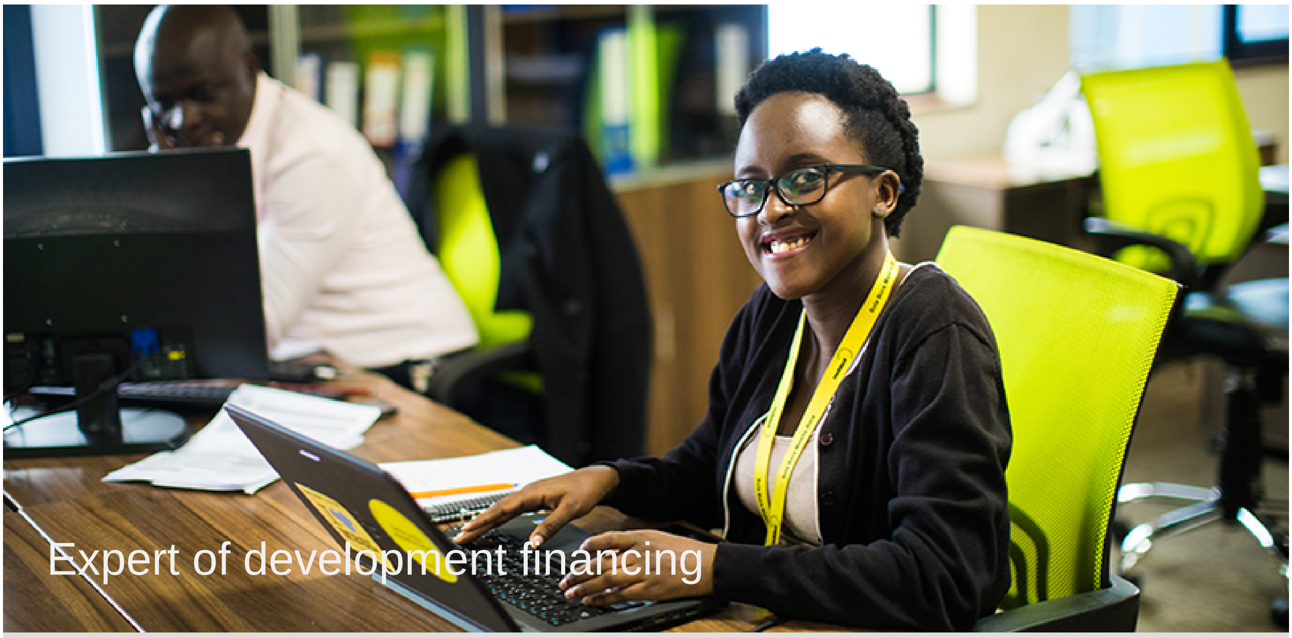
FINNFUND

Annual Report 2017

Printout of the online Annual Report
www.annualreport.finnfund.fi/2017

Contents

Financials



Finnfund (the Finnish Fund for Industrial Cooperation Ltd) is a Finnish development finance company with the mission of creating a better world by financing responsible companies in developing countries.

Curbing and adapting to climate change and eradicating poverty call for private investments. The UN estimates that developing countries will need up to USD 2,500 billion of investments annually to meet the sustainable development goals.

Finnfund and its professional partners support the implementation of these vital investments in a responsible and profitable way.

Finnfund offers long-term risk-financing for companies operating in developing countries. Investment criteria include profitability, sustainability and positive development impacts in the target country. The returns are channelled back into other Finnfund projects in developing countries.

Finnfund finances both greenfield and expansion projects that generate positive development effects in developing countries and thus support Finland's development policy goals. The companies could also cooperate with Finnish companies.

We focus on sectors with sustainable development, such as clean energy production, sustainable forestry, agriculture and the financial sector.

We provide equity investments, long-term investment loans and over 35 years of experience in investing in developing countries (see Finnfund’s financial instruments).

At the end of 2017, Finnfund's portfolio and undisbursed investment decisions total approximately 719 million euros in 171 projects in 39 countries.

Support for project preparation can be applied from Finnpartnership, a business partnership programme operated by Finnfund and funded by the Ministry for Foreign Affairs. Finnpartnership provides Finnish companies with advisory services and Business Partnership Support.

Finnfund is a member of Team Finland network and EDFI, the umbrella association of European Development Finance Institutions.

Finnfund's shareholders are the State of Finland 93.8 percent, Finland's export credit agency Finnvera 6.1 percent and the Confederation of Finnish Industries 0.1 percent.

www.finnfund.fi

Managing Director's Report

The World Meteorological Organisation issued its annual climate statement last November. WMO's Finnish secretary general, Petteri Taalas, stated that “the past three years have been the warmest in the history of temperature measurement”.

We have seen extraordinary weather conditions: temperatures in Asia above 50°, unprecedented Caribbean hurricanes and, in Africa, harsh drought alternating with devastating floods.

Petteri Taalas, who is from Finland, knows what he’s talking about, but is anyone listening?

Last summer the world’s richest country, the United States, announced its withdrawal from the Paris Climate Accord. Time will tell what this decision ultimately means but it can hardly be good for combating climate change.

On the positive side, it seems to have inspired other countries to redouble their efforts. Europe, China and India may now take more responsibility for global warming. It is to be hoped that individual enterprises, territories and regional players will do the same.

Finance to help developing countries switch from fossil fuels is still well short of the 100 billion US dollars promised. This is paradoxical because climate measures will not help the developing countries alone. To a very great extent they will benefit rich countries too.

We should not be asking whether we can afford to participate. The real question is whether we can afford not to. The clock is ticking.

On a trip to Nigeria last November I encountered an astonishing statistic; more children are being born there than in the whole European Union: seven million in Nigeria compared with five million in the EU.

In poor countries children are often the only way of planning for old age. Where infant mortality is high, a good plan is to have many.

Every family on earth has the right to children if they freely want them. Europeans have no veto on the size of Nigerian families. But we can share a concern about where Africa's fast-growing population will be schooled, where it will earn its livelihood, and how it will obtain electricity and other prerequisites for a good life.

I'm pleased to say that Finland is taking a stronger interest in Africa. People are starting to see how closely the futures of Europe and Africa are intertwined. This is a good thing but we urgently need to move on from words to deeds. The time for speeches is ending.

Global challenges require private investments

Finnfund's mission, defined in our updated strategy, is to create a better world by financing responsible private business operations in developing countries. Our vision for 2025 is to be a respected partner and an influential pioneer in European development finance.

We constantly seek to do more, and to do it better than before. Finnfund finance is increasingly targeted at poor and fragile countries, the places where important investments depend on it.

Last year we granted additional funding for Mobisol, operating in Tanzania, Rwanda and Kenya, which uses solar energy to light homes and small workplaces, charge mobile phones, listen to the radio or watch television.

We also began to finance EthioChicken, a poultry production company creating employment, income and better nutrition in rural Ethiopia.

Additionally, Finnfund decided to finance solar power in southern Egypt. We are part of a consortium that will create the largest solar installation in Africa, producing electricity for up to a million Egyptians.

We prepared 29 projects last year, a record number, worth a total of 201 million euros. Almost a third of our financing decisions concerned Africa. Thirty percent of them were in countries classified by the OECD as fragile.

The poorest countries must not be neglected, despite the greater risks

It makes sense for a financial institution like Finnfund to focus on the poorest countries because this is where the development impact is greatest. However, it is not easy to operate in countries that are fragile with respect to democracy or human rights. There is a risk that, despite one's best efforts, something will go wrong. Unfortunately, from time to time it does.

The simplistic response would be to stay away but then those countries would be deprived of clean energy, proper jobs and other development impacts. We cannot neglect them and so we intend to concentrate on doing things better than before.

Finnfund is steadily developing its methods and accountability. This is why we have reinforced our assessment of the development impacts of investments. Accordingly, we are being explicit about theories of change, the chains of development causality that we want to exploit in various sectors.

We have been reshaping our policies on taxation, initially by listening to representatives of civil society and other experts. We are currently working on human rights guidelines.

The challenges faced – above all in climate change, poverty and population growth – are so vast that a greater effort than ever is needed from everyone: national governments, civic organisations and enterprises.

People in need cannot wait: acute challenges deserve a rapid response. We have mutual agreement on what sustainable development should achieve. Technology can provide new sustainable solutions. The biggest shortfalls are in finance and the will to do more. I firmly believe we will start to see greater determination and thereby increased financial resources.

I would like to thank Finnfund's customers, staff and other stakeholders for their support in 2017.

Jaakko Kangasniemi
CEO

Key figures

This page contains key figures for 2017. For more information, see the section on financial statements.

Key figures 2013 - 2017

	2013	2014	2015	2016	2017
Number of project countries	33	32	33	34	39
Number of investments	149	160	160	167	171
Financing commitments, EUR million	90	115	84	152	201
Number of financing commitments	20	25	21	22	29
Disbursements, EUR million	34	73	77	81	114
Undisbursed investment decisions and commitments, EUR million	178	221	235	255	276
Portfolio, EUR million	250	294	329	356	393
Shareholders' capital, EUR million	215	236	251	233	244
Total assets/liabilities, EUR million	311	317	377	406	464
Number of personnel on average	49	51	56	60	71

Five years in review

Operational analysis, EUR million	2013	2014	2015	2016	2017
Financial income	13.6	12.9	16.2	19.2	24.6
Financial expenses	-1.6	-1.8	-2.7	-5.1	-8.6
Net financial income	**12.0**	**11.1**	**13.5**	**14.1**	**16.0**
Other operating income	1.5	1.6	1.8	1.6	1.5
Administration, depreciation and amortisation and other operating expenses	-7.8	-8.4	-9.3	-10.6	-11.8
Profit before impairment, sales of assets and taxes	**5.7**	**4.3**	**6.0**	**5.1**	**5.7**
Impairment and sales of assets	-3	-1.9	-0.8	-4.8	-3.1
Taxes	0	0	-0.1	0	-0.6
Net profit	**2.7**	**2.4**	**5.1**	**0.3**	**2.0**

Balance sheet, EUR million	2013	2014	2015	2016	2017
Assets					
Tangible and intangible assets	0.1	0.2	0.2	0.2	0.1
Investments	250.0	293.6	329.6	356.3	393.3
Current assets	60.5	23.4	47.3	49.5	70.3
	310.6	**317.2**	**377.1**	**406.0**	**463.7**
Liabilities					
Equity	215.3	235.7	250.8	232.9	244.1
Liabilities	95.3	81.5	126.3	173.1	219.6
	310.6	**317.2**	**377.1**	**406.0**	**463.7**

Financial indicators	2013	2014	2015	2016	2017
Equity ratio, %	69	74	67	57	53
Return on equity p.a., %	1.3	1.1	2.1	0.1	0.8

Development effects in numbers

The number of reporting companies varies annually and by industry, therefore the years are not completely comparable. In 2016, data was obtained from 92 companies (89 in 2015). Data for 2017 will be collected during spring 2018. More information about development effects in the corporate responsibility report.

	Direct investments	Funds	Financial institutions	Total 2016	Total 2015
Direct jobs	14,607	479	14,866	29,952	25,603
Direct jobs for women	4,137	185	5,177	9,499	9,137
Indirect jobs	9,085	73,829	1,109,242	1,192,156	105,483
Indirect jobs for women	1,530	23,076	5,544	30,150	24,388
Taxes and tax-like payments, EUR million	59	220	55	334	285
Local purchases, EUR million 1)	4,164	-	-	4,164	300
Number of supported farmers 2)	38,046	-	-	38,046	15,812
Produced energy, GWh 3)	720	5,899	-	6,619	3,124
Number of housing loans 4)	-	89	57,634	57,723	8,446
Value of housing loans, EUR million 4)	-	-	386	386	397
Number of microloans 5)	-	1,414,694	263,041	1,677,735	3,339,060
Value of microloans, EUR million 5)	-	1,570	251	1,821	755
Number of SME loans 6)	-	5,154	452,139	457,293	236,219
Value of SME loans, EUR million 6)	-	111	2,182	2,293	1,547
Share of Finnfund's funding reported as official Finnish climate funding, EUR 7)	-	-	-	7,600,000	14,000,000

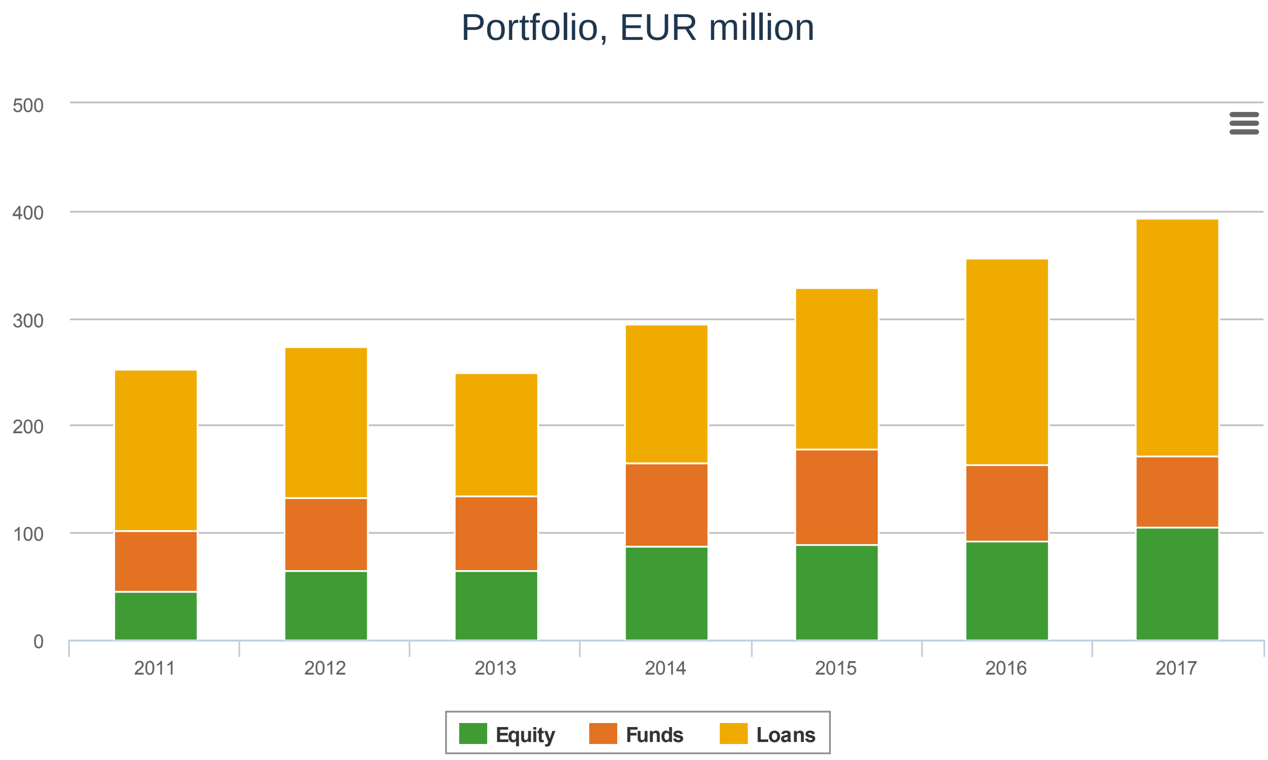
In 2016 the data was obtained from 92 companies in total (a total of 89 companies in 2015). Some of the indicators are sector-specific, the number of respondents to them differs from the total number of respondents as follows:
1) 31, 2) 25, 3) 18, 4-6) 12

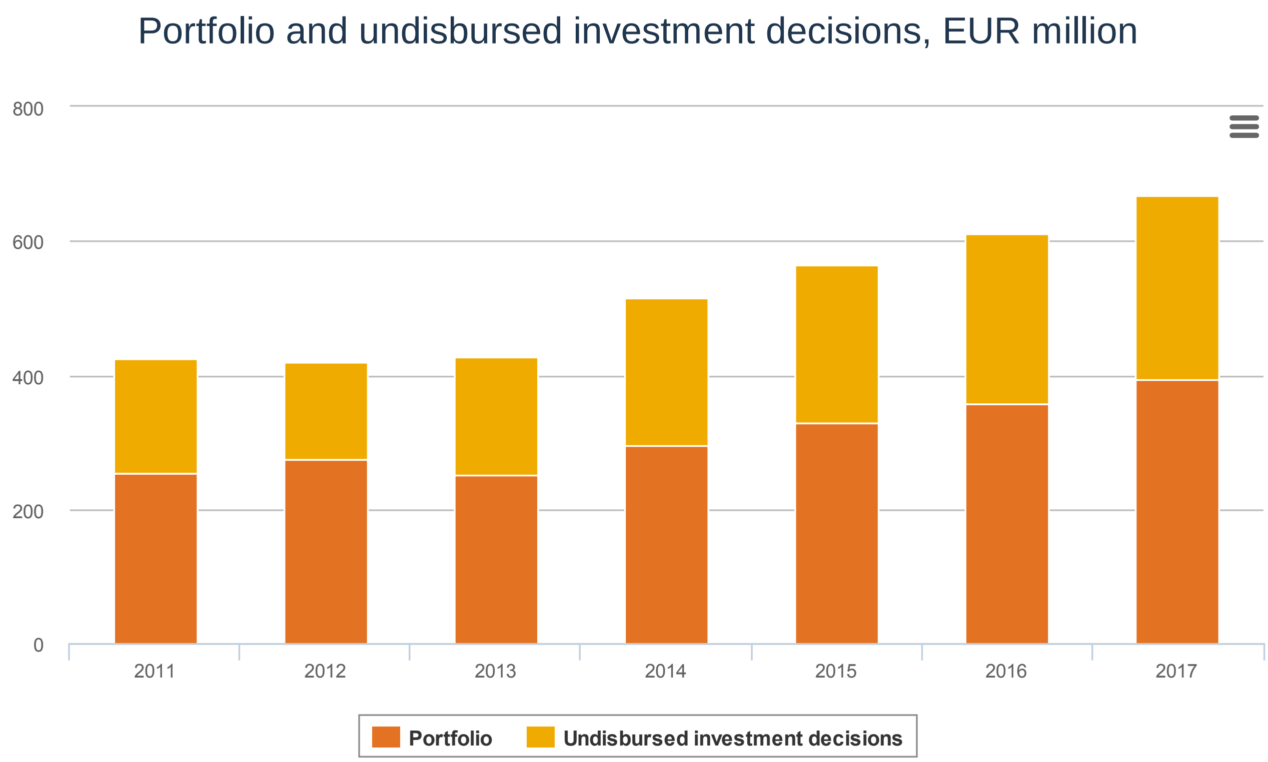
7) Finland's official climate funding can only include the funding considered development cooperation, i.e. equity financing, which means it does not include loans, for example.

Graphs

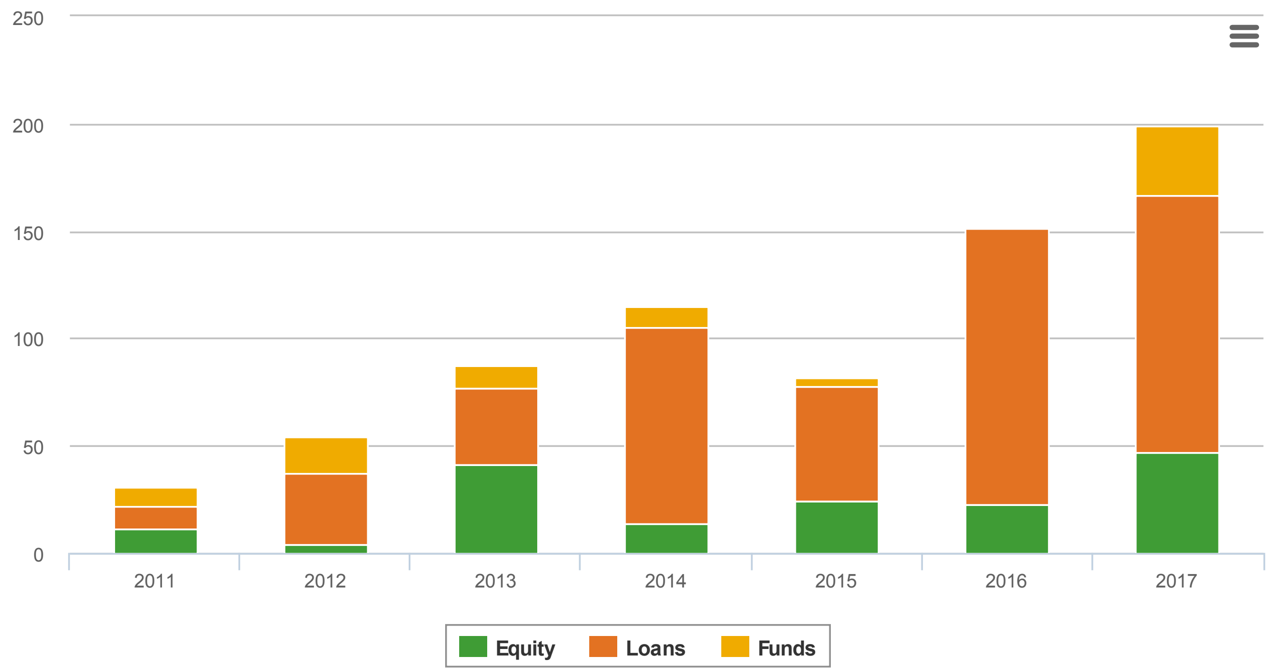
Interactive graphs

These graphs are interactive – to view the values, please move the mouse over the bars of the graph. 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.

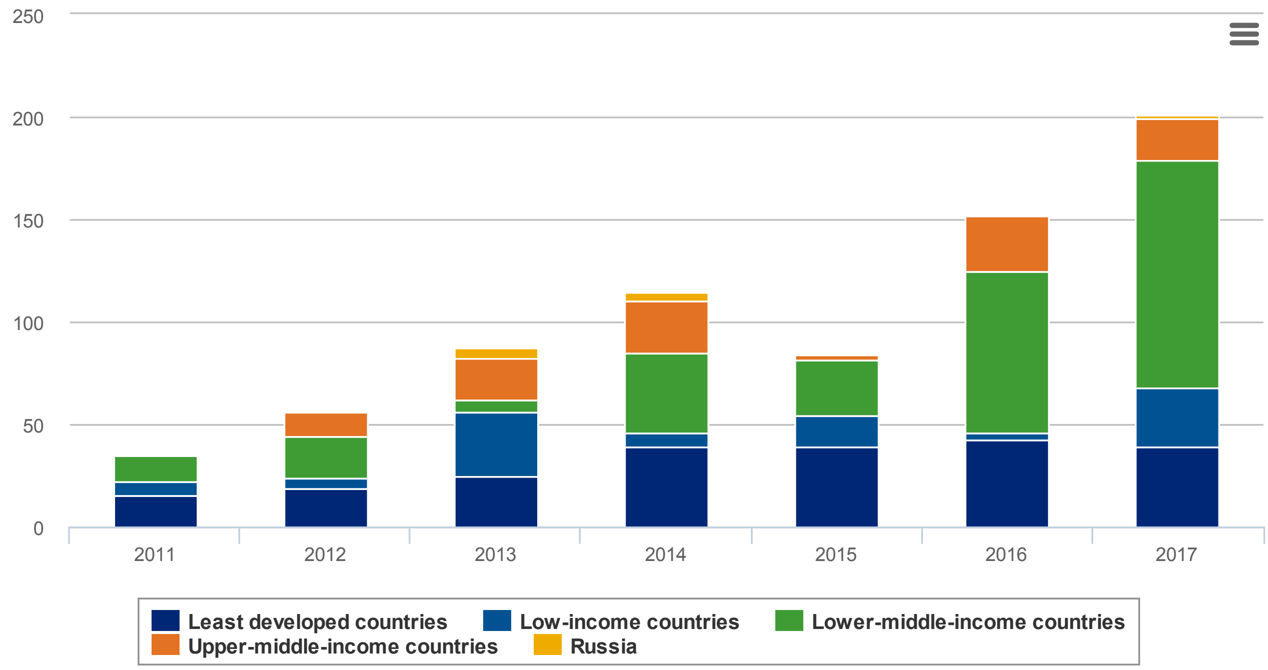




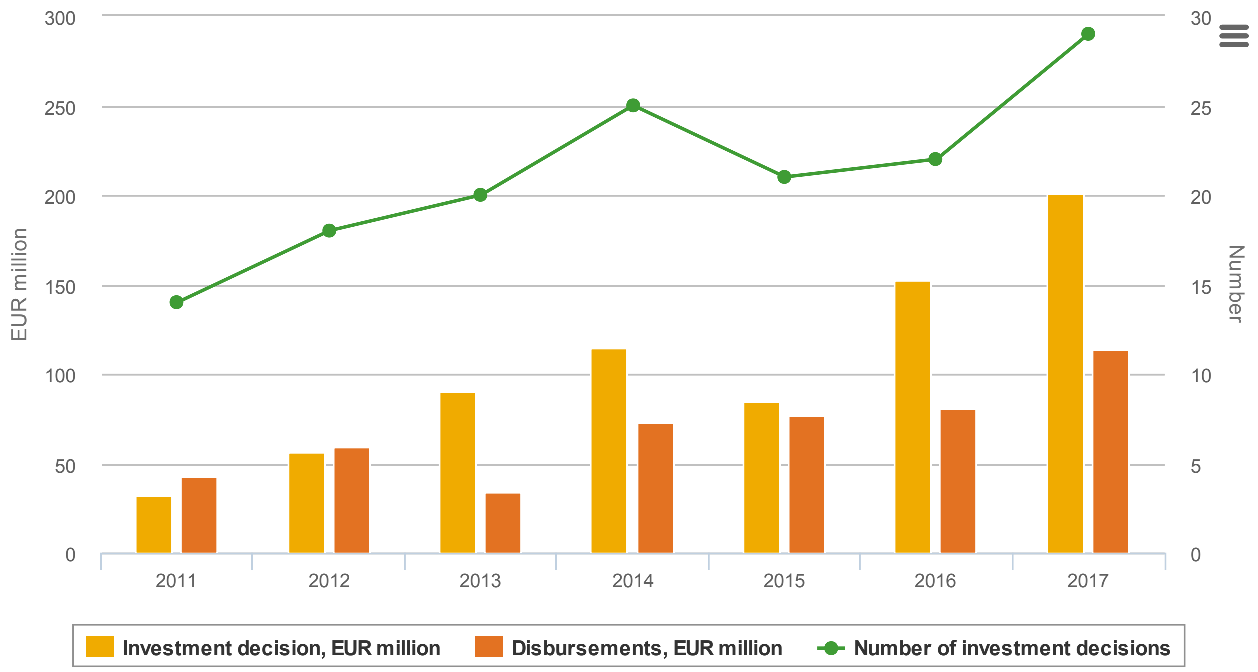
Investment decisions by instrument, EUR million



Investment decisions by income level of the country, EUR million

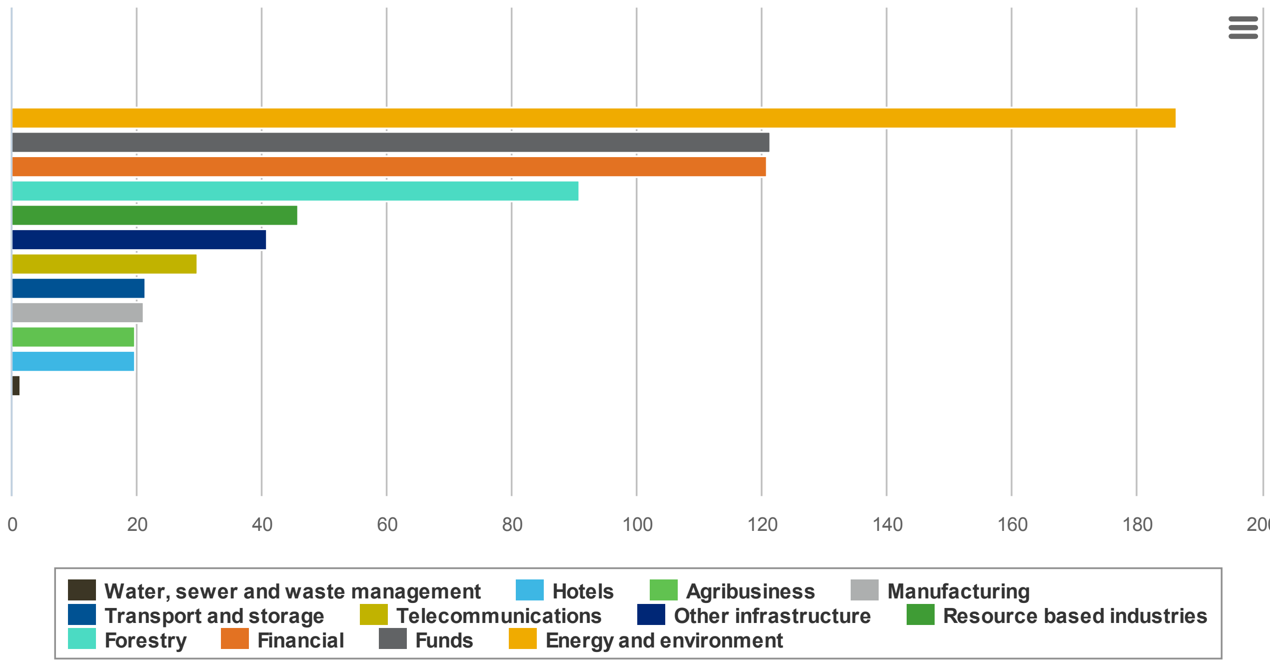


Investment decisions and disbursements



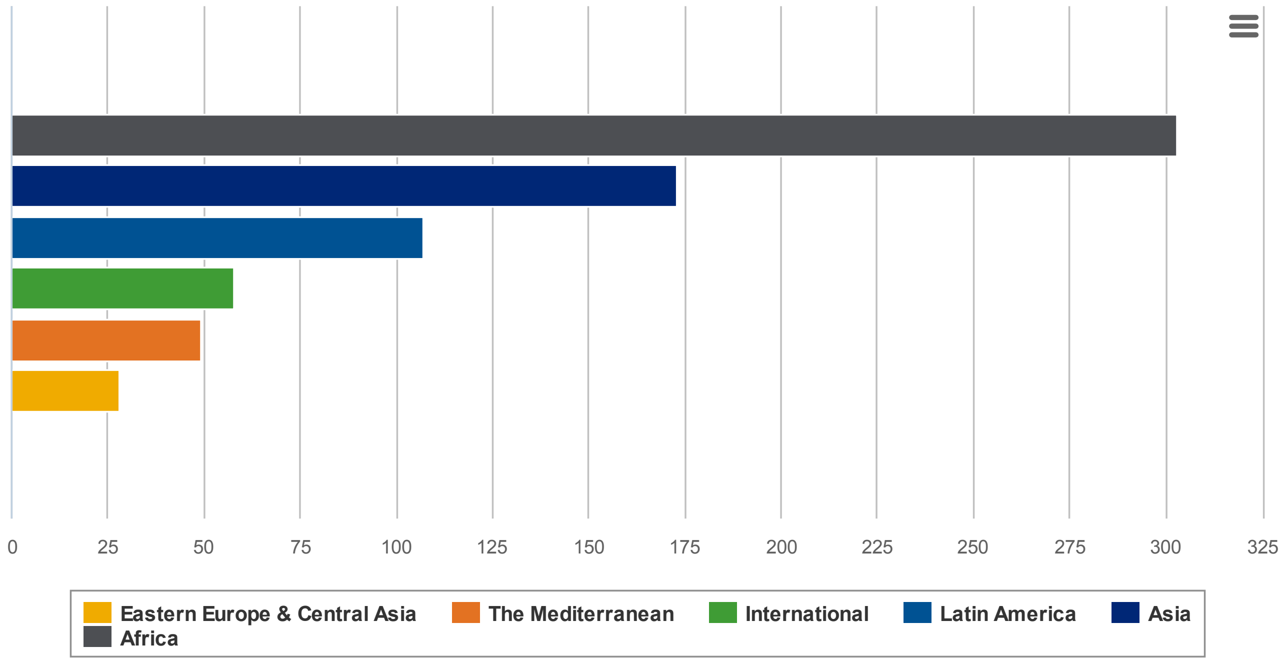
Portfolio and undisbursed investment decision and commitments by sector

(at original value, total EUR 719 million)



Portfolio and undisbursed investment decision and commitments, geographical distribution

(at original value, total EUR 719 million)



Shareholders and share capital, 31 December 2017

Share capital	EUR 176,989,040

State of Finland	93.8%
Finnvera Plc	6.1%
The Confederation of Finnish Industries	0.1%

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

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

Finnpartnership’s services aim to increase commercial cooperation 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 researching business opportunities, 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.

Finnpartnership organises monthly application workshops in Helsinki offering information on its financing, other services and international financing opportunities.

Concrete results from projects

In 2016 Finnpartnership received 162 new applications for Business Partnership Support. In accordance with the processing cycle, 163 applications were processed in 2017, of which 121 received support in total of 5,4 million euros.

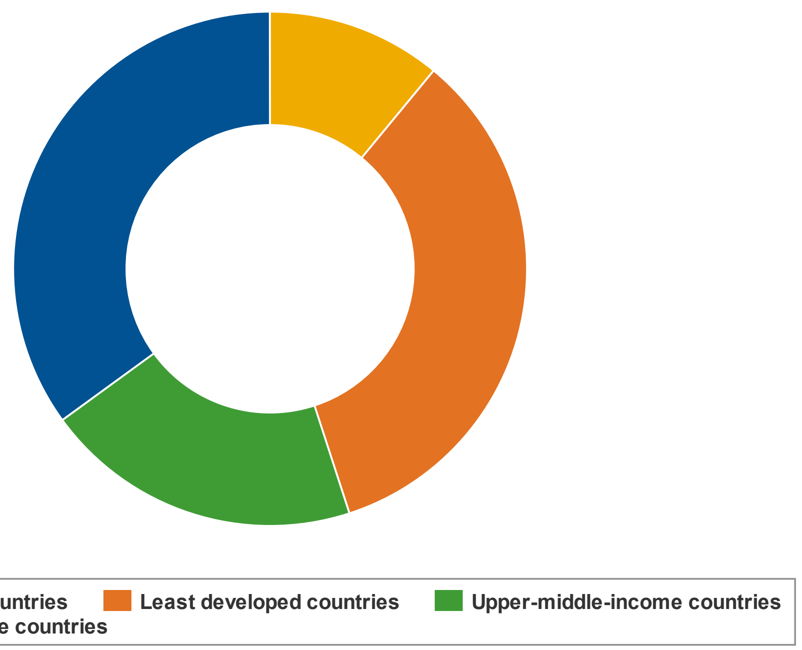
Most of the Business Partnership Support went to lower-income countries. Of all Business Partnership Support granted in 2017, 31 percent of funding and 34 percent of approved projects were directed to least developed countries (10 percent and 16 percent respectively in 2016). Detailed information is available in Finnpartnership’s annual report.

In 2017, Finnpartnership analysed the impact of Business Partnership Support projects approved in 2013. The analysis is based on final follow-up reports submitted by Support recipients. From the projects approved in 2013, 55 were paid Support to the total amount of 1,2 million euros. 36 percent of the projects were reported to have succeeded. In addition to this, 24 percent were still ongoing with the possibility of becoming successful. The total amount of investments in the target countries was 7 million euros. The companies have employed a total of 960 people. Training was conducted in 58 percent of the projects, and 60 percent of the projects carried positive environmental effects.

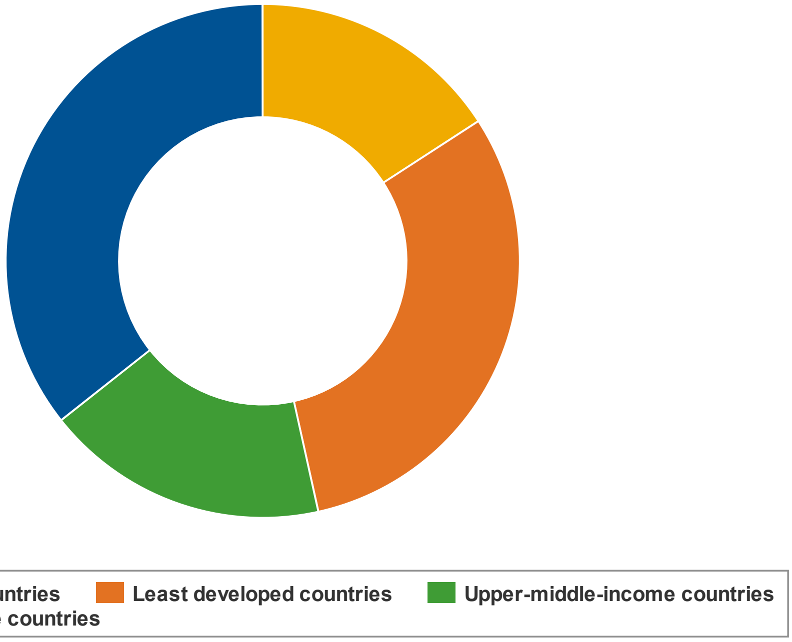
Matchmaking service connects companies in Finland and developing countries

In 2017 Finnpartnership provided service to 230 Matchmaking companies from developing countries. During the year, 127 applications were registered to the matchmaking database, and 103 companies from developing countries were connected directly with a Finnish company. As a result, 88 follow-up discussions between companies have been initiated.

Number of approved business partnership projects in 2017 (%)



Business Partnership Support granted in 2017 in euros (%)



Interactive graphs

These graphs are interactive - to view the values, please move the mouse over the bars of the graph. 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.

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

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

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 2017, the Annual General Meeting was held in Helsinki on 26 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.

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 when the decision-making is not delegated to the Managing Director, and confirming the company’s 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 and remuneration 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 vice 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	5/6
Salolainen, Pertti, vice chair	3,600	6/6
Hietanen, Eija	1,500	3/6
Kallio, Seppo	2,500	5/6
Karimäki, Johanna	3,000	6/6
Kotaviita, Johanna	2,500	5/6
Myller, Riitta	2,000	4/6
Paloniemi, Aila	3,000	6/6
Raatikainen, Mika	2,500	5/6
Tölli, Tapani	3,000	6/6
Virolainen, Anne-Mari	2,000	4/6
Vuorio, Petri	2,500	5/6

In 2017, the Supervisory Board met 6 times. The average attendance rate for members was 83.3 percent.

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 vice 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	17,400	14/14
Antila, Sinikka, vice chair	12,300	14/14
Andersén, Tuukka	11,100	14/14
Kuvaja-Xanthopoulos, Kristiina	10,800	13/14
Mikkanen, Pirita	10,800	13/14
Schöring, Lars-Erik	10,200	11/14
af Ursin, Anne	11,100	14/14
Ylhäinen, Tuula	11,100	14/14

In 2017 the Board met 14 times. The average attendance rate for members was 94.6 percent.

Audit Committee

In 2017, 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	900	3/3
Mikkanen, Pirita	900	3/3
Ylhäinen, Tuula	900	3/3

In 2017 the Audit Committee met 3 times. The attendance rate for members was 100 percent.

Managing Director

In the financial year 2017, managing director Jaakko Kangasniemi received taxable income from the company of EUR 210,115.36. 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 2017.

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 percent 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 2017 a reserve of EUR 47,201,58 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 2017 financial year, taxable income received from the company by the Management team, including the managing director and his deputy, totalled EUR 806,198,47.

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 2017, members of the Management 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, Chief Investment Officer; and Tapio Wallenius, Director.

Supervisory Board, Board of Directors and Audit Committee

Supervisory Board as of 26 April 2017

Erkki Tuomioja
Member of Parliament,
Chair

Pertti Salolainen
Member of Parliament
Vice Chair

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)

Johanna Karimäki
Member of Parliament

Johanna Kotaviita
Practical Nurse

Riitta Myller
Member of Parliament

Aila Paloniemi
Member of Parliament

Mika Raatikainen
Member of Parliament

Lenita Toivakka
Member of Parliament
as of 25 April 2018

Tapani Tölli
Member of Parliament

Anne-Mari Virolainen
Member of Parliament
until 19 February 2018

Petri Vuorio
Director, Confederation of Finnish Industries EK

Back row from left Tapani Tölli, Mika Raatikainen and Petri Vuorio. Front row from left Aila Paloniemi, Erkki Tuomioja, Lenita Toivakka and Pertti Salolainen.

Board of Directors as of 26 April 2017

Ritva Laukkanen
Board Professional
Chair

Sinikka Antila
Ambassador, Senior Advisor on Trade and Development
Ministry for Foreign Affairs
Vice Chair

Tuukka Andersén
Director of Finance
Finnvera Plc

Kristiina Kuvaja-Xanthopoulos
Deputy Director General
Ministry for Foreign Affairs

Pirita Mikkanen
Partner
TM Systems Finland Oy

Lars-Erik Schöring
CEO
Leinolat Group

Antero Toivainen
Director for International Tax Affairs
Ministry of Finance

Anne af Ursin
Financial Councellor
Ministry of Finance
until 25 April 2018

Tuula Ylhäinen
CFO
Oras Invest Ltd

Back row from left Pirita Mikkanen,Tuukka Andersén, Tuula Ylhäinen, Lars-Erik Schöring, Kristiina Kuvaja-Xanthopoulos. Front row from left, Sinikka Antila, Ritva Laukkanen and Antero Toivainen.

Audit Committee as of 23 May 2017

Tuukka Andersén, Chair

Pirita Mikkanen

Tuula Ylhäinen

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

Promoting responsibility in developing countries

Responsible companies have an important role to play in addressing the world's major challenges, poverty, inequality and climate change. Private sector involvement is needed to achieve UN Agenda 2030 and sustainable development goals.

Finnfund does not provide grants but invests in economically viable and sustainable businesses that generate development impacts. It provides long-term financing for projects that otherwise might not be implemented - Finnfund is ready to take higher risk than many other financiers.

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.

Principles and management of corporate responsibility

Finnfund’s special development policy mandate is to generate positive development impacts in the target countries. Finnfund promotes corporate responsibility both within its own and its partners’ operations.

Responsibility for the economic, social and environmental impacts of operations, as well as transparency and good governance are key factors in Finnfund's decision-making.

Finnfund’s special mandate and development policy mission

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

At the end of 2017, the State of Finland owned 93.8 percent of Finnfund’s share capital, Finnvera plc 6.1 percent and the Confederation of Finnish Industries (EK) 0.1 percent. 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 is governed by the Act on a Limited Liability Company named Teollisen yhteistyön rahasto Oy (291/1979, the “Finnfund Act”).

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 2017 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.

Finnfund funding is often a leverage and mobilizes more funding for projects that otherwise might not be realized. At the same time, Finnfund seeks to strengthen the development impacts of the investments and to increase environmental and social sustainability. In practice, this means, for example, assessment of sustainabilty and impacts prior to investment decisions as well as aligning payments to implementation of corporate responsibility.

Finnfund also manages the Finnpartnership program, funded by the Ministry for Foreign Affairs, on a contractual basis. Finnpartnership offers financing, contacts and advice to explore business opportunities in developing countries. The services are intended for companies, educational institutions, NGOs and other actors.

In 2017, a new strategy until the year 2025 was prepared for Finnfund. The objective of the strategy is to develop Finnfund as a pioneer in impact, and to support the coherent future development and growth of the organisation as it increases in size and recognition.

In connection with the strategy process, the company's mission and vision and the key breakthroughs needed to achieve these were defined. The vision for Finnfund is to achieve the position of a valued partner and a pioneer in impact in European development financing by the end of 2025. In order to achieve this vision, Finnfund must increase the impact of its operations, manage its reputability, extend its financing base, and reform its work culture.

In 2017, a new strategy until the year 2025 was prepared for Finnfund. The objective of the strategy is to develop Finnfund as a pioneer in impact, and to support the coherent future development and growth of the organisation as it increases in size and recognition.

In connection with the strategy process, the company's mission and vision and the key breakthroughs needed to achieve these were defined. The vision for Finnfund is to achieve the position of a valued partner and a pioneer in impact in European development financing by the end of 2025. In order to achieve this vision, Finnfund must increase the impact of its operations, manage its reputability, extend its financing base, and reform its work culture.

Finnfund's 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.

More about Finnfund under the section Finnfund in brief.

Finnfund's principles of corporate governance are described in the 2017 Annual Report under the Corporate governance section.

Management and resourcing of corporate responsibility

In 2017, the Managing Director lead environmental and social risk management in cooperation with the Director of Portfolio and Risk Management and the Director of Impact. The Board of Directors monitors corporate responsibility as part of the company's operations.

Experts on environmental and social responsibility, development impacts, corporate governance and tax liability ensure that the risks and impacts are assessed and monitored throughout the project lifecycle in all projects funded by Finnfund. 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.

In addition, they continuously develop Finnfund’s methods and working processes and cooperate with international expert networks and provide training to the other employees whenever necessary.

All employees comply with the company’s corporate responsibility principles.

As a result of an organizational reform carried out during 2017, environmental and social advisers and development impact advisers were transferred to work under the same Risk management and impact unit. In addition, a Manager for the Environmental and social responsibility team was appointed. With regard to good governance and tax liability, the responsibilities are divided for the investment operations, risk management and impact, and legal affairs.

Principles and practices of environmental and social responsibility

Both Finnfund’s and its investee companies must aim at environmental and social sustainability in all of their operations. Assessment and management of environmental and social impacts are central to Finnfund's financing process.

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.

In addition, an internal handbook on environmental and social responsibility describes the assessment procedures and responsibilities. Project assessment, follow-up and corrective actions take place accordingly. Assessment and monitoring applies to all projects and their subcontracting chains. The handbook is updated continuously: the last and third version was updated 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).

In 2017, Finnfund prepared a new tax policy that was introduced from the beginning of 2018. More information under the section Financial responsibility.

Working for environmental and social sustainability

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.

In practice, the potential for environmental and social risks associated with projects and sustainable development varies considerably depending on the customer, industry, target country and various other factors.

When considering funding a project, Finnfund pays special attention to the identification, management and mitigation of environmental and social risks as well as to the strengthening of positive impacts. Sustainability is monitored, evaluated, and developed as needed throughout the project lifecycle. As a part of the monitoring phase, Finnfund's experts also visit the projects and, if necessary, use external experts to support the monitoring.

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 to Finnfund.

In 2017, Finnfund developed, inter alia its environmental and social responsibility monitoring, human rights impact assessment and monitoring tools, and decided to launch a reform of its human rights policy. Finnfund also started calculating the carbon footprint of the whole portfolio.

During the year, Finnfund organized training for its personnel e.g. on human rights and the UN Guiding Principles on Human Rights (UNGP), sustainable forest certification and tax liability.

Environmental and social responsibility in Finnfund's financing process

Stakeholders and stakeholder interaction

The company's most important external stakeholders include the owners, companies that Finnfund finances, 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. Other important stakeholders also are 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 discuss its operations and principles openly both at a general level and in terms of specific projects. 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 2017, Finnfund continued to strengthen the dialogue with various stakeholders both in Finland and internationally. During the year, Finnfund held discussions and meetings on various themes, such as the situation in Myanmar and tax liability. An annual meeting of European Development Financiers (EDFI) was held in Helsinki in May.

Read more:
- Development impact
- Financial responsibility
- Social responsibility
- Personnel
- Environmental responsibility
- Investments
- Key figures
- Managing Director's report

Development impact

Finnfund's mission is to promote economic and social development in developing countries. When assessing development impacts, the focus is on the companies and their nearest stakeholder groups. 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 percent of projects should be located in lower and lower-middle income countries. In 2017, 87 percent of new investment decisions were for projects located in such countries. The combined investments in these countries totalled EUR 178 million or 89 percent of the investments decisions made in 2017.

Assessing and monitoring development impacts

Assessment of development impacts plays a key role in 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 and on gender equality
- its economic sustainability and impacts on different stakeholder groups, the effect on customers and the consumers of final products and development of markets
- Finnfund's own role in the project, such as the catalytic role of finance, additionality and its expert/non-financial role.

In 2017, Finnfund further developed the Development Effect Assessment Tool (DEAT) used in the ex-ante assessment of development impacts.

After the investment decision, Finnfund monitors the number of jobs and, in particular, female employees, tax revenues and other tax-like payments for each of its investments annually.

In addition, for example produced energy, local purchases, and the volume of microloans and loans to small and medium-sized enterprises are monitored. This is based on common indicators of international development financiers. In addition, relevant development effects for individual investments are monitored. The results are compiled annually in a separate publication.

The indicators have been developed in cooperation with other European development finance institutions. The same indicators are also used in the annual ownership steering memorandum, drafted by the Ministry of Foreign Affairs. In addition, during the year, theories of change describing the development effects of key sectors were developed.
In 2017, Finnfund had two development impact advisers and a Director, Impact and Strategy.

Development impacts of 2017 available in autumn 2018

The development impacts of 2017 will be compiled during the spring and summer 2018, so the figures used in this report cover development impacts of 2016.

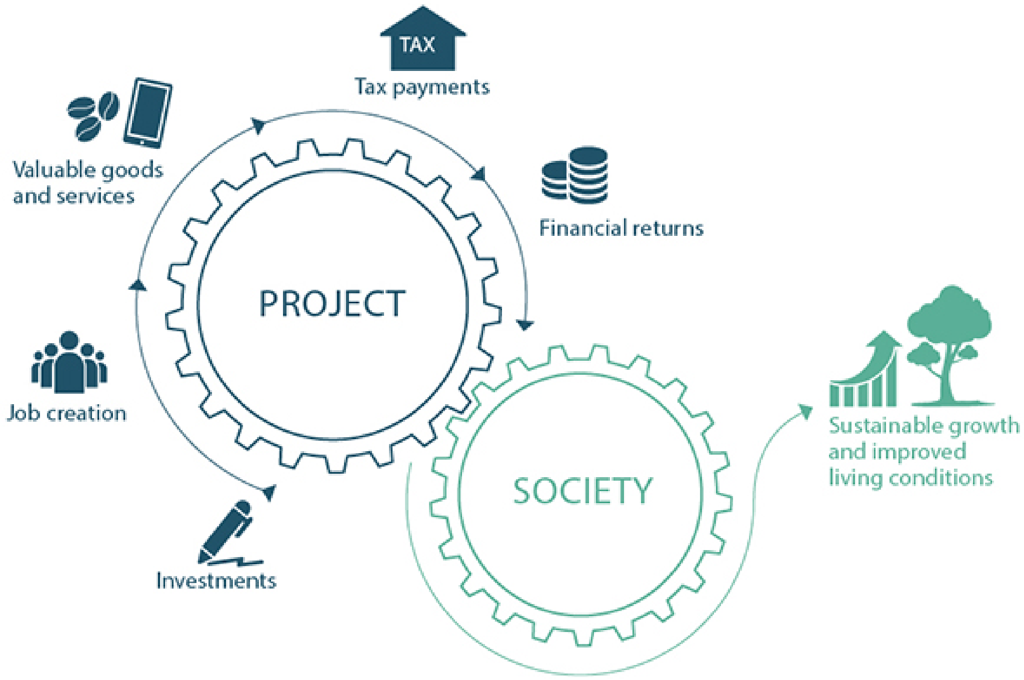
In 2016, companies funded by Finnfund, for example

- directly employed almost 30,000 people, of whom almost one third were women
- produced 6,619 GWh of energy
- paid taxes and tax-like payments EUR 334 million
- supported approximately 38,000 farmers
- granted nearly 1,700,000 microloans and nearly 500,000 SME loans.

In 2016, Finnfund made payments worth EUR 46.2 million to 26 companies or funds whose operations help climate change mitigation or adoption. In practice, this means clean energy production, sustainable forestry, agricultural development and microfinancing that creates new ways to make a living. Of the total EUR 46.2 million, EUR 7.6 million was classified as Finland’s official climate funding. This includes only funding considered to be official development aid (ODA), i.e. equity financing, not investment loans. For more information about 2017, see section Environmental responsibility.

In principle, Finnfund is a minority investor, so the investments always include other financing sources. The results have not been attributed or separated according to Finnfund’s share of the funding, as determining the impact mechanisms is challenging and an internationally reliable method for assessing them has not yet been developed. With development funding, it is typical that in addition to the investment amount, the impact depends on the characteristics of the financial instrument (for example loan, equity investment, mezzanine financing, securities), the risk level of the project, degree of involvement of the investor, and the ability to influence, for example, catalysing external funding, reducing risks or developing responsibility.

Impact assessment is developed continuously. Finnfund also actively participates in the discussion on attribution and the development of methods and is engaging in cooperation with other European development finance institutions.



EDFI, European DFI's contritubution to development outcomes

Read more:

• Development Results 2016

Financial responsibility

In order to be able to carry out its mission on a long-term basis and in order to be able to bear the high financial risks of its operations, the development finance company must be financially profitable and have a strong capital structure.

Finnfund does not pay dividends to its shareholders. All monies and profits returned by the projects to Finnfund are reinvested in new projects.

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.

Economically sustainable operations require that financial risks are identified, priced properly and their relation to the company's risk-bearing capacity remains manageable. Finnfund does not provide grants or soft funding, although – based on its strategy – Finnfund aims to make soft funding available to the projects it finances.

The cost-efficiency of Finnfund’s operations was assessed in 2017 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 2017 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 2017, Finnfund reported total tax payments of EUR 571 968,79. These consisted of capital gains taxes and withholding taxes paid to target countries as follows:

Country	Type	EUR
Honduras	Capital gains tax	569,630.43
Turkey	Withholding tax on wages	2,338.36
Total		571,968.79

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.

In 2017, Finnfund prepared a new tax policy which was approved and valid starting from the beginning of 2018. Tax policy consists of Finnfund’s principles and practices to assess and promote tax responsibility in its own operations and in the projects it finances. As part of the preparation process Finnfund organized two discussion sessions during the autumn and met several Finnish and international experts. The policy was based on a discussion paper which was available on Finnfund’s website for comments by stakeholders and all interested parties. Finnfund also cooperated with other European development finance institutions. To support the implementation of the policy, internal tools have been developed to better assess project’s tax practices and financing structures before making an investment decision. Tax policy is available on the company's website.

Shareholders

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

Investments

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

In 2017, Finnfund made 29 new investment decisions in target countries totalling EUR 201 million. Most of the investment decisions are targeted at the lower-middle-income or poorer countries both in terms of the number and the total value of decisions.

Income level	Amount	%	EUR million	%
Least developed countries	8	28	39.4	20
Other low-income countries	4	14	27.9	14
Lower-middle-income countries and territories	13	45	110.8	55
Upper-middle-income countries and territories	3	10	20.3	10
Russia	1	3	2.0	1
Total	29	100	200.5	100

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.

From the beginning of 2018, Finnfund will report on its financial performance quarterly, among other state-owned companies, both to the Prime Minister's Office and to the Ministry for Foreign Affairs, which is responsible for steering Finnfund. In the future, internal interim reports will be made quarterly, but will not be audited or disclosed.

In 2017, Finnfund assessed the impacts of possible transition to International Financial Reporting Standards (IFRS) on its financial reporting. As a result, however, Finnfund's Board of Directors decided to continue for the present with FAS reporting.

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.

Read more:
• Responsible tax
• Environmental and social policy
• Development results

Social responsibility

Promoting well-being and equality and respect for human rights are key principles of Finnfund's operations.

Good jobs and human rights in investment operations

Finnfund assesses the social responsibility and human rights impacts of all its new investment decisions before the investment decision, and monitors and assesses the accountability through, inter alia, its own assessment tool and the Performance Standards of the IFC, Member of the World Bank Group (International Finance Corporation).

These standards include international human rights principles such as rights related to work and working conditions, the rights of vulnerable groups such as indigenous peoples or displaced groups, community consultation and involvement, and grievance mechanisms. Finnfund's funding is subject to the condition that the beneficiary is committed, as appropriate, to comply with these standards.

Human rights

Finnfund finances companies that operate in countries that often have challenges in context of human rights. Finnfund is aware that the projects it funds, and its activities can have direct and indirect impacts on human rights. Finnfund actively strives to identify, prevent and mitigate the negative human rights impacts caused by its own operations or the projects it finances, and intervene 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.

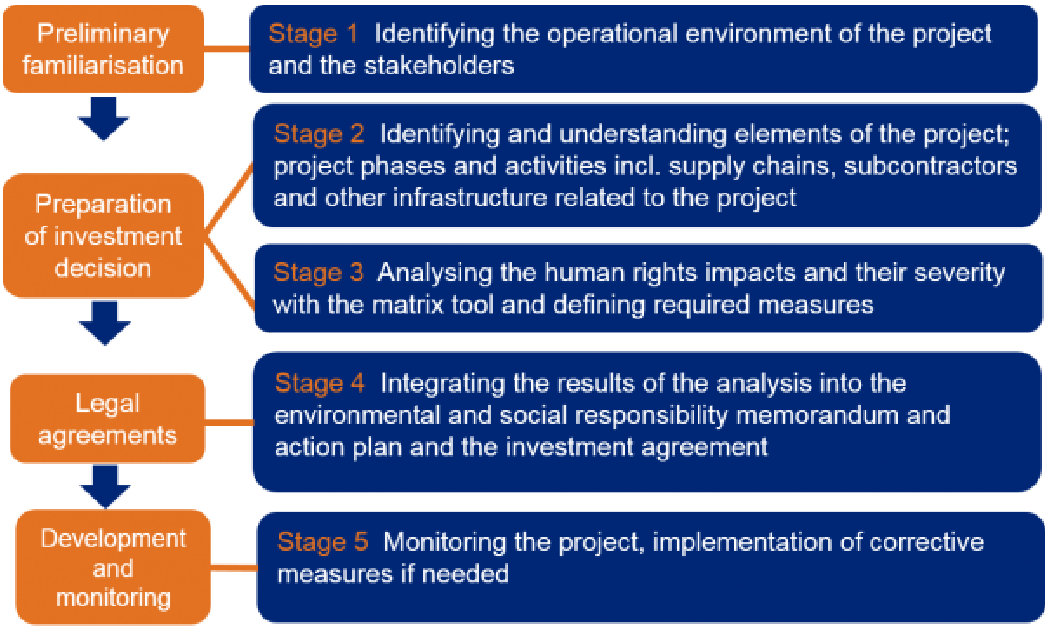
Finnfund's approach to human rights was published on its website and in several connections as a general level commitment in 2015. The assessment of human rights aspects is a central part of Finnfund's financing process.

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

The essential human rights aspects of the project are defined for the first time at the early stage of project preparation, and after a clearance-in-principle as a part of the environmental and social responsibility assessment of the project.

At the early stages of project preparation, the human rights assessment is conducted by the development impact advisors 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.

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



The assessment of human rights in the Finnfund financing process

In 2017, Finnfund developed its tools, processes and know-how related to human rights. A human rights impact assessment was conducted in direct investment using the UNGP toolkit adopted during the previous year. In 2017, all new direct investment decisions were subject to a human rights assessment, and the results and corrective measures are included in the project's action plan.

In addition, Finnfund developed and piloted a similar tool for assessing indirect investments. At the same time, the criteria were developed to identify the risk level associated with human rights in different projects and to define a scope of the assessment needed before a clearance-in-principle decision. The development and implementation of the indirect investment assessment tool and the criteria will be continued in 2018.

In spring 2017, Finnfund also commissioned an external evaluation of Finnfund's human rights policies and practices in relation to the UNGP, and training for the whole staff. The results will be utilized in developing of the human rights approach which will continue in 2018.

Read more:
- Personnel
- Environmental and social policy
- Development Results 2016

Personnel

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

Human resource management

The Management Team makes decisions concerning personnel policy, while operative responsibility lies with the Director of Administration.

The general guidelines for remuneration, the incentive scheme of the company and the remuneration of the members of the Executive Board are decided by the Board of Directors in accordance with the guidelines for the remuneration given by the State.

Management and supervisory work have been continuously developed and assessed for many years. 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.

At the end of 2017, the organization was changed so that the preparation of investments and the management of existing investments were combined under the Chief Investment Officer, and risk management and impact under the Director, Risk Management and Impact.

Finnpartnership, the business partnership program was transferred under the management of the Director, Administration, in autumn 2017.

During the second half of the year, a coaching program for supervisors was planned and started with an external consultant. The aim of the program is to develop their management and leadership skills and to improve the quality of management and supervisory work. The program will continue in spring 2018.

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, Personnel Development and Planning Days are held for the entire personnel with the aim of discussing current topics and promoting interaction between the company's personnel and management. Job satisfaction and well-being are monitored regularly by the Pulssi surveys.

Finnfund regularly monitors the development of work satisfaction and sick leaves as well as the accident rate. The aim is to identify and eliminate the causes of possible negative changes, while the underlying causes of positive changes will be further strengthened.

Number and structure of personnel

At the end of 2017, the company employed 76 people. Over the entire year, the average number of employees was 71. The entire personnel of the company are located in Helsinki, Finland.

During 2017, four permanent employees resigned and nine permanent employees were hired by Finnfund. Therefore, exit turnover was 5.3 percent and entry turnover 11.8 percent.

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
9	26	12	10	4	1	4	2

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

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

30-34	35-39	40-44	45-49	50-54	55-59	60-
13	12	9	8	11	11	4

The average age of employees is 45.

The company did not reduce the number of its employees or make any other adjustments in 2017. The number of employees increased over the course of the year.

In 2017, personnel expenses amounted to EUR 7.6 million, including pension expenses, other social security expenses and voluntary personnel expenses. The company paid wages and salaries totalling EUR 6.1 million in 2017.

Equality

At the end of 2017, the company employed 52 women (43 at the end of 2016), accounting for approximately 68.4 (67.2) percent of all employees, and 24 (21) men, accounting for approximately 31.6 (32.8) percent of all employees.

Six (6) or 75 (75) percent of the members of the company's Board of Directors were women, and two (2), accounting for approximately 25 (25) percent, were men.

Two (2) members or 40 (40) percent of the company's internal Management Team were women and three (3) or 60 (60) percent were men.

Every year, Finnfund implements an equality survey covering all the employees. Based on the results, the company's equality plan is updated and practical measures to promote equality and equal opportunities are identified.

The main objective of the equality plan is to promote equality, to identify and eliminate structures that produce and maintain inequalities, and to create for men and women of different ages equal conditions of employment, working conditions, equal placement for different tasks, equal opportunities for education and career development as well as principles of equal salary.

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 2017, 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 2017 accounts include a provision for the cost impact of incentive bonuses that corresponds to around 8.2 percent 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. The personnel of a development financier are required, among other things, versatile knowledge of international finance and development issues. Learning at work and working with experienced colleagues are essential in developing professional skills.

In 2017, a pilot training program was prepared, aiming to provide analysts opportunities to work a limited time at Finnfund funded companies which or at other partner companies in developing countries. The purpose of the program is to provide opportunities for professional development, gaining experience in working in developing countries and strengthening sectoral know-how. After the traineeship, experience and expertise will be shared with colleagues at Finnfund in Finland.

All 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.

In 2017, special attention was paid to passenger safety in developing countries by discussing existing safety rules, associated procedures and training needs. External experts were used to provide training e.g. on health and data protection issues.

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.

In 2017, two occupational accidents were reported to Finnfund.

Finnfund monitors the number of sick leaves, developments in the number of sick leaves and the identified reasons for sick leaves continuously in cooperation with the company providing occupational healthcare services. As a whole, the number of sick 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 company has a work fitness model for early support and intervention and a programme for preventing and treating substance abuse.

Read more:

• Social responsibility

Environmental responsibility

Investments that improve the environment and the responsible management of environmental risks are at the core of Finnfund's investment operations. In particular, the mitigation and adaptation of climate change are key objectives of Finnfund's operations.

Environmental responsibility in investment operations

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) as well as industry-specific guidelines. These guidelines define good practices for example on emissions, waste management, responsible water use and biodiversity enhancement. The funding is subject to the obligation of the beneficiary to comply with the guidelines when appropriate.

In addition, many projects have industry-specific standards and certifications, such as the FSC® (Forestry Stewardship Council).

Climate change mitigation and adaptation

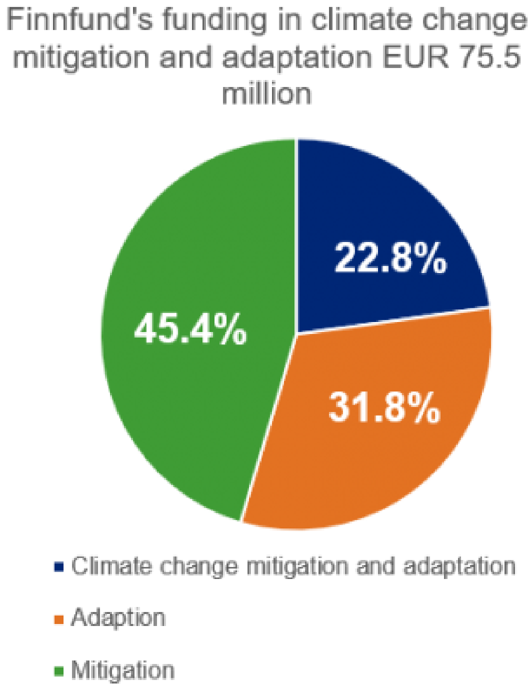
Climate change mitigation and adaptation is one of the key objectives of Finnfund's operations. Finnfund aims to finance projects that reduce greenhouse gas emissions or help adapt to climate change. The company’s strategy focuses on projects on renewable energy or improving energy and material efficiency 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.

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 (IPCC), CDM (UNFCC Clean Development Mechanism) and the Greenhouse Gas Protocol. They also employ the methodology of the International Financial Institutions (IFI) to harmonize project-level greenhouse gas accounting.

In 2017, Finnfund strengthened its operations by launching a carbon footprint calculation of the investment portfolio, which will be completed in 2018. The calculation is done by external experts and takes into account the international financial sector recommendations and the Greenhouse Gas Protocol guidelines. Calculation provides information on the carbon footprint of the portfolio, carbon sequestration, and avoided carbon dioxide emissions. The carbon footprint of Finnfund's investments will be calculated starting from 2016 and will be monitored annually.

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 2017, Finnfund made payments worth EUR 75.5 million to companies or funds whose operations help climate change mitigation or adoption. In practice, this means e.g. clean energy production, sustainable forestry and agricultural development. The breakdown of funding for mitigation and adaptation is described in the figure below.

Projects under which a new investment decision was made during 2017 has been estimated to have a total emission reduction of 30,762,500 tonnes CO2eq over the entire investment period.

Environmental impact of Finnfund's own operations

Carbon footprint

Finnfund's operations require staff to be thoroughly acquainted with the projects and actively participate in the management of investments. This requires regular visits to target countries. These travels generate greenhouse gas emissions. 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, 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

Read more:
- Environmental and social policy
- Development results 2016

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 companies also protect the environment.

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.

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.

in 2017, Finnfund focused on renewable energy and sustainable forestry but we also finance projects in other sectors.

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 environmental and 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.

More information under section Responsibility.

Geographical and sectoral distribution

At the end of 2017 Finnfund had a portfolio of 171 investments although some projects accounted for more than one investment. Of these investments 129 and 75 percent 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 140, and they were in 39 countries.

At the end of 2017 Finnfund had a portfolio of 69 investments and 40 percent were in Africa.

There were 107 direct investments and 64 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 poultry farming to power generation.

In terms of the number of projects, 2017 was a record year and a second consecutive year of strong growth for Finnfund. During the year 29 new financing decisions were made, worth a total of EUR 201 million.

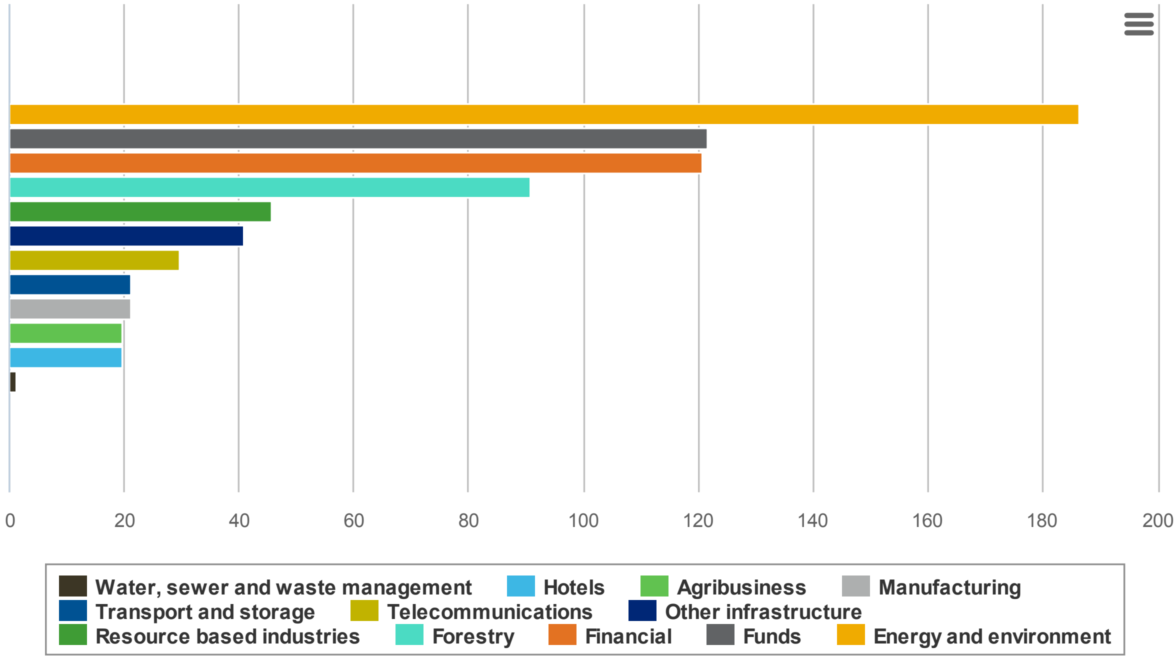
The target set for Finnfund by ownership steering is that 75 percent of projects should be located in lower and lower-middle income countries. In 2017, 87 percent of new investment decisions were for projects located in such countries. The combined investments in these countries totalled EUR 178 million or 89 percent of the investments decisions made in 2017.

In terms of both the number and value of the financing decisions made, Africa with 9 decisions and Asia with 8 decisions were the leading continents. Africa was also the most popular target area in terms of euros, with 31 percent of the financing.

Approximately 69 percent, or EUR 138 million, of last year’s new financing decisions were made in companies or fund whose operations help climate change mitigation and/or adoption. This includes, for instance, investments in renewable energy, sustainable forestry and agriculture.

Portfolio and undisbursed investment decision and commitments by sector

(at original value, total EUR 719 million)



Read more:

- Graphs
- Financials
- Responsibility
- Development impact
- Managing Director’s Report

List of investments in portfolio as of 31 December 2017

Investment agreements signed in 2017 are marked in blue.

Investment	Operation	Finnish company*	Finnfund's financing**	Agreement year
ASIA				
Cambodia-Laos Development Fund	Private equity fund			2009
Mekong Brahmaputra Clean Development Fund L.P.	Private equity fund			2010
Tropical Asia Forest Fund	Private equity fund			2012
BOPA Pte Ltd	Fund/Microfinance		USD 3,000,000	2017
BANGLADESH				
Everest Power Generation Co. Ltd.	Power plant	Wärtsilä Oyj		2013
Fun Factory Ltd.	Textiles	Logonet Oy, Desperado Oy	USD 1,200,000	2017
CAMBODIA				
First Finance Plc.	Financial institution			2013
Prasac Microfinance Institution Ltd	Microfinance		USD 15,000,000	2016
Sathapana Limited	Microfinance			2014
CHINA				
Avain China Holding Oy	Information technology	Avain Technologies Oy		2013
China Finland Maanshan Steel Co.Ltd.	Metal products	Metalliset Oy		2012
GreenStream Energy Efficiency Investments Ltd.	Energy efficiency	Several Finnish technology providers		2014
LVDU Lapland Food Co., Ltd.	Dairy products	Lapland Food Oy		2012
Norrhydro Hydraulic System (Changzhou) Co. Ltd.	Manufacturing of hydraulic sylinders	Norrhydro Group Oy		2011
Peikko Construction Accessories (Zhangjiagang) Co., Ltd	Metal products	Peikko Group Oy		2014
XTC Company Oy	Electrical equipment	Mekitec Oy		2010
INDIA				
Ashley Alteams India Pvt. Ltd.	Aluminium components	Alteams Group		2009
Gemco Kati Exploration Pvt. Ltd.	Mining support service activities	Oy Kati Ab Kalajoki		2016

Ojala (India) Engineering Pvt. Ltd.	Metal products	Ojala-Yhtymä Oy		2009
Stera Engineering (India) Pvt. Ltd.	Contract manufacturer of electromechanics	Stera Technologies Oy		2011
VME Precast Pvt. Ltd.	Concrete elements	Valkeakosken Betoni Oy		2009
INDONESIA				
SaraRasa Biomass	Biofuels	Dovre Group		2012
Frontier Tower Associates Pte Ltd	Telecommunication infrastructure		USD 10,000,000	2017
LAOS				
Burapha Agro-Forestry Co., Ltd	Forestry and wood products			2016
Nam Sim Power Company Limited	Hydro power			2011
MONGOLIA				
Munkh-Evseg LLC	Hotel			2010
XacBank	Bank			2016
NEPAL				
Dolma Impact Fund I	Private equity fund			2014
PHILIPPINES				
mBank Philippines	Microfinance			2011
SRI LANKA				
Commercial Leasing and Finance PLC (CLC)	Microfinance		USD 11,000,000	2015
THAILAND				
A.T. Biopower Co., Ltd.	Biopower plant	Private Energy Market Fund Ky, Pöyry Oyj		2003
Thai Biogas Energy Company Ltd.	Biogas	Private Energy Market Fund Ky		2009
VIETNAM				
Australis Aquaculture Vietnam Limited	Aquaculture		USD 9,500,000	2017
AFRICA				
AfriCap Microfinance Investment Ltd.	Microfinance			2007
AfricInvest Fund Ltd. I	Private equity fund			2004
AfricInvest Fund Ltd. I B	Private equity fund			2007
AfricInvest Fund Ltd II	Private equity fund			2008

AfricInvest Fund Ltd. III	Private equity fund			2014
Afrinord Hotel Investments A/S	Hotels			2005
Atlantic Coast Regional Fund	Private equity fund			2008
Aureos Africa Fund LLC	Private equity fund			2009
Catalyst Fund	Private equity fund			2011
Creditinfo East Africa	Credit information		EUR 2,400,000	2015
European Financing Partners	Development financing			2004
European Financing Partners III	Development financing			2009
European Financing Partners IV	Development financing			2010
Evolution II (Mauritius)	Private equity fund		USD 15,000,000	2017
Fanisi Venture Capital Fund	Private equity fund			2010
Fidelity Equity Fund II Limited	Private equity fund			2008
GEF Africa Sustainable Forestry Fund, L.P.	Forestry Fund			2011
Green Resources AS	Forestry and wood products			2012
GroFin East Africa Fund LLC	Private equity fund			2007
Miro Forestry Company	Forestry and wood products			2014
Mobisol	Solar energy systems			2016
Mobisol	Solar energy systems		EUR 10,000,000	2017
Norsad Finance Limited	Development financing			2011
SFC Finance Limited	Bank			2014
Silverlands Fund	Private equity fund			2011
ETHIOPIA				
EthioChicken (Agflow Poultry)	Poultry production		USD 10,000,000	2016
M-Birr Etiopia	Information technology			2011
M-Birr Etiopia II	Information technology			2014
M-Birr Etiopia III	Information technology			2015
M-Birr Etiopia IV	Information technology			2016
M-Birr Etiopia V	Information technology		EUR 1,000,000	2017
Schulze Global Ethiopia Growth and Transformation Fund I	Private equity fund			2014
SINI Furniture Interior Design PLC	Furniture	Henrik Puustinen	EUR 1,000,000	2015
GHANA				
Ghana Airport Cargo Centre	Logistics		USD 11,000,000	2014

KENYA				
Elgon Road Developments Limited	Hotel			2009
Fuzu	Information technology	Fuzu Oy	EUR 599,999.76	2016
Lake Turkana Wind Power	Wind power	Peikko Group Oy		2013
Sanergy Inc.	Waste management and recycling		USD 1,249,999	2017
NIGERIA				
African Foundries Limited	Steel	Wärtsilä Oyj		2009
RUANDA				
Hakan-Quantum Biomass Fired Power Plant	Biomass fired power plant	Fortum Power and Heat Oy, Andriz Group	USD 15,000,000	2016
New Forests Company (Rwanda) Limited	Forestry and wood products			2016
SIERRA LEONE				
Goldtree Sierra Leone Limited	Food production			2011
SOUTH AFRICA				
Evolution One LP	Private equity fund			2008
Horizon Fund III Trust	Private equity fund			2007
TANZANIA				
Africado Limited	Agriculture		EUR 2,500,000	2018
Kilombero Valley Teak Company Ltd. I	Forestry and wood products			2000
Kilombero Valley Teak Company Ltd. I	Forestry and wood products			2011
Kilombero Valley Teak Company Ltd. II	Forestry and wood products			2005
Kilombero Valley Teak Company Ltd. III	Forestry and wood products			2009
Kilombero Valley Teak Company Ltd. IV	Forestry and wood products			2010
Kilombero Valley Teak Company Ltd. V	Forestry and wood products			2011
Kilombero Valley Teak Company Ltd. VI	Forestry and wood products			2012
Kilombero Valley Teak Company Ltd. VIII	Forestry and wood products			2015
Kilombero Valley Teak Company Ltd. IX	Forestry and wood products		USD 468,600	2016

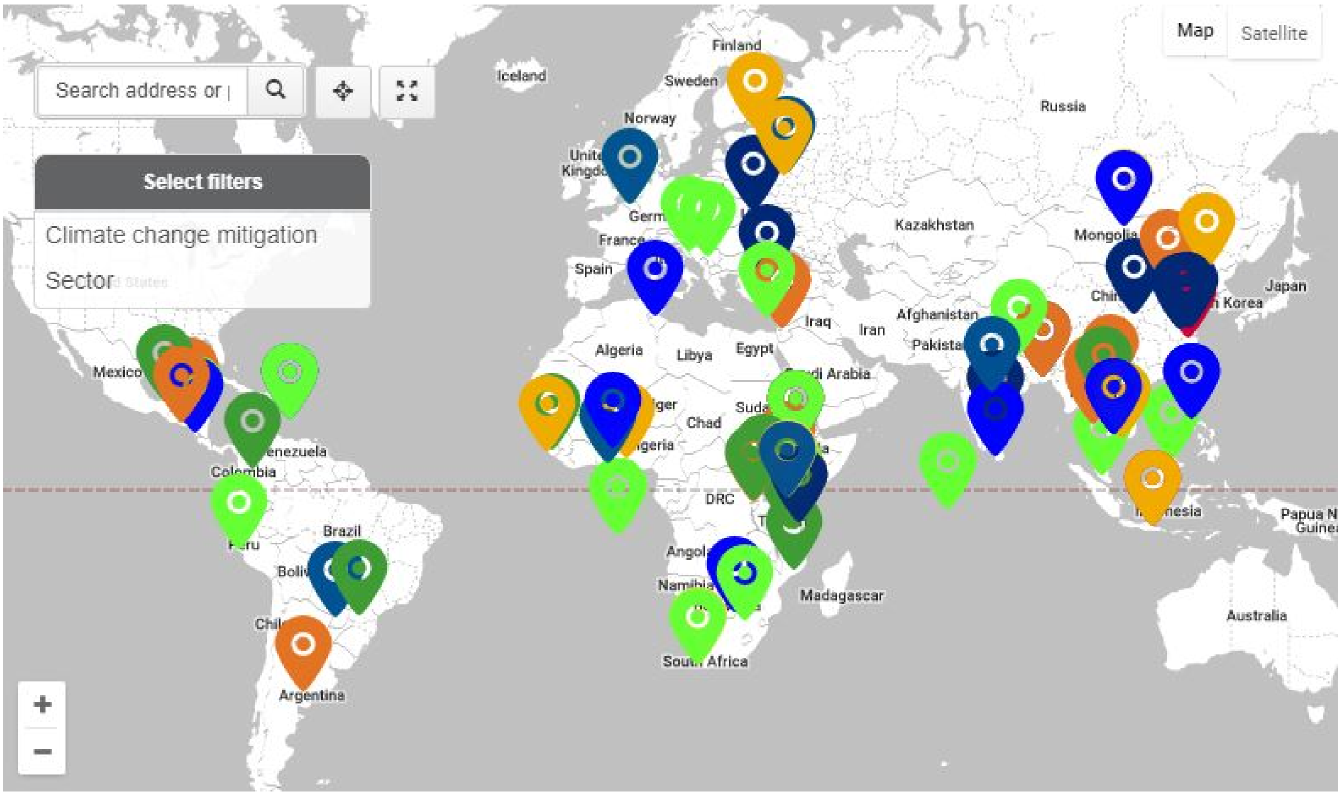
New Forest Company (Tanzania) Limited	Forestry and wood products			2014
Precision Air Services Ltd.	Airline company			2008
Sound and Fair Tanzania Limited	Forestry and wood products			2016
Tanira Ltd.	Hand pumps	Lojer Oy		1991
TOGO				
Ecobank Transnational Incorporated	Bank		USD 8,000,000	2017
UGANDA				
New Forests Company (Uganda) Limited	Forestry and wood products		USD 10,000,000	2015
UpEnergy Ltd.	Energy efficiency	Climate Wedge Oy		2013
THE MEDITERRANEAN				
TURKEY				
Noksel A.S.	Steel pipes	Nokia Oyj		1992
THE MIDDLE EAST				
Catalyst MENA Clean Energy Fund	Private equity fund			2016
JORDAN				
Arabia One For Clean Energy Investments PSC	Solar power			2014
Falcon Ma'an for Solar Energy LLC	Solar power			2014
FRV Solar Jordan	Solar power	ABB Suomi		2016
Jordan Solar One (Cayman) / Jordan PSC	Solar power	ABB Suomi		2014
LATIN AMERICA AND THE CARIBBEAN				
CENTRAL AMERICA				
CASEIF II Corporation Ltd.	Private equity fund			2007
Central American Mezzanine Infra Fund I and II (CAMIF)	Private equity fund			2014
Central American Renewable Energy and Cleaner Production Facility (CAREC)	Private equity fund			2006
ARGENTINA				
Methax	Power plant	Wärtsilä Oyj	USD 20,000,000	2017

COLOMBIA				
Forest First Colombia S.A.S ("FFC")	Forestry and wood products		USD 10,000,000	2017
El SALVADOR				
Bosforo, Ltda. de C.V.	Solar power		USD 15,000,000	2017
HONDURAS				
Los Laureles	Small hydropower			2011
Mezapa Hydroelectric Project	Small hydropower			2010
Valle Solar Power Project	Solar power	ABB Finland		2015
LATIN AMERICA				
CIFI - Corporación Interamericana para el Financiamiento de Infraestructura, S.A	Financial institution			2004
SEAF Latam Growth Fund	Private equity fund			2008
The Forest Company Ltd.	Forestry and wood products			2010
MEXICO				
Pro Eucalipto Holding S.A.P.I de C.V.	Forestry and wood products	Dieffenbacher Panelboard Oy		2014
NICARAGUA				
Banco Lafice-Bancentro S.A.	Bank			2008
PARAGUAY				
San Francisco S.A.	Warehousing and transportation support		USD 12,000,000	2017
CENTRAL AND EASTERN EUROPE				
SEAF Central and East European Growth Fund LLC	Private equity fund			2000
SEAF South Balkan Fund B.V.	Private equity fund			2009
RUSSIA				
MP Russia Oy	Food products	Myllyn Paras Oy Konserni		2012
OOO Skaala	Windows and doors	Skaala Oy		2014
Oy Nordic Russian Management Co - NORUM	Fund management			1995
Rani Plast Kaluga LLC	Plastic products	Ab Rani Plast Oy		2011

UKRAINE				
Aqueduct Ltd.	Metal products	Macring Oy		2010
INTERNATIONAL				
Althelia Climate Fund SICAV-SIF	Environment fund			2013
Dasos Timberland Fund I	Forestry fund	Dasos Capital Oy		2010
Global Environment Emerging Markets Fund III, L.P. (GEEMF)	Private equity fund			2007
Interact Climate Change Fund S.A.	Development financing			2011
Jumo World Limited	Information Technology		USD 11,996,500	2017
MBH B.V.	Microfinance			2011
Moringa S.C.A. Sicar	Agroforestry fund			2013
ShoreCap International Ltd. II	Microfinance			2009
WWB Capital Partners, LP	Microfinance			2012

*) Shareholder or significant technology provider
**) Finnfund's disclosure policy was updated in September 2016. Since then Finnfund has published for example its share of financing of new investments. More information at Finnfund's website.

Map of investments



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

Emphasis on direct investments

In numerous low-income countries, companies suffer from a shortage of long-term funding that is reasonably priced and risk-tolerant. Finnfund's mission is to fill this gap when there is a responsible company that promotes the development of its country of operation.

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

Most of the Finnfund's investments are made directly to the companies operating in a developing country. Direct investments are long-term investment loans, equity investments or equity-rated financing or other mezzanine financing.

Nineteen new direct investment decisions were made during the year totaling EUR 114.9 million. At the end of 2017, direct investments were 63.7 percent of all investments. Loans were 52.8 percent of direct investments, equity-rated financing was 35.5 percent and mezzanine financing 11.7 percent. Projects were located in 31 countries.

Of all Finnfund's investments, the share of direct investments was 76.8 percent (including financial institutions) at the end of 2017.

Some of our investments are for expanding existing activities, others for establishing entirely new operations. Finnfund is always a minority investor and does not seek a dominant position in the companies it finances.

Finnfund finances only companies operating in developing countries but aims at catalyzing cooperation of Finnish companies in the developing countries. In 2017 six new financing decisions were made on projects with a Finnish shareholder or a technology provider. This means that 32 percent of new investments 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

Equity funds as a channel to difficult markets

The great majority (76.8 percent, including financial institutions) of Finnfund's investments go directly to companies operating in developing countries but at times it makes sense to route financing via private equity funds.

Equity funds can put together high-risk financing for smaller projects and enterprises which operate in poor and fragile countries and would otherwise remain outside the remit of financial services. Well-managed funds can also provide enterprises with other forms of support such as sectoral knowledge or skills in environmental questions.

Most of the equity funds in which Finnfund participates concentrate on a certain territory or a specific sector such as renewable energy, sustainable forestry, or microfinance. Most of them provide finance for micro, small and medium-sized enterprises that would be hard or impossible to finance directly in a cost-effective way.

Before making an investment, Finnfund analyses the equity fund's strategies and, where necessary, makes its own proposals. It is also important that the fund is managed competently and in line with Finnfund's principles. If these conditions are met and the decision to participate is made, Finnfund often joins the fund's supervisory board, to ensure that fund resources are invested sustainably and appropriately for development. Equity funds are required to produce comprehensive reports on their investments and other matters, such as the taxes they pay.

In 2017 Finnfund made 3 investments in developing countries via equity funds. At the end of 2017, it was a participant in 41 equity funds, to a total of about 167 million euros, an average of 4.1 million per fund.

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 participation. This allows development finance institutions like Finnfund to move on to new projects where adequate commercial finance is still not available.

Companies financed by Finnfund via equity funds pay taxes in the countries where they operate and report annually on tax paid. A major objective and result of Finnfund's work is the tax and other fees, paid by enterprises financed, to the public sector in the countries concerned.

Many private equity funds that invest in developing countries are domiciled in international financial centres. Resources pass through these conduits on their way to countries where they will be invested. Such financial centres generally provide clear and predictable legislation and tax regimes, as well as conditions for the equal treatment of fund participants from different countries. The participants pay taxes in their home countries, so the exchange of information between national tax officials is important.

The group of European development finance institutions (EDFI) has a set of common principles for investments in financial centres.

Finland's Ministry for Foreign Affairs, which steers Finnfund's operations, has instructed it to invest only in equity funds registered in countries that are in compliance with the progressively stricter requirements of the OECD Global Forum. At the same time, Finnfund urges countries of fund domicile to create transparent tax regimes.

The OECD Global Forum maintains a list of countries whose legislation is non-compliant or only partially compliant with international norms. Finnfund does not participate in equity funds registered in these countries. The list is constantly updated so its composition varies, as does the state of compliance of countries. Finnfund is monitoring developments in this field; other such lists exist but, hitherto, the Global Forum list is regarded as dependable and internationally influential.

More information:

Key figures
Development impacts of projects
Responsibility
Principles for equity fund participation
Responsible tax

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 2017 our investments in banks and financial institutions accounted for 13.1 percent of the investment portfolio.

During the year four new decisions, totalling EUR 33.9 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.

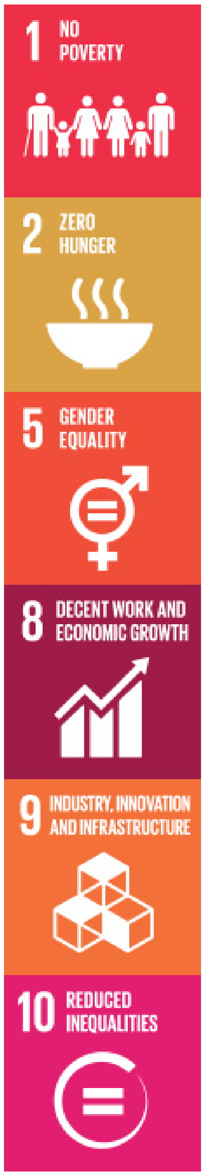
In many countries, especially in Africa, local banks are often too small to be profitable. Risk-tolerant finance obtained from development finance institutions such as Finnfund supports their growth in local and regional markets.

More information:

Key figures
Development impacts
Responsibility

Microcredit brings a safer future for Cambodian farmers

Phom Oun, who farms rice on the bank of the Tonle Sap River in Cambodia, has just received a small loan worth 500 US dollars. Now she and her husband will be able to obtain proper seed and fertiliser at a fair rate of interest.



"The price we receive for rice we grow has fallen by a fifth," she explains. "That doesn't leave enough money to buy supplies for the next season."

Volatile weather creates uncertainty

Farming conditions have been poor for the past three years. The river has not steadily risen to flood the rice paddies. Windy weather has made things worse, as well as bringing an extra problem, insect pests.

Their other crop is lotus flowers, but plants that normally produce for several years have suffered from fluctuating water levels. Now they need to be replaced sooner than expected.

Phom Oun used to borrow from a local bank to pay for production inputs. Now she has switched to Chamroeun, a local microfinance company serving the rural poor. "They give better service," she says.

From the upstairs of their house, in the village of Ta Pori, comes the sound of hammering. Her husband **Yen** is building a second storey. The work has made slow progress, according to how much farming income is available for building supplies.

They have five children in their family and three are still living at home although only the youngest is in school. Four already have jobs.

This year the couple decided to budget for completing the bedrooms. They are not going to lease extra land from their neighbours, as they used to. The rent money will be spent on construction.

Supporting the family by fish farming

Sok Sophea, who lives at the other end of the village, is another optimist. She and her husband **Chea Chean** are fulfilling their dream of expanding the fish farm. They too have taken a microloan of USD 500, to be used for stocking ponds and improving methods.

Ten kilos of newly hatched fish fry will grow into 200 kilos of fish for sale. Sok Sophea sells most of what they produce in the market of a nearby town. They have two fish ponds and want to raise production to five times its present level.

Microfinance makes future planning possible

Pa Thea of Chamroeun says there is a distinct need for microloans among small-scale farmers and fish farmers. He runs the microfinance company's operations in the district of Ponhea Lueu.

Chamroeun has been serving agricultural customers in the Koh Chen subdistrict for less than a year but has already granted nearly 2,000 loans. The size of loans ranges from 25 dollars to 3,000, depending on the applicant's business plan. The average sum is USD 1,000, for repayment within two years.

With no access to credit, Cambodian farmers and fish farmers often have to borrow from the merchants who buy their harvests or from local private money lenders, in order to finance operations and investments. The interest on these loans can be from 30 percent onwards, sometimes up to 250 percent per annum, which hurts their earnings.

When harvests are poor, or fail completely, farmers become destitute and have to sell out to pay off their debts.

Responsibly administered microcredit looks critically at the families' revenues and capacities to pay, as well as business cash flows. It can provide some protection against bad weather and other unpredictable risks as well as facilitate investments. Farmers can look beyond tomorrow in their plans for the future.

Country: Target region Asia, current investments in Cambodia, Vietnam, Myanmar, Timor Leste, Kyrgyzstan, Tajikistan and Kazakhstan. Domiciled in Singapore
Sector: Fund/microfinance
Year of investment: 2017

Developing Asian microfinance via the BOPA fund

Finnfund provides finance for Chamroeun in Cambodia via Base of Pyramid Asia (BOPA). This holding company, founded by Christian Andersen of Denmark, specialises in funding and developing microfinance institutions in poor Asian countries. In 2017 Finnfund invested three million US dollars in BOPA.

“We focus on smaller microfinance institutions, which are typically neglected in the big funding landscape,” Andersen says. “We work with them to scale them up, while keeping operations sustainable and balanced, so that they can cover their costs and have a significant positive impact on local communities.”

For Finnfund, the investment in BOPA is a way of supporting small and growing microfinance institutions. The BOPA team can provide support, expertise and resources on a scale that Finnfund would find it hard to match.

This is typical for an investment in a fund. After careful analysis, Finnfund selects funds that offer resources or special skills, for example in a certain sector or region. The overriding objective is that microfinance is developed in a responsible way.

One example of this is SMART, an international campaign promoting ethical practices in microfinance, particularly in terms of client protection. BOPA is committed to the campaign, and most of the microfinance institutions BOPA is financing, including Chamroeun, are already actively endorsing the campaign.

“Overindebtedness is a hot subject in microfinance,” Andersen says. “We need to ensure that the institutions we work with do not grant credit to customers who will not be able to repay it. The number of loans granted must be managed.”

BOPA is currently a shareholder in seven microfinance institutions that it funds in Southeast and Central Asia: Cambodia, Vietnam, Myanmar, Timor Leste, Kyrgyzstan, Tajikistan and Kazakhstan.

These institutions focus on the poorest segments of the population. Together they have nearly 200,000 customers, 77 percent of them living in rural areas. The average loan is about USD 600 and 64 percent of borrowers are women.

Financial institutions and microcredit for sustainable development

The availability of reliable financial services such as microcredit can play a major role in reducing poverty, creating jobs and promoting gender equality.

Much of the employment created in developing countries is in small businesses, which seldom have easy access to traditional financial services. The lack of finance is a large obstacle to their growth.

According to a study in 2017 by the IFC, part of the World Bank group, about 40 percent of small and medium-sized enterprises in developing countries are starved of vital finance. Their total requirement is as much as USD 5,200 billion.

Financial services can serve to improve the position of women and the very poor. Loans allow investment and also protect against unpredictable risks. They often give women their first opportunity to manage their own finances, reducing their dependency on men and boosting their status in the community.

More information:

- Video: Meeting with Christian Andersen from BOPA
- Read more about financial institutions and microloans for sustainable development in Development results 2016

JUMO brings financial services to mobile users

How can a tailor or dressmaker buy a new sewing machine if they don't have enough savings? How can a fisher afford a new net if there is no bank to borrow from?

In developing countries, when poor people and small entrepreneurs need to invest or recover from unpredictable setbacks, they have to resort to informal financial sources that are often unreliable. This is especially true in the countryside, where bank offices may be several days' journey away.

This explains the rapid rise of mobile financial services that use new technology and operate alongside conventional banking. Services like microcredit and deposit accounts can now be accessed via mobile phones.

Since 2017 Finnfund has been financing JUMO, a platform that connects traditional financial services with information from large mobile phone operators. It analyses the large volume of data on mobile phone users to create financial identity for them, allowing them to obtain reasonably priced real-time financial services – such as loans and savings accounts – via their mobile phones. Many customers are low-income people and small entrepreneurs who have previously been beyond the scope of conventional banking.

"Banking services are available on the mobile phone menu, where users can choose whether they want to deposit or borrow funds. Once they have accepted the terms and conditions, the funds can be in a digital wallet, attached to their mobile phone number, within 20 seconds," says JUMO's founder and CEO **Andrews Watkins-Ball**.

Loans granted by JUMO or its partners range from one euro to EUR 400, or even more for larger businesses. Initially the maximum sum is always small but, if repayments keep to schedule, it can be gradually increased. Repayments are automatically monitored, so the service eliminates the risk of excessive debt. Meanwhile, electronic deposits simplify money handling and make it safer; cash does not need to be transported over great distances.

Mobile money promotes equality

“Financial inclusion is an essential part of equality, giving people access to good choices. Everyone needs tools to manage their money. Poor access to basic saving and loan facilities is a major problem. Everyone deserves it and JUMO creates it,” Watkins-Ball explains.

Finnfund granted JUMO a loan of USD 6 million in spring 2017 and made a further equity investment of USD 6 million in the second half of the year. The finance is being used to support service development and expand operations in Africa and Asia.

An important aspect is to ensure that the service is operated responsibly and that, for example, customers are protected from overindebtedness. For instance, JUMO is one of the early participants in the Smart Campaign’s *FinTech Protects* engagement, aiming to remain at the forefront to shape responsible practices in the fintech sector (financial technology).

“Our investors are very important,” Watkins-Ball says. “Their confidence has enabled us to build our solutions and reach more people, expanding our footprint so we can take our business to hundreds of millions of customers.”

JUMO rolled out its first mobile platform in 2014. Since then it has granted over 20 million loans. It has some 300 employees, mostly in South Africa. It currently operates in Tanzania, Uganda, Zambia, Kenya, Rwanda, Ghana and Pakistan.

Watkins-Ball is optimistic about JUMO’s prospects. One of the effects of the technology is to reduce the significance of geographical distance. This in turn promotes equality.

“I see a better future for the average woman or man who hitherto has had no connection to financial services. I think access will be empowering because it will put choices in the users’ own hands, in real time. They will be able to select the products that suit their needs for investing in a business, saving for education, or whatever. “It’s about supporting people improve their own lives.”

Country: International; current operations in Tanzania, Uganda, Zambia, Kenya, Rwanda, Ghana and Pakistan
Sector: Information and communications technology
Investment year: 2017

Mobile money already commonplace in much of Africa

Access to formal financial services is limited or non-existent for more than a third of the people of the world. Most live in JUMO target countries in sub-Saharan Africa and Asia. In the majority of those countries, as many as 80 percent of adults have never been within the scope of formal banking. As mobile money services grow, the basis for improved access to formal financial services also improves. The benefits are felt mainly by the poor, the rural population and others living beyond the scope of traditional services.

More information:

• Video: Meeting with Andrew Watkins-Ball from JUMO
• Also on this subject: Microcredit brings a safer future for Cambodian farmers
• More about financial institutions and microloans for sustainable development in Development results 2016

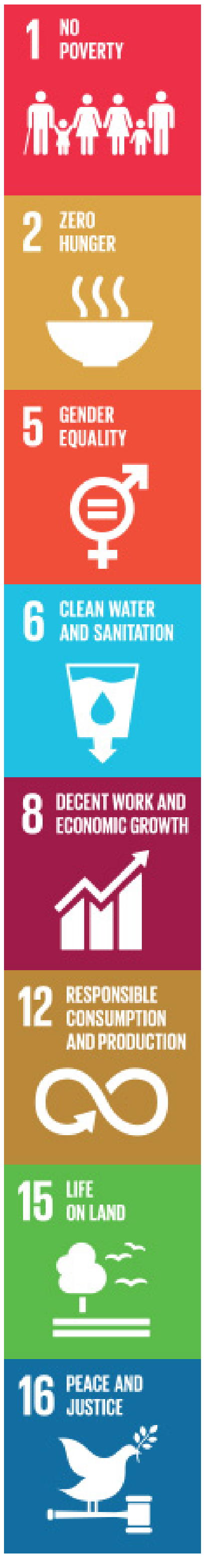
Developing agriculture to boost smallholder harvests and incomes

African agriculture consists predominantly of small-scale farmers with very low productivity. Accelerating population growth demands more efficient food production. At the same time farming must adapt to climate change.

“The whole sector is dominated by smallholders, whose productivity is far from what the US, China and Europe achieve. In maize production, for example, the average yield per hectare is 1.5 tonnes, while US farmers can obtain 8-10 tonnes,” says **Gary Vaughan-Smith**, Chief Investment Officer of SilverStreet Capital.

“There is an opportunity to raise yields and help farmers, and then to provide a market for high-value crops.”

SilverStreet Capital manages the Silverlands private equity fund, to which Finnfund has committed finance of USD 10 million since 2011. Silverlands focuses on developing sub-Saharan farming businesses that work mainly with smallholders.



Better farming practices and buyers for harvests

Silverlands is currently a shareholder in eight enterprises in Zambia, Tanzania. Mozambique, Namibia and South Africa. The enterprises produce, for instance, grains, fruit, nuts, poultry and cattle, buy produce from smallholders, and process and resell it.

Its core operational values are responsibility and social impact. There is a strong focus on land ownership issues and cooperation with local communities.

“For us sustainability means that we are working on a long-term basis, taking all environmental and social aspects into account,” says **Julia Wakeling**, Head of Silverlands ESG (Environmental, Social and Governance).

“It also means close cooperation with surrounding communities to ensure that their livelihoods are improved which then builds the business.”

Silverlands aims to raise smallholder productivity in two ways: by ensuring access to quality seeds and by providing training in farming methods that suit the locality and the crop strain. The seeds are GMO-free. Only a few African countries permit the use of genetically modified seeds and Vaughan-Smith sees no need for them.

The things that matter are better farming techniques and seed quality – planting the right kind of seed in the right place and tending it properly. After that, the farmers need a market for their produce, someone who will buy and process it.

“This could be, for example, a factory that makes tomato paste. It in turn creates a market for tomatoes, which are a really high-value crop that farmers can grow in rotation with maize and other varieties.”

Most smallholders are women

The whole agricultural value chain is in need of development. Vaughan-Smith believes that one of the main challenges is the poor state of infrastructure, which creates difficulties in transport and storage. By some estimates, as much as a third of smallholder crops is wasted because of inadequate storage facilities.

Another obstacle is the skill deficit. Silverlands enterprises are trying to overcome this with active training programmes for their own staff and for their partners, like smallholders. Non-governmental organisations act as important partners in organising the training.

A further problem is climate change. Worsening drought and extreme weather phenomena are already being experienced in the region. Therefore, water risk assessment has a key role to play; water consumption is monitored and controlled, and smallholders are given training in good practices. To a large extent this means support and education for women in rural areas, because women account for the majority of smallholders – about two-thirds.

“We are working with the poorest people. Most of these smallholders are women, because men typically go off to work, leaving the women at home to farm and look after the animals,” says Julia Wakeling.

“We are very happy to be able to impact these women’s lives and get money directly into their hands. Women tend to spend money on their children, education and healthcare. In general, they are careful with money and use it wisely. There is a huge welfare benefit to empowering women.”

The enterprises are also involved in community projects, financing the construction of schools and clinics. Wakeling stresses, however, that the greatest impact comes from the fact that community welfare is itself at the core of business operations.

Smallholder incomes have almost doubled

Silverlands monitors the living standards of smallholders and the results are promising. In districts where the enterprises operate, if farmers typically earn about USD 700 a year, the income of smallholders who partner with the enterprises has so far risen to USD 1,300 on average.

The enterprises directly employ about 6,200 people, providing many of them with their first-ever vocational training. In total, the incomes of as many as 95,000 people have been raised. Including their dependents, this means the living standards of as many as 600,000 have been improved. It is an ongoing process.

“The world population is growing fastest in Africa – by 2.5 or even 3 percent annually. In a country like Tanzania, that means 1.5 million extra people to feed every year. But there is a solution and it’s relatively easy. Because farm productivity is so low, we don’t need a lot of equipment to produce a large increase in yields. We just need the right techniques and better seeds on the farms,” Vaughan-Smith says.

“If smallholder productivity can be raised, we not only solve the food problem. We could make Africa a food exporter while raising the living standards of the world’s poorest people.”.

Country: Sub-Saharan Africa, investments currently in Zambia, Tanzania, Mozambique, Namibia and South Africa; equity fund domiciled in Luxembourg
Sector: Equity fund / agriculture
Year of investment: 2011

Why is better agriculture important in developing countries?

Agriculture is one of Finnfund's focal areas because developing countries greatly need agricultural production but also because the sector has great potential. Most African farmers are still smallholders, many of them producing low-value crops like as maize and cassava, for personal and local consumption. It is often difficult to store, transport and process harvests, and to resell production.

To be able to feed its growing population, the African continent needs to develop its agriculture. The whole sector suffers from low productivity. Moreover, in many countries, agriculture is concentrated on simple export commodities instead of domestic food requirements or processing.

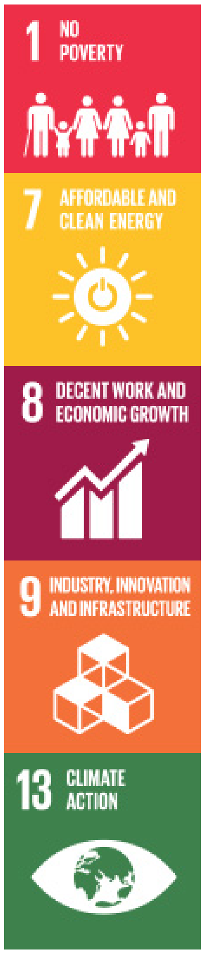
Development of agriculture could offer the fastest route to foster industrialisation. Growth in productivity and production, enabled by modern agriculture, enhances food security and strengthens the balance of payments. At the same time, it supports the entire agricultural value chain, such as the development of local food production.

More information:

• Video: Developing sustainable agriculture in Africa – Meeting with Silverlands/SilverStreet Capital
• Video: Agriculture & Impact in Africa – Meeting with Gary Vaughan-Smith, Silverlands/SilverStreet Capital
• SilverStreet Capital: Silverlands

Photo: Silverlands

Clean solar energy in rural Honduras



Clean electricity for nearly half a million families – 480,000 – and the elimination of some 78,000 tonnes of carbon dioxide emissions annually: the Valle Solar project in Honduras is living up to its promise.

It has relieved the national electricity shortfall, created jobs and infrastructure in a poor rural area, and boosted generation of renewable energy. Valle Solar can also improve the country's balance of payments, when there is less need for oil imports.

Valle Solar is one of two identical solar plants located near the city of Nacaome on the Pacific coast. When they began operations in 2015, their total rated output was 100 MW, the largest of any solar park in Latin America at that time.

Inhabitants are important partners

Power plant projects typically offer large-scale employment during the construction phase. Building Valle Solar provided about 500 jobs. Now that it is operating, the work consists largely of maintenance and needs far fewer employees – 53 in 2017.

Valle Solar emphasises its environmental and social responsibility, as well as the importance of cooperation with local inhabitants. It has established a fund for community projects, which is jointly administered by the company and local people. In an area that suffers from drought, the fund has worked from the outset to improve the water supply to the local community. Its current projects are related to health, the environment, education and municipal engineering.

"We have a strong and high standard on social and environmental," says **Eduardo Arias**, General Manager of Compañía Hondureña de Energía Solar (COHESSA), the company responsible for Valle Solar. "Our standards exceed legal requirements because we care about communities and we regard our neighbours as our partners."

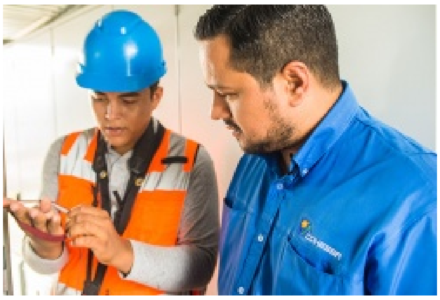
The company provides funding and support for various community projects through a Social Responsibility Fund. In 2017, they funded for example construction of school classrooms for children in neighbour school, construction and drilling of wells as well as construction of water storage tanks to provide water for local communities.

COHESSA was founded by **Adolfo Larach**, a Honduran with whom Finnfund had previously worked in the La Vegona hydropower project.

“We are long-term committed to continue the development of renewable energy in Honduras, whilst developing long-term relationships with communities close to our projects. We promote their economic and social development based on respect and permanent support to assist them with management capabilities, funds, training and project executions,” says Adolfo Larach.

Finnfund’s financial commitment in Valle Solar is about 14 million US dollars, consisting of a loan and mezzanine finance. Other participants include development finance institutions like the IFC, part of the World Bank Group, and Austria’s OeEB.

Finnish technology from ABB and Ensto



Valle Solar uses equipment supplied from Finland by ABB and Ensto. The Finnish ABB company provided 52 inverter and medium-voltage stations for the project. Finnfund was responsible for introducing ABB to Valle Solar. It was selected as the technology supplier in competitive tendering.

The inverter stations each include two solar power inverters and associated equipment developed in Finland. The medium-voltage stations, designed and manufactured at ABB’s factory in Vaasa, Finland, consist of transformers and switchgear. The contract includes the monitoring and control system, and local maintenance.

ABB estimates the value of the contract at about 20 million euros but the deal was additionally significant for giving ABB a reference for its technology in Central America, a market traditionally dominated by North American companies. It was also a major breakthrough into the local market for Ensto, the Finnish company that supplied ABB’s equipment.

More background information on the project and the roles of ABB and Ensto in this video.

Country: Honduras
Sector: Solar Power
Year of investment: 2015

Exploiting renewable energy to mitigate climate change

One of Finnfund's objectives is to promote clean power generation. It finances energy projects both directly and via private equity funds that concentrate on renewable energy.

Finnfund's investments in renewable energy generally focus on power plant construction, which has direct development impacts via job creation and infrastructure engineering like roadbuilding. The construction phase typically requires goods and services from local suppliers, which has a positive impact on the local economy. At the same time, better roads and transport links allow local farmers and businesses to bring products to market from a wider area.

On completion, the plant produces clean power, reducing the need for other power sources, like diesel generators, that create pollution. This cuts carbon dioxide emissions and serves to mitigate climate change.

The greater availability of electricity stimulates the economy, stabilising the power grid and reducing electricity prices. Together or separately, these impacts boost production, creating ongoing benefits in employment and economic growth. In addition to power plants, Finnfund finances off-grid solar systems such as **Mobisol,** operating in East Africa. Such systems generate electricity and light and bring significant benefits to households because they are cheaper and healthier than the inefficient, polluting kerosene lamps that are widely used.

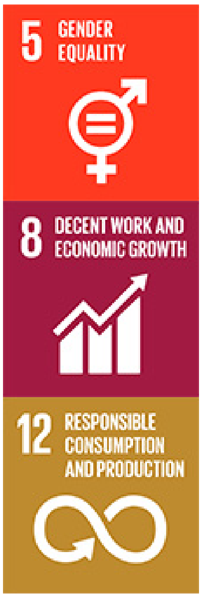
More information:

• Video: Clean energy for thousands of Honduran homes
• International Finance Company (IFC), Stories of Impact: A Solar Plant Lights up a Community in Honduras
• Solar Park to ease Power Shortfall in Honduras (News 8.6.2015)
• OeEB: Better living conditions through vibrant economy
• Development impact of Finnfund investments in 2016: Jobs, prosperity and sustainable development

Photos: OeEB, Austrian DFI

Supported by Finnpartnership

Textile importer focuses on quality



Sera Helsinki Oy's rugs, made in Ethiopia, received a lot of positive attention at the Habitare Fair in the autumn after the association for interior design journalists (Sisustustoimittajat ry) chose the company's products as one of the 12 most interesting new products in Finland. Entrepreneur Anna Suoheimo says that Sera Helsinki's products combine Finnish design with Ethiopian women's craftsmanship.

"We make design products in Ethiopia that appeal to western consumers," Suoheimo summarises. Quality is an important competitive factor for Sera Helsinki. The company emphasises quality in the Ethiopian weavers' training for which it has received Finnpartnership's business partnership support.

Work and better salaries for women

The company, founded by the entrepreneur duo, **Anna Suoheimo** and **Hanna Puharinen**, is now doing well, but the early days in Ethiopia were not easy. Suoheimo says that the idea for importing Ethiopian crafts to Finland came about when she lived in Ethiopia with her family.

"I was really impressed by the woollen rugs the local women wove. Everyone in Finland also liked the rugs when I brought them back as gifts. Suoheimo and Puharinen's idea from the start was to run a business, which would improve the status of Ethiopian women and pay the weavers higher than average salary for their work. They designed a rug collection that would please the Nordic eye and found weavers in the Ethiopian capital, Addis Ababa. "The idea was that we would buy the rugs and pay extra bonuses directly to the women who weave them."

Challenges in finding a reliable partner

However, gradually it was revealed to them that the weaving mill's director did not respect employee rights. Salaries and pensions were at times not paid. Working conditions left a lot to be desired.

"We pointed out the flaws but things didn't improve. It turned out that the poor treatment of employees was not due to indifference, but a conscious wish to oppress women," Suoheimo says.

Suoheimo and Puharinen decided to look for new partners through Ethiopian NGOs. That cooperation ended with disappointment too, because the organisations' operations proved to be riddled with corruption and reckless spending.

"In a poor country, such as Ethiopia, the most challenging thing is to find a reliable cooperation partner," Suoheimo remarks.

Sera Helsinki needed a local partner in Ethiopia, because a foreign entrepreneur would have needed a business licence to found a business. They would have had to invest at least 250,000 US dollars in the country to get the licence.

"As a small company, we naturally could not afford it," Suoheimo says.

In the end, the solution was closer than expected. Suoheimo family's chauffeur and interpreter, **Abraham Hailemariam**, had closely followed the difficulties Sera Helsinki was faced with at the start. He was prepared to found a company that would start manufacturing the rugs.

Jobs for the poverty-stricken countryside

The new weaving mill is now up and running. The majority of its employees are experienced weavers with whom Sera Helsinki has cooperated for a long time. Sera Helsinki also buys rugs from two other weaving mills, which employ disabled people in Ethiopia. The weaving mills receive support from the Threshold Association and the Abilis Foundation, both of which work to promote the position of people with disabilities.

"We currently employ 50 women in Ethiopia. 30 of them are visually impaired."

Now Sera Helsinki has started developing the production of the wool yarn required for the rugs. In the future, most of the sheep wool will be collected and spun into yarn in the Kombolcha area, 350 kilometres northeast from Addis Ababa.

"The Ethiopian countryside is even poorer than the cities. It would be important to create jobs there, so people would not have to leave their home region."

Suoheimo expects that the attention the company received at the Habitare Fair will give Sera Helsinki an extra boost. The company sells its products through its online shop, but the aim is to also find retailers in Finland for the rugs. The company also wants to expand the network to the rest of Europe and Japan. The Nordic market is of special interest.

“Rugs are currently our main product. But the product selection also includes towels, which we buy from another Ethiopian company." countries.

More information:

Sera Helsinki
Finnpartnership

Photos: Sera Helsinki

Supported by Finnpartnership

Solar energy for African entrepreneurs

The Finnish Solar Fire Concentration is testing solar energy technology in Africa that is suitable for small-scale entrepreneurs. Business Partnership Support from Finnpartnership accelerated launching the pilot projects.

Small-scale business activities can create a lot of new jobs and income in developing countries, but problems with energy supply create limitations to the growth of many companies. Energy is often too expensive or there is not enough of it available. In addition, the only available forms of energy may cause a lot of emissions.

Solar Fire Concentration Oy offers innovation to solve the energy problems where small-scale entrepreneurs can utilise thermal energy from the sun in their business. There are ten pilot projects underway in Kenya and Tanzania, where the company's device is used for manufacturing bakery products, for example.

“We have obtained good results from the pilot projects. Solar energy has provided a lot of additional value to the users of the devices”, says **Eerik Wissenz**, one of the founders of Solar Fire Concentration.

Finnpartnership’s support helped the company get started

Solar Fire Concentration's partners in the pilot projects are the NGOs World Vision Finland and World Vision Kenya. The company received Finnpartnership’s Business Partnership Support for launching the pilot projects.

“The pilot projects are associated with a lot of uncertainty factors. The support from Finnpartnership helped with getting started with the project. We also received good advice from them”, says Wissenz.

In the pilot projects, small-scale entrepreneurs test the company's device that uses mirrors and focused sunlight to achieve temperatures exceeding 400 degrees.

The heat can be used, for example, to bake bread, roast peanuts, boil water and cook food. The devices can also be used to dry different types of agricultural products, such as fruits and vegetables.

“There is a pilot project in Kenya on the shore of Lake Victoria where the device is used to dry fish. The fish dries quickly and there is not enough time for rotting to occur, which is a problem with traditional drying methods”, says Wissenz.

The clean energy produced with the new technology also improves occupational safety, as employees are not exposed to unhealthy impurities in the air. Traditionally, firewood or charcoal that generate smoke are used for cooking.

Training is needed in addition to the devices

Eerik Wissenz, who was born in Canada and is now a Finnish citizen, established Solar Fire Concentration together with his French wife, **Eva Wissenz.** The couple lives in Tampere.

The solar collection technology of the company established in 2015 was previously developed in Mexico, among other places. Wissenz says that the positive results obtained from the pilot projects in Africa encourage them to continue the cooperation.

“The projects do not only assess the suitability of the technology to local conditions. It is also important to examine what type of business activities can be developed with the technology and what factors limit them”, Eerik Wissenz emphasises.

He notes that financing the investments is a problem especially in the poor areas. For this, small loans for small-scale entrepreneurs in particular are needed. According to Wissenz, Solar Fire Concentration's technology is suitable for many purposes. It can also be used to produce steam to be used as an energy source in different machinery.

The textile industry, for example, uses a lot of steam to dye and clean fabrics. Steam produced by solar energy can also be used to operate the water pumps used to irrigate fields.

“It is essential to make the solar energy device so simple that it is affordable and easy to service. However, the device must be sufficiently powerful that it really generates additional value to users.”

According to Wissenz, the technology that uses solar thermal energy reduces production costs of small-scale entrepreneurs and increases production capacity. The cost savings in fuels frees resources for further investments that can increase production and generate additional income. According to Wissenz, the greatest challenge in increasing the use of solar energy is the lack of training.

“The technology is useless, if people do not know how to install, use or service the devices. There is a critical shortage of electrical installers in Africa, for example. Enough of them are not being trained in relation to the needs.”

More information:

Solar Fire Concentration
Finnpartnership

Photo: Solar Fire Concentration Oy

Board of Directors' report 2017

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.

Finnfund has recently experienced a period of strong growth in terms of its project volume, investment portfolio, and number of personnel. The growth has been partially facilitated by the long-term loan of EUR 130 million issued by the government in 2016. As a result of the growth, public interest towards Finnfund and its operations has increased both domestically and internationally.

In 2017, a new strategy until the year 2025 was prepared for Finnfund. The objective of the strategy is to develop Finnfund as a pioneer in impact, and to support the coherent future development and growth of the organisation as it increases in size and recognition.

In connection with the strategy process, the company's mission and vision and the key breakthroughs needed to achieve these were defined. The vision for Finnfund is to achieve the position of a valued partner and a pioneer in impact in European development financing by the end of 2025. In order to achieve this vision, Finnfund must increase the impact of its operations, manage its reputability, extend its financing base, and modernise its work culture.

In the strategy, blended financing refers to funding or aid donated from public funds for purposes such as project preparation or the reinforcement of developmental impacts.

Funding and investments

In terms of the number of projects, 2017 was a record year and a second consecutive year of strong growth for Finnfund. Finnfund's portfolio continued to grow from the previous year, and cooperation with the business sector intensified, with Finnish companies participating in the projects as technology suppliers or partners. In fund projects, Finnfund negotiated Finnish companies the right to offer their products for investment by the target companies of the funds. The majority of Finnfund's new financing decisions were allocated to projects with excellent development impact potential and a positive effect on climate change and poverty reduction, particularly in the renewable energy, financing, and forestry sectors.

In 2017, 29 (in 2016: 21) new financing commitments were made, amounting to a total of EUR 201 million (EUR 152 million). The targeting of financing decisions at various income levels is shown in the table below.

Income level	Nunmber of decisions	%	EUR million	%
Least developed countries	8	28	39.4	20
Low-income countries	4	14	27.9	14
Lower-middle-income countries	13	45	110.8	55
Upper-middle-income countries	3	10	20.3	10
Russia	1	3	2.0	1
Total	29	100	200.5	100

The majority, or 18 (14) of the financing decisions made involved investment loans, accounting for about 62% (80%) of the value of the decisions in euros.

Seven (7) of the projects that were approved were equity investments or mezzanine financing, showing a slight reduction from eight (8) in the previous year. When calculated in euros, however, they accounted for 24% of all approved projects, compared with 20% in the previous year. Three new fund investment decisions were made, one of which was cancelled. In addition, a decision was made to commit additional financing to a fund that is already invested in by Finnfund.

In terms of both the number and value of the financing decisions made, Africa with 9 (9) decisions and Asia with 8 (7) decisions were the leading continents. Africa was also the most popular target area in terms of euros, with 31% (21%) of the financing. The value of commitments was lower for Asia compared with the previous year, and constituted 28% (41%) of the total value of commitments. Projects were evenly distributed between different countries. One decision per country was made, with the exception of Egypt with three (none in 2016), Myanmar with two (none in 2016), and Vietnam with two (one decision in 2016).

The volume of disbursements grew to EUR 114 million from EUR 81 million, representing a clear historic high for Finnfund. Of this amount, EUR 66 million (EUR 34 million) was allocated to low-income countries or the least developed countries, EUR 15 million (EUR 42 million) to lower-middle income countries and EUR 33 million (EUR 5 million) to upper-middle income countries.

Of the disbursements during the 2017 financial year, EUR 21.7 million (EUR 22.7 million) is considered as Official development assistance (ODA) by the Finnish government.

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 aforementioned 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.

The amount of undisbursed commitments totalled EUR 178 million (EUR 147 million) at the end of 2017. In addition, EUR 98 million (EUR 108 million) was tied up in investment commitments that had not yet progressed to the agreement stage.

Development and priorities

Cooperation 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 as part of the environmental and social responsibility analysis was strengthened, and in this respect, Finnfund is at the forefront of development finance institutions. All proposals for direct new investment decisions were assessed using the matrix tool developed last year. The aim is to ensure that human rights considerations are appropriately acknowledged in investment decisions. In the summer, a project was launched to further increase the level of expertise related to human rights issues and to develop the process and tools used for investment decisions to funds and financial institutions. In order to measure the project's estimated development impacts, the tool developed during the preliminary survey phase of the project was piloted and comparative calculations were prepared on its use. The assessment of political risks and publicity risks was included as part of the assessment of all investment proposals.

As part of strengthening the assessments of development impacts, detailed theories of change describing the mechanisms to achieve desired development impacts were developed for the key investment sectors. These models serve as the basis of monitoring and assessing the development impacts of investments. Furthermore, two impact evaluations were launched in 2017: The impact of Finnfund renewable energy projects on employment and economic growth in Honduras, and the impact of the construction of the Lake Turkana Wind Power project on the local environment.

As in the previous year, Finnfund's projects and operations attracted both interest and critique during 2017. To this effect, Finnfund actively increased communication with various interest groups such as non-governmental organisations and companies both in Finland and abroad, as well as transparency of the company's operations and results. This work will also continue going forward.

During 2017, a public tax policy was prepared and approved for Finnfund and implemented in late 2017. Representatives of civil society and other key interest groups and experts were heard during the preparation of the tax policy. In connection with the preparation process, all members of personnel and the governing bodies were provided training in issues related to international taxation, tax structures, and their related challenges.

An organisational reform was carried out towards the end of 2017, during which the preparation of investment proposals and the management of existing investments were concentrated under the Chief Investment Officer, and risk management and impact under their responsible Director.

During autumn 2017, oversight of the Finnpartnership business partnership programme was transferred to the Director of Administration.

A training programme for supervisors was launched during the latter half of the year, which aimed to develop the management skills of supervisors and improve the consistency of managerial and supervisory work.

Finnpartnership

Finnfund administers the Finnpartnership business partnership programme, which is financed by the Ministry for Foreign Affairs. The current contract is valid for the years 2016–2018, with an option for continuation for 2019–2021.

During the latter half of 2017, the operations and organisation of Finnpartnership were under intense development in cooperation with the Ministry for Foreign Affairs. A new website was launched for the programme, and the positively received application workshop concept, developed for business partnership customers, was further developed to provide more extensive information and resources for Finnish companies in order to improve their capabilities to participate in sustainable development, while discovering new business opportunities.

Finnpartnership provides funding, networking and advisory services for the assessment of business opportunities in developing countries. Business partnership support is in the form of financial aid granted for use in investigating the viability of business opportunities. Funding by Finnpartnership also serves as a point of first contact and a learning process to facilitate access to more extensive internationally available ODA funding and impact investors. The matchmaking service connects

Finnish operators with partners in developing countries. The services are intended for use by companies, educational institutions, NGOs and other actors.

In 2017, a total of 163 (122) business partnership support applications were processed. Of these, 121 applications were accepted (91). The support granted was EUR 5.4 million in total (EUR 4.5 million).

Business partnership support was paid out to 106 (97) projects, totalling EUR 2.4 million (EUR 2.0 million).

In 2017, a total of 230 new companies (237) in target countries joined the matchmaking service. In 2017, a total of 88 companies (98) in developing countries found a Finnish business partner through the service.

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 major changes were made to the management principles in 2017.

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

The company is exposed to greater risks than those present in typical financial institution operations. The management of funding and liquidity risks includes risk identification, hedging, and reporting to the company’s administrative bodies.

The 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. A weaker risk level results in a reduction of the project’s balance sheet value. The development of identified risk projects is monitored closely, and measures to mitigate the risks to Finnfund are initiated if deemed necessary.

Between the years 2012–2015, Finnfund employed a special risk financing instrument, which was provided on the basis of a loss compensation commitment adopted by the Finnish government. In its commitment, the government committed to compensate Finnfund for a maximum of 60% of credit losses and investment losses in projects covered by special risk financing during the period of validity of the commitment.

Projects accepted for coverage by special risk financing during the term of the programme will be covered by government risk-sharing until repayment or Finnfund's exit. As of the end of 2017, commitments of EUR 87.7 million were made for projects under special risk financing. The government answers for, at most EUR 50 million, or 57% of the risks associated with 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 2017.

The objective with regard to interest and currency risks is to identify and hedge against potential risks. Forward exchange agreements and interest rate and currency swap contracts are used as hedges against currency and interest rate risks resulting from investment loans granted by Finnfund. Interest derivatives are used as hedges against interest rate risks resulting from investment loans, when the interest basis of the investment loans deviates from that of Finnfund’s own funding.

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

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 100 million, non-committed credit facilities in Nordic banks, and a commercial paper programme, which was set up in 2010 with a sum of EUR 100 million and raised in 2017 to EUR 300 million. The credit facilities provided by banks were not in use at the end of 2017.

At the end of 2017, the value of commercial papers issued through the programme amounted to EUR 7 million.

The refinancing risk associated with borrowing is managed by trying to maintain a sufficiently extensive group of financiers and a versatile range of instruments. An additional aim is that at least half of the borrowing should be long-term financing. At the end of the year under review, the average time to maturity of interest-bearing debt was 3.1 years (2.1 years), if the convertible loan granted by the government is not included in calculations, and 4.2 years if the drawn portion of the loan is included.

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. As of the end of the financial year, EUR 10 million of the loan has been drawn. The remaining part of the loan will be used in the payment of approved investment decisions, and will be drawn in full during 2018.

The company maintains continuous procedures in order to identify, manage and prevent data security risks. Key personnel risks are managed by maintaining a continuous replacement and succession plan of key members of personnel.

Financial result and balance sheet

In 2017, Finnfund made a profit of approximately EUR 2.0 million (approximately EUR 0.3 million in 2016). The result showed clear improvement from the previous year and corresponded with the budget. Realisation of the budgeted result was influenced significantly by two profitable exits that occurred close to the end of the year.

The operational result is shown in the table below. Income from financing activities stood at EUR 16.0 million (EUR 14.2 million) and the result before value adjustment items, sales and taxes was EUR 5.7 million (EUR 5.2 million).

Operational result, EUR 1,000	2017	2016	Change EUR	Change %
Financial income	24,580	19,306	5,274	27
Financial expenses	-8,568	-5,146	-3,422	66
Income from financing activities	16,012	14,160	1,852	13
Other operating income	1,538	1,600	-62	-4
Administrative expenses, depriciation and other expenses	-11,838	-10,578	-1,260	12
Result before value adjustment, sales and taxes	5,712	5,182	530	10
Value adjustment and sales	-3,147	-4,824	1,677	-35
Income taxes	-572	-18	-554	3,078
Net profit	1,993	340	1,653	486

Income

Due to the nature of its operations, Finnfund's annual income is highly variable.

Dividend income amounted to EUR 6.2 million (EUR 0.6 million) and dividends were received from six companies.

Interest income from investment loans came to EUR 13.2 million (EUR 9.9 million), and other interest income was EUR 0.2 million (EUR 0.3 million). Interest income totalled EUR 13.4 million (EUR 10.2 million). Other interest income mainly consisted of interest income from liquid assets.

Other income from long-term investments amounted to EUR 2.4 million (EUR 6.7 million), consisting of gains from fund investments. Capital gains from the sale of investments amounted to EUR 11.9 million during the year under review (no capital gains from sales in 2016).

Other financial income without foreign exchange gains, at EUR 2.6 million (EUR 1.4 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 36.5 million (EUR 19.3 million).

Foreign exchange gains amounted to EUR 31.0 million (EUR 11.0 million) and losses to EUR 32 million (EUR 10.6 million). The foreign exchange difference was EUR 1.0 million negative.

Other operating income amounted to EUR 1.5 million (EUR 1.6 million) and this comprised 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 14.7 million (EUR 11.4 million), representing about 3.7 % (3.2 %) of the balance sheet value of investment assets at the end of the year under review.

Reversals of previously recognised individual impairment losses amounted to EUR 5.5 million in 2017 (EUR 12.4 million). These resulted mainly due to the entry of previously recognised individual impairment losses as final losses in the financial statement.

The net effect of impairments on financial performance was approximately EUR -9.2 million (EUR 1.0 million).

Expenses

Interest expenses were EUR 1.6 million and increased from the previous year (EUR 1.3 million). This resulted from the rise of US dollar interest rates and the increase in liabilities. Interest expenses were incurred through borrowing in both US dollars and euros.

Other financial expenses were EUR 6.0 million (EUR 3.9 million), including management fees of EUR 2.6 million (EUR 2.8 million) associated with fund investments. Other financial expenses also include costs of EUR 2.3 million (EUR 0.8 million) from derivatives.

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

Administrative expenses totalled EUR 11.8 million (EUR 10.6 million). The increase in expenses consists of several items that are related to the increase in the volume of operations and were therefore pre-planned.

Taxes recorded in the profit and loss account, totalling EUR 0.6 million (EUR 0.018 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 464.0 million (EUR 406.0 million) at the end of the year under review.

The balance sheet value of investment assets was EUR 393.3 million (EUR 356.3 million) at the end of the year under review. The growth of investment assets was slowed by the weakened US dollar exchange rate.

The breakdown of investment assets was as follows: loans (including subordinated loans and other mezzanine instruments) EUR 221.5 million (EUR 193.3 million) or 56.3% (54.3%); equity investments EUR 105.1 million (EUR 93.2 million) or 26.7% (26.1 %); and fund investments EUR 66.7 million (EUR 69.8 million) or 17.0% (19.6%).

Liquid assets stood at EUR 45.8 million (EUR 44.6 million) at the end of the year under review. The liquid assets are invested in domestic bank deposits and money-market instruments in accordance with the asset and risk management guidelines.

At the end of the financial period, the company's equity (share capital and retained earnings) totalled EUR 244.1 million (EUR 232.9 million) or 53% of the balance-sheet total (57%). The company's equity was reduced by EUR 0.8 million due to adjustments made to some fund recordings in the previous year.

In 2017, the company executed one share issue. In the share issue, a maximum of 62,961 new shares were offered to existing shareholders in proportion to their existing holdings, at the issue price of EUR 170 per share. The subscription period was 26 April to 5 June 2017. As a result of the share issue, the share capital was increased by EUR 9,999,910, corresponding to the proportion of the Finnish government. Pursuant to the issue decision, 58,823 new shares were issued. Finnvera Plc and the Confederation of Finnish Industries EK did not subscribe to any of the new shares they were offered.

At the end of the financial period, the company's registered share capital stood at EUR 176,989,040 with 1,041,112 shares, with the Finnish government accounting for 976,542 shares (93.8%), Finnvera Plc for 63,349 shares (6.1%), 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 bookkeeping is EUR 170. The company has one share class. A minimum of 51% of the company shares must be under the direct ownership and control of the Finnish government at all times. The company does not distribute its funds in dividends or in payments from its unrestricted equity fund; nor does it acquire or redeem its own shares.

At the end of 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 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 entitles it to one share. The government can subscribe to at most 764,705 of the company's shares. The subscription corresponds to the equivalent value of a share in bookkeeping, and it will be recorded in the company's unrestricted equity fund.

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 149.7 million (EUR 103.1 million) and short-term interest-bearing debt at EUR 63.7 million (EUR 60.0 million), totalling EUR 213.4 million (EUR 163.4 million).

Long-term interest-bearing debt includes the EUR 100 million bond issued in summer 2017, as well as EUR 10 million of the long-term convertible loan of EUR 130 million granted by the government. 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 70% (60%) at the end of the period.

The company had no guarantee commitments at the end of 2017 (EUR 0.0 million).

Key figures

	2017	2016	2015
Financial income, EUR million	67.4	29.9	36.9
Net profit, EUR million	2.0	0.3	5.1
Return on equity, %	0.8	0.1	2.0
Equity ratio, %	52.6	57.4	66.5

Formulae:

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

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

Administration and personnel

In 2017, the Supervisory Board met 6 times, the Board of Directors met 14 times, and the audit committee of the Board of Directors met 3 times.

The Annual General Meeting, held on 26 April 2017, addressed the matters listed in Article 11 of the Articles of Association and the proposal by the Board of Directors on increase of the company's share capital.

Members of the Supervisory Board at the Annual General Meeting for the period 2017−2020 were elected as follows: Seppo Kallio, Director, Johanna Karimäki, Member of Parliament, Riitta Myller, Member of Parliament, and Anne-Mari Virolainen, Member of Parliament.

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

Board Professional Ritva Laukkanen, Chair
Ambassador, Senior Advisor on Trade and Development Sinikka Antila, Vice Chair
Director of Finance Tuukka Andersén
Deputy Director General Kristiina Kuvaja-Xanthopoulos
Partner Pirita Mikkanen
CEO Lars-Erik Schöring
Financial Counsellor 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 23 May 2017:

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

The company's auditor is Deloitte Oy, authorised public accountants, with Anu Servo, KHT, JHT, as the principal auditor.

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

During the year under review, the company employed an average of 71 personnel (60 personnel in 2016). At year-end, the number of employees in contractual employment was 76 (64), of whom 70 (61) were full-time. Of the employees, 52 were women and 24 were men.

Total wages and salaries paid to personnel in 2015–2017 were as follows.

	2017	2016	2015
Average number of personnel	71	60	56
Total wages and salaries, EUR 1,000	6,131	4,784	4,462

The final accounts include a provision for incentive bonuses earned in 2017, amounting to 8.2% of payroll expenses (5.1%). In 2017, the amount of incentives was partly based on performance at company and function levels, 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 2018

In accordance with the guidelines specified in the State Ownership Policy, three out of four projects will be located in lower-middle-income or poorer countries. Approximately half of projects are targeted at low-income countries, and focus will also be on projects aimed at fragile countries.

Potential investment decisions will be prepared only for projects with a positive development impact and to which Finnfund can create added value through its involvement. The due diligence assessments of projects will receive increased focus in the future, particularly in projects in which Finnfund holds a significant role. The assessment of political context and publicity risks will also be given more emphasis.

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 under preparation, some in extremely poor or fragile countries.

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 2018 and used mostly for payments of investment decisions made in 2016 and 2017. In the event that contributions by the government are limited to an increase in equity of EUR 10 million, as stated in the current budget proposal, this would necessitate an estimated one-fourth decrease in the volume of investment decisions. In this case, investment decisions could be made for a total value of approximately EUR 150 million. If a portion of the financial investments for development co-operation presented in the budget proposal should be issued to Finnfund as a long-term loan, the volume of investment decisions could be increased.

The Ministry for Foreign Affairs is planning continuation of the special risk financing instrument that ended in 2015 and considering the granting of a new authorisation. Depending on the decisions concerning the special risk financing instrument and the financial investments for development cooperation, Finnfund will either stall or increase the preparation of investment decisions in 2018.

The Ministry for Foreign Affairs has announced its intention to begin drafting a government decree for the removal of Russia from the list of countries eligible for financing within 2018. In practice, this would mean an end to any investment decisions targeted at Russia. At the end of 2017, Finnfund's portfolio held EUR 10.7 million in investments in Russia. After an exit that took place in early 2018, the amount of investments and undisbursed commitments to Russia totalled EUR 4.2 million. The possible removal of Russia from the list of countries eligible for financing will have no effect on existing commitments.

Liquidity is expected to remain good in 2018. 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 on financial performance for 2018 is moderate, as the company's loan portfolio has increased, and there has already been one profitable exit from an equity investment during early 2018. The company's financial performance will be crucially affected by how the measurement of its investment assets changes during the financial period and whether further 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 2018.

Proposal of the Board of Directors for the distribution of profit

The company recorded a profit of EUR 1,993,049.45 in 2017. 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. 2017	1 Jan. - 31 Dec. 2016
Other operating income	1	1,538	1,600
Staff expenses	2		
Wages and salaries	3	-6,131	-4,784
Social security expenses			
Pension expenses		-1,062	-924
Other social security expenses		-386	-277
Social security expenses		-1,448	-1,201
Staff expenses		-7,579	-5,986
Depreciation according to plan	4	-121	-188
Other operating expenses	5 6	-4,138	-4,405
OPERATING LOSS		**-10,300**	**-8,979**
Financial income			
Income from participating interests		12,981	297
Income from other investments		7,912	7,121
Other interest and financial income		46,496	22,462
Financial income total		67,390	29,879
Reduction in value of investments		-9,239	972
Financial expenses			
Interest and other financial expenses		-45,286	-21,515
Financial income and expenses	7	12,865	9,336
PROFIT BEFORE TAXES		**2,565**	**358**
Income taxes	8	-572	-18
PROFIT FOR THE FINANCIAL YEAR		**1,993**	**340**

Balance sheet

EUR 1 000

	Note	31 Dec. 2017	31 Dec. 2016
A S S E T S			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		21	40
Machinery and equipment		77	179
Total		98	219
Investments	10		
Participating interests		56,707	54,853
Receivables from participating interest	11	20,948	20,446
Other shares and similar rights of ownership		115,124	108,094
Other receivables	11	200,558	172,901
Total		393,336	356,293
NON-CURRENT ASSETS		**393,435**	**356,512**
CURRENT ASSETS			
Debtors			
Long-term	12		
Other debtors		7,545	1,370
Short-term			
Amounts owned by participating interest undertakings	13	411	270
Other receivables		444	0
Prepayments and accrued income	14	16,145	3,221
Total		17,000	3,491
Debtors total		24,545	4,861
Financial securities	15		
Marketable securities		11,407	5,399
Cash in hand and at banks		34,361	39,200
CURRENT ASSETS		**70,313**	**49,459**
A S S E T S		**463,748**	**405,972**

	Note	31 Dec. 2017	31 Dec. 2016
L I A B I L I T I E S			
EQUITY	16 17		
Share capital		176,989	166,989
Retained earnings		65,111	65,559
Profit for the financial year		1,993	340
EQUITY		**244,094**	**232,888**
CREDITORS			
Long-term	18 19		
Private placement		99,719	50,000
Convertible loans		10,000	
Loans from credit institutions		40,023	53,126
Other long-term creditors		262	197
Total		150,005	103,323
Short-term	20		
Loans from credit institutions		63,669	60,040
Trade creditors		400	726
Other creditors		2,584	6,610
Accruals and deferred income	21	2,996	2,384
Total		69,650	69,761
CREDITORS		**219,654**	**173,084**
L I A B I L I T I E S		**463,748**	**405,972**

Cash flow statement

EUR 1 000

	2017	2016
CASH FLOW FROM OPERATIONS		
Payments received from operations	41,851	44,116
Disbursements to operations	-114,062	-80,744
Dividends received	6,116	493
Interest received	10,975	9,116
Interest paid	-1,602	-1,084
Payments received on other operating income	3,323	3,227
Payments of operating expenses	-17,005	-14,250
CASH FLOW FROM OPERATIONS (A)	**-70,404**	**-39,126**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	0	-193
Proceeds from assets sold	0	0
CASH FLOW FROM INVESTMENTS (B)	**0**	**-193**
CASH FLOW FROM FINANCING		
Short-term loans drawn	6,999	54,981
Short-term loans repaid	-54,981	-6,994
Long-term loans drawn	109,687	0
Long-term loans repaid	-5,059	-4,899
New share issue	9,999	0
CASH FLOW FROM FINANCING (C)	**66,645**	**43,088**
CHANGES IN EXCHANGE RATES (D)	**4,920**	**-1,976**
CHANGE IN LIQUID ASSETS (A+B+C+D) increase (+) decrease (-)	**1,161**	**1,793**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**44,199**	**42,406**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**45,360**	**44,199**
	1,161	**1,793**

Accounting policy

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

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

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

The fair value of investments reported by the fund manager has been compared with Finnfund's balance sheet value of the investment. When necessary, payments to investments made after the report have been added to the fair value reported by the fund manager, in order to ensure its comparability with the value of Finnfund's investment. The balance sheet value of investments may not exceed 100% of the valuation by the fund manager. As a result of misinterpreted and incomplete inputs during the previous year, unrestricted equity and, correspondingly, the values of current assets have been reduced by EUR 787,342.82.

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 that were indemnified before the deadline remain within this class afterwards. The indemnified investments and loans were separately approved by the Board of Directors.

Projects with the company's risk classification of C, CC or CCC 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 or at lower value.

Derivatives
In the financial statements for 2017, the presentation of derivatives has been changed to comply with the IFRS standards on fair value principles. The IFRS treatment of derivatives is based on chapter 5, section 2 of the Finnish Accounting Act (1336/1997) and a statement issued by the Accounting Board in December 2016 (KILA 1963/2016). As the change in accounting principles had only minor effect on the reference data for the 2016 financial year, equity for the comparative period was not adjusted. Statements on derivatives for the comparative period have also been changed to comply with IFRS requirements. Forward exchange agreements, interest rate swaps and currency and interest rate swaps were initially recorded at fair value on the date of agreement and valued to their fair value in the financial statement. In the valuation to fair value, valuation reports issued by banks have been used to perform a recalculation using accepted valuation methodologies. Positive and negative changes to fair value have been recorded as financial income and expenses in the profit and loss account. In the balance sheet, derivatives are listed under other receivables and other creditors. Although its derivatives are acquired for the purpose of hedging, Finnfund does not practice hedge accounting under IFRS.

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

Intangible and tangible assets
Intangible and tangible assets are entered in the balance sheet at their 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

		2017	2016
1	**Other operating income**		
	Operating income from participating interests	54	38
	Remunerations	759	771
	Other operating income	724	791
		1,538	**1,600**
2	**Average number of staff employed**		
	Employees	71	60
3	**Wages and salaries**		
	Managing Director and his alternate	365	357
	The Board of Directors and the Supervisory Board	130	121
	The Board of Directors		
	Chair's monthly emoluments	1,100 €	
	Vice chair's monthly emoluments	700 €	
	Board members' monthly emoluments	600 €	
	Emolument per meeting of Board of Directors and Audit Committee	300 €	
	Supervisory Board		
	Chair's emolument per meeting	800 €	
	Vice chair's emolument per meeting	600 €	
	Board member's emolument per meeting	500 €	
	Managing Director has the right to retire at the age of 63. Retirement age is based on the contract renewed in 2012.		
4	**Depreciation**		
	Other capitalised long-term expenses	19	47
	Machinery and equipment	102	141
		121	**188**
5	**Other operating charges**		
	Voluntary staff expenses	546	498
	Office	440	724
	ICT	584	446
	Travel and negotiation expenses	927	851
	Entertainment and PR expenses	158	107
	External services	1,040	1,398
	Other expenses	444	381
		4,138	**4,405**

6	**Auditor's remunerations**		
	Audit fee	9	9
	Tax services	6	6
	Other services	73	1
		88	**16**
7	**Financial income and expenses**		
	Financial income		
	Income from participating interests		
	Dividends	5,854	192
	Profit from sales of assets	6,653	0
	From others	475	105
	Income from participating interests	12,981	297
	Income from other investments		
	Dividends	329	450
	From funds	2,385	6,671
	Profits from investments and sales assets	5,198	0
	Income from other investments	7,912	7,121
	Other interest and financial income		
	Interest income	13,104	9,372
	Interest income from participating interests	330	816
	Financial income	2,088	1,238
	Financial income from participating interests	14	18
	Exchange rate gain	30,960	11,017
	Other interest and financial income	**46,496**	**22,461**
	Financial income total	**67,390**	**29,879**
	Permanent write-offs of investments and their reversals		
	Equity and funds	-7,602	-7,976
	Loans	-7,144	-3,452
	Reversal of write-offs on shares and fund investments	3,531	3,460
	Reversal of write-offs on loans	1,976	8,940
	Write-offs of investments and their reversals	**-9,239**	**972**

	Interest and other financial expenses		
	Interest expenses to others	-1,568	-1,286
	Other financial expenses	-5,985	-3,860
	Loss from investments, funds and sales of assets	-5,758	-5,796
	Exchange rate loss	-31,974	-10,573
	Interest and other financial expenses total	**-45,286**	**-21,515**
	Financial income and expenses total	**12,865**	**9,336**
	The item Financing income and expenses includes loss of exchange (net)	**-1,015**	**444**
7	**Income from financing operations by income level (does not include income from EU territory, liquidity and funding)**		
	Least developed countries (LDC)	17,828	9,913
	Other low-income countries (LIC)	3,611	2,449
	Lower-middle-income countries (LMIC)	32,090	9,557
	Upper-middle-income countries (UMIC)	12,396	6,373
	Russia	283	462
		66,208	**28,754**
8	**Income taxes**		
	Tax on capital gains outside Finland	570	9
	Withholding taxes on emoluments	2	3
	Withholding taxes on dividends	0	6
		572	**18**

Notes to the balance sheet

EUR 1000

9	Intangible and tangible assets	Other long-term expenses	Machinery and equipment	Total
	Acquisition cost 1 Jan. 2017	1,141	2,075	3,216
	Increases	0	0	0
	Acquisition cost 31 Dec. 2017	1,141	2,075	3,216
	Accumulated depreciations 1 Jan. 2017	-1,101	-1,896	-2,997
	Depreciation of the accounting period	-19	-102	-121
	Accumulated depreciations 31 Dec. 2017	-1,120	-1,998	-3,118
	Book value 31 Dec. 2017	**21**	**77**	**98**
	Book value 31 Dec. 2016	40	179	219

10	Investments / Shares and funds	Participating interests	Others	Total
	Acquisition cost 1 Jan. 2017	65,156	117,520	182,675
	Adjustments to transfers to funds recorded during the previous year	32	-819	-787
	Increases	12,553	18,833	31,386
	Transfer between items	474	-474	0
	Decreases	-11,596	-5,970	-17,566
	Acquisition cost 31 Dec. 2017	66,619	129,089	195,708
	Individual write-offs accumulated as of 1 Jan. 2017	-10,303	-9,426	-19,729
	Reversal of write-offs	2,859	594	3,453
	Write-offs during the financial year	-2,469	-5,133	-7,602
	Individual write-offs accumulated as of 31 Dec. 2017	-9,912	-13,965	-23,878
	Book value 31 Dec. 2017	**56,707**	**115,124**	**171,830**

10	Investments / Loans	Participating interests	Others	Total
	Acquisition cost 1 Jan. 2017	22,796	190,444	213,240
	Increases	3,008	79,808	82,816
	Capitalised interest	0	1,292	1,292
	Transfer between items	762	-762	0
	Decreases	-2,715	-48,814	-51,529
	Acquisition cost 31 Dec. 2017	23,850	221,969	245,819
	Individual write-offs accumulated as of 1 Jan. 2017	-2,350	-17,543	-19,893
	Reversal of write-offs	215	1,839	2,054
	Write-offs during the financial year	-767	-5,707	-6,474
	Individual write-offs accumulated as of 31 Dec. 2017	-2,902	-21,411	-24,313
	Book value 31 Dec. 2017	**20,948**	**200,558**	**221,506**

		2017	2016
11	**Subordinated receivables**		
	Capital loans to participating interests	20,948	20,446
	Capital loans to others	17,595	25,550
		38,543	**45,996**
12	**Other long-term receivables**		
	Acquisition cost 1 January 2017	1,370	
	Deductions	-30	
	Acquisition cost 31 December 2017	1,340	
	Impairment losses during financial year	-670	
	Book value 31 December 2017	670	
	Derivative receivables	6,875	0
		7,545	**0**
13	**Receivables from participating interests**		
	Interests	56	65
	Other	73	63
	Dividends	282	142
		411	**270**
14	**Prepayments and accrued income**		
	Interests	3,308	2,074
	Other	1,594	1,147
	Receivable from sale of investment	11,243	0
		16,145	**3,221**
15	**Marketable securities**		
	Fair value	11,663	5,635
	Book value	11,407	5,399
	Difference	**255**	**236**

16 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.

	2017	2016
Restricted equity		
Share capital 1 Jan.	166,989	166,989
Increase of share capital	10,000	0
Share capital as of 31 Dec.	176,989	166,989
Unrestrected equity		
Profit from previous financial years 1 Jan.	65,899	83,783
Adjustment due to change in accounting principles	0	-18,224
Adjustments to transfers to funds recorded during the previous year	-787	0
Retained earnings 31 Dec.	65,111	65,559
Profit/loss for the financial year	1,993	340
	67,105	65,899

		244,094	**232,888**
17	**Share capital**		
	Number of shares	1,041,112	982,289
	Nominal value, EUR	170.00	170.00
18	**Loans with maturity more than 5 years**		
	Loans from credit institutions	33,353	36,741
	Loans from government	10,000	0
		43,353	**36,741**
19	**Private placements**		
	Private placement 2013/2018 Bullet Euribor 6 kk + 0,55 % p.a.	50,000	50,000
	Private placement 2017/2022 Bullet Fixed 0,625 %	100,000	0
		150,000	**50,000**
20	**Other short-term debt**		
	Loans from financial institutions	63,669	60,040
	Derivative liabilities	2,364	6,464
	Accounts payable	400	726
	Other	220	146
		66,653	67,376
21	**Accruals and prepaid income**		
	Deferral of personnel expensed	2,334	1,718
	Interest	544	568
	Taxes	55	61
	Other	64	37
		2,996	**2,384**

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.

	2017	**2016**
Payable in the next financial period	518	517
Payable later	0	384
Other commitments		

The company acts as a lender in financial arrangements amounting to USD 10.1 million, the risks have been contractually transferred to other financial institutions.

Undisbursed commitments		
Contractual commitments	178,100	147,000
Special risk finance (cumulative)		
Decisions of the Board of Directors	87,731	111,060
Government's indemnity	50,000	50,000
Government's indemnity, %	57%	45%
Disbursements	61,088	26,147
Derivative contracts		

Fair values of derivatives in financial assets and liabilities

	2017			**2016**		
Receivables	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	443,915.68		443,915.68			0.00
Interest rate swaps		74,693.13	74,693.13		46,530.48	46,530.48
Currency and interest rate swaps		6,800,106.71	6,800,106.71			0.00
Total	443,915.68	6,874,799.84	**7,318,715.52**	0.00	46,530.48	**46,530.48**
Liabilities	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	17,686.40		17,686.40	1,125,953.56		1,125,953.56
Interest rate swaps		18,158.00	18,158.00			0.00
Currency and interest rate swaps	2,346,590.82		2,346,590.82		5,337,869.08	5,337,869.08
Total	2,364,277.22	18,158.00	**2,382,435.22**	1,125,953.56	5,337,869.08	**6,463,822.64**

Fair value hierarchy of derivatives

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

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

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

	2017				2016			
Receivables	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		443,915.68		443,915.68				0.00
Interest rate swaps		74,693.13		74,693.13		46,530.48		46,530.48
Currency and interest rate swaps		6,800,106.71		6,800,106.71				0.00
Total	0.00	7,318,715.52	0.00	**7,318,715.52**	0.00	46,530.48	0.00	**46,530.48**
Liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		17,686.40		17,686.40		1,125,953.56		1,125,953.56
Interest rate swaps		18,158.00		18,158.00				0.00
Currency and interest rate swaps		2,346,590.82		2,346,590.82		5,337,869.08		5,337,869.08
Total	0.00	2,382,435.22	0.00	**2,382,435.22**	0.00	6,463,822.64	0.00	**6,463,822.64**

Asset and risk management

The objective of asset and risk management is to mitigate the negative effects of market risks, i.e. changes in interest and exchange rates, on Finnfund’s earnings, and to ensure sufficient liquidity. The leading principles of asset and risk management are described in the asset and risk management guideline approved by the Board of Directors. Their implementation is the responsibility of the Associate Director, Treasury, of the Risk Management and Impact division.

Interest and exchange rate risks

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

Sensitivity analysis

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

Sensitivity analysis, derivatives

Effect on result, EUR 1000	2017	2016
Change of +/- 1% in EURIBOR interest	159 / -159	160 / -160
Change of +/- 1% in LIBOR interest	-1,066 / 1,066	-173 / 173
Change of +/- 10% in EUR-USD exchange rate	11,846 / -11,846	2,482 / -2,482

Credit risk

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

Liquidity risk

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. Finnfund has a committed credit facility of EUR 100 million, non-committed credit facilities in Nordic banks, and a commercial paper programme set up in 2010 totalling EUR 300 million. The credit facilities provided by banks were not in use at the end of 2017.

Undiscounted cash flow resulting from derivatives

	2017			2016		
Receivables	Under 1 year	1 - 5 years	**Total**	Under 1 year	1 - 5 years	**Total**
Forward exchange agreements	27,033,472.31	0.00	27,033,472.31	62,440,655.39	0.00	62,440,655.39
Interest rate swaps	308,253.54	605,222.47	913,476.01	242,554.25	913,476.01	1,156,030.26
Currency and interest rate swaps	20,144,707.54	102,500,000.00	122,644,707.54	64,687.15	19,519,707.54	19,584,394.69
Total	**47,486,433.39**	**103,105,222.47**	**150,591,655.86**	**62,747,896.79**	**20,433,183.55**	**83,181,080.34**
	2017			**2016**		
Liabilities	Under 1 year	1 - 5 years	**Total**	Under 1 year	1 - 5 years	**Total**
Forward exchange agreements	25,951,780.29	0.00	25,951,780.29	62,289,422.89	0.00	62,289,422.89
Interest rate swaps	336,346.08	704,029.39	1,040,375.47	243,903.73	1,040,375.47	1,284,279.20
Currency and interest rate swaps	24,294,035.00	100,115,284.46	124,409,319.46	496,938.18	21,773,136.13	22,270,074.31
Total	**50,582,161.37**	**100,819,313.85**	**151,401,475.22**	**63,030,264.80**	**22,813,511.60**	**85,843,776.40**

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 2017 there were EUR 1 310 415,13 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 2017	EUR/USD	1.1993

Signatures of Board of Directors' report and financial statements

Helsinki, 27 March 2018

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, 27 March 2018

Deloitte Oy
Audit Firm

Anu Servo
APA, CPFA

(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, 2017. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

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

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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

Other Reporting Requirements

Other information

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

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

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

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

Helsinki, March 27, 2018

Deloitte Oy
Audit Firm

Anu Servo
APA, CPFA

Statement of the Supervisory Board

At the meeting held today, the Supervisory Board of the Finnish Fund for Industrial Cooperation Ltd. examined the report of the Board of Directors and the corporation's financial statements prepared by the Board of Directors and the Managing Director, and also the Auditors' Report for 2017. The Supervisory Board reports to the Annual General Meeting of Shareholders that the report of the Board of Directors and the accounts give no cause for comment neither does the proposal of the Board of Directors on how to deal with the distributable funds for the year.

Helsinki, 3 April 2018

Erkki Tuomioja

Eija Hietanen

Seppo Kallio

Johanna Karimäki

Johanna Kotaviita

Riitta Myller

Aila Paloniemi

Mika Raatikainen

Tapani Tölli

Pertti Salolainen

Petri Vuorio