other operating income** | | |
| | Operating income from participating interests | 78 | 26 |
| | Remunerations | 1,004 | 1,001 |
| | Other operating income | 530 | 531 |
| | | **1,612** | **1,558** |
| 2 | **Average number of staff employed** | | |
| | Employees | 51 | 49 |
| 3 | **Wages and salaries** | | |
| | Managing Director and his alternate | 327 | 324 |
| | The Board of Directors and the Supervisory Board | 120 | 124 |
| | **The Board of Directors** | | |
| | Chair's monthly emoluments | 1,100 € | |
| | Vice chair's monthly emoluments | 700 € | |
| | Board members' monthly emoluments | 600 € | |
| | Emolument per meeting of Board of Directors and Audit Committee | 300 € | |
| | **Supervisory Board** | | |
| | Chair's emolument per meeting | 800 € | |
| | Vice chair's emolument per meeting | 600 € | |
| | Board member's emolument per meeting | 500 € | |
| | Managing Director has the right to retire at the age of 63. Retirement age is based on the contract renewed in 2012. | | |
| 4 | **Depreciation** | | |
| | Other capitalised long-term expenses | 34 | 38 |
| | Machinery and equipment | 82 | 56 |
| | | **116** | **94** |
| 5 | **Other operating charges** | | |
| | Voluntary staff expenses | 345 | 410 |
| | Office | 506 | 357 |
| | ICT | 382 | 281 |
| | Travel and negotiation expenses | 730 | 836 |
| | Entertainment and PR expenses | 105 | 103 |
| | External services | 859 | 527 |
| | Other expenses | 293 | 445 |
| | | **3,220** | **2,959** |

| | | | |
|---|---|---|---|
| 6 | **Auditor's remunerations** | | |
| | Audit fee | 10 | 10 |
| | Assignments | 11 | 11 |
| | Other services | 3 | 11 |
| | | **24** | **32** |
| 7 | **Financial income and expenses** | | |
| | **Financial income** | | |
| | **Income from participating interests** | | |
| | Dividends | 0 | 1,155 |
| | From funds | 26 | 339 |
| | From others | 250 | 164 |
| | **Income from participating interests** | 276 | 1,658 |
| | **Income from other investments** | | |
| | Dividends | 334 | 403 |
| | From funds | 5,107 | 3,412 |
| | Profits from investments | 86 | 0 |
| | **Income from other investments** | 5,527 | 3,815 |
| | **Other interest and financial income** | | |
| | Interest income | 5,805 | 6,687 |
| | Interest income from participating interests | 265 | 302 |
| | Financial income | 1,140 | 1,095 |
| | Financial income from participating interests | 2 | 1 |
| | Exchange rate gain | 10,512 | 4,959 |
| | **Other interest and financial income** | 17,724 | 13,044 |
| | **Financial income total** | **23,527** | **18,517** |
| | **Permanent write-offs of investments and their reversals** | | |
| | Equity and funds | -3,318 | -5,854 |
| | Loans | -3,423 | -3,217 |
| | Reversal of write-offs on shares and fund investments | 4,006 | 6,006 |
| | Reversal of write-offs on loans | 1,348 | 6,764 |
| | **Write-offs of investments and their reversals** | **-1,387** | **3,699** |

| | | | |
|---|---|---|---|
| | **Interest and other financial expenses** | | |
| | Interest expenses to others | -747 | -795 |
| | Other financial expenses | -847 | -776 |
| | Loss from sales of assets | -577 | -6,644 |
| | Exchange rate loss | -10,720 | -5,030 |
| | **Interest and other financial expenses total** | **-12,891** | **-13,245** |
| | **Financial income and expenses total** | **9,249** | **8,971** |
| | **The item Financing income and expenses includes loss of exchange (net)** | **-209** | **-72** |
| **7** | **Income from financing operations by income level** | | |
| | Least developed countries (LDC) | 7,321 | 3,899 |
| | Other low-income countries (LIC) | 4,241 | 1,014 |
| | Lower-middle-income countries (LMIC) | 6,745 | 6,149 |
| | Upper-middle-income countries (UMIC) | 1,718 | 3,703 |
| | Other countries | 1,113 | 1,665 |
| | | **21,138** | **16,430** |
| **8** | **Income taxes** | | |
| | Withholding taxes on dividends | 2 | 26 |
| | Withholding taxes on emoluments | 3 | 3 |
| | Stamp duty | 30 | 0 |
| | | **35** | **29** |

# Notes to the balance sheet

EUR 1000

| 9 | Intangible and tangible assets | Other long-term expenses | Machinery and equipment | Total |
|---|---|---|---|---|
| | Acquisition cost 1 Jan. 2014 | 1,084 | 1,637 | 2,721 |
| | Increases | 0 | 138 | 138 |
| | Acquisition cost 31 Dec. 2014 | 1,084 | 1,775 | 2,859 |
| | Accumulated depreciations 1 Jan. 2014 | -992 | -1,571 | -2,563 |
| | Depreciation of the accounting period | -34 | -82 | -116 |
| | Accumulated depreciations 31 Dec. 2014 | -1,026 | -1,653 | -2,679 |
| | **Book value 31 Dec. 2014** | **58** | **122** | **180** |
| | Book value 31 Dec. 2013 | 92 | 66 | 158 |

| 10 | Investments / Shares and funds | Participating interests | Others | Total |
|---|---|---|---|---|
| | Acquisition cost 1 Jan. 2014 | 55,913 | 93,244 | 149,157 |
| | Increases | 5,026 | 29,716 | 34,742 |
| | Decreases | -1,324 | -5,145 | -6,469 |
| | Acquisition cost 31 Dec. 2014 | 59,615 | 117,815 | 177,430 |
| | Individual write-offs accumulated as of 1 Jan. 2014 | -3,305 | -10,480 | -13,785 |
| | Reversal of write-offs | 1,213 | 2,818 | 4,031 |
| | Write-offs during the financial year | -1,611 | -1,707 | -3,318 |
| | Individual write-offs accumulated as of 31 Dec. 2014 | -3,703 | -9,369 | -13,072 |
| | **Book value 31 Dec. 2013** | **55,912** | **108,446** | **164,358** |

| 10 | Investments / Loans | Participating interests | Others | Total |
|---|---|---|---|---|
| | Acquisition cost 1 Jan. 2014 | 12,427 | 121,082 | 133,509 |
| | Increases | 6,582 | 40,403 | 46,985 |
| | Decreases | -1,985 | -28,202 | -30,187 |
| | Acquisition cost 31 Dec. 2014 | 17,024 | 133,283 | 150,307 |
| | Individual write-offs accumulated as of 1 Jan. 2014 | -1,999 | -16,972 | -18,971 |
| | Reversal of write-offs | 0 | 1,348 | 1,348 |
| | Write-offs during the financial year | -212 | -3,236 | -3,448 |
| | Individual write-offs accumulated as of 31 Dec. 2014 | -2,211 | -18,860 | -21,071 |
| | **Book value 31 Dec. 2013** | **14,813** | **114,423** | **129,236** |

| | | 2014 | 2013 |
|---|---|---|---|
| 11 | **Subordinated receivables** | | |
| | Capital loans to participating interests | 13,412 | 7,266 |
| | Capital loans to others | 32,405 | 32,104 |
| | | **45,817** | **39,370** |
| 12 | **Receivables from participating interests** | | |
| | Interests | 43 | 106 |
| | Other | 459 | 208 |
| | | **502** | **314** |
| 13 | **Other receivables** | | |
| | **Cross currency and interest swaps** | | |
| | Nominal value EUR 12.176.560,12 / 10.9.2018 | | |
| | Fair value | 0 | 491 |
| | **Currency forwards** | | |
| | Nominal value EUR 7.656.282,76 / 16.1.2014 | | |
| | Fair value | 0 | 8 |
| | | **0** | **499** |
| 14 | **Prepayments and accrued income** | | |
| | Interests | 1,298 | 2,000 |
| | Other | 1,064 | 988 |
| | | **2,362** | **2,988** |
| 15 | **Marketable securities** | | |
| | Repurchase price | 12,540 | 53,461 |
| | Book value | 12,381 | 53,290 |
| | **Difference** | **159** | **171** |
| 16 | **Shareholders' equity** | | |
| | Share capital 1 Jan. | 138,964 | 128,950 |
| | Increase of share capital | 18,025 | 10,014 |
| | Share capital as of 31 Dec. | 156,989 | 138,964 |
| | Retained earnings 31 Dec. | 76,317 | 73,615 |
| | Profit/loss for the financial year | 2,408 | 2,702 |
| | | **235,714** | **215,281** |
| 17 | **Share capital** | | |
| | Number of shares | 923,466 | 817,434 |
| | Nominal value, EUR | 170.00 | 170.00 |
| 18 | **Long-term loans** | | |
| | Private placements | 50,000 | 50,000 |
| | Loans from credit institutions | 21,964 | 23,506 |
| | Other long-term liabilities | 107 | 62 |
| | | **72,071** | **73,568** |

| | | | |
|---|---|---|---|
| 18 | **Loans with maturity more than 5 years** | | |
| | Loans from credit institutions | 21,964 | 27,071 |
| | Other long-term liabilities | 0 | 0 |
| | | **21,964** | **27,071** |
| 19 | **Private placements** | | |
| | Private placement 2013/2018 | 50,000 | 50,000 |
| | Private placement 2011/2014 | 0 | 3,626 |
| | Private placement 2011/2014 | 0 | 3,625 |
| | | **50,000** | **57,251** |
| 20 | **Other short-term debt** | | |
| | Cross currency and interest swaps | | |
| | Nominal value 19 465 189,86 € / 10.9.2018 | | |
| | Fair value | 132 | 0 |
| | Nominal value 8 109 517,41 € / 22.1.2015 | | |
| | Fair value | -47 | 0 |
| | Nominal value 6 014 560,04 € / 17.2.2015 | | |
| | Fair value | -32 | 0 |
| | Nominal value 6 325 334,93 € / 23.2.2015 | | |
| | Fair value | 1 | 0 |
| | Nominal value 288 419,25 € / 2.3.2015 | | |
| | Fair value | -2 | 0 |
| | Nominal value 5 705 858,95 € / 17.3.2015 | | |
| | Fair value | -34 | 0 |
| | | **18** | **0** |
| 21 | **Accruals and prepaid income** | | |
| | Wages including social expenses | 1,350 | 1,251 |
| | Interest | 130 | 126 |
| | Other | 148 | 195 |
| | | **1,628** | **1,572** |

# Other supplementary information

EUR 1000

| | 2014 | 2013 |
|---|---|---|
| **Other contingent liabilities** | | |
| Guarantees | | |
| Total amount | 0 | 323 |
| Outstanding | 0 | 81 |
| **Undisbursed commitments** | | |
| Contractual commitments | 146,100 | 96,900 |
| **Special risk finance (cumulative)** | | |
| Decisions of the Board of Directors | 50,204 | 47,505 |
| Government's indemnity | 25,129 | 23,695 |
| Government's indemnity, % | 50% | 50% |
| Disbursements | 18,614 | 723 |

**Other**

The company acts as a lender in financial arrangements amounting to USD 39.0 million. For USD 36.8 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 37.500.

**Customer's funds under management**

As of 31 December 2014 there were EUR 766,146.42 of government's funds in the company's possession. The company manages government's funds according to the agreement with the Ministry for Foreign Affairs of the implementation of the Finnpartnership business partnership programme.

**Receivables, liabilities and transactions with related parties**

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

| | | |
|---|---|---|
| **Exchange rates** | EUR/USD | 1.2141 |
| 31 December 2014 | EUR/CVE | 108.3099 |

# Signatures of Board of Directors' report and financial statements

Helsinki, 26 March 2015

| | |
|---|---|
| Ritva Laukkanen<br>Chairman | Kari Alanko<br>Member of the Board |
| Tuukka Andersén<br>Member of the Board | Pekka Hukka<br>Member of the Board |
| Tuuli Juurikkala<br>Member of the Board | Pirita Mikkanen<br>Member of the Board |
| Tuula Ylhäinen<br>Member of the Board | Jaakko Kangasniemi<br>Managing Director, CEO |

# Auditor's note

Our Auditor's report has been issued today.

Helsinki, 27 March 2015

PricewaterhouseCoopers Oy
Authorized Public Accountant

Juha Wahlroos
Authorized Public Accountant

# Auditor’s Report (translation from the Finnish original)

## To the Annual General Meeting of Teollisen yhteistyön rahasto Oy

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Teollisen yhteistyön rahasto Oy for the year ended 31 December, 2014. The financial statements comprise the balance sheet, the income statement, the cash flow statement and notes to the financial statements.

## Responsibility of the Board of Directors and the Managing Director

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

## Auditor’s responsibility

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

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 27th March 2015

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 2014. The Supervisory Board reports to the Annual General Meeting of Shareholders that the report of the Board of Directors and the accounts give no cause for comment neither does the proposal of the Board of Directors on how to deal with the distributable funds for the year.

Helsinki, 31 March 2015

Aila Paloniemi

Seppo Kallio

Eija Hietanen

Kalle Hyötynen

Simo Karetie

Antti Lindtman

Maria Lohela

Riitta Myller

Pertti Salolainen

Seppo Toriseva

Tapani Tölli

Anne-Mari Virolainen