FINNFUND

Printout of the online Annual Report
www.annualreport.finnfund.fi/2016

Contents

Financials

The **Finnish Fund for Industrial Cooperation Ltd (Finnfund)** is a development finance company that provides long-term investment loans and risk capital for private projects in developing countries. We support profitable and responsible projects that have positive development impacts in the target area.

We operate in challenging markets where commercial financing is hard to obtain. As a development finance institution, our job is to mobilise commercial finance for private enterprise projects that reduce poverty and promote sustainable development.

Investment targeted at private projects

Finnfund invests in the projects of Finnish companies and their partners, as well as in projects that generate significant environmental benefits or support the economic and social development of the target country.

Financing is on market terms and depends on the risk profile of the project. In addition to long-term investment loans, we make equity investments and can offer our customers subordinated loans or other mezzanine financing. Regardless of the form of finance, we always participate as a minority investor.

Our main points of focus are renewable energy and sustainable forestry but we also finance a broad array of projects in other sectors.

Operating in conjunction with Finnfund is a business partnership programme, **Finnpartnership**, financed by the Ministry for Foreign Affairs. It provides business partnership support for Finnish companies and Finnish civic organisations that are seeking to internationalise, and helps them to find partners and new business opportunities in developing countries.

Experience and contacts

Alongside finance, our clients have access to Finnfund's contacts at other financial institutions and our long-term experience of developing countries and various sectors.

In addition to direct investments, Finnfund also provides finance for the private sector of developing countries indirectly, via venture capital funds. Cooperation with funds operating in developing countries and with development finance institutions provides us with valuable contacts and information about local markets and sectoral development.

Finnfund is a member of the Team Finland network, which promotes Finland and the success of Finnish companies abroad. The network brings together state-funded players and services for the internationalisation of Finnish companies, for attracting foreign investments to Finland, and for promoting Finland's country brand.

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

www.finnfund.fi

Managing Director's Report

Catalysing change and sustainable development

In 2016 the world made great strides, forwards and backwards. Climate change was unrelenting and ice cover at the North Pole shrank alarmingly, but the world's wealthiest superpower elected a president who seeks to increase the use of coal. On the other hand, greenhouse gas emissions stopped rising and the triumphal advance of renewable energy continued.

Average living conditions for the peoples of the world went on improving but there was a setback in the poorest continent, Africa. Export prices fell and, for the first time in two decades, incomes did not increase for the majority of Africans. Fortunately the downtick was brief and the upward trend has resumed in 2017. Since the turn of the millennium, life expectancy in Africa has already risen by nearly 10 years, faster than in any other continent ever.

Conflicts and drought caused great suffering in 2016, especially in the Middle East and the Horn of Africa, but the lack of rain in Ethiopia did not inflict the mass famine that was feared. For millions of Ethiopians, living standards and food security have risen to a sustainable level in the past few years; they are now better insulated from the plunge into scarcity.

Work and wellbeing for growing population?

People under 30 account for half of the world's population and most of them live in developing countries. Where will they find work and income to support themselves and their families? The great challenges of our era will not solve themselves. Achieving the objectives of sustainable development agreed by UN member states will require money, skills and the efforts of the private sector, too. Finland has developed much clean and lean technology that will be needed to help solve the complex problems of the developing world, and is pledged to promoting it in poor countries. Finnfund is one of Finland's tools for mobilising corporate investments and know-how for developing countries.

Discussions about Finnfund's role and extra funding for it began in 2015 and continued in 2016. The government ultimately decided in November to grant Finnfund a long-term 130 million euros loan. In anticipation, we made investment decisions of more than 150 million euros last year. Renewable energy projects alone have received investment approvals totalling over 100 million euros since the government and parliament decided to strengthen our resources in 2015. These and many others of our investments will curb climate change, for example by saving energy or helping poor people adapt to climatic challenges.

Finnfund focuses on projects for reducing climate change that can also have the greatest effects on living standards in developing countries. Today, a led lamp powered by a solar panel or a wind turbine is also generally cheaper than using a kerosene lamp that also causes indoor air pollution. Electric light also supports the schooling of children, as well as enterprise and work by adults to support the family.

More transparency and dialogue

In 2016 Finnfund projects and operations were subject to growing interest but also review. There are many people now interested in Finnfund who had not previously known about it or the operations of development finance institutions. This is an important opportunity for us.

We continue to strive towards greater transparency in the company's operations and more dialogue with stakeholders such as civic organisations and companies, in Finland and abroad. An example of this is our new disclosure policy, adopted in September. When we sign new deals, we also agree with our clients to disclose more information than before.

Clean energy, jobs and microfinancing

We had many successful projects in 2016. The largest investment in our company's history, the wind power project at Lake Turkana in Kenya, stayed on schedule and within budget. All the turbines of Africa's largest wind park were erected by early 2017. As soon as the transmission line commissioned by the government of Kenya is completed, millions of Kenyans will receive non-polluting low-price electricity.

In addition to supplying electricity to the grid from wind and solar parks, Finnfund is indirectly financing small-scale solutions, where roof-mounted panels generate electricity for households, schools, clinics and so on. Mobisol is expanding its operations to Kenya from Rwanda and Tanzania; its advantage is in using mobile money to push down the costs of payment by instalments.

In 2016 Finnfund was also a co-financer of Fuzu, a Finnish-Kenyan mobile application in use in Nairobi, which brings job applicants and employers together. More than 120 million new job-seekers will enter Africa's labour market this decade.

One of Finnfund's projects in Asia concerned Prasac, a Cambodian microfinance institution. We granted a loan to Prasac, which offers banking services to small and medium-sized enterprises such as farms and shops, especially those run by women.

There was also an unfortunate setback in our projects as the situation surrounding the Agua Zarca hydropower project in Honduras became inflamed. The project company was accused of being linked to the murder of Berta Cáceres, an internationally respected environmental activist. Finnfund sternly condemned the violence and demanded that the murder be investigated. Unfortunately the investigation is still ongoing at the time of writing.

Finnfund has financed successful projects in Honduras over the years. However, the situation surrounding Agua Zarca has become so exceptional that, together with its main financier, FMO of The Netherlands, we have announced that we are seeking a responsible withdrawal from the project. This work is ongoing.

Focus on poor countries and fragile states

Like other development finance institutions, Finnfund's mission is to operate in difficult places and to accept financial and operational risks that exceed the propensity of commercial finance. We mobilise new money flows to promote sustainable development. We require projects to be executed in a responsible way, from environmental, human and financial perspectives. Our target customers are businesses that are often already pioneers in their field and, with our assistance, can seek to do even better. We often leverage a whole sector at the same time, and make the local community more sustainable. It is not easy but it is our job. We seek to be an agent and facilitator of change.

This role will become more pronounced as Finnfund's focus shifts further towards very poor and fragile countries. Of new investment decisions in 2016, 82 percent were made in low-income and lower middle-income countries. As previously, the capital injected by the Finnish government will facilitate growth, but disbursements are mostly financed from project repayments and returns, as well as through borrowing from capital markets.

It is our responsibility to do things as well as we can, using the tools at our disposal. We must also develop and enhance our operations continuously. In 2016 this included improvements in the project preparation process, developing proactive analysis of political risks in target countries, and improving human rights assessments to be more closely aligned with UN Guiding Principles. By financing profitable and responsible projects we increase the resources that become available for new projects.

I would like to thank Finnfund's customers, staff and other stakeholders for their cooperation and interaction in 2016.

Jaakko Kangasniemi
CEO

Key figures 2012 - 2016

	2012	2013	2014	2015	2016
Number of project countries	30	33	32	33	34
Number of investments	143	149	160	160	167
Financing commitments, EUR million	56	90	115	84	152
Number of financing commitments	18	20	25	21	22
Disbursements, EUR million	59	34	73	77	81
Undisbursed investment decisions and commitments, EUR million	146	178	221	235	255
Portfolio, EUR million	274	250	294	329	356
Shareholders' capital, EUR million	203	215	236	251	233
Total assets/liabilities, EUR million	312	311	317	377	406
Number of personnel on average	49	49	51	56	60

Five years in review

Operational analysis, EUR million	2012	2013	2014	2015	2016
Financial income	12.3	13.6	12.9	16.2	19.2
Financial expenses	-1.6	-1.6	-1.8	-2.7	-5.1
Net financial income	**10.7**	**12.0**	**11.1**	**13.5**	**14.1**
Other operating income	1.2	1.5	1.6	1.8	1.6
Administration, depreciation and amortisation and other operating expenses	-7	-7.8	-8.4	-9.3	-10.6
Profit before impairment, sales of assets and taxes	**4.9**	**5.7**	**4.3**	**6.0**	**5.1**
Impairment and sales of assets	-3.3	-3	-1.9	-0.8	-4.8
Taxes	-0.4	0	0	-0.1	0
Net profit	**1.2**	**2.7**	**2.4**	**5.1**	**0.3**

Balance sheet, EUR million	2012	2013	2014	2015	2016
Assets					
Tangible and intangible assets	0.1	0.1	0.2	0.2	0.2
Investments	274.1	250.0	293.6	329.6	356.3
Current assets	38.2	60.5	23.4	47.3	49.5
	312.4	**310.6**	**317.2**	**377.1**	**406.0**

Edit 14 June 2017: 2016 portfolio EUR 356 million (previously 355)

Liabilities

Equity	202.6	215.3	235.7	250.8	232.9
Liabilities	109.8	95.3	81.5	126.3	173.1
	312.4	**310.6**	**317.2**	**377.1**	**406.0**

Financial indicators	2012	2013	2014	2015	2016
Equity ratio, %	65	69	74	67	57
Return on equity p.a., %	0.6	1.3	1.1	2.1	0.1

Development effects in numbers

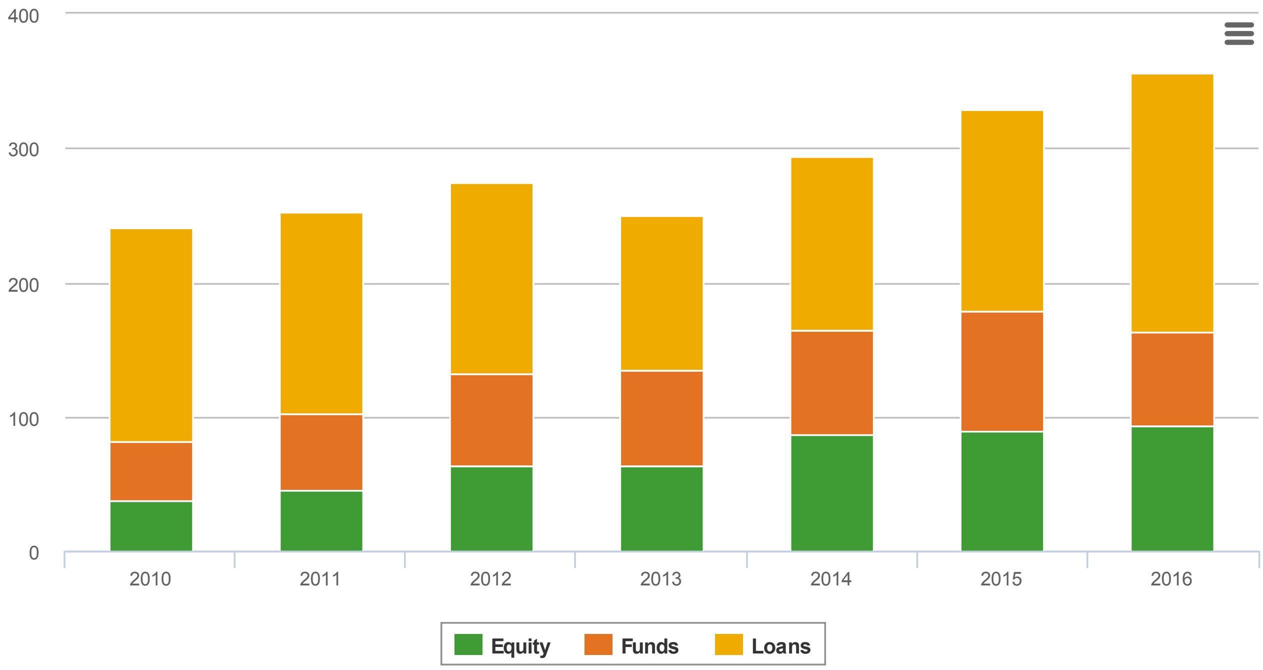
The number of reporting companies varies annually and by industry, therefore the years are not completely comparable. In 2015, data was obtained from 87 companies (82 percent of reporting companies). Data for 2016 will be collected during spring 2017. More information about **development effects** in the corporate responsibility report.

Development effects in numbers 2013 - 2015

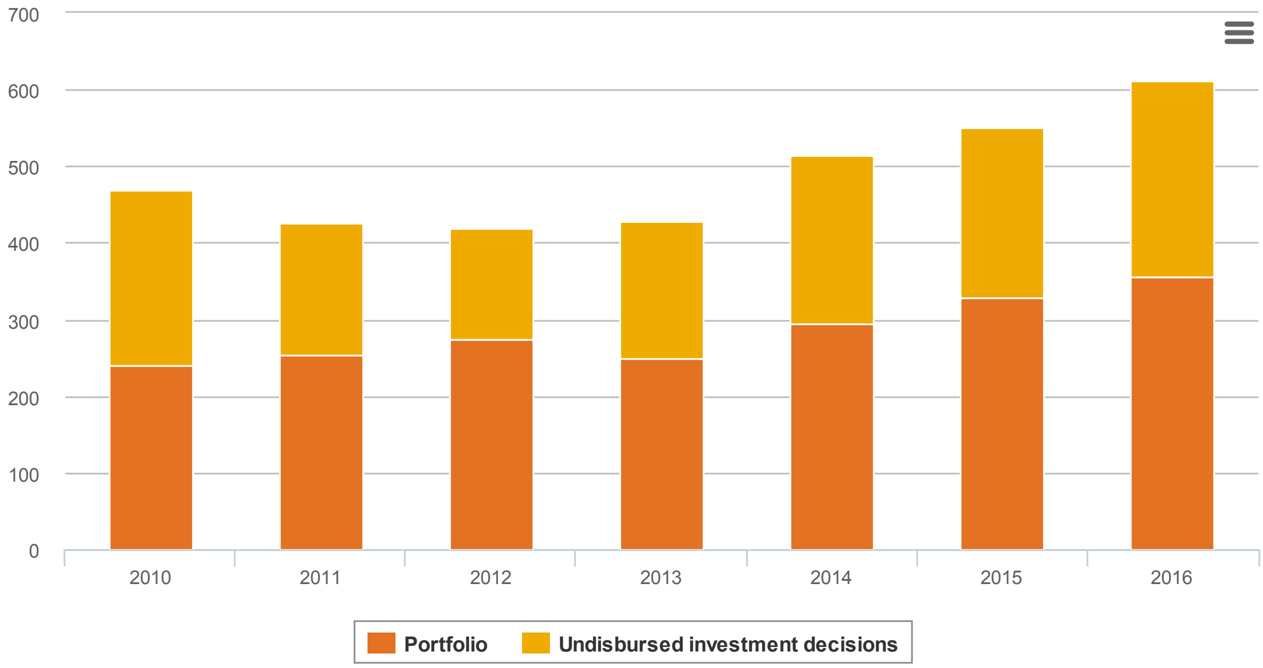
	2013	2014	2015
Number of persons employed in project companies	22,849	24,866	25,603
Female jobs out of total persons employed	7,060	8,607	9,137
Contribution to government revenues, EUR	434,419,000	277,306,982	284,781,553
Number of farmers reached	18,342	13,476	15,812
Energy delivered to off-takers GWh/annum (direct investments only)	289	409	447
Number of outstanding microfinance loans	3,420,014	2,388,009	3,339,060
Value of domestic purchases, EUR	285,641,407	378,703,142	299,810,573

Graphs

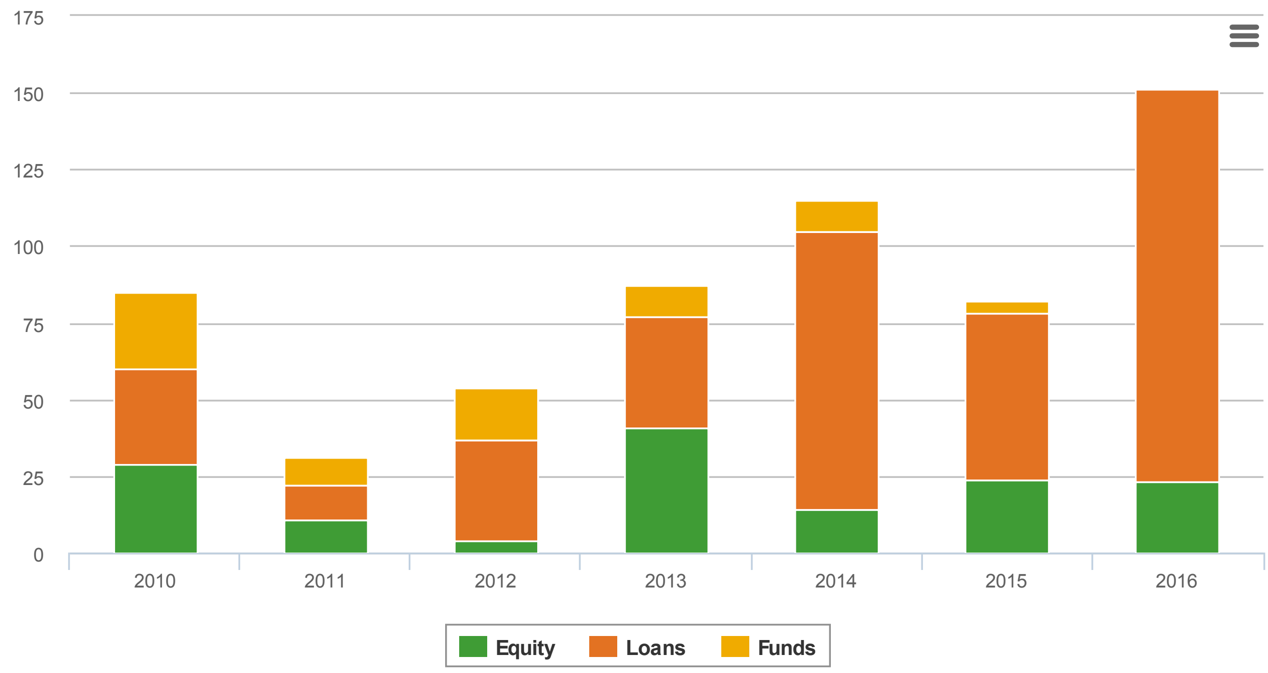
Portfolio, EUR million



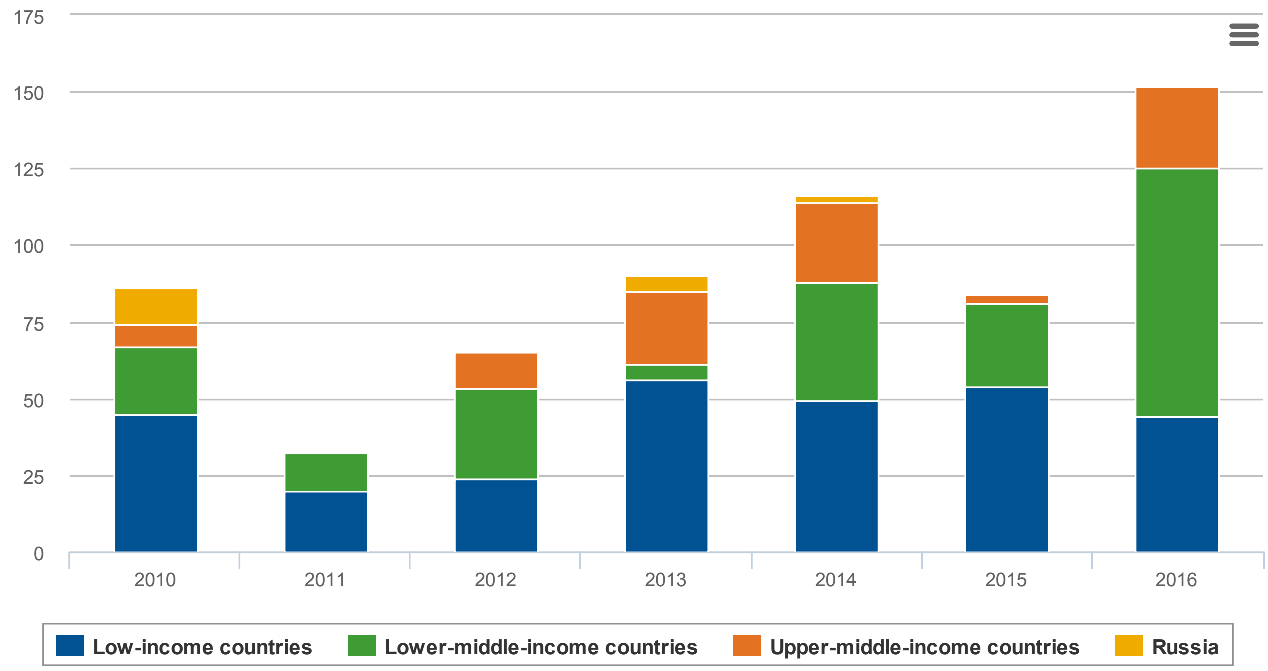
Portfolio and undisbursed investment decisions, EUR million



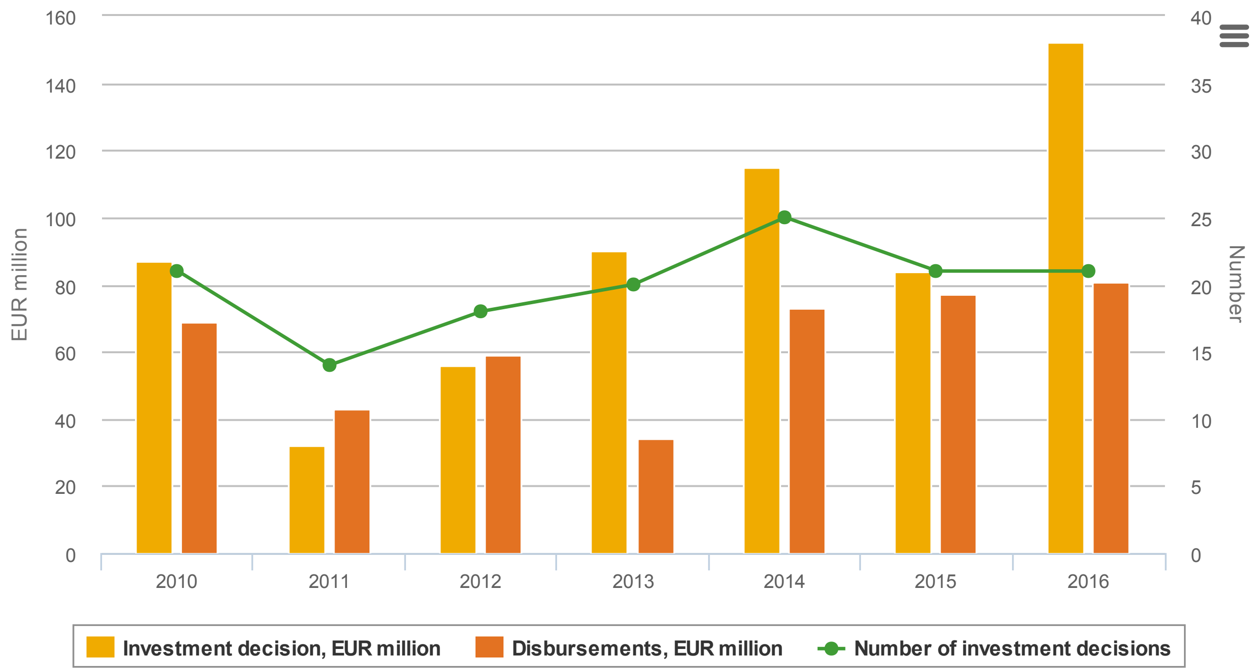
Investment decisions by instrument, EUR million



Investment decisions by income level of the country, EUR million

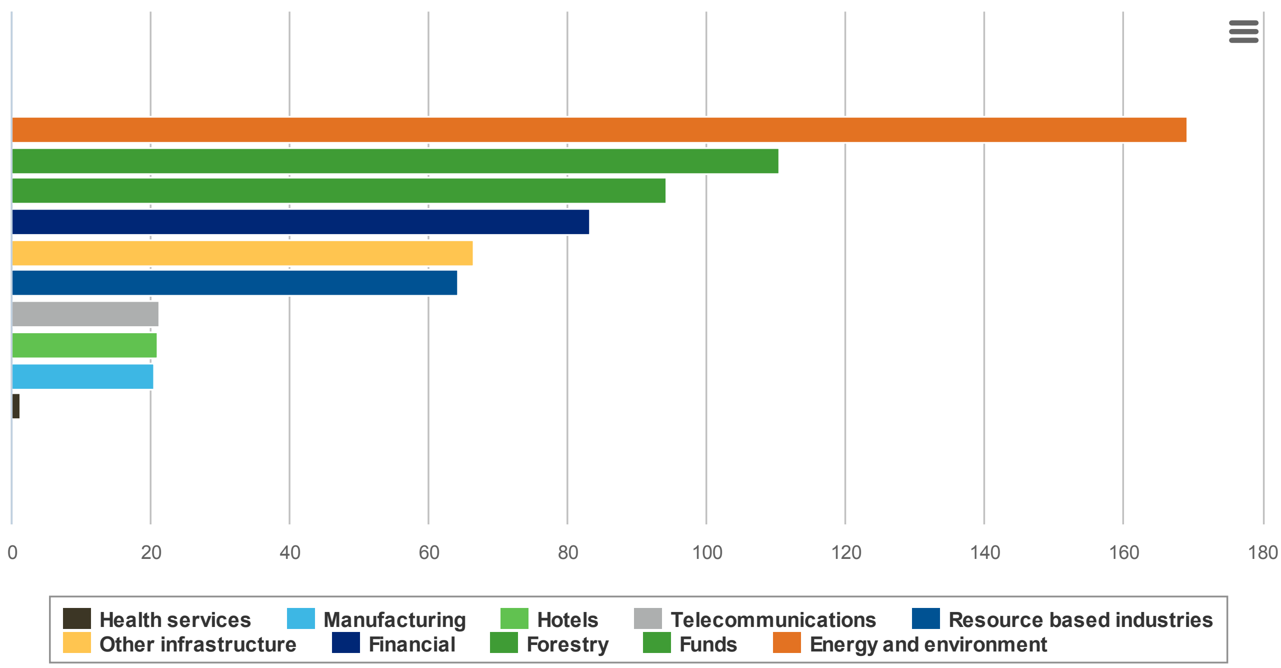


Investment decisions and disbursements



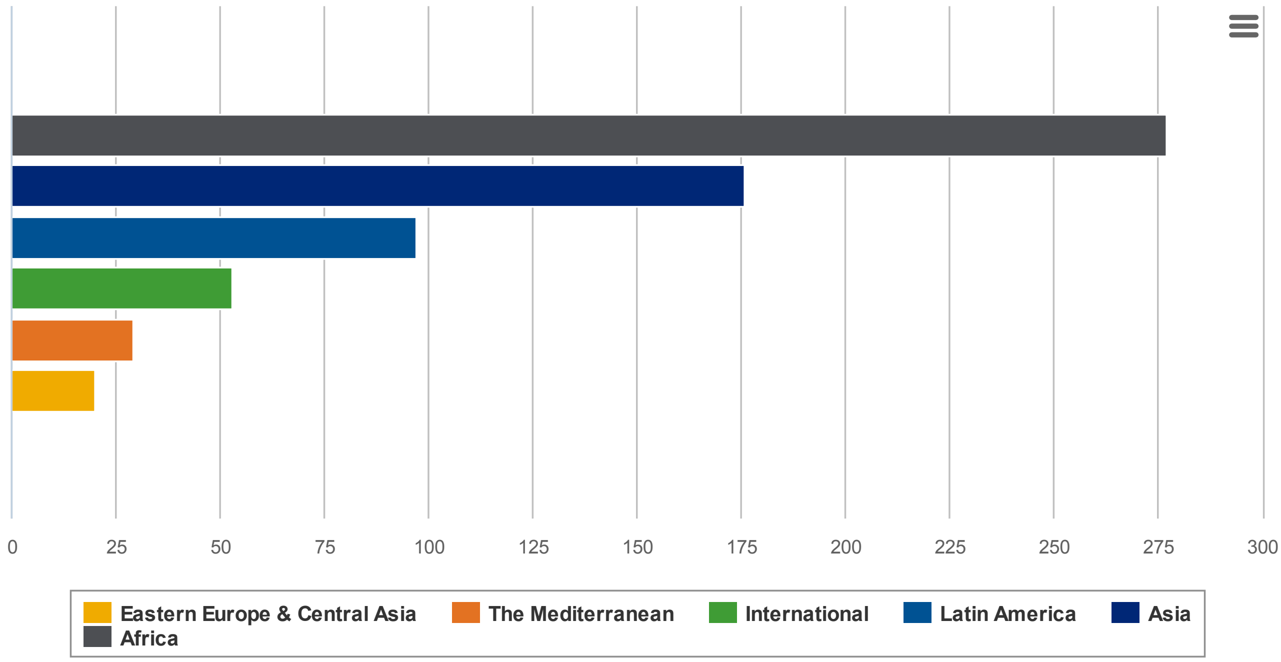
Portfolio and undisbursed investment decision and commitments by sector

(at original value, total EUR 652 million)



Portfolio and undisbursed investment decision and commitments, geographical distribution

(at original value, total EUR 652 million)



Interactive graphs

Move the mouse over the bars of the graph to view the values. You can also filter the content by clicking the bar titles in the legend box. Downloading options are located in the top right corner of each graph.

Shareholders and share capital, 31 December 2016

Share capital	EUR 166,989,130

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

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

Finnfund manages **Finnpartnership**, a business partnership programme, which is financed by the Ministry for Foreign Affairs and has been operating since 2006. Finnpartnership offers financial support and advisory services for Finnish companies and other organisations planning commercially viable projects in developing countries.

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

Business Partnership Support and new partners

Business Partnership Support is available for conducting feasibility studies, identifying business partners, training employees of the partner, 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 demonstrating or piloting technology and solutions, even for projects by the international organisations. Also non-governmental organisations can apply for grant for supporting activities.

Finnpartnership’s Matchmaking service helps companies in developing countries in the search of business partners and cooperation opportunities from Finland.

Concrete results from projects

In 2016 the demand for Finnpartnership’s services increased tremendously. Finnpartnership received 115 new applications and granted Business Partnership Support for 87 projects, to the total sum of EUR 4.5 million. More detailed information can be found in the **Board of Directors’ Report**.

Of all recipients of Business Partnership Support in 2012, 35 companies, who received a total of EUR 676 000, have submitted their final follow-up reports. 54 per cent of the companies considered their projects as successfully completed and 23 per cent considered the projects to be still ongoing. The companies have invested EUR 16 million in their target countries, which is roughly 24 times the amount of support reimbursed.

The companies provide work for about 680 people. 400 persons are directly employed, 37.5 per cent of whom are women. 71 per cent of the projects reported development impacts related to the transfer of know-how and technology. Personnel were trained in 60 per cent of the projects.

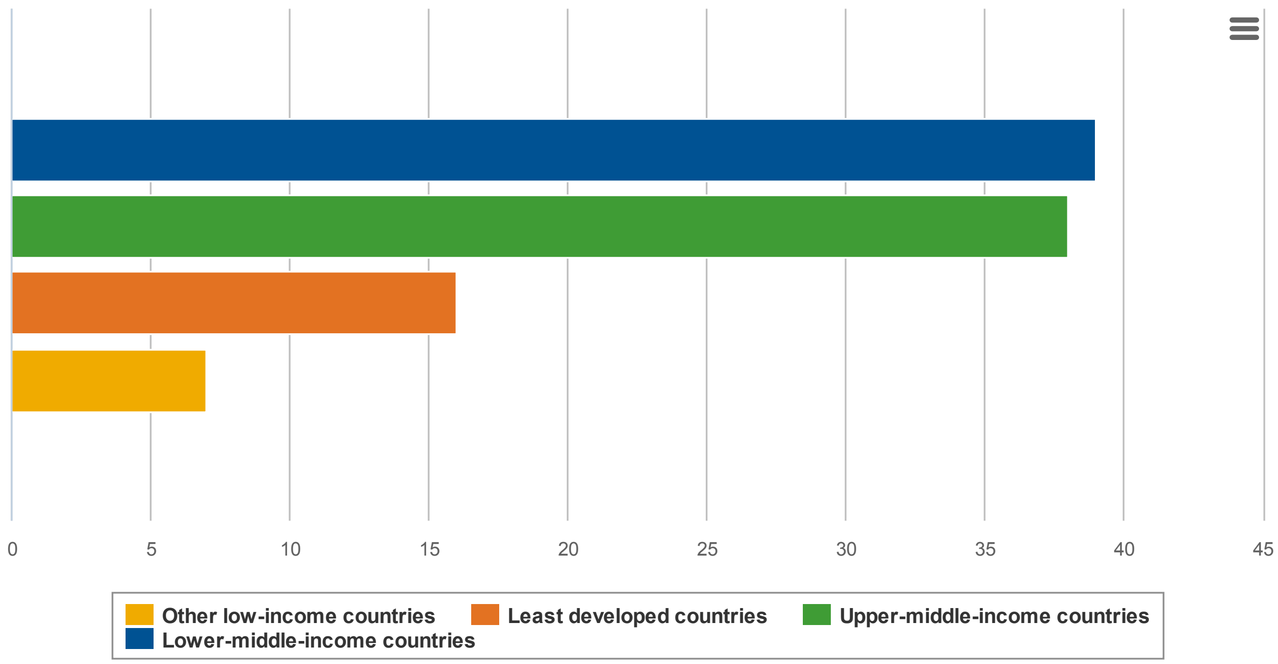
Matchmaking service connects companies in Finland and developing countries

In 2016 Finnpartnership received 441 matchmaking requests from companies operating in developing countries. During the year 130 applications have been registered with the matchmaking database, and 107 companies from developing countries have been connected directly with a Finnish company. As a result, 98 follow-up discussions between companies have been initiated.

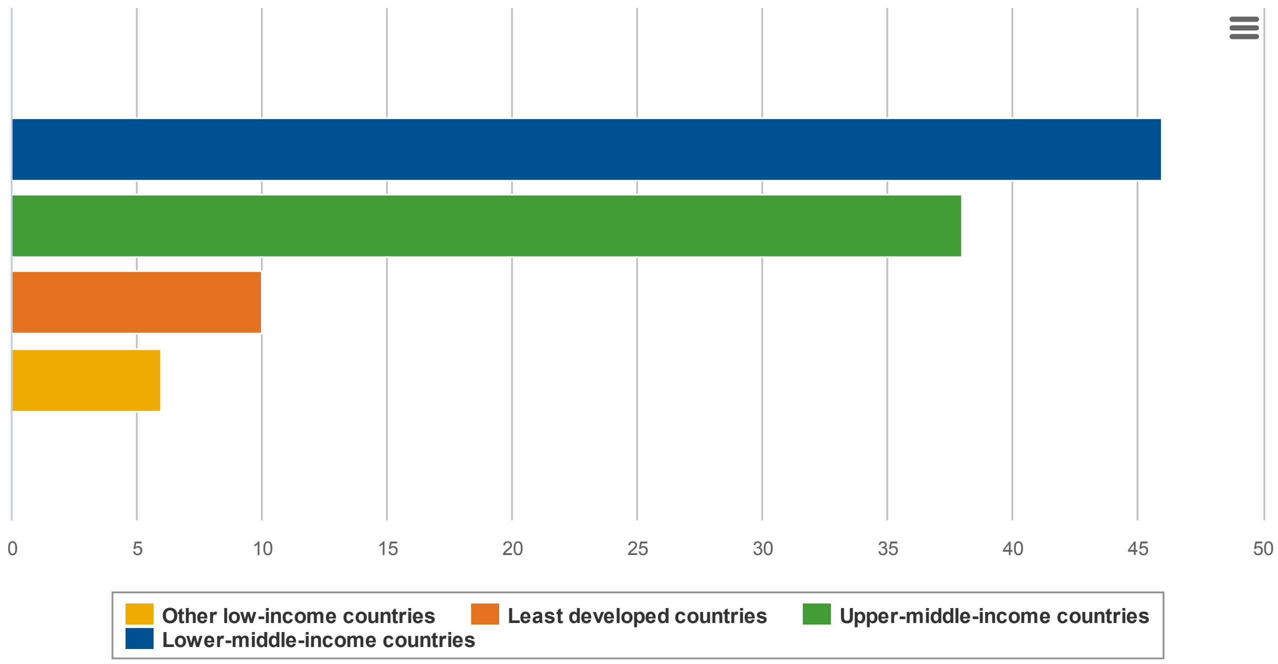
Examples of projects supported by Finnpartnership

Angola	aviation security training
Belarus	shoes and clothes
Bhutan	importing decoration textiles
Brazil	lamps and burners
Chile	development of teacher education
China	power transfer systems
Egypt	solar power systems
Ethiopia	establishing a wood business
Gambia	textile dye training for female enterpreneurs
Ghana	establishing a wood sector consulting company
Indonesia	wood pellet factory
India	cold chain solutions
Iran	foodstuff
Jordan	mobile learning application
Kamerun	navigation and seafare
Kazakhstan	solar power systems
Kenya	first aid blanket
Mexico	solar power systems
Namibia	chicken hatchery
Peru	importing fruits and vegetables
Serbia	importing foodstuff
South Africa	establishing a waste management facility
Tanzania	hygiene products
Thailand	education development
Togo	agriculture
Tunisia	wood houses
Uganda	fish farms, vegetables
Vietnam	procurement of software

Amount of approved business partnership projects in 2016 (%)



Business Partnership Support granted in 2016 in euros (%)



Interactive graphs

Move the mouse over the bars of the graph to view the values. You can also filter the content by clicking the bar titles in the legend box. Downloading options are located in the top right corner of each graph.

EDFI – cooperation with European development finance institutions

Finnfund collaborates closely with other European development financiers. Especially in projects of a large size or involving other significant risks, it can be advisable to share risks and the burden of project preparation and monitoring. The natural partners for this are other public development financiers that share similar objectives and business principles.

Along with fifteen other development financiers, Finnfund is a member of **EDFI, the Association of European Development Finance Institutions**. Within the group we share information on co-financing opportunities, target markets and best practices. For example, in improving environmental and social responsibility and development impact assessment, several working groups have been set up to create common tools and share information.

Most of Finnfund's investments, especially in low-income countries, involve co-financing with other development financiers. We have collaborated extensively with the other Nordic institutions Swedfund of Sweden, Norfund of Norway, and IFU of Denmark. Other co-financiers include FMO (Netherlands), CDC (Britain), DEG (Germany), BIO (Belgium), Sifem (Switzerland) and Proparco (France).

In addition, Finnfund has participated in a sizable **European Financing Partners (EFP)** co-financing scheme through which the European Investment Bank and EDFIs finance projects prepared by one of the EDFI members.

Finnfund is a member 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. Other members of the ICCF are Agence Française de Développement AFD, the European Investment Bank, Finnfund and other ten EDFIs.

Team Finland

Finnfund is a member of the **Team Finland** network, which promotes Finland and boosts the success of Finnish companies abroad. The network brings together all state-funded internationalization services for companies. It offers services from advice to financing and establishment of social relations.

Finnfund’s mission is to promote economic and social development in its target countries through investments in the private sector. Catalyzing Finnish know-how for projects in developing countries is Finnfund’s main niche.

For example, clean technologies from energy efficiency and renewable energy to waste management and recycling are areas where Finnish companies have considerable skills and solutions for solving problems in developing countries and promoting sustainable development.

In 2016, it was decided that Team Finland's operations would be renewed, with the aim of enhancing and developing the network's operations. Structural reforms will start in 2017.

During the year, there were a variety of Team Finland collaborations, consisting of individual projects, broader operational developments, and events in connection with the Slush Growth Event and Slush Impact Day. Finnfund also participated in several Team Finland export promotion trips abroad.

in 2016, the core of the Team Finland network consists of the Ministry of Employment and the Economy, the Ministry for Foreign Affairs, the Ministry of Education and Culture, and the publicly funded organisations and service points abroad operating under their guidance (Finpro, Tekes, Finnvera, Finnfund, Finnpartnership, Finnish Industry Investment, VTT, the Centres for Economic Development, Transport and the Environment, Finland’s cultural and academic institutes, the Finnish-Russian Chamber of Commerce and the Finnish-Swedish Chamber of Commerce).

”Cooperation between European DFIs continues to increase. In addition to cofinancing we develop and harmonize working methods and tools also on new areas.”

- Helena Arlander, Director, Portfolio and Risk Management

More information:

EDFI
European Financing Partners
Interact Climate Change Facility
Team Finland

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.

In its operations, Finnfund is committed to good governance and the recommendations set by the state owner.

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

Governing bodies

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 2016, the Annual General Meeting was held in Helsinki on 20 April. The meeting discussed the matters specified in Article 11 of the Articles of Association. All of the company’s outstanding shares were represented at the meeting.

An Extraordinary General Meeting was held on 19 September 2016 in Helsinki. The meeting agreed on appointments to the Board of Directors. All of the company's shares were represented at the meeting.

On 30 December 2016 the company's shareholders decided, in accordance with Companies Act 5:1, unanimously and without convening a General Meeting, to approve the granting of special rights to shares, within the meaning of Companies Act 10:1, in connection with convertible bonds between the Company and the State of Finland. This permits the government's long-term loan to Finnfund, granted by parliament in the supplementary budget of June 2016, to be converted, entirely or in part, into company shares, if the State of Finland wishes it. The shareholders also agreed on appointments to the Supervisory Board.

Supervisory Board

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

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

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

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

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

Board of Directors

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

The term of a board member ends at the close of the next Annual General Meeting.

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

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

Audit Committee of the Board of Directors

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

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

Managing Director

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

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

Management team

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

Remuneration

Supervisory Board

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

Fees paid (EUR) and participation at the meetings

Member	Fee	Present
Tuomioja Erkki, chair	4,000	5/5
Salolainen, Pertti, vice chair	3,000	5/5
Hietanen, Eija	1,000	2/5
Kallio, Seppo	2,000	4/5
Karetie, Simo until 30.12.2016	1,500	3/5
Karimäki, Johanna	2,500	5/5
Kotaviita, Johanna	1,500	3/5
Myller, Riitta	1,500	3/5
Paloniemi, Aila	2,500	5/5
Raatikainen, Mika	2,000	4/5
Tölli, Tapani	1,500	3/5
Virolainen, Anne-Mari	2,000	4/5
Vuorio, Petri as of 30.12.2016	0	0/0

In 2016, the Supervisory Board met 5 times. The average attendance rate for members was 76.7 per cent.

Board of Directors

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

Fees paid (EUR) and participation at meetings

Member	Fee	Present
Laukkanen, Ritva, chair	17,100	12/12
Alanko, Kari, vice chair until 30.8.2016	7,700	7/7
Andersén, Tuukka	10,500	11/12
Antila, Sinikka, vice chair as of 19.9.2016	11,200	12/12
Kuvaja-Xanthopoulos, Kristiina as of 19.9.2016	3,600	4/4
Mikkanen, Pirita	10,500	11/12
Schöring, Lars-Erik	10,200	10/12
af Ursin, Anne	10,800	12/12
Ylhäinen, Tuula	10,500	11/12

In 2016 the board met 12 times. The average attendance rate for members was 94.7 per cent.

Audit Committee

In 2016, members of the Audit Committee of the Board of Directors received a fee of EUR 300 per meeting attended.

Fees paid (EUR) and participation at meetings

Member	Fee	Present
Andersén, Tuukka, chair	1,500	5/5
Mikkanen, Pirita	1,500	5/5
Ylhäinen, Tuula	1,500	5/5

In 2016 the Audit Committee met 5 times. The attendance rate for members was 100 per cent.

Managing Director

In the financial year 2016, managing director Jaakko Kangasniemi received taxable income from the company of EUR 204,152.20. 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 2016.

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 2016 a reserve of EUR 45,620.75 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 2016 financial year, taxable income received from the company by the Management team, including the managing director and his deputy, totalled EUR 676,125.69.

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

In 2016, the number of Management team members was reduced. Members of the team were Jaakko Kangasniemi, Managing Director, CEO; Helena Arlander, Director, Portfolio and Risk Management and Alternate to the Managing Director; Minnamari Marttila, Director, Administration; Markus Pietikäinen, Investment Director; and Tapio Wallenius, Director, Impact and Communications.

Supervisory Board, Board of Directors and Audit Committee

Supervisory Board as of 20 April 2016

Erkki Tuomioja
member of Parliament, Chair
as of 15 June 2016

Pertti Salolainen
Member of Parliament
Vice Chair
as of 15 June 2016

Eija Hietanen
Director of Administration
The Central Organization of Finnish
Trade Unions SAK

Seppo Kallio
Director
The Central Union of Agricultural
Producers and Forest Owners (MTK)

Simo Karetie
Chief Policy Adviser
The Confederation of Finnish Industries EK
until 12 December 2016

Johanna Karimäki
Member of Parliament

Johanna Kotaviita
Practical Nurse

Riitta Myller
Member of Parliament

Aila Paloniemi
Member of Parliament

Mika Raatikainen
Member of Parliament

Tapani Tölli
Member of Parliament

Anne-Mari Virolainen
Member of Parliament

Petri Vuorio
Director, Confederation of Finnish Industries EK
as of 30 December 2016

Back row from left Johanna Karimäki, Johanna Kotaviita, Petri Vuorio, Riitta Myller, Seppo Kallio. Front row from left Pertti Salolainen, Erkki Tuomioja and Aila Paloniemi.

Board of Directors as of 20 April 2016

Ritva Laukkanen
Board Professional
Chair

Sinikka Antila
Ambassador, Senior Advisor on Trade and Development
Ministry for Foreign Affairs
Vice Chair, as of 19 September 2016

Kari Alanko
Deputy Director General
Ministry for Foreign Affairs
Vice Chair
until 31 August 2016

Tuukka Andersén
Director of Finance
Finnvera Plc

Kristiina Kuvaja-Xanthopoulos
Deputy Director General
Ministry for Foreign Affairs
as of 19 september 2016

Pirita Mikkanen
Partner
TM Systems Finland Oy

Lars-Erik Schöring
CEO
Leinolat Group

Anne af Ursin
Financial Councellor
Ministry of Finance

Tuula Ylhäinen
CFO
Oras Invest Ltd

Back row from left Pirita Mikkanen, Tuula Ylhäinen, Lars-Erik Schöring, Sinikka Antila, Front row from left Tuukka Andersén, Ritva Laukkanen and Anne af Ursin.

Audit Committee as of 26 April 2016

Tuukka Andersén, Chair

Pirita Mikkanen

Tuula Ylhäinen

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

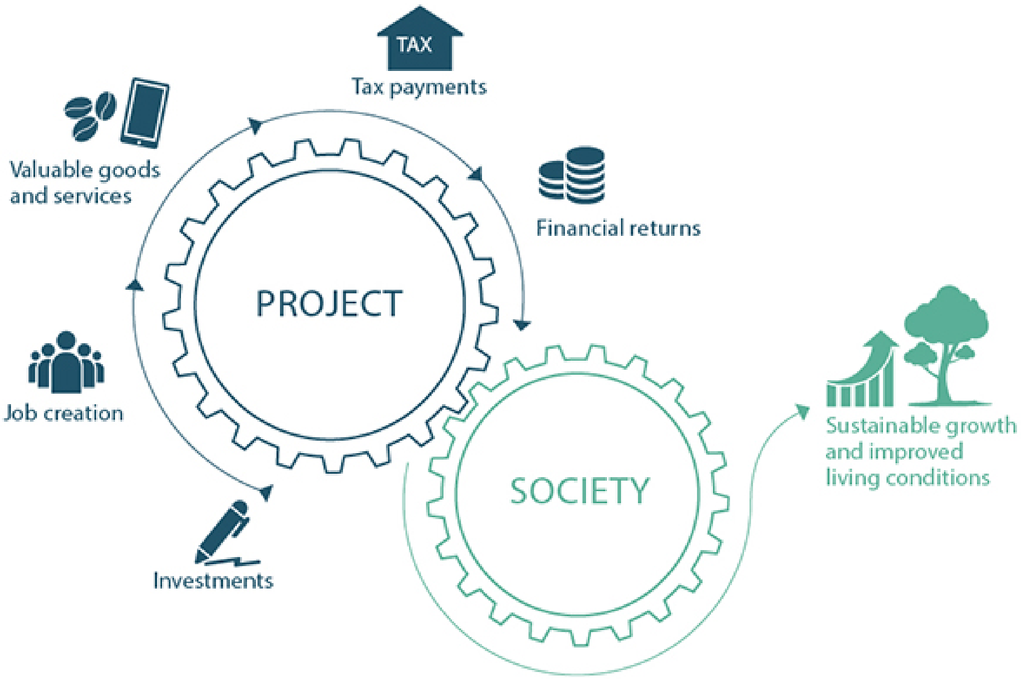
Promoting corporate responsibility in developing countries

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, environmental development including transparent corporate governance are important factors in our decision-making.

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

Read more from the online **corporate social responsibility report** or download a pdf-file from the **download centre**.

Development effects



Picture: EDFI, European DFI's contribution to development outcomes

Finnfund’s mission is to promote economic and social development in developing countries. Finnfund aims to create significant direct environmental and social impacts in the companies it finances and among their immediate stakeholders. In addition, the funding provides opportunities for indirect positive development that benefit society at large in the target countries.

The target set for Finnfund by ownership steering is that 75 per cent of projects should be located in lower and lower-middle income countries. In 2016, 82 per cent of new investment decisions were for projects located in such countries. The combined investments in these countries totalled EUR 99.5 million or 75 per cent of the investments decisions made in 2016.

In compliance with the agreed practice of the development financing institutions, Finnfund monitors the number of jobs – the number of female employees in particular – and the tax income and other tax-like payments of the companies it invests in. Furthermore, Finnfund monitors the energy produced, domestic purchases made by the projects, microloans, and loans offered to small and medium-sized (SME’s) enterprises.

The development impacts of 2016 will be collected in spring 2017, hence the reported development effects of 2015 in this report are used.

The assessment of development effectiveness is part of Finnfund's investment process. Before making an investment decision, Finnfund assesses the project for

- its compatibility with Finnfund strategy and function, such as environmental and social management and their impact on climate change mitigation

- its economic sustainability and impacts on different stakeholder groups, the effect on customers and the consumers of final products

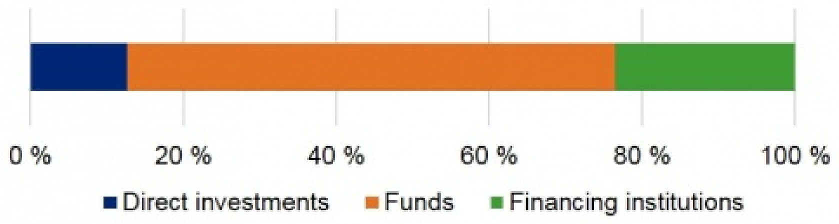
- Finnfund's own role in the project, such as the catalytic role of finance and its expert/non-financial role

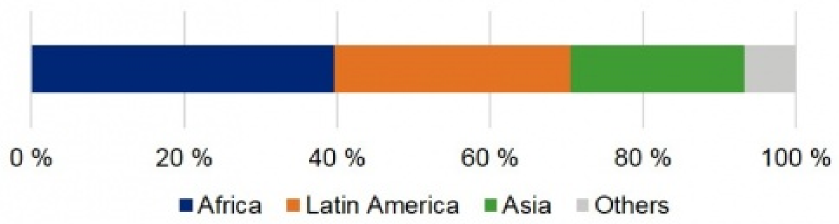
Services with tax income

One of the most important development aims and achievements of Finnfund is the tax revenue and other official payments the companies financed pay to their host countries. With these funds, public administration in each host country can develop their infrastructure and offer services to their citizens, such as education and healthcare.

Many companies that Finnfund finances are significant taxpayers, directly or indirectly, in their target countries. According to the data reported in 2015, Finnfund financed companies paid a total of EUR 285 million as taxes and tax-like charges in their respective countries. Out of this, EUR 36 million was paid by directly funded companies, EUR 182 million by companies in which Finnfund had invested via funds; and EUR 67 million by financial institutions. Corporation tax amounted to EUR 127 million or 45 per cent of the taxes paid.

Most of the taxes and tax-like charges were paid to countries in Africa (EUR 113 million), followed by countries in Latin America (EUR 88 million) and Asia (EUR 65 million).





Jobs alleviate poverty

In many cases, a job is the most important issue when someone is trying to escape poverty. According to an estimate by the World Bank, 90 per cent of new jobs in developing countries are in the private sector. That is why a job is so important for the development of an individual, their immediate circle and society at large.

According to the reported data, at the end of 2015 the companies in which Finnfund has invested employed 25,600 people; 9,140 (36%) of which were women. More than 12,000 or almost half of the jobs were in Africa. Of the direct investments, the investments in the forestry sector offered the most jobs. The funding sector and companies that offer small-scale funding also employ a large number of women.

The significance of indirect jobs from the development perspective is high: one company can boost local business activity and create a large number of jobs in its immediate vicinity. The companies financed by Finnfund reported that they supported more than 100,000 indirect jobs, of which around 70 per cent were in companies supported through funds.

Finnfund promotes the creation of decent jobs and businesses. Finnfund actively monitors the project companies' HR practices and is committed to the UN Guiding Principles on Business and Human Rights and the fundamental principles of the International Labour Organization (ILO). Finnfund requires from its customers compliance with these principles throughout the project period. They are included in the funding agreements, and compliance with them is actively monitored.

Many of the development impacts are project-specific and the impacts of all the projects in a portfolio are not the same. On the development impacts that only influence some of the project portfolio, one could mention that in 2015 Finnfund's customers produced more than 3,000 gigawatt-hours of electricity, cooperated with 16,000 farmers and granted around 3.3 million microloans that amounted to a total of EUR 764 million.

Photo: CDC Group plc

Organisation, administration and operating principles

Organisation

Finnfund is governed by the Act on a Limited Liability Company named Teollisen yhteistyön rahasto Oy (291/1979, the “Finnfund Act”).

Finnfund’s mission 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 profit for the shareholders.

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

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

Finnpartnership is a business partnership programme managed by Finnfund and financed by the Ministry for Foreign Affairs of Finland. It provides advisory services and financial support for the Finnish companies and non-governmental organisations in the project planning, implementation and training in developing countries.

At the end of 2016, the State of Finland owned 93.4 per cent of Finnfund’s share capital, Finnvera plc 6.5 per cent and the Confederation of Finnish Industries (EK) 0.1 per cent. Finnfund is an entrusted company with a special assignment by the State and belongs to the administrative sector of the Ministry for Foreign Affairs. The detailed content of the company’s special development policy mission is assigned annually by the **Ministry for Foreign Affairs** on the basis of the development policy programme currently in force. Finnfund’s principles of corporate governance are described in the 2016 Annual Report under the **Corporate Governance section**.

Special mandate and development policy mission of the company

The Ministry for Foreign Affairs defines Finnfund’s special development policy mandate and sets goals for the company in terms of Finnish development policy, financial profitability and cost-efficiency. The Ministry for Foreign Affairs annually monitors the success of these goals.

The goals set by the Ministry for Foreign Affairs and their success 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 2016 it was successful in achieving and largely exceeding the main objectives set for it. This refers to the operations being cost-effective and having positive development impacts, the share of investments in lower and lower-middle income countries among new decisions; and the part of projects that directly benefit the poor among all the decisions made. The company's own profit on equity remained below the target level set by the ownership steering, however.

Finnfund's mission is specifically to support the development of the private sector and to improve its operating conditions in developing countries in a manner that promotes economically, socially and environmentally sustainable development.

Values

The values guiding Finnfund's operations have been determined in cooperation with the entire personnel. These values are:

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.

Management and resourcing of corporate responsibility

The Managing Director leads environmental and social risk management in cooperation with the Director of Portfolio and Risk Management and the Director of Impact and Communications.

Corporate responsibility management at Finnfund

Finnfund has four full-time Environmental and Social Advisers and two Development Impact Advisers. The Environmental and Social Advisers work in Portfolio and Risk Management, and the Development Impact Advisers work in Impact and Communications.

The Environmental and Social Advisers ensure that the environmental and social risks and impacts of all the projects financed by Finnfund are assessed and monitored in all project phases. The Development Impact Advisers create a preliminary assessment on the impacts of each funded project and monitor and report on the impacts throughout the project life cycle.

The Environmental and Social Advisers and the Development Impact Advisers continuously develop Finnfund’s methods and working processes in terms of environmental and social responsibility and development impacts. They keep in contact with international expert networks and provide training to the other employees whenever necessary.

Environmental and social policy

Finnfund’s first Environmental Policy was approved by the company's governing bodies in 2005. In 2013, the Environmental Policy was reshaped into an Environmental and Social Policy, which was updated in early 2016. The Policy is available on the Finnfund **website**.

An internal Environmental and Social Responsibility Manual operationalises the Environmental and Social Policy. It describes the company's environmental and social risk management process in detail. The manual is continuously being updated. The third version was published in 2016.

Finnfund's Environmental and Social Policy is based on compliance with international standards and the Finnfund strategy. In 2009, Finnfund endorsed the principles for responsible financing of the Association of European Development Finance Institutions (EDFI) and committed to implementing them in its operations. The EDFI principles are aligned 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 investee companies, thus supporting sustainable economic development in developing countries. Finnfund is also committed to the UN Guiding Principles on Business and Human Rights and the fundamental principles of the International Labour Organization (ILO).

Both Finnfund's and its investee companies must aim at environmental and social sustainability in all of their operations.

Environmental sustainability refers to aiming for a circular economy model, including economical use of raw materials, recycling, protecting the environment against pollution and climate change mitigation, and preventing the loss of biodiversity.

Social sustainability refers to respecting human rights, including the rights of indigenous peoples, promoting the working conditions and labour rights, ensuring health and safety, avoiding involuntary resettlement of local people and protecting cultural heritage.

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 (the company's client organisations in particular), the company's European sister organisations and co-investors and, on a case-by-case basis, and other parties related to the projects financed by Finnfund, such as local communities, authorities and civil society in the target countries.

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

In 2016, the company's interaction with stakeholders was, as in the previous year, guided by public discussion about the company and a high level of partially negative publicity. The Agua Zarca hydropower project funded in Honduras especially prompted discussion. Berta Cáceres, an internationally well-known environmental and indigenous peoples' activist who opposed the project, was murdered in March and the murder was linked in public discussion with the company in charge of the power plant project and its financiers. The murder is still being investigated as this report is being prepared. Together with the Netherlands Development Finance Company (FMO), Finnfund already announced in 2015 that it was trying to find a way to withdraw from the project in a responsible manner. Negotiations and arrangements on the withdrawal continued throughout the year.

In cooperation and communication with the stakeholders, Finnfund aimed to increase the level of openness regarding the company’s operations and results, both at a general level and in terms of specific projects. The communication also aimed to support the investment teams in the origination of new projects.

In early 2016, a separate Impact and Communications Team was established in the company. More employees were added to the team during the year. The work involving the stakeholders is managed by the Managing Director with the help of the Director, Impact and Communications and other management.

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 sets out that companies with special state mandate should strive for financially profitable operations.

The cost-efficiency of Finnfund's operations was assessed in 2016 by comparing operating 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, which is why it is also calculated as a five-year moving average. Other indicators include 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 2016 Annual Report.

Cash flows to stakeholders

Public sector taxation

Under the Income Tax Act (30 December 1992/1535), Finnfund is a corporation exempted from income tax, and therefore the company does not pay tax on its profits to the State of Finland.

In its accounts for 2016, Finnfund reported total tax payments of EUR 17,937.38. These consisted of capital gains taxes and withholding taxes paid to target countries as follows:

Country	Type	EUR
India	Capital gains tax	3,292.47
Kenya	Capital gains tax	5,752.45
Turkey	Withholding tax on wages	2,480.14
Panama	Withholding tax on dividends	6,412.32
Total		17,937.38

Shareholders

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

The taxes paid by project companies in the countries where they operate are among the development impacts that Finnfund seeks. Such taxes promote the public sector in developing countries and assist in providing services for their citizens. For this reason, and because of its exemption from tax in Finland, Finnfund has no incentive for active tax planning and does not do this. Finnfund is not allowed nor does it wish to promote in its operations any aggressive tax planning or tax evasion in the investee companies either.

Investments

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

In 2016, Finnfund made 21 new investment decisions in target countries totalling EUR 152 million.

Financial support and donations

Finnfund mostly refrains from providing financial support or making donations 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 February 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 per 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 has 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 that the procedure is considered justified in the current situation of the reporting company.

Personnel

Human resource management

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

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

Management and supervisory work have been continuously developed and assessed since 2012. As the organisation grows and the number of personnel increase, the company implements regular personnel surveys on the quality of supervisory work and management, for example. The company aims to react appropriately and quickly to any feedback from the personnel. An organisational reform was implemented in the autumn of 2016. After this reform, at the beginning of 2017, a 270/360 assessment for the entire personnel, including feedback discussions, was arranged.

Personnel goals

Every year, Finnfund carries out a cooperation procedure in order to prepare a personnel plan and training goals 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, a Personnel Development and Planning Day is held once or twice a year for the entire personnel with the aim of discussing current topics and promoting interaction between the company’s personnel and management.

The company’s Board of Directors annually assesses a plan on the deputies and successors of key employees.

Number and structure of personnel

At the end of 2016, the company employed 64 people. Over the entire year, the average number of employees was 60. The entire personnel of the company are located in Helsinki, Finland.

During 2016, five permanent employees resigned and 15 permanent employees were hired by Finnfund. Therefore, exit turnover was 7.8 per cent and entry turnover 23.4 per cent.

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

0-1	2-5	6-10	11-15	16-20	21-25	26-30	31-34
17	15	17	6	1	3	3	2

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

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

25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-
1	10	13	7	10	9	11	3

The average age of employees is 44.

The company did not reduce the number of its employees or make any other adjustments in 2016. The number of employees increased over the course of the year.

In 2016, personnel expenses amounted to EUR 6.0 million, including pension expenses, other social security expenses and voluntary personnel expenses. The company paid wages and salaries totalling EUR 4.8 million in 2016.

Equality

At the end of 2016, the company employed 43 women (40 at the end of 2015), accounting for approximately 67.2 (70.2) per cent of all employees, and 21 (17) men, accounting for approximately 32.8 (29.8) percent of all employees.

Six (four) or 75 (57.1) per cent of the members of the company's Board of Directors were women, and two (three), accounting for approximately 25 (42.9) percent, were men.

Two (three) members or 40 (37.5) per cent of the company's internal Management Team were women and three (five) or 60 (62.5) percent were men.

In 2016, Finnfund implemented an equality survey covering all the employees. A new equality plan for the company was prepared based on the survey results.

Key goals of the equality plan are promotion of equality, identification and elimination of structures that generate and maintain inequality, achieving equal terms of employment, employment conditions, placement in positions and training/career development opportunities for women and men of different ages, as well as maintaining equality in terms of wages.

Compliance with the plan will be monitored with regular personnel surveys.

Remuneration

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

At Finnfund, wages primarily consist of fixed monthly salaries that are 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 uses 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. In 2016, the incentive system was based partly on the achievement of company-level goals and partly on function-specific goals.

In addition, an individual employee can receive an incentive bonus of up to 1.5 months’ salary for exceptional, above-target performance. The Board of Directors makes decisions on the incentive system and its key criteria on an annual basis.

The 2016 accounts include a provision for the cost impact of incentive bonuses that corresponds to around 5.1 per cent of the payroll expenses.

Competence development and training

The entire personnel of Finnfund participates in development and goal-setting discussions every year.

These development discussions are carried out in spring 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, work quality, development and motivation, and compliance 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 superiors, either directly to the superior or to the Director of Administration or the Managing Director.

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

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

Occupational wellbeing, health and safety

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

Finnfund carries out regular employee wellbeing and satisfaction surveys, in cooperation with an external expert whenever necessary. Since 2015, the opportunity to provide feedback has been increased by regularly asking employees for their responses to rapid questionnaires and other such methods. The company has a systematic approach to work in this area. The development is continuously monitored, and the company tries to respond quickly to any deviations.

Furthermore, the employees have an opportunity in development discussions to raise questions about occupational wellbeing and job satisfaction, and to provide anonymous feedback via the company's intranet.

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

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

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

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

The employer has not been informed of any accidents during working hours or otherwise related to work; nor have there been any deaths related to work.

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

Finnfund encourages its employees to look after their health and wellbeing 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 healthcare services include a limited right to seek specialist medical care and dental care as well as reimbursement of prescription medicine expenses, among other things. Furthermore, people travelling frequently for work have the opportunity to have regular health examinations in order to prevent travel-related health hazards.

The company has a work fitness model for early support and intervention and a programme for preventing and treating substance abuse.

Environment and society

Environmental and social responsibility and risk management

A key principle of Finnfund’s operations is to ensure the responsibility of all activities financed. The environmental and social risks and opportunities related to a project vary significantly depending on the sector, target country and a number of other factors. Finnfund pays special attention to the management and mitigation of environmental and social risks, and to reinforcement of positive impacts.

In the assessment of the environmental and social risks and impacts of the projects, in compliance with its environmental and social policy, Finnfund complies with the standards of the International Finance Corporation (IFC, member of the World Bank) and the European Development Finance Institutions (EDFI). Finnfund is committed to the principles of UN Global Compact, the UN Guiding Principles on Business and Human Rights and the Fundamental Principles of the International Labour Organization (ILO).

To be eligible for Finnfund’s financing, a project must comply with local legislation and all environmental and social responsibility requirements laid down in the international standards applied to the project. Each company financed must commit to assessing risks and impacts of company operations, creating and implementing an environmental and social management system that covers its operations and supply chain, guarantee sufficient expertise in management of environmental and social responsibility and submit regular reports on its environmental and social management.

Finnfund has an internal environmental manual to supplement the company’s environmental and social policy. The manual documents the procedures and responsibilities in Finnfund’s financing process related to ensuring environmental and social responsibility. The assessment and monitoring cover all the funded projects and their subcontracting chains. The assessment and management of environmental and social risks and impacts, determination of actions for improvement and on-going monitoring are part of the Finnfund financing process.

Environmental and social sustainability in the financing process

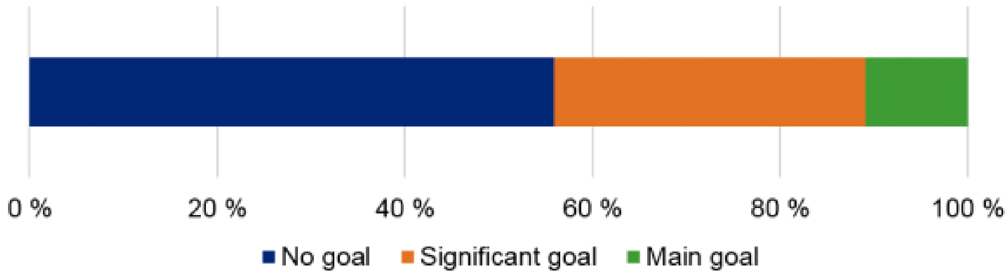
Climate change

Finnfund aims to finance projects that reduce greenhouse gas emissions or help adapt to climate change. The company's strategy focuses on projects on renewable energy or improving energy and material efficiency as well as projects for sustainable forestry.

The company does not finance any coal-fired power plants or hydropower projects involving large dams that will cause extensive displacement of local people.

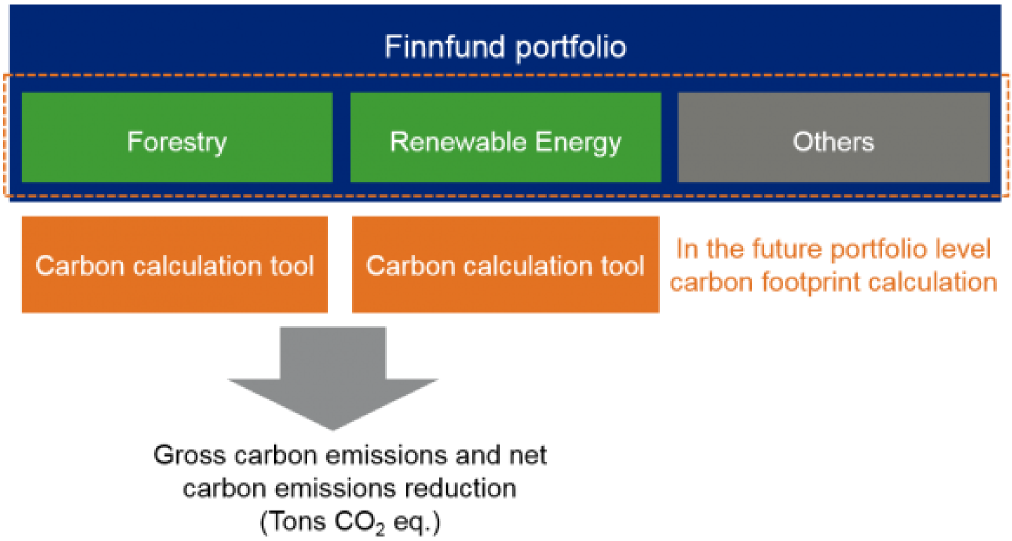
In compliance with the requirements of the Organisation for Economic Co-operation and Development (OECD), Finnfund submits regular reports to the Ministry for Foreign Affairs of Finland on projects that are significant in terms of climate change mitigation and adaptation. Finnfund's operations create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

In 2016, around half of the investments in the Finnfund portfolio were targeted to projects that are important in terms of the climate change mitigation.



Projects important in terms of the prevention of climate change in the Finnfund portfolio

With external experts, Finnfund has developed a tool for calculating carbon emissions (CO2) in accordance with international practices. Two versions have been created; one for renewable energy projects and the other for forestry projects. These allow the company to calculate the gross emissions and the net emission reductions of projects. Since beginning of 2015, calculations have been made for applicable energy and forest projects (see figure below). The tools have been constructed to apply the guidelines of the Intergovernmental Panel on Climate Change (IPPC) and the Greenhouse Gas Protocol. They also employ the methodology of the International Financial Institutions (IFI) to harmonize project-level greenhouse gas accounting.



Greenhouse gas and emission calculation methods of Finnfund

Due to the major differences between the project types, the calculation tools cannot yet assess the carbon emissions of all projects, and the tools are only used in the two main sectors. The goal for 2017 is to develop carbon foot printing at the portfolio level.

In 2016, the net emission reductions could be calculated for four new projects using the existing tools. The combined net emission reductions of these projects were approximately 4.3 million tonnes of CO2 equivalent.

Human rights

Finnfund finances companies that operate in countries that often have challenges in context of human rights. Finnfund seeks to promote the respect for human rights in all the projects it finances with the means available.

Finnfund is committed to the UN Guiding Principles on Business and Human Rights and to respect human rights in accordance with the International Bill of Human Rights and the Human Rights Based Approach of the Finnish Ministry for Foreign Affairs.

The human rights perspective is embedded in Finnfund's **Environmental and Social Policy**, and it also endorses the **Principles for Responsible Financing** of the European Development Finance Institutions (EDFI), of which it is a member. The assessment of human rights impacts laid down in the environmental and social policy is aligned with the UN Global Compact, the UN Guiding Principles on Business and Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

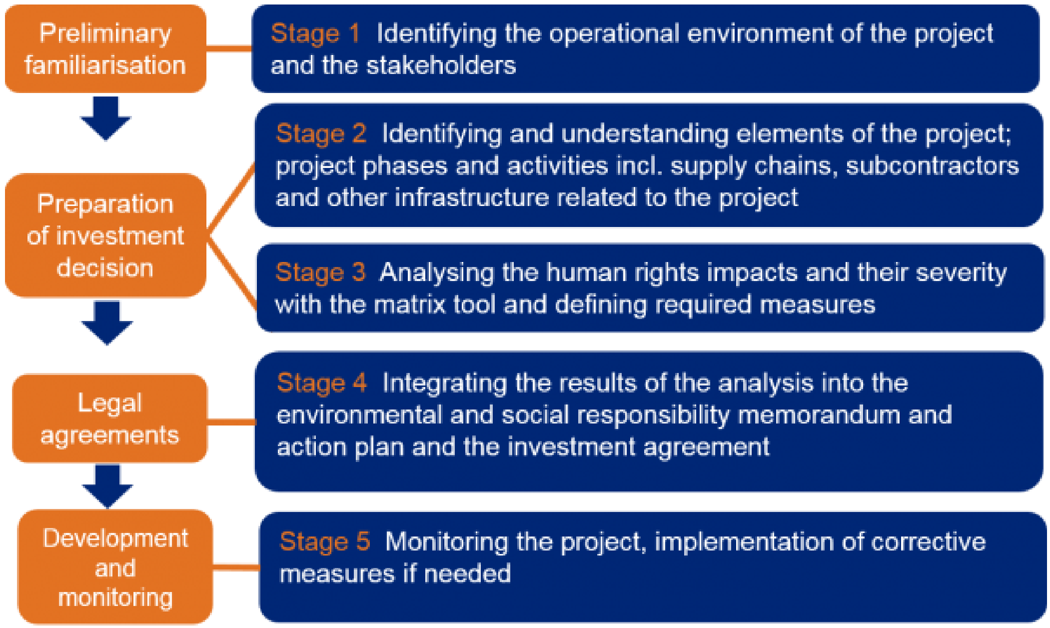
Finnfund does not finance any companies or projects with human rights violations that cannot be prevented or remedied.

Finnfund's approach to human rights was published on its website and in several connections as a general level commitment in 2015. The assessment of human rights aspects is a central part of Finnfund's financing process. The human rights dimensions of potential projects are defined at an early stage of project preparation and, after the clearance in principal decision, during the environmental and social due diligence phase.

According to the UN Guiding Principles on Business and Human Rights, Finnfund and the companies it finances have a duty to respect and promote human rights. Finnfund applies the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability in the assessment and monitoring of human rights impacts. They are in line with the international human rights principles and the UN Guiding Principles on Business and Human Rights, and they emphasise the rights of employees and local communities. It is a prior condition of Finnfund financing that the recipient makes a contractual commitment to follow these standards.

Furthermore, in 2016 Finnfund created a separate human rights impact assessment tool based on the UN Guiding Principles on Business and Human Rights. The tool has been applied to all new direct investments since 2016. In 2017, the tool will be developed further to extend it to indirect investments.

The Finnfund human rights impact assessment process consists of five stages linked to the Finnfund financing process.



The assessment of human rights in the Finnfund financing process

At the early stages of project preparation, the human rights assessment is conducted by experts in the Impact and Communications team and the environmental and social responsibility advisers when assessing political risks and the operating environment of the project. When the investment decision is being prepared, human rights impact assessment is deepened and monitored by the experts on environmental and social responsibility. Finnfund also uses external experts whenever necessary.

Finnfund continuously develops its human rights approach and tools and provides its employees with the necessary training.

Environmental impact of Finnfund's own operations

Carbon footprint

Finnfund finances companies that operate in developing countries. Due to the location of Finnfund's clients, Finnfund employees travel often and to remote locations which causes greenhouse gas emissions. However, a careful assessment of the projects is important and the travel related greenhouse gas emission are considered minor when considering the positive climate contributions generated by the project companies.

Finnfund continuously develops its electronic tools and encourages its employees to actively use them, for example, to attend meetings remotely.

Greenhouse gas emissions caused by commuting are reduced by encouraging the employees to use public transport with an employer-subsidized commuter tickets and to work remotely for part of the time.

Water, waste and saving of energy

Water consumption and waste generation within the Finnfund organisation are minor. 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

Responsible business in developing countries

Sound, responsible business is a vital prerequisite for sustainable development. Profitable enterprises create jobs and yield the tax revenues that facilitate public sector activities and help to reduce the dependence of developing countries on external aid. Companies generate export earnings and offer consumers cheaper or better services and products. By operating responsibly and using resources efficiently, well-run enterprises also protect the environment.

Finnfund invests in the projects of Finnish companies and their partners, as well as other projects that produce significant improvements in the state of the environment or support the economic and social development of the host country. Finnfund compiles data annually on the development impacts it has achieved.

Finnfund focuses on renewable energy and sustainable forestry but we also finance projects in other sectors.

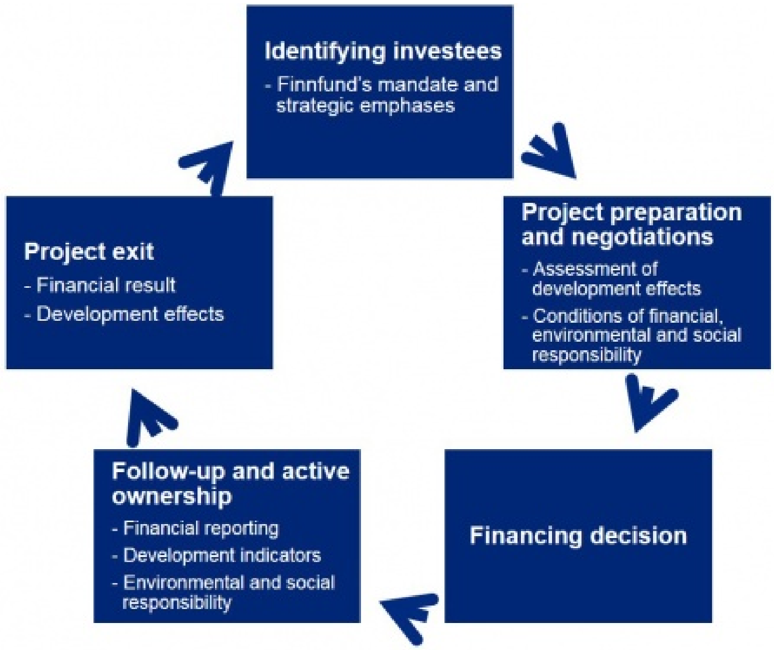
Alongside direct investments we can make indirect investments via private equity funds. We also finance banks and financial institutions. Our finance is provided on market terms and depends on the risk profile of each project.

To receive Finnfund finance, a project must be profitable and implemented in a responsible way. It must promote the economic and social development of developing countries. The projects that we accept for planning must be in line with the Finnfund Act and in accordance with Finnfund's strategy.

Project planning

In the initial phase of the project planning process, we ensure that the project meets our fundamental requirements on environmental and social responsibility. These requirements include the performance standards of the International Finance Corporation, the part of the World Bank Group that specialises in private sector financing. An assessment of environmental and social responsibility also helps to set the financing terms to be negotiated with the customer.

Finnfund requires good social responsibility from the projects it finances and does not tolerate corruption, tax evasion or money laundering in its projects. Environmental performance and labour conditions are two of the matters that must meet international standards, even if local legislation is less stringent or entirely non-existent.



Geographical and sectoral distribution

At the end of 2016 Finnfund had a portfolio of 167 investments although a small number of projects accounted for more than one investment. Of these investments 122 were in low-income and lower-middle-income countries, which is a good achievement for the company's development policy mission. The number of enterprises or other investees totalled 120.

Most co-investment with Finnish companies was in middle-income developing countries such as India, China, and Ukraine, as well as in Russia. In low-income countries Finnfund largely finances infrastructure, generally together with other development finance institutions, but even these projects often involve Finnish companies as technology suppliers.

There were 112 direct investments and 55 indirect investments via private equity funds and financial institutions. Finnfund's direct investments were spread over many different sectors, from engineering workshops to plantation forests, and from pharmaceuticals to power generation.

During the year 21 new financing decisions were made, worth a total of EUR 151.9 million.

About 52 percent of last year’s new financing decisions, or 62 percent of their value, were climate-related, used to produce renewable energy, to prevent deforestation, to reduce consumption of power and raw materials, or to improve the opportunities of poor people to adapt to the challenges of climate change.

More information:

Key figures
Development effects
Responsibility

List of investments as of 31 December 2016

Investment	Operation	Finnish company*	Finnfund's financing
ASIA			
Cambodia-Laos Development Fund	Private equity fund		
Mekong Brahmaputra Clean Development Fund L.P.	Private equity fund		
Tropical Asia Forest Fund	Private equity fund		
BANGLADESH			
Everest Power Generation Co. Ltd.	Power Plant	Wärtsilä Oyj	
CAMBODIA			
First Finance Plc.	Financial institution		
Prasac Microfinance Institution Ltd	Microfinance		USD 15 000 000
Sathapana Limited	Microfinance		
CHINA			
Avain China Holding Oy	Information technology	Avain Technologies Oy	
China Finland Maanshan Steel Co.Ltd.	Metal products	Metalliset Oy	
GreenStream Energy Efficiency Investments Ltd.	Energy efficiency	Several Finnish technology providers	
LVDU Lapland Food Co., Ltd.	Dairy products	Lapland Food Oy	
Norrhydro Hydraulic System (Changzhou) Co. Ltd.	Manufacturing of hydraulic sylinders	Norrhydro Group Oy	
Peikko Construction Accessories (Zhangjiagang) Co., Ltd	Metal products	Peikko Group Oy	
XTC Company Oy	Electrical equipment	Mekitec Oy	
INDIA			
Ashley Alteams India Pvt. Ltd.	Aluminium components	Alteams Group	
Bharti Airtel Limited	Telecommunications	Nokia Networks Oy	
Gemco Kati Exploration Pvt. Ltd.	Mining support service activities	Oy Kati Ab Kalajoki	
Ojala (India) Engineering Pvt. Ltd.	Metal products	Ojala-Yhtymä Oy	
Stera Engineering (India) Pvt. Ltd.	Contract manufacturer of electromechanics	Stera Technologies Oy	
VME Precast Pvt. Ltd.	Concrete elements	Valkeakosken Betoni Oy	

INDONESIA			
SaraRasa Biomass	Biofuels	Dovre Group	
LAOS			
Burapha Agro-Forestry Co., Ltd	Forestry and wood products		
Nam Sim Power Company Limited	Hydro power		
MONGOLIA			
Radisson BLU Hotel Ulaanbaatar	Hotel		
XacBank	Bank		
NEPAL			
Dolma Impact Fund I	Private equity fund		
PHILIPPINES			
mBank Philippines	Microfinance		
SRI LANKA			
Commercial Leasing and Finance PLC (CLC)	Microfinance		USD 11 000 000
THAILAND			
A.T. Biopower Co., Ltd.	Biopower plant	Private Energy Market Fund Ky, Pöyry Oyj	
Siam Investment Fund II L.P.	Private equity fund		
Thai Biogas Energy Company Ltd.	Biogas	Private Energy Market Fund Ky	
VIETNAM			
Mekong Enterprise Fund, Ltd.	Private equity fund		
SEAF Blue Waters Growth Fund Limited	Private equity fund		
AFRICA			
AfriCap Microfinance Investment Ltd.	Microfinance		
AfricInvest Fund Ltd.	Private equity fund		
Afrinord Hotel Investments A/S	Hotels		
Atlantic Coast Regional Fund	Private equity fund		
Aureos Africa Fund LLC	Private equity fund		
Catalyst Fund	Private equity fund		
Creditinfo East Africa	Credit information		EUR 2 400 000
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		
Mobisol	Solar energy systems		
Norsad Finance Limited	Development financing		
SFC Finance Limited	Bank		
Silverlands Fund	Private equity fund		
CAPE VERDE			
Cabeólica S.A.	Wind power		
ETHIOPIA			
EthioChicken (Agflow Poultry)	Poultry production		USD 10 000 000
M-Birr Ltd.	Information technology		
Schulze Global Ethiopia Growth and Transformation Fund I	Private equity fund		
SINI Furniture Interior Design PLC	Furniture	Henrik Puustinen	EUR 1 000 000
GHANA			
Ghana Airport Cargo Centre	Logistics		USD 11 000 000
KENYA			
Elgon Road Developments Limited	Hotel		
Fuzu	Information technology	Fuzu Oy	EUR 1 500 000
Lake Turkana Wind Power	Wind power	Peikko Group Oy	
NIGERIA			
African Foundries Limited	Steel	Wärtsilä Oyj	
RUANDA			
Hakan-Quantum Biomass Fired Power Plant	Biomass fired power plant	Fortum Power and Heat Oy, Andriz Group	USD 15 000 000
New Forests Company (Rwanda) Limited	Forestry and wood products		
SIERRA LEONE			
Goldtree Sierra Leone Limited	Food production		
SOUTH AFRICA			
Evolution One LP	Private equity fund		
Horizon Fund III Trust	Private equity fund		

TANZANIA			
Africado Limited	Agriculture		EUR 3 500 000
Kilombero Valley Teak Company Ltd.	Forestry and wood products		
New Forest Company (Tanzania) Limited	Forestry and wood products		
Precision Air Services Ltd.	Airline company		
Sound and Fair Tanzania Limited	Forestry and wood products		
Tanira Ltd.	Hand pumps	Lojer Oy	
UGANDA			
New Forests Company (Uganda) Limited	Forestry and wood products		USD 10 000 000
UpEnergy Group	Energy efficiency	Climate Wedge Oy	

THE MEDITERRANEAN

TURKEY			
Noksel A.S.	Steel pipes	Nokia Oyj	

THE MIDDLE EAST

Catalyst MENA Clean Energy Fund	Private equity fund		
JORDAN			
Arabia One For Clean Energy Investments PSC	Solar power		
Falcon Ma’an for Solar Energy LLC	Solar power		
FRV Solar Jordan	Solar power	ABB Suomi	
Jordan Solar One (Cayman) / Jordan PSC	Solar power	ABB Suomi	

LATIN AMERICA AND THE CARIBBEAN

CENTRAL AMERICA			
CASEIF II Corporation Ltd.	Private equity fund		
Central American Mezzanine Infra Fund I and II (CAMIF)	Private equity fund		
Central American Renewable Energy and Cleaner Production Facility (CAREC)	Private equity fund		
HONDURAS			
Desarrollos Energéticos S.A. de C.V.	Small hydropower	Pöyry Oyj	
La Vegona	Hydropower		
Los Laureles	Small hydropower		
Mezapa Hydroelectric Project	Small hydropower		
Valle Solar Power Project	Solar power	ABB Finland	

LATIN AMERICA		
CIFI - Corporación Interamericana para el Financiamiento de Infraestructura, S.A	Financial institution	
SEAF Latam Growth Fund	Private equity fund	
The Forest Company Ltd.	Forestry and wood products	

MEXICO		
Pro Eucalipto Holding S.A.P.I de C.V.	Forestry and wood products	Dieffenbacher Panelboard Oy

NICARAGUA		
Banco Lafice-Bancentro S.A.	Bank	

CENTRAL AND EASTERN EUROPE

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

RUSSIA		
MP Russia Oy	Food products	Myllyn Paras Oy Konserni
OOO AVA-Peter	Hospital	Scanfert Oy
OOO Dan-Invest	Agriculture	
OOO Skaala	Windows and doors	Skaala Oy
Oy Nordic Russian Management Co - NORUM	Fund management	
Rani Plast Kaluga LLC	Plastic products	Ab Rani Plast Oy

UKRAINE		
Aqueduct Ltd.	Metal products	Macring Oy

INTERNATIONAL

Althelia Climate Fund SICAV-SIF	Environment fund	
Dasos Timberland Fund I	Forestry fund	Dasos Capital Oy
Global Environment Emerging Markets Fund III, L.P. (GEEMF)	Private equity fund	
Interact Climate Change Fund S.A.	Development financing	
MBH B.V.	Microfinance	
Moringa S.C.A. Sicar	Agroforestry fund	
Private Energy Market Fund Ky	Energy fund	Pöyry Oyj
ShoreCap International Ltd. II	Microfinance	
WWB Capital Partners, LP	Microfinance	

*) Shareholder or significant technology provider

) Finnfund's disclosure policy has been updated. As of 1 September 2016 Finnfund publishes for example its share of financing. More information at Finnfund's **website.

Map of investments

The map is published on **Finnfund's website** and it is updated regularly.

Investments in profitable and responsible private private projects

Foreign direct investment in enterprises of developing countries has increased in recent years. However, it has been spread unevenly because of the perceived risk, especially in the poorest countries. In numerous low-income countries, enterprises suffer from a shortage of long-term funding that is reasonably priced and risk-tolerant. Like other development finance institutions, Finnfund's mission is to promote responsible business operations by offering risk finance for projects where commercial finance would be difficult to obtain.

We offer direct investment in the form of long-term investment loans, equity-rated investments and subordinated loans or other mezzanine financing.

Some of our investments are for expanding existing activities, others for establishing entirely new operations. Regardless of the form of financing, Finnfund is always a minority investor – we do not seek a dominant position in the companies we finance.

At the end of 2016, direct investments were 66.2 percent of all investments. Loans were 54.1 percent of direct investments, equity-rated financing was 30.5 percent and mezzanine financing 15.4 percent. Projects were being financed in 27 countries.

During the year we made 17 new decisions on direct investments, totalling EUR 105.3 million.

In addition to providing finance, Finnfund acts as a catalyst for the skills of Finnish companies in developing countries. In 2016 seven new financing decisions were made on projects with Finnish participation. This means that one in three new projects involved a Finnish company.

Finnfund concentrates on working with Finnish companies that have solutions to pressing problems of the developing world and therefore good opportunities in growth markets. The opportunities are often related to clean technology.

More information:

Key figures
Development impacts
Responsibility

A channel for investing in the most difficult markets

Another way in which Finnfund supports enterprises in developing countries is indirect, via private equity funds. The underlying reason is that it can be difficult for small and medium-sized enterprises in very poor and fragile countries to obtain risk-tolerant capital, typically in the form of equity-rated finance.

Equity funds can put together high-risk financing for projects and enterprises that would not normally have access to financial services. They also offer other forms of support, such as sectoral knowledge or skills in environmental questions. This is the rationale for fund investments in the poorest and most fragile countries, where there is a shortage of reasonably priced finance.

At the end of 2016 17.5 percent of Finnfund's investments in developing countries were being channelled indirectly via private equity funds. At that time Finnfund was a participant in 42 funds to a total of about EUR 143.7 million, an average of EUR 3.4 million per fund.

No new decisions to invest in equity funds were made during 2016. Most of the equity funds in which Finnfund participates provide finance for micro, small and medium-sized enterprises that would be hard or impossible to finance directly in a cost-effective way. The focus is on funds that provide capital for business expansion, investments that would not be possible without the finance that funds offer.

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

The remainder of Finnfund's fund investments are in funds that concentrate on specific sectors, such as renewable energy, sustainable forestry, agriculture or microfinance. Such funds typically operate in several countries, transferring expertise of various sectors across borders.

Most fund co-investors are other development finance institutions. Other participants include insurance and pension companies from host countries. However, foreign institutional investors do not generally become involved until there is a track record of success. As a country or sector previously regarded as challenging begins to develop, and as private equity operations become established, institutional investors take more interest in fund investment. This allows development finance institutions like Finnfund to move on to new projects where adequate commercial finance is still not available.

Funds are typically established for a fixed duration of about ten years. A fund usually invests subscribed capital in its first few years, after which its efforts shift to developing its investments and finally to exiting them.

Income of EUR 182 million to host countries from fund investments in 2015

Enterprises financed via equity funds can achieve significant development impacts. For example, the enterprises that Finnfund financed via funds in 2015 paid EUR 182 million in taxes and official charges to the countries where they were operating. Figures for 2016 are being compiled in spring 2017.

Most of the private equity funds that invest in developing countries are domiciled in international financial centres. Funds investing in Africa are generally registered in Mauritius. Luxemburg is also commonly used. The countries of domicile are conduits, through which subscriptions from many different countries flow to where they will be invested. Equity funds do not pay taxes to their countries of domicile but the enterprises that receive investments pay taxes in the countries where they operate, as do fund participants in their home countries.

Finnfund is opposed to tax avoidance, corruption and money laundering. It does not practice or tolerate aggressive tax planning. Like many other development finance institutions, we encourage countries of domicile to create transparent tax regimes by investing only in funds registered in countries that are in compliance with the progressively stricter requirements of the OECD Global Forum. The list of fund domiciles that are not eligible for equity fund investments by Finnfund can be found on the Global Forum website.

In 2016 the following countries were on the OECD Global Forum **list**: Andorra, Anguilla, Antigua and Barbuda, Barbados, Costa Rica, Curacao, Guatemala, Indonesia, Israel, Kazakhstan, Lebanon, Micronesia, Nauru, Samoa, Sint Maarten, Trinidad and Tobago, Turkey and Vanuatu. Listed until 26 July 2016 were Liberia and St. Lucia. On 26 July 2016 the United Arab Emirates was added to the list. Finnfund does not invest in enterprises or funds registered in these countries.

More information:

Key figures
Development impacts
Responsibility
Principles for equity fund participation

Financial services are important for economic development

Finnfund provides finance for banks and financial institutions. The banks we finance usually have a focus on small and medium-sized enterprises, minor infrastructure projects, family companies or households.

Finance granted to financial institutions often helps them meet capital adequacy requirements and improves their ability to grant loans.

At the end of 2016 our investments in banks and financial institutions accounted for 12.5 percent of the investment portfolio.

During the year two new decisions, totalling EUR 23.7 million, were made regarding finance for banks and financial institutions.

Finance for banks and financial institutions often has a significant multiplier effect on the economies of developing countries. The loans granted and the conditions attached also promote operational transparency, improve the management of environmental and social risks, among other things.

In many countries, especially in Africa, local banks are often too small to be profitable. Risk-tolerant finance obtained from development finance institutions such as Finnfund supports their growth in local and regional markets.

More information:

Key figures
Development impacts
Responsibility

Miro Forestry leads the way for sustainable FSC certified plantation forestry in West Africa

"Over the last 100 years the forestry sector in West Africa has almost solely involved of the logging of the natural forest, the area having once been almost entirely covered by primary rainforest. This has resulted in almost 90 percent deforestation over the period," says **Andrew Collins**, Chief Executive of Miro Forestry.

Deforestation, illegal logging and climate change are acute problems in West Africa. At the same time, there is a strong and growing need for sustainably produced wood and wood products. Timber is increasingly needed for example for industrial use, construction and for transmission poles for rural electrification. For instance, according to FAO, Food and Agriculture Organization of United Nations, with current levels of natural forest exploitation, Ghana's forest resources will be exhausted by 2030.

Miro Forestry is a commercially focused and sustainable forestry business with operations in Ghana and Sierra Leone. Since its inception in 2010, the company has strived to be the leading commercial and sustainable plantation business in the region. The company has been aiming to become certified under the Forestry Stewardship Council (FSC®) Principles and Criteria, which provide a global benchmark to assess the sustainability of commercial forestry.

Now, the company is there; the process of having their Forest Management Units certified started in 2016, and now the units both in Sierra Leone and Ghana have passed the audits and are awaiting on the formal certificates.

Finnfund has been financing Miro Forestry since 2014. Becoming FSC certified has also been one of the aims of the support. In addition to requiring its clients to work towards compliance with international good practice standards, such as the IFC Performance Standards on Environmental and Social Sustainability. Finnfund also wants to encourage its forestry clients to become certified and provides support along the journey.

Clear target from the very beginning: working towards FSC certification

“There is no doubt that the FSC process improves a company’s operations across the board, it is not about the certificate but about the positive, sustainable and responsible management and systems that make the journey possible,” says **Stephanie Doig**, Director of Environmental, Health, Safety and Social Development.

The company operates sustainable forestry plantations with 30,000 hectares of land, including approximately 7,000 hectares of planted forest with a mix of fast growing species for the production of sawn timber, plywood, poles and biomass for the local and regional market. It manages its own forestry plantations, currently establishing 3,000 hectares of new plantations per annum.

It has taken Miro about three years to achieve FSC certification. This is because, operating in remote rural environment where there has been very little exposure to international health and safety standards, environmental and social practices, it has taken time to build such knowledge and natural compliance to such standards. The pre-assessments and audits have been carried out by the accreditation body SGS, based in South Africa.

Sustainability but also better processes and transparency

“In West Africa, an area where FSC certification is rare, it is of increased importance that Miro Forestry operates responsibly, delivering significant social development and environmental enhancement, with an overall goal of being the favoured partner for all stakeholders, local and international,” Doig says.

Sustainability has been in the core of Miro’s way of working from the very beginning. Therefore, in terms of social and environmental sustainability, the FSC process has not changed the course of practices dramatically. What FSC does provide is external assurance, as well as transparent reporting channels.

“The largest challenge has been the introduction and implementation of new systems, especially the checks and balances aspect, integral to the FSC Principles and Criteria.”

“Another large challenge has been the awareness surrounding FSC, the Company has had to work with all stakeholders to increase the knowledge and understanding of FSC. This has been especially challenging in Sierra Leone, where Miro are FSC pioneers. This awareness ranges from local communities, employees to governmental bodies,” Doig says.

Win-win situation for business, people and environment

Miro views the step towards FSC certification as a multi-beneficial decision. Firstly, it will drive the company towards an increased focus on systems, controls and procedures to improve management effectiveness, quality control and operational cost efficiency. Secondly, FSC certification opens up access to international markets.

Thirdly, FSC certification standards currently provide guidance and frameworks to foster good environmental and social interaction, reducing risk of negative effects whilst enhancing the significant positive effects, and thus company value.

“For instance, FSC ensures that companies operate according to international human rights and labour standards, this has a positive impact on all employees, as often employers in rural Africa operate at a much lower standard”, Doig explains.

Additionally FSC ensures legal compliance, in a land-based industry this is especially important in terms of customary and legal tenure rights. FSC also ensures Free, Prior, Informed Consent (FPIC), which ensures a positive and mutually beneficial relationship with local stakeholders.

In the areas where Miro operates, deforestation is rife and there have been minimal efforts towards conservation. The FSC ensures that Miro is conserving at least 10 percent of its total land area, which has a direct positive impact on local biodiversity. Another benefit is the improved environmental and conservation awareness within the local communities which in the long term can promote further conservation, beyond the company’s direct contribution.

Cost increase well outweighed by the benefits

“Economically, there is no doubt that the systems that the FSC Principles and Criteria promote make for a tighter run ship. It also integrates internal processes and teams across the three FSC pillars, i.e. environmental, social and economic operations,” Doig explains.

Miro estimates that the total cost of complying with FSC standards will be approximately USD 250,000. On the assumption that a greenfield plantation forestry business is operating at a scale of 1,000 hectares of plantation establishment per annum, Miro estimates that this FSC compliance cost translates into an additional approximately 3 percent on total business costs on an ongoing basis.

Given the additional access to international timber markets, access to a greater pool of international capital, and the probability of enhanced local and international stakeholder support and workforce motivation, Miro believes the additional percentage cost increase is well outweighed by these benefits.

Brighter future for the forests of West Africa?

The forestry sector in West Africa is still dominated by logging of natural forests, but given the limited remaining forest areas and the increased drive to enforce sustainable logging practices, the region has now become a net importer of timber. This has increased the impetus and commercial proposition behind the establishment of forest plantations in the region – to grow timber commercially for forest industry and biomass-based energy, and to reduce the pressure on the remaining natural forests.

As a result, according to the CEO Andrew Collins, the last five years particularly has seen the start-up of a significant number of plantation forestry businesses as well as increased plantation development initiatives by the respective governments.

“It will however take another 50 years or more for this sector to start to mature as the understanding of plantation forestry, and commercial solid timber product manufacture from plantations is currently minimal,” Collins says.

“It is important now that plantation forestry continues to develop across West Africa, facilitated by government policy and catalyst sector investors, to build a sustainably industry and wood supply chain, and thus avert environmental catastrophes caused by deforestation and lack of sustainable timber supply.”

Country: Sierra Leone, Ghana
Sector: Forestry and logging
Year of investment: 2014

Forestry Stewardship Council (FSC®)

FSC is a global, not-for-profit organization dedicated to the promotion of responsible forest management worldwide. FSC certification ensures that products come from well managed forests that provide environmental, social and economic benefits. Forest owners and managers may want to become FSC certified to demonstrate that they are managing their forests responsibly. Along the supply chain, FSC certification can provide benefits such as access to new markets.

Since its inception in 1994, FSC certification has grown steadily. It now stretches across 81 countries covering over 194 million hectares of forests worldwide. Today, about 15 percent of global roundwood supply in the timber and pulp and paper sectors is FSC-certified.

The environmental and social benefits of FSC certification have been well researched, resulting in verified increased social and environmental benefits, however there has been little research on the economic impacts of FSC on forest operators. A recent report by the WWF entitled **Profitability and Sustainability in Responsible Forestry; Economic impacts of FSC certification** on forest operators summarises that on average companies can expect to see an extra USD 1.80 (or 30 percent) earned for every cubic metre of FSC certified roundwood sold, predominantly via price premiums and increased company efficiency. The study shows that although the investment costs of entering into an FSC certification process can be considerable, achieving FSC certification is likely to produce a net positive financial outcome for plantation forestry businesses.

Finnfund and forestry certifications

In addition to requiring its clients to work towards compliance with international good practice standards, Finnfund encourages its forestry clients to become certified and provides support along the journey.

The support provided can take various forms, including input to the development of management plans and practices, capacity building for the client's E&S staff, knowledge sharing from other projects, introductions to new contacts, etc.

FSC or other certifications, such as PEFC, are well suited for both natural forest as well as plantation forest management in Finnfund's operational area. Many of Finnfund's forestry clients are already FSC certified and many are in the process. Finnfund considers FSC certification as a clear and practicable commitment to sustainable forest management practices as well as a competitive advantage in today's global markets.

More information:
www.miroforestry.com
Forestry Stewardship Council (FSC)

Photos: Miro Forestry ja CDC Group Plc

Fuzu matches workers with jobs

It is hard to find a job in Nairobi. Even good qualifications do not open all the doors. The competition is ruthless. There is no shortage of applicants and the number swells by a million each year. Nairobi, full of smart young university graduates, may be Africa's toughest job market.

Sylvia Biwott and **Gregory Oyolo** are good examples of young, educated people in the growing middle class.

"I graduated from university in November 2015 and have been looking for work ever since. Hardly a day goes by when I don't fill out a new application," said Gregory in Nairobi last March.

"I've sent off ten job applications since last week. A few times I even got as far as an interview," explained Sylvia, who has almost completed her university studies and is already looking for work.

The big problem is that people usually find out about vacancies via a friend or a friend of a friend. Without connections you simply do not hear what is available.

Fuzu is a game-changer

Net-based Fuzu, accessed by computer or mobile phone, has changed things completely.

"I heard about it from a friend who recommended it," said Gregory, who dreams of a job as a buyer. "Thanks to Fuzu I receive daily news of all vacant positions. It even reminds me about the deadline for applying for each job. It keeps me active."

Sylvia has been looking for sales and marketing work. She discovered Fuzu online and has found it very useful throughout the job application process.

"Applying for a job takes a lot of time. Now Fuzu sends me daily announcements about jobs in my field. It's a great help."

Gregory thought the same. "Fuzu makes job seeking easy and keeps you informed of what's on offer. If you create your own profile on Fuzu, it looks for the jobs that suit you and sends you messages about them."

The problem of corruption

Corruption in Kenya extends into the labour market. Applicants may have to give a month's pay to some middle-level boss in order to get a job. Sometimes they pay even to get into a job interview.

"And many interviews are just formalities because in reality the position has already been promised to some acquaintance," Sylvia added.

She thought that the biggest improvement in the situation would be if more jobs were available. Gregory said bluntly that the system is rotten; it should serve ordinary Kenyans and not the other way round.

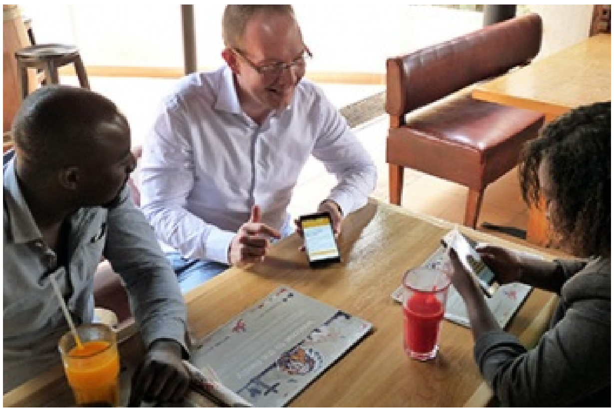
Fuzu's managing director **Jussi Hinkkanen** calculates that, of Kenya's population of 46 million, 18 million are economically active but only 3 million are officially employed.

"That means that 15 million are either doing agricultural work or have informal jobs like drivers, carpenters or small-scale entrepreneurs," he says.

"Forty percent are either completely or partly unemployed. It is common to earn a living from many small sources. Kenya has a special name – hustlers – for people who work like this."

Boost your profile

Fuzu does not just mediate jobs. Hinkkanen says it is constantly developing and he was keen to explain its new features to Sylvia and Gregory. At the same time Fuzu staff received invaluable direct user feedback.



"You should fill out your profile with extra areas of expertise like computing skills, Gregory. Employers also appreciate soft skills on a CV, things like the ability to socialise and be an effective team player."

He advised Sylvia to add outside references to her profile.

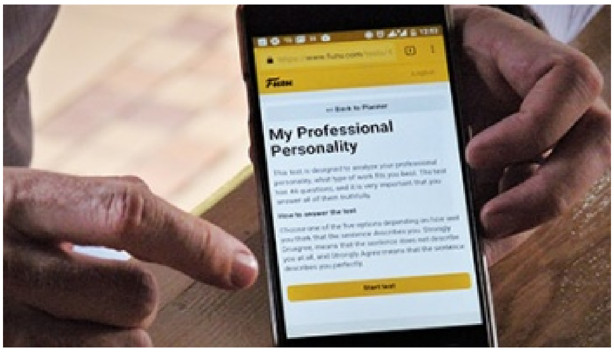
"Both of you should now boost your profiles. A stronger profile is more attractive to employers."

Next Jussi Hinkkanen asked them if they had tried Fuzu's 130 fact sheets, its training programme and its career development application.

Fuzu even has a digital assistant, Mama Fuzu, operating in the same way as Windows' Cortana or Apple's Siri. Mama Fuzu provides hints like which Fuzu courses would be most useful to the user.

Fuzu is important for job applicants in three ways, Hinkkanen says. “It is a platform for planning your way forward in life. Secondly, it can teach you new things about seeking jobs and developing a career. And most obviously, it can find your next job.”

Free of charge for applicants



Job seekers pay nothing to use the service. Fuzu gets income from services to employers. The advantage for employers is that, instead of having to wade through thousands of applications, Fuzu helps sort out the most suitable.

If they wish, jobseekers can buy extra services, such as Instant Feedback, which costs 100 Kenyans shillings and shows how the user’s chances of getting a job can be improved. Also available is a free psychological test that explores the kind of work that would suit the applicant best.

Hinkkanen says the important thing is that Fuzu has built a community for its users. They are not alone in their struggle for a living in a tough world.

“We create a feeling of togetherness. Dream, grow, be found. Our aim is to make Fuzu a one-stop service containing everything necessary for finding a job and developing your career.”

Fuzu has also received support from Finnpartnership. During 2014–2015, Fuzu received support to complete a feasibility study, train personnel, identify partners and piloting the project in Kenya. Read more on the Finnpartership ***website****.*

Country: Kenya
Sector: Information technology
Year of investment: 2016

Heading for the world's largest labour markets

Fuzu is a Kenyan-Finnish company established in the wake of Nokia. Jussi Impiö was head of Nokia's research centre in Nairobi from 2007 onwards and established Fuzu in 2013. Jussi Hinkkanen also worked for the mobile phone giant, where he learned about developing African economies. He joined Fuzu because he felt that the best way to help developing countries is to give people the tools to help themselves.

"I wanted to do something with a big social impact," Hinkkanen said in Nairobi in March 2017.

Fuzu has already achieved that. More than 800,000 Kenyans have used it. The aim is to rapidly expand operations in East Africa, South Africa and later elsewhere in developing world such as Southeast Asia, labour markets of hundreds of millions of people. Fuzu currently has 21 employees.

The labour markets of Africa are immense and steadily growing. By 2035 Africa will have a larger labour force than India or China. In Kenya alone one million new people are born every year.

"Fuzu has to be rapidly scalable. By 2020 another 120 million new people will have entered the African labour market. If Africa's 740 million people of working age cannot find anything worthwhile to do, there will be enormous social problems. The impact will be felt as far away as Europe, even in Finland," Hinkkanen says.

Developing African labour markets and especially preventing youth unemployment have been key motives for Finnfund to finance Fuzu. In November 2015 Finnfund granted the company a loan of EUR 0.5 million, which can be increased in future to EUR 1.5 million. The finance is intended to support for Fuzu's expansion in Africa and Asia.

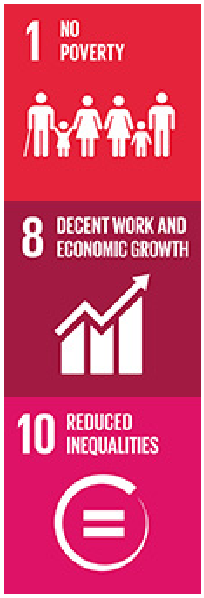
In January 2017 Fuzu was selected fifth among the **most interesting companies to watch in Africa.**

More information:

Fuzu

Finnfund supports Finnish-Kenyan Fuzu's expansion in Africa and Asia

Financing to small and medium-sized companies in Cambodia



Finnfund will provide support to the microfinance sector in Cambodia by investing in Prasac Microfinance Institution Ltd, one of the leading microfinance institutions in the country. Prasac provides banking services particularly to small and medium-sized enterprises such as small farms and grocery stores in rural and remote areas.

The vision of Prasac, founded in 1995, is to improve the living standards of the rural people contributing to sustainable economic development by being financially viable microfinance institution. Currently, Prasac employs 5,895 people, and has well over 337,000 clients of which more than 90 percent are living in rural areas. More than 80 percent of the borrowers are women.

With Finnfund's financing more than 6,000 new loans

With the loan provided by Finnfund and other lenders, the company is hoping to employ 6,500 people more by 2020, and provide more than 6,000 new loans to its customers.

“This funding will enable Prasac to extend more loans to small businesses and low-to-middle-income borrowers, 85 percent of whom are women,” said **Sim Senacheert**, Prasac’s Chief Executive Officer.

Cambodia is an LDC country (least developed country) and one of poorest countries in Asia. Majority of the companies are small and medium-sized enterprises. The need for reachable and affordable banking services is growing fast.

New financing supports development of Cambodia's microfinance sector

The loan provided by Finnfund is worth USD 15 million. It is a part of a syndicated senior loan facility of USD 55 million, arranged by the German development finance institution DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH. This support of international investors demonstrates a strong confidence in Cambodia´s microfinance sector and outlook for the country’s sustained economic recovery.

Country: Cambodia
Sector: Microfinance
Year of investment: 2016

Reliable banking services for all

Support for microfinancing and other banking services is aiming to help the poor to have an access to finance and services. The aim is to reduce economic inequality which is also an essential part of the Sustainable Development Goals. Dependable banking services can have an important role in development, both for individuals and for companies.

Small companies, which provide a significant proportion of jobs in developing markets, often find it difficult to access traditional financial services. By cutting the need to handle cash and store wealth in fixed assets, banking services facilitate credit, saving and thereby planning for a better life. They can also allow greater freedom in the choice of livelihood, bring a safety net when needed, and in increase self-determination of women. Many banking services also allow safe money transfer, for example from relatives living abroad.

At present, two billion, or 46 percent of adults in developing countries have no access to banking services. In Africa, almost 70 percent of women have no access to banking services. Significant progress has been made over the past five years, and especially through mobile financing, people living in rural areas can also be reached.

According to a study by the World Bank Group's Independent Evaluation Group, the effects of mere microfinance on poverty reduction are not unambiguous. In poverty reduction, saving money has more importance than credits.

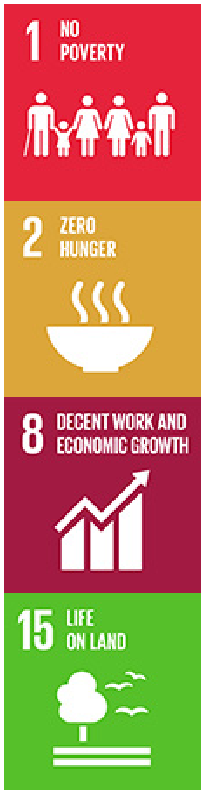
More information: IEG (2016): Financial Inclusion - A Foothold on the Ladder Towards Prosperity? An evaluation of the World Bank Group Support for Financial Inclusion for Low-Income Households and Microenterprises.
http://ieg.worldbankgroup.org/Data/reports/financialinclusion.pdf

More information:

Prasac Microfinance Institution Ltd

Photo: Prasac Microfinance Institution Ltd.

EthioChicken improves food security and living standards in Ethiopia



Finnfund begins to finance EthioChicken, which aims to improve food security and reduce poverty in Ethiopia. By producing chicks which will provide eggs and poultry meat, the company supports families to improve their nutrition and livelihood, particularly in rural areas.

Currently, the company operates three poultry farms, where it produces chicks. It sells the chicks to agents, who are often young people under 30 years old and with university degrees. Their task is to grow and sell the chicks when they are around 4-6 weeks old to families, who are then able to produce eggs and chicken meat both for their own use and for sale. Approximately 85 percent of the end customers live in rural areas. Usually, the chickens are taken care by the mothers among other home work.

The agents, together with governmental agricultural experts also give training on chicken breeding.

EthioChicken focuses on breeds that are more profitable than indigenous Ethiopian chicken breeds; for example, they grow faster and produce more eggs. They are also healthier, as all chicks are vaccinated before they are sold to agents. Eggs and poultry provide important protein to the diet. In addition, they can be an important source of income.

“This investment from Finnfund will allow us to invest in more poultry houses, incubators, feed processing machinery, along with investments which will further strengthen the hygiene, sanitation, health, and safety of our workplace. This will enable us to move closer to our vision of one chicken per person per year in Ethiopia in a sustainable way,” says **David Ellis**, CEO of EthioChicken.

The company, established in 2010, has already produced and sold 13 million chicks in Ethiopia. The company currently employs directly more than 700 people, of whom 40 percent are women. In addition, the company cooperates with approximately 1,800 agents employing thousands of people. When the number of households buying the chickens are added to this, it can be estimated that the company positively affected for example in 2016, up to 1.6 million households, or more than 6 million Ethiopians.

Finnfund has granted Agflow Poultry, owner of EthioChicken, loan of USD 10 million. The aim is to support the development and expansion of the company's operations in Ethiopia.

“EthioChicken is doing important work, and we are glad that we can finance the development and expansion of their operations. Improving food security and job creation, particularly for the young, are playing a key role in the development of Ethiopia and the region as a whole," says **Jaakko Kangasniemi**, Finnfund's Managing Director.

”The business model of EthioChicken is almost unique in Africa; it is the only poultry company that has succeeded on a large scale to reach specifically rural households while being able to operate profitably,” says **Jari Matero**, Senior Investment Manager at Finnfund.

The company has gained international attention and praise for their work. Improving food security is particularly important in Ethiopia, which is among the world's poorest countries. The country has recently suffered of exceptional drought, which has affected particularly farmers and other people living in rural areas. There has also been political unrest in the country. At the same time, Ethiopia is one of the countries where the population is growing fastest in the world: the United Nations estimates that the population is expected to double from the current 99 million to 188 million by 2050.

Country: Ethiopia
Sector: Poultry production
Year of investment: 2016

Developing the agricultural sector improves food security and reduces poverty

78 percent of the world’s poor live in rural areas and work in agriculture. Agriculture and farming are the most efficient way to increase their income. Half of the agricultural work is done by women.

Due to population growth, the efficiency of food production must be improved; the agricultural sector must produce 50 percent more food in order to feed 9 billion people living the world by 2050.

Every day 790 million people do not have enough to eat. If this continues, it will be impossible to achieve the second sustainable development goal, no hunger.

Every fourth (25 percent) child, i.e. 160 million children, under 5 years of age is suffering from maltrutrition. 75 percent of them are living in Sub-Saharan Africa and South Asia. Almost half (45 percent) of the deaths of children under 5 years of age are caused by malnutrition.

More information:

EthioChicken
Sustainable development goal 2: *End hunger, achieve food security and improved nutrition and promote sustainable agriculture*

Solar brings electric light to Mary's family

Mobisol sells individual solar systems to rural African households beyond the grid, paid for in low monthly instalments using mobile money. A secured loan from Finnfund is supporting the company's growth in Africa. The aim is to raise living standards and increase the use of renewable energy.

An old gutted Toyota Hiace van sits in the middle of a field in Kajiado County, a rural district of Kenya about 100 kilometres from the capital Nairobi. Last year the van was still providing a job for **Mary Muigai's** husband Charles, and income for the family.

"We were living in a three-bedroom house that cost us 15,000 shillings (about 150 euros) a month. Then the car broke down and my husband's work disappeared," Mary Muigai explains.

When their money ran out, the family had to move to a wasteland where they live in a two-room house made of corrugated iron sheets. There was no electricity. Family evenings were lit by candles and kerosene lamps.

Now the family is getting by on the small wages that Charles receives from working as a mechanic.

"But I didn't want the children to have to breathe kerosene fumes, which are bad for the lungs. That's why I decided to get a system to produce electricity from solar panels and give us real light," Mary says

Mobisol, a company that has expanded to Kenya from Rwanda and Tanzania, supplied Mary's family with a solar power system in December. The package consists of a panel for the roof and a battery to store electricity generated during the day.

"Now my 12-year-old son Ian and my 14-year-old daughter Jane can do their homework late into the evening and I have light to work by when I get up early in the morning to prepare food. I'm really happy we bought the system."

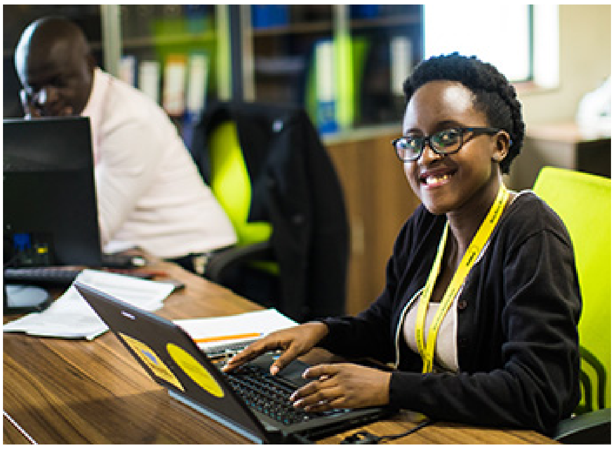
Where the sun shines

Mobisol's business concept is to sell solar power systems to individual African households. The main target group are people whose homes are not connected to the electrical power grid.

“We operate where grid coverage is inadequate but there’s plenty of sunlight,” says **Etienne Stüttem**, Organization Development Specialist at Mobisol Kenya.

The customer buys the equipment in equal monthly instalments spread over three years, paying with M-Pesa, a mobile money transfer service. After that, the electricity costs nothing.

Founded in Berlin, Mobisol already has a firm foothold in Tanzania and Rwanda - where the company has installed nearly 80,000 solar home and business systems so far. In March 2016 it began operations in Kenya, with a local office in Nairobi. Equipment sales began in September 2016 and within 6 months about 450 solar power systems had been sold.



Each package comes with a SIM card and an antenna. From a computer in Nairobi, IT Manager **Ruth Gicharu** has a real-time view of customer payments as well as equipment malfunctions. During the three-year payment period, the customer receives free support and maintenance.

“Most of our customers in Kenya are in the west, in Kisumu and Kakamega counties, where grid coverage is patchy. We also have customers in Nairobi but usually they are buying equipment for relatives in the countryside,” Gicharu says.

“Now mother can watch tv”

One such customer is **Samuel Kiarie Kangetne**, 21. His mother lives in Kajiado County, a lower middle-class area outside Nairobi.

“There is grid coverage where she lives but the connection charge is expensive and frequent power cuts mean it’s not reliable,” Kangetne says.

In December he bought his mother a Mobisol package that includes a television in the monthly fee. After an initial charge of 6,000 shillings (60 euros) he is now paying 3,000 shillings a month. It’s affordable, he says.

“The main thing is that my mother is now self-sufficient in electricity. We also know how much electricity will cost in the future whereas the power company’s tariffs have been rising. So it’s more predictable.”

The best thing, he says, is that mother does not have to worry about power cuts any more. “Now she can watch her favourite channel, Citizen TV, whenever she wants.”

Choosing the right package

Mary Muigai is happy with her Mobisol package but life could be even better with a television.

“The kids would enjoy watching movies and cartoons.”

She has a basic Mobisol package that does not include television. To run a TV she would have to upgrade the equipment and the monthly payment would rise a bit, to 3,000 shillings a month.

Mobisol’s Head of Marketing, **Cedric Todwell**, advises her to wait a bit longer.

“Let’s see how the payments work out over a longer period. We don’t want to sell people the most expensive package but the one that they can truly afford. It would be a great disappointment if they couldn’t keep up the payments and we had to repossess the equipment.”

Solar income for small businesses

In 2016 Finnfund granted Mobisol a loan of EUR 7.5 million to finance growth. An important reason was that supplying electricity to new areas can improve human lives, reduce inequality, and even help people out of poverty. At the same time it gives them access to news and information, by allowing them to run a television and charge a mobile phone.

“About a third of our customers use the service to develop small businesses. For example, the owner of a small bar can attract customers and make more money if he shows television programmes,” **Etienne Stüttem** points out.

It was significant for Finnfund that electricity produced from solar power helps to curb climate change. There is also an important health perspective; providing clean energy in place of the dirty kerosene burners that are widely used in African countries.

While raising living standards, Mobisol’s business is also profitable. Selling equipment by instalments is not a gold mine but the market has long-term potential. As the African population continues to grow, so will the number of customers.

During its first full year of operations in Kenya, 2017, the company is aiming at 10,000 customers. It wants to continue growing and cover the whole country.

“After another 18 months we will be standing on our own with sales in Kenya,” says **Martin Kingori**, Director of Finance at the Kenyan office.

Country: Tanzania, Rwanda, Kenya
Sector: Solar energy systems
Year of investment: 2016

Small-scale systems bring electricity to off-grid homes

Small electrical generating systems like solar panels can bring electricity to places that cannot obtain it, or afford it, from the national power grid. Extensive research into the impact on poverty has produced a broad consensus that electrification tracks and supports an increase in wealth, particularly in very poor countries. It has an especially great impact on women.

For households, the greatest effect of investment in solar power systems is reduced expenditure. Solar electricity is significantly cheaper than traditional methods of lighting, and the money saved has an important positive impact on households (ODI, 2016: Accelerating access to electricity in Africa with off-grid solar. The impact of solar households solutions). Rural African households use 10 percent of their income to obtain four hours of lighting from poisonous and inefficient kerosene and candles. Average spending of 100 dollars a year produces just one kilowatt hour. An investment in solar energy repays itself 15–45 times. Most of the savings are used for better food, school fees, seeds and fertilisers and, particularly among small businesses, greater investment.

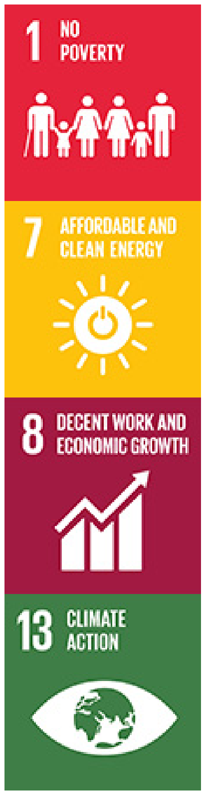
Households with solar power use lighting for an average of five hours a day, one hour longer than kerosene lamp users, and families do more household work and school homework. Business incomes are 82 percent higher with solar electricity than without. Kerosene lighting pollutes household air and damages health, causing burns and respiratory diseases, especially among children. In a wider perspective, solar power is important for reducing greenhouse gas emissions and combating climate change.

More information:

Mobisol
Solar power for African homes by mobile payment

Supported by Finnpartnership

Textile importer focuses on quality



Nest Factory imports unique, high-quality textiles from developing countries and has used Finnpartnership to find partners from as far afield as India and Peru.

Alpaca ponchos from Peru, handmade cotton towels from Ethiopia and cushions made by Berbers from Morocco. These are just some of the handmade textiles and home accessories imported by Helsinki-based Nest Factory.

"Our business idea is to import limited quantities of unique, high-quality products to the Nordic countries. It's important to us that the products are made responsibly from the point of view of the environment and workers' rights," says founder **Tracey Powers-Erkkilä**.

"We focus on quality instead of volume," she continues.

A hobby evolved into a business

New York-born Powers-Erkkilä has lived in Finland since 2000. Before embarking on her own business venture, she worked in CSR reporting for Nokia.

"Importing started as a hobby, but I had such an interest in the products that I decided to become a full-time entrepreneur."

When Powers-Erkkilä began searching for products that would meet Nest Factory's criteria, her contacts and prior experience from developing countries came in handy. She has found new business partners during overseas trips and visits to trade fairs.

"I enjoy travelling, meeting artisans and hearing the stories of their products."

Finding partners and building well-functioning business relationships in developing countries requires time and patience. According to Powers-Erkkilä, large-scale manufacturers are not necessarily interested in working with a small Finnish company. On the other hand, a small company can lack knowledge about the intricacies of international trade and the related paperwork.

Finnpartnership's support was highly beneficial

Finnpartnership's services helped Nest Factory find new contacts, who have since become partners. For example, a Peruvian producer of alpaca products was found via the free Matchmaking service, which helps businesses from developing countries find cooperation opportunities and business partners from Finland.

"We import ponchos made by a Peruvian company. We are very happy with our partner's business practices and quality and we are now expanding our cooperation to include other products as well."

According to Powers-Erkkilä, product development is done in cooperation with the local company. The partner has the knowledge about the materials and production methods, while Nest Factory is able to choose the right products for Nordic tastes.

"The training of local employees, for example, in product quality matters, is an integral part of cooperation."

Able producers available in developing countries

Nest Factory also received business partnership support when mapping potential partners in India. During a trip to Jaipur, Powers-Erkkilä sought out local textile producers and investigated local production conditions, practices and networks. She was able to find new partners, including a producer of hand-knitted woollen scarves, whose products Nest Factory now imports to Finland.

"Finnpartnership's support is very important to a small business like Nest Factory. This form of support is definitely needed, because there are countless talented producers in developing countries with products that would be popular in Europe."

Handmade product manufacturing also brings much needed jobs to developing countries. The majority of the workers are women, who would otherwise struggle to find employment. Initially, Powers-Erkkilä concentrated on selling products on a "pop up" basis, for example in customers' homes. Now Nest Factory has its own online store as well as a brick-and-mortar store — which also hosts a coffee shop run by other entrepreneurs — in the Punavuori district in Helsinki. The company also sells wholesale to interior design businesses across the Nordic countries.

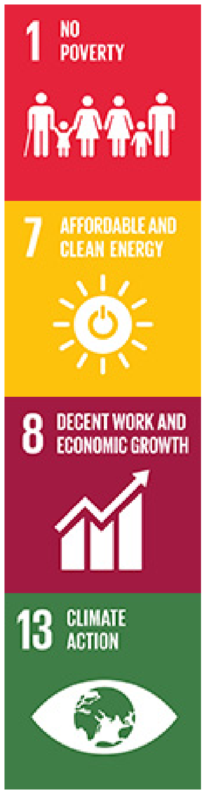
More information:

Nest Factory
Finnpartnership

Photos: Nest Factory

Supported by Finnpartnership

Finnish company exports solar energy know-how to Egypt



GreenEnergy Finland is helping Egypt increase the use of renewable energies. Support from Finnpartnership gave the company a head start.

GreenEnergy Finland Oy (GEF) was launched in 2010 and specialises in solar power solutions. The Lappeenranta-based company delivers customised solutions and projects. GEF's project portfolio includes Finland's largest solar power station built for Helen Oy in Kivikko, Helsinki.

According to GEF founder and executive partner **Miko Huomo,** solar energy is a growing industry around the world. Two years ago, the Finnish company set about mapping international opportunities in earnest.

"We decided to focus on North Africa, the Middle East and Mexico, since these areas receive twice the amount of solar radiation as Finland," Huomo says.

Support from Finnpartnership

GEF was also looking for countries which have a feed-in tariff for solar energy. The tariffs set a price guarantee for companies that supply renewable energy to the grid, ensuring that the investment is profitable. GEF identified Egypt as a potential target country in its initial searches. The final choice was made once GEF was able to carry out a more detailed analysis of the country's solar energy market with support from Finnpartnership.

"The support enabled us to spend more time in Egypt and get more information about the country. In terms of launching the local operation, it was crucial for us to find the right local partners to organise our product sales and maintenance services," Huomo says.

GEF eventually chose an Egyptian company familiar with the potential client base but without previous experience in solar energy.

"Thanks to Finnpartnership's help, we were able to train our partners. The support has been vitally important. We couldn't have gone to Egypt without it."

Egypt seeks to increase the use of renewables

Most electricity in Egypt is produced with natural gas from the country's coastal areas. There are some hydropower stations but also ones that use diesel. The Egyptian government wants to increase the proportion of renewable energy consumption in order to reduce emissions and pollution in densely populated urban areas. There are also some wind farm projects under way.

"Electricity consumption rises continuously as Egyptian society develops and becomes more and more technological. It is important for the country to have more access to clean and emissionless energy at a reasonable price."

Competition in the solar energy market is fierce. Huomo believes that high quality and cost-efficient methods will help his company succeed in Egypt, too.

"We will succeed if we do things well. It's easier when you have good partners than if you go at it alone. The biggest challenge was finding the right partners and training them. Political and economic uncertainty is also a major challenge in Egypt."

First deal made in November

GEF's solar power systems are suitable for various industries including retail, logistics and manufacturing. These types of businesses have large properties which consume a lot of electricity and offer space for the installation of rooftop solar panels. GEF's solar energy system also includes its proprietary cloud-based system for production monitoring and consumption management, which supports energy efficiency and controlling the use of solar energy at the individual building level.

"The fully automated solution ensures smooth operation of the service and helps to optimise maintenance schedules."

GEF secured its first deal in Egypt in November 2016. The company is delivering a high-MW solar power station to be installed on the roof of an industrial plant near Cairo. The Egyptian client is TEPCO, which provides products and services related to electric power transmission and distribution. GEF is responsible for the design of the solar station, the supply contracts and construction. The delivery includes 3,755 monocrystalline solar panels, a centralised inverter solution and GEF's management and monitoring system. The design work will be done in Finland. Part of the equipment manufacturing and assembly will be done in Egypt, and local installation service providers will also be used.

More information:

GreenEnergy Finland
Finnpartnership

Photo: GreenEnergy Finland

Board of Directors' report 2016

Mission and strategy

Finnish Fund for Industrial Cooperation Ltd (FINNFUND) is a development finance company in which the Finnish government has a majority holding; it belongs to the administrative sector of the Ministry for Foreign Affairs and has a special development policy mission. The purpose 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 it operates on a self-supporting basis. The majority of Finnfund financing is directed at low-income and lower-middle-income developing countries with the aim of building bridges between Finnish expertise and the needs of developing countries, and of augmenting the developmental impacts of Finnfund investments.

The central government budget for 2016 approved by the Parliament contained significant additional funding to Finnfund. The additional funding was confirmed towards the end of the year, and it was specified that it is in the form of a loan and can be drawn in 2017. In 2016, the company focused on taking the full advantage of resources allocated to it in accordance with its mission. A record number of new investment decisions were made; nearly twice as many as the year before. In the course of investment decisions, payments also increased to a great extent and the amount of investment assets grew considerably. The company prepared for growth and strengthened its capacity by recruiting new employees, training its employees and developing its operating methods, among other things.

The special risk funding instrument that was intended for funding projects with extremely high impact and involving a great risk targeted at low or lower-middle income countries was no longer in use in 2016, which made the funding of the most high-risk projects more difficult.

Funding and investments

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

In 2016, 21 (in 2015: 18) new financing commitments were made, amounting to a total of EUR 152 million (EUR 83.5 million). The targeting of financing decisions at various income levels is shown in the table below.

Income level	No. of decisions	%	EUR million	%
Least developed countries	8	38	42.4	28
Low-income countries	1	5	4.3	3
Lower-middle-income countries	8	38	78.5	52
Upper-middle-income countries	4	19	26.7	18
Russia	0	0	0	0
Total	**21**	**100**	**151.9**	**100**

The majority, or 14 (9) of the financing decisions made involved investment loans, accounting for about 80% (60%) of the value of the decisions in euros.

According to Finnfund's risk management principles, equity investments must be covered from Finnfund's shareholders' equity. In 2016, shortage of shareholders' equity and uncertainty about the realisation of the significant increase in capital limited the opportunities for making equity investments. The increase in capital was confirmed in the form of a loan towards the end of the year. However, thanks to the long maturity and subordination the loan can also partly be used for making equity investments. Eight (11) of the projects that were approved were equity investments or mezzanine financing, showing a reduction from the previous year. When calculated in euros, they accounted for 20% (32%) of all approved projects. Fund investment decisions were not made.

In terms of both the number and value of the financing decisions made, Africa with 9 (7) decisions and Asia with 7 (8) decisions were the leading continents. When calculated in euros, Asia was the most popular area with 41% (40%) of funding. The value of commitments was lower for Africa compared with the previous year, and constituted 21% (44%) of the total value of commitments. The change is due to casual variation year on year. Projects were evenly distributed between different countries. One decision per country was made, with the exception of Tanzania, which accounted for 2 (1) decisions.

The volume of disbursements grew to EUR 82 million from EUR 77 million, representing a historic high for Finnfund. Of this amount, EUR 34 million (EUR 53 million) was allocated to low-income countries or the least developed countries, EUR 42 million (EUR 8 million) to lower-middle income countries, EUR 5 million (EUR 16 million) to upper-middle income countries, and EUR 0 million (EUR 0.5 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 (EDFI) 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 2016, a decision was made to commit additional funding to the ICCF.

The amount of undisbursed commitments totalled EUR 147 million (EUR 137 million) at the end of 2016. In addition, EUR 108 million (EUR 104 million) was tied up in investment commitments that had not yet progressed to the agreement stage.

Development and priorities

Co-operation with other members of the European Development Finance Institutions (EDFI) continued as in earlier years through both projects and the development of harmonised operating methods. The focus on human rights issues was emphasised in the work of environmental and social advisers, and a tool created to improve the systematic way to work was taken into use towards the end of the year. The number of environmental and social advisers was also increased. In addition, the assessment of the development impact of projects and political risks and publicity risks was further developed. This work will continue in 2017.

In 2016, there was increasing interest and also critique toward Finnfund's projects and operations. Finnfund does try to actively increase communication between various interest groups such as non-governmental organisations and companies both in Finland and abroad and further increase openness about the company's operation and results. This work will also continue further in 2017.

An organisational reform was carried out towards the end of 2016 during which the partial matrix organisation was dissolved and investment operations were concentrated under a single Chief Investment Officer. Projects that were at the monitoring phase were transferred more actively than previously to Portfolio and Risk Management so that capacity was released from investment operations personnel for the preparation of new projects.

Legal affairs were transferred under the management of Director, Administration and the operation's personnel resources were considerably reinforced so as to correspond to the need of expertise due to the increasing number of both existing projects being monitored and new projects. In the future, an increasing share of legal affairs can be handled by the company's own resources, which will considerably reduce related external costs.

Internal processes were reviewed and developed further. Key areas included in particular a more efficient use of internal cooperation, online tools and processes. In 2016, new data systems were taken into use, and the work still continues in 2017.

Finnpartnership

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

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. As of 2016, training has also been provided to companies in the form of seminars and workshops.

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

In 2016, a total of 122 (185) business partnership support applications were processed. Of these, 91 applications were accepted (168). The support granted totalled EUR 4.5 million (EUR 7.4 million).

Business partnership support was paid out to 95 (81) projects, totalling EUR 2.0 million (EUR 1.5 million).

In 2016, the matchmaking service received a total of 441 (364) business initiatives from companies that operate in developing countries.

Risk management

The Finnfund Board of Directors confirms the company’s risk management principles and instruments. The company’s management is responsible for the practical implementation of risk management on the basis of the guidelines confirmed by the Board of Directors. Guidelines on asset and risk management are assessed annually. No changes were made to the management principles in 2016.

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

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. To be eligible for special risk financing, an extremely high developmental impact aimed at low-income or lower-middle-income countries was required of projects; or the risk was otherwise considered too high for the project to qualify for Finnfund financing. The arrangement considerably increased Finnfund's ability to take risks during the period of time when it was in effect. As of 31 December 2015, no new projects covered by special risk financing can be accepted.

The special risk financing was provided on the basis of a loss compensation commitment adopted by the Government on 20 September 2012, whereby the government undertook to compensate Finnfund for a maximum of 60% of credit losses and investment losses in projects covered by special risk financing during the validity of the commitment.

Projects accepted for coverage by the special risk financing during the term of the programme will be covered by Government risk-sharing until repayment or Finnfund's exit. By the end of 2015, commitments with a value of EUR 111 million had been made for projects under special risk financing. The government answers for EUR 50 million, or 45 per cent of the risks involved in these commitments. The loss compensation commitment covers a maximum of EUR 5 million in compensation per year. No compensations had been applied for by the end of 2016.

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

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. Finnfund has a committed credit facility of EUR 50 million, non-committed credit facilities in Nordic banks, and a commercial paper programme set up in 2010 totalling EUR 100 million. At the end of 2016, the value of commercial papers issued through the programme amounted to

EUR 55 million. The credit facilities provided by banks were not in use at the end of 2016.

The refinancing risk associated with borrowing is managed by trying to maintain a sufficiently extensive group of financiers and a versatile range of instruments. An additional aim is that at least half of the borrowing should be long-term funding. At the end of the year under review, the average time to maturity of interest-bearing debt in the balance sheet was 2.1 years (3.7).

In 2016, the Finnish government granted Finnfund a convertible loan of EUR 130 million for 40 years which is subordinate to the company's other debt. The loan has not yet been withdrawn, and it is available until the end of 2018.

The company maintains continuous procedures in order to identify, manage and prevent data security risks.

Financial result and balance sheet

In 2016, Finnfund made a profit of approximately EUR 0.3 million (approximately EUR 5.1 million). The result was clearly more modest compared with the previous year and the budget and it was due to changes in the valuation of investment assets and the transfer of a considerable dividend payment to 2017 after it was expected to be received in 2016, among other things.

The operational result is shown in the table below. Income from financing activities stood at EUR 14.2 million (EUR 13.5 million) and the result before value adjustment items, sales and taxes was EUR 5.2 (EUR 6.0 million).

Operational result, EUR 1,000	2016	2015	Change EUR	Change %
Financial income	19,306	16,168	3,019	19
Financial expenses	-5,146	-2,704	-2,323	82
Income from financing activities	**14,160**	**13,464**	696	5
Other operating income	1,600	1,865	-265	-14
Administrative expenses, depriciation and other expenses	-10,588	-9,342	-1,246	13
Result before value adjustment, sales and taxes	**5,172**	**5,987**	-815	-14
Value adjustment and sales	-4,824	-827	-3,997	483
Income taxes	-18	-103	85	-83
Net profit	**330**	**5,057**	-4,727	-94

Income

Dividend income amounted to EUR 0.6 million (EUR 0.2 million) and dividends were received from six companies.

Interest income from investment loans came to EUR 9.9 million (EUR 7.5 million), and other interest income was EUR 0.3 million (EUR 0.3 million). Interest income totalled EUR 10.2 million (EUR 7.8 million). Other interest income mainly consisted of interest income from liquid assets.

Other income from long-term investment amounted to EUR 6.7 million (EUR 7.1 million), consisting of gains from fund investments. No capital gains from sales were recognised as income during the year under review (EUR 5.5 million).

Other financial income without foreign exchange gains, at EUR 1.4 million (EUR 1.1 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 19.3 million (EUR 21.7 million).

Foreign exchange gains amounted to EUR 11.0 million (EUR 15.3 million) and losses to EUR 10.6 million (EUR 15.2 million). The foreign exchange difference was EUR 0.4 million positive.

Other operating income amounted to EUR 1.6 million (EUR 1.9 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 11.4 million (EUR 10.2 million), representing about 3.2% (3.1%) 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 12.4 million in 2016 (EUR 5.2 million).

The net effect of impairments on financial performance was approximately EUR 1.0 million (EUR -5.0 million).

Expenses

Interest expenses were EUR 1.3 million and increased 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 2015 and the bond issued in autumn 2013.

Other financial expenses were EUR 3.9 million (EUR 2.0 million), including management fees of EUR 2.8 million (EUR 1.4 million) associated with fund investments. The doubling of the fund expenditure is due to a change in the recording practice of funds. According to the new recording practice all management fees of funds are recorded as expenses whereas previously only management fees following the conclusion of the investment period were recorded as expenses. At the time, fees paid during the investment period were recorded as part of the acquisition cost of an investment. Other financial expenses also include costs of EUR 0.8 million (EUR 0.4 million) from derivatives.

Investment and sales losses amounted to EUR 5.8 million (EUR 1.3 million), which is attributable to previously recognised individual impairment losses.

Administrative expenses totalled EUR 10.6 million (EUR 9.3 million). The increase in expenses consists of several items, the most significant ones being higher personnel costs and increased use of external services. The increase in the volume of operations and the resulting increase in operating costs were pre-planned.

Taxes recorded in the profit and loss account, totalling EUR 0.018 million (EUR 0.1 million), consist of both sales gains taxes paid to the target countries and withholding tax targeted at work compensations and dividends.

Balance sheet

The balance sheet total stood at EUR 406.0 million (EUR 377.1 million) as at the end of the year under review.

The balance sheet value of investment assets was EUR 356.3 million (EUR 330.0 million) at the end of the year under review. During the financial period, a change was made in the recording practice of funds. According to the new practice, only the acquisition cost used by funds in investments is activated as an investment acquisition cost in Finnfund's balance sheet. Previously, management fees paid during the investment period of funds were also activated as part of the acquisition cost. The recording practice was also adjusted retrospectively for previous financial periods, which resulted in a reduction of EUR 18.2 million in the balance sheet value of fund investments. A similar adjustment was made to the company's equity. Comparable growth of investment assets was around 14%. The growth resulted from the record number of disbursements related to investments.

The breakdown of investment assets was as follows: loans (including subordinated loans and other mezzanine instruments) EUR 193.3 million (EUR 151.0 million) or 54.3% (46%); equity investments EUR 93.2 million (EUR 89.4 million) or 26.1% (27 %); and fund investments EUR 69.8 million (EUR 89.3 million) or 19.6% (27%).

Liquid assets stood at EUR 44.6 million (EUR 42.8 million) as at the end of the year under review. The liquid assets are invested in domestic bank deposits and money-market instruments in accordance with the asset and risk management guidelines.

At the end of the financial period, the company’s equity (share capital and retained earnings) totalled EUR 232.9 million (EUR 250.8 million) or 57% of the balance-sheet total (67%). The company’s equity reduced due to the above-mentioned change in the recording practice.

At the end of the financial period, the company's registered share capital stood at EUR 166,989,130 with 982,289 shares, with the Finnish government accounting for 917,719 shares (93.4%), Finnvera plc for 63,349 shares (6.5%), and the Confederation of Finnish Industries EK for the remaining 1,221 shares (0.1%).

The company's shares have no nominal value. The equivalent value of a share in accounting 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 reserve for invested unrestricted capital; nor does it acquire or redeem its own shares.

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

The company's shareholders decided on 30 December 2016, in accordance with the Limited Liability Companies Act Section 5(1), as a unanimous decision by shareholders without holding a meeting, to approve the granting of special rights to shares as stated in the Limited Liability Companies Act Section 10(1) related to the convertible loan between the company and the Finnish government. The government may collect receivables from the company either completely or partly by subscribing to the company's new shares in one or several allotments in such a way that EUR 170.00 of debt capital entitle it to one share. The government can subscribe for 764,705 of the Company's shares at the most. The subscription corresponds to the equivalent value of a share in accounting, and it is recorded in the company's reserve for invested unrestricted capital.

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 103.1 million (EUR 106.3 million) and short-term interest-bearing debt at EUR 60.0 million (EUR 11.9 million), totalling EUR 163.4 million (EUR 118.2 million). Long-term interest-bearing debt includes the bond issue of EUR 50 million in autumn 2013. Otherwise, the long-term interest-bearing debt is in US dollars, used to refinance Finnfund investment loans denominated in US dollars.

Long-term debt as a percentage of all financing liabilities totalled approximately 60% (90%) at the end of the period. Total financing liabilities increased by some 37% from the previous year following the company's issue of commercial papers.

Finnfund had no guarantee commitments at the end of 2016 (EUR 0.0 million).

Key figures

	2016	2015	2014
Financial income, EUR million	29.9	36.9	23.5
Net profit, EUR million	0.3	5.1	2.4
Return on equity, %	0.1	2.0	1.1
Equity ratio, %	57.4	66.5	74.3

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 2016, 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 20 April 2016, reviewed the matters listed in Article 11 of the Articles of Association.

Members of the Supervisory Board at the Annual General Meeting for the period 2016−2019 were elected as follows: Eija Hietanen, Director of Strategy and Administration, Mika Raatikainen, Member of Parliament, Pertti Salolainen, Member of Parliament, and Tapani Tölli, Member of Parliament.

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

Board Professional Ritva Laukkanen, Chair
Deputy Director General, Ministry for Foreign Affairs, Kari Alanko, Vice Chair
Director of Finance, Tuukka Andersén
Ambassador, Senior Advisor on Trade and Development Sinikka Antila
Partner Pirita Mikkanen
CEO Lars-Erik Schöring
Senior Adviser Anne af Ursin
CFO Tuula Ylhäinen

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 26 April 2016:

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

An extraordinary General Meeting was held on 19 September 2016. An extraordinary General Meeting selected Kristiina Kuvaja-Xanthopoulos, Deputy Director General, as a Member of the Board to replace Kari Alanko, and Sinikka Antila, Ambassador, Senior Advisor, as the Vice Chair of the Board.

The company's shareholders decided on 30 December 2016, in accordance with the Limited Liability Companies Act Section 5(1), as a unanimous decision by shareholders without holding a meeting, to select Director Petri Vuorio as a member of the Supervisory Board to replace Simo Karetie.

The company's auditor is Deloitte & Touche Oy, authorised public accountants, with Jukka Vattulainen, 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 60 (56 in 2015) people. At year-end, the number of employees in contractual employment was 64 (57), of whom 61 (55) worked full-time. Of the 64 employees, 43 were women and 21 were men.

Total wages and salaries paid to personnel in 2014-2016 were as follows.

	2016	2015	2014
Average number of personnel	60	56	51
Total wages and salaries, EUR 1,000	4,784	4,462	4,121

The final accounts for 2016 include a provision for incentive bonuses earned in 2012, amounting to 5.1% of payroll expenses (9.7%). In 2016, the amount of incentives was partly based on performance at company and function level, and partly based on individual performance.

The Board of Directors decides on the incentive system and its key criteria on an annual basis. Remuneration in the company follows the remuneration guidelines applying to state-owned companies.

Outlook for 2017

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. Approximately half of investment decisions are targeted at Africa. 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. As before, key sectors will be renewable energy and sustainable forestry. Several project ideas with a significant expected impact are being investigated, some in extremely poor or fragile states.

According to the decision of the Parliament and the Council of State, the long-term loan of EUR 130 million granted by the government is intended to be drawn for the most part in 2017 and used mostly for the payments of investment decisions made in 2016 or before that. The aim is to make around 20% more investment decisions than the year before for a total amount of around EUR 180 million. Government budget for 2017 also included an increase in equity of EUR 10 million.

The Ministry for Foreign Affairs will assess investments made on the basis of the special risk financing authorisation that ended at the end of 2015 and consider granting a new authorisation. In addition, the Ministry will likely consider increases in capital (regular or in the form of a loan) that could be made at a later point in time. Depending on them, the company will either stall or increase the preparation of investment decisions in 2018, or possibly already at the end of 2017.

Liquidity is expected to remain good in 2017. If the desired additional resourcing does not move forward during the year, Finnfund will limit its project preparations and transfer its focus on investments in the form of a loan to ensure the fulfilment of its commitments in any given situation.

The outlook for 2017 is slightly better compared with 2016 as the amount of loans granted by the company has increased and as some projects, in which equity investments have been made, have been completed and they have started to generate cash flow. The company’s financial performance will be crucially affected by how the valuation of its investment assets changes during the financial period and whether any profitable exits from projects occur. Although these tend to be difficult to predict in development finance, the outlook is positive, even based on cautious assumptions.

With the contract for the Finnpartnership programme awarded to Finnfund in 2015, programme work will continue also in 2017.

Proposal of the Board of Directors for the distribution of profit

The company recorded a profit of EUR 339,579.80 in 2016. 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. 2016	1 Jan. - 31 Dec. 2015
Other operating income	1	1,600	1,865
Staff expenses	2		
Wages and salaries	3	-4,784	-4,462
Social security expenses			
Pension expenses		-924	-803
Other social security expenses		-277	-287
Social security expenses		-1,201	-1,090
Staff expenses		-5,986	-5,553
Depreciation according to plan	4	-188	-131
Other operating expenses	5 6	-4,405	-3,658
OPERATING LOSS		**-8,979**	**-7,477**
Financial income			
Income from participating interests		297	2,861
Income from other investments		7,121	10,055
Other interest and financial income		22,462	23,974
Financial income total		29,879	36,890
Reduction in value of investments		972	-4,994
Financial expenses			
Interest and other financial expenses		-21,515	-19,259
Financial income and expenses	7	9,336	12,637
PROFIT BEFORE TAXES		**358**	**5,160**
Income taxes	8	-18	-103
PROFIT FOR THE FINANCIAL YEAR		**340**	**5,057**

Balance sheet

EUR 1 000

	Note	31 Dec. 2016	31 Dec. 2015
A S S E T S			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		40	29
Machinery and equipment		179	185
Total		219	214
Investments	10		
Participating interests		54,853	48,885
Receivables from participating interest	11	20,446	15,240
Other shares and similar rights of ownership		108,094	129,816
Other receivables	11	172,901	135,654
Total		356,293	329,595
NON-CURRENT ASSETS		**356,512**	**329,809**
CURRENT ASSETS			
Debtors			
Long-term			
Other debtors		1,370	1,480
Short-term			
Amounts owned by participating interest undertakings	12	270	70
Prepayments and accrued income	13	3,221	2,922
Total		3,491	2,992
Debtors total		4,861	4,472
Financial securities	14		
Marketable securities		5,399	5,393
Cash in hand and at banks		39,200	37,406
CURRENT ASSETS		**49,459**	**47,270**
A S S E T S		**405,972**	**377,079**

	Note	31 Dec. 2016	31 Dec. 2015
L I A B I L I T I E S			
EQUITY	15 16		
Share capital		166,989	166,989
Retained earnings		65,559	78,726
Profit for the financial year		340	5,057
EQUITY		**232,888**	**250,772**
CREDITORS			
Long-term	17 18		
Private placement		50,000	50,000
Loans from credit institutions		53,126	56,336
Other long-term creditors		197	151
Total		103,323	106,488
Short-term	19		
Loans from credit institutions		60,040	11,893
Trade creditors		726	854
Other creditors		6,610	4,817
Accruals and deferred income	20	2,384	2,255
Total		69,761	19,820
CREDITORS		**173,084**	**126,307**
L I A B I L I T I E S		**405,972**	**377,079**

Cash flow statement

EUR 1 000

	2016	2015
CASH FLOW FROM OPERATIONS		
Payments received from operations	44,116	55,946
Disbursements to operations	-80,744	-77,257
Dividends received	493	183
Interest received	9,116	7,601
Interest paid	-1,084	-588
Payments received on other operating income	3,227	3,008
Payments of operating expenses	-14,250	-10,377
CASH FLOW FROM OPERATIONS (A)	**-39,126**	**-21,484**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-193	-165
Proceeds from assets sold	0	0
CASH FLOW FROM INVESTMENTS (B)	**-193**	**-165**
CASH FLOW FROM FINANCING		
New share issue	0	10,000
Short-term loans drawn	54,981	6,994
Short-term loans repaid	-6,994	0
Long-term loans drawn	0	35,082
Long-term loans repaid	-4,899	-4,736
CASH FLOW FROM FINANCING (C)	**43,088**	**47,340**
CHANGES IN EXCHANGE RATES (D)	**-1,976**	**-1,868**
CHANGE IN LIQUID ASSETS (A+B+C+D) increase (+) decrease (-)	**1,793**	**23,823**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**42,406**	**18,583**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**44,199**	**42,406**
	1,793	**23,823**

Accounting policy

Portfolio

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

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

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

In the beginning of the accounting period the accounting principles regarding fund investments has been changed so that the payments for investments have been included in the value of investment in the balance sheet whereas the fees paid to the fund as well as investment income from the fund has been recorded in the profit and loss statement. The fair value of the fund's investments estimated by the fund manager has been compared to Finnfund's balance sheet value including additional investments made after the report. The balance sheet value of the investments can be 100% of the fair value reported by the manager at the highest. Earlier the management fees were included in the acquisition cost of the investment during the investment period. The balance sheet value was then decreased by the amounts received from the fund so that the fund's balance sheet value in Finnfund's books was maximum 90% of the fair value reported by the manager, the exceeding amount was recorded as income in the profit and loss statement. Based on the changes in accounting principles retained earnings and values of fund investments have been decreased by EUR 18 223 639,04 million.

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

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

Other investments in current assets
Securities have been valued at the acquisition cost.

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

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

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

Planned depreciations:

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

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

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

Notes to the profit and loss account

EUR 1000

		2016	2015
1	**Other operating income**		
	Operating income from participating interests	38	29
	Remunerations	771	1,107
	Other operating income	791	729
		1,600	**1,865**
2	**Average number of staff employed**		
	Employees	60	56
3	**Wages and salaries**		
	Managing Director and his alternate	357	334
	The Board of Directors and the Supervisory Board	121	117
	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	47	29
	Machinery and equipment	141	102
		188	**131**
5	**Other operating charges**		
	Voluntary staff expenses	498	419
	Office	724	483
	ICT	446	341
	Travel and negotiation expenses	851	743
	Entertainment and PR expenses	107	138
	External services	1,398	1,207
	Other expenses	381	327
		4,405	**3,658**

6	**Auditor's remunerations**		
	Audit fee	9	9
	Assignments	0	0
	Tax services	6	0
	Other services	1	0
		16	**9**
7	**Financial income and expenses**		
	Financial income		
	Income from participating interests		
	Dividends	192	0
	From funds	0	4
	Profit from sales of assets	0	2,646
	From others	105	211
	Income from participating interests	297	2,861
	Income from other investments		
	Dividends	450	183
	From funds	6,671	7,068
	Profits from investments and sales assets	0	2,804
	Income from other investments	7,121	10,055
	Other interest and financial income		
	Interest income	9,372	7,378
	Interest income from participating interests	816	478
	Financial income	1,238	842
	Financial income from participating interests	18	4
	Exchange rate gain	11,017	15,272
	Other interest and financial income	22,461	23,974
	Financial income total	**29,879**	**36,890**
	Permanent write-offs of investments and their reversals		
	Equity and funds	-7,976	-4,373
	Loans	-3,452	-5,808
	Reversal of write-offs on shares and fund investments	3,460	3,689
	Reversal of write-offs on loans	8,940	1,498
	Write-offs of investments and their reversals	**972**	**-4,994**

	Interest and other financial expenses		
	Interest expenses to others	-1,286	-789
	Other financial expenses	-3,860	-2,033
	Loss from investments and sales of assets	-5,796	-1,284
	Exchange rate loss	-10,573	-15,153
	Interest and other financial expenses total	**-21,515**	**-19,259**
	Financial income and expenses total	**9,336**	**12,637**
	The item Financing income and expenses includes loss of exchange (net)	**444**	**119**
7	**Income from financing operations by income level**		
	Least developed countries (LDC)	8,713	11,917
	Other low-income countries (LIC)	2,449	8,638
	Lower-middle-income countries (LMIC)	8,572	8,446
	Upper-middle-income countries (UMIC)	6,168	2,906
	Russia	395	790
		26,297	**32,697**
8	**Income taxes**		
	Tax on capital gains outside Finland	9	100
	Withholding taxes on dividends	6	0
	Withholding taxes on emoluments	3	3
		18	**103**

Notes to the balance sheet

EUR 1000

9	Intangible and tangible assets	Other long-term expenses	Machinery and equipment	Total
	Acquisition cost 1 Jan. 2016	1,083	1,940	3,023
	Increases	58	135	193
	Acquisition cost 31 Dec. 2016	1,141	2,075	3,216
	Accumulated depreciations 1 Jan. 2016	-1,054	-1,755	-2,809
	Depreciation of the accounting period	-47	-141	-188
	Accumulated depreciations 31 Dec. 2016	-1,101	-1,896	-2,997
	Book value 31 Dec. 2016	**40**	**179**	**219**
	Book value 31 Dec. 2015	29	185	214

10	Investments / Shares and funds	Participating interests	Others	Total
	Acquisition cost 1 Jan. 2016	56,789	137,558	194,347
	Adjustment based on change in accounting principles	-1,519	-16,705	-18,224
	Increases	7,331	10,528	17,859
	Transfer between items	3,483	-3,483	0
	Decreases	-928	-10,379	-11,307
	Acquisition cost 31 Dec. 2016	65,156	117,519	182,675
	Individual write-offs accumulated as of 1 Jan. 2016	-7,904	-7,742	-15,646
	Reversal of write-offs	1,045	2,415	3,460
	Write-offs during the financial year	-3,444	-4,098	-7,542
	Individual write-offs accumulated as of 31 Dec. 2016	-10,303	-9,425	-19,728
	Book value 31 Dec. 2016	**54,853**	**108,094**	**162,947**

10	Investments / Loans	Participating interests	Others	Total
	Acquisition cost 1 Jan. 2016	17,412	158,863	176,275
	Increases	2,766	66,794	69,560
	Transfer between items	7,146	-7,146	0
	Decreases	-4,528	-28,067	-32,595
	Acquisition cost 31 Dec. 2016	22,796	190,444	213,240
	Individual write-offs accumulated as of 1 Jan. 2016	-2,172	-23,209	-25,381
	Reversal of write-offs	22	8,918	8,940
	Write-offs during the financial year	-200	-3,252	-3,452
	Individual write-offs accumulated as of 31 Dec. 2016	-2,350	-17,543	-19,893
	Book value 31 Dec. 2016	**20,446**	**172,901**	**193,347**

		2016	2015
11	**Subordinated receivables**		
	Capital loans to participating interests	20,446	15,240
	Capital loans to others	25,550	30,629
		45,996	**45,869**
12	**Receivables from participating interests**		
	Interests	65	18
	Other	63	51
	Dividends	142	0
		270	**69**
13	**Prepayments and accrued income**		
	Interests	2,074	1,349
	Other	1,147	1,573
		3,221	**2,922**
14	**Marketable securities**		
	Repurchase price	5,635	5,580
	Book value	5,399	5,393
	Difference	**236**	**187**

	Derivatives	Fair value	Changes in fair value recognized in P&L
	Cross currency swaps, maturity less than 5 years	5,338	-137
	Fair value and changes in the fair value recognized in P&L 2015	4,532	115
	Foreign exchange forward agreements, maturity less than 1 year	1,126	-95
	Fair value and changes in the fair value recognized in P&L 2015	34	28
	Total 2016	**6,464**	**-232**
	Total 2015	4,566	143

15 Shareholders' equity

The purpose of the company is not to generate a profit for the shareholders. The company does not pay dividends or distribute its unrestricted equity fund nor does it redeem its own shares.

		2016	2015
	Restricted equity		
	Share capital 1 Jan.	166,989	156,989
	Increase of share capital	0	10,000
	Share capital as of 31 Dec.	166,989	166,989

	Unrestrected equity		
	Profit from previous financial years 1 Jan.	83,783	78,726
	Adjustment due to change in accounting principles	-18,224	-18,224
	Retained earnings 31 Dec.	65,559	60,502
	Profit/loss for the financial year	340	5,057
		65,899	65,559
		232,888	**232,548**
16	**Share capital**		
	Number of shares	982,289	982,289
	Nominal value, EUR	170.00	170.00
17	**Loans with maturity more than 5 years**		
	Loans from credit institutions	37,947	36,741
18	**Private placements**		
	Private placement 2013/2018 Bullet Euribor 6 kk + 0,55 % p.a.	50,000	50,000
19	**Other short-term debt**		
	Loans from financial institutions	60,040	11,893
	Derivatives	6,464	4,589
	Accounts payable	726	854
	Other	146	228
		67,376	17,564
20	**Accruals and prepaid income**		
	Deferral of personnel expensed	1,718	1,708
	Interest	568	375
	Taxes	61	152
	Other	37	19
		2,384	**2,254**

Other supplementary information

EUR 1000

Other contingent liabilities		
The company has entered into two long-term lease agreements of its office. The term of the agreement A began on 1 January 2014 as a fixed-term tenancy for the first three years until 31 December 2016 after which it will continue as a periodic lease with a 12 months' notice. The agreement B began on 1 January 2016 as a fixed-term tenancy for 3 + 2 + 2 years to be terminated on 31 December 2018, 31 December 2020 or 31 December 2022 after which it will continue as a periodic lease with a 12 months' notice. Rental payments started on 1 March 2016.		
	2016	**2015**
Payable in the next financial period	517	441
Payable later	384	815
Other commitments		
The company acts as a lender in financial arrangements amounting to USD 16.1 million. For USD 15.1 million the risks have been contractually transferred to other financial institutions.		
Undisbursed commitments		
Contractual commitments	147,000	131,500
Special risk finance (cumulative)		
Decisions of the Board of Directors	113,440	111,060
Government's indemnity	50,000	50,000
Government's indemnity, %	44%	45%
Disbursements	42,517	26,147
Derivative contracts		
Interest rate swaps < 5 years		
Interest rate swap 1		
Loan principal on 10 Sept 2019: USD 3.750.000		
Floating interest rate: USD Libor 6 months. Fixed interest rate: 1.465%.		
Fair value	6,777.48	20,317.22
Interest rate swap 2		
Loan principal on 10 Sept 2019: USD 3.750.000		
Floating interest rate: USD Libor 6 months. Fixed interest rate: 1.265%.		
Fair value	19,369.00	-2,300.00
Interest rate swap 3		
Loan principal on 27 May 2021: USD 12.000.000		
Floating interest rate: USD Libor 6 months. Floating interest rate: USD Libor 3 months + 0.1565% p.a.		
Fair value	20,384.00	0.00

Receivables, liabilities and transactions with related parties

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

Off-balance sheet assets

As of 31 December 2016 there were EUR 745,024.27 of government's funds in the company's possession. The company manages government's funds according to the agreement with the Ministry for Foreign Affairs of the implementation of the Finnpartnership business partnership programme.

Exchange rate

31 December 2016	EUR/USD	1.0541

Signatures of Board of Directors' report and financial statements

Helsinki, 28 March 2017

Ritva Laukkanen Chairman	Tuukka Andersén Member of the Board
Sinikka Antila Member of the Board	Kristiina Kuvaja-Xanthopoulos Member of the Board
Pirita Mikkanen Member of the Board	Lars-Erik Schöring Member of the Board
Anne af Ursin Member of the Board	Tuula Ylhäinen Member of the Board
Jaakko Kangasniemi Managing Director, CEO	

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 31 March 2017

Deloitte & Touche Oy
Authorized Public Accountant

Jukka Vattulainen
Authorized Public Accountant

(translation of the Finnish original)

Auditor’s Report

To the Annual General Meeting of Teollisen yhteistyön rahasto Oy

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Teollisen Yhteistyön Rahasto Oy (business identity code 0356880-6) for the year ended 31 December, 2016. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

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

Basis for Opinion

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

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

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

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

Auditor’s Responsibilities for the Audit of Financial Statements

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

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

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

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

Other Reporting Requirements

Other information

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

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

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, March 31, 2017

Deloitte & Touche Oy
Audit Firm

Jukka Vattulainen
APA

Statement of the Supervisory Board

At the meeting held today, the Supervisory Board of the Finnish Fund for Industrial Cooperation Ltd. examined the report of the Board of Directors and the corporation's financial statements prepared by the Board of Directors and the Managing Director, and also the Auditors' Report for 2016. 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, 7 April 2017

Erkki Tuomioja

Eija Hietanen

Seppo Kallio

Johanna Karimäki

Johanna Kotaviita

Riitta Myller

Aila Paloniemi

Mika Raatikainen

Tapani Tölli

Pertti Salolainen

Anne-Mari Virolainen

Petri Vuorio