finnfund

Annual Report 2018

Contents

finnfund

Financial statements

finnfund

Year 2018

Finnfund in brief

Professional impact investing in developing countries

Finnfund is a Finnish development financier which builds a sustainable world by investing in responsible and profitable businesses in developing countries.

We provide companies operating in developing countries with long-term risk-financing and expertise required for sustainable investments.

We expect our projects to be profitable, sustainable and generate positive development impacts in the target country.

Finnfund puts special emphasis on sectors critical to sustainable development, such as clean energy, sustainable forestry, sustainable agriculture and financial services, but we invest in other sectors as well.

Finnfund expects all its projects to be profitable, sustainable and generate positive development impact

Our new strategy from 2018 sets the company's operational guidelines until 2025. Finnfund's vision is to be a valued partner and impact leader among European development finance institutions.

The Finnfund strategy stresses:

- Generating, analysing and communicating development impact.
- Doubling operational volume and focusing funds on responsible and profitable projects with high impact.
- Mobilising additional funding and convincing private investors of co-financing opportunities.
- Improving operational procedures and respecting the work of own staff and external partners.

All Finnfund operations are guided by four principles: Impact, corporate responsibility, profitability and professionalism.

Finnfund gets its financing from the Finnish State, private capital markets and return on its investments. We leverage state capital to mobilise private investments in sustainable projects in developing countries. Returns are channelled back into new Finnfund investments.

Finnfund's shareholders are the State of Finland (94.1%), Finland's export credit agency Finnvera (5.8%) and the Confederation of Finnish Industries (0.1%). We currently have 80 employees, all based in Helsinki.

Finnfund's owners set annual goals for the company. They deal with financial result, development impact, geographic focus and operational efficiency. The goals are documented in the Foreign Ministry's annual Ownership Steering Memorandum.

The company's share capital on 31 December 2018 was 186,988,950 euros.

Finnfund is the administrator of the Finnpartnership Business Partnership programme funded by the Ministry for Foreign Affairs. Finnpartnership offers advisory services and Business Partnership Support to Finnish companies.

UpEnergy Ltd., Uganda

Chief Executive Officer's review

Jaakko Kangasniemi

Finnfund is unique in the way it has succeeded in combining strong impact with profitability. Finnfund's investments continue to be profitable although the company increasingly invests in lower income countries as it pursues greater development impact.

This is the conclusion of an independent evaluation commissioned by the Ministry for Foreign Affairs to look into Finnfund's strategy and operations.

The evaluation, led by Sussex University professor Stephen Spratt, was a strong endorsement of Finnfund's new strategy. The evaluation states that Finnfund's ambitious goals are attainable if the company is equipped with sufficient resources.

Finnfund's goal is to become an impact leader among European development finance institutions. We will continue to do more investments and keep selecting projects with ever greater impact. Based on our strategy, we will triple our development impact by 2025.

No less than 93% of our new investment decisions in 2018 target projects with good or excellent development impact, as per our ex ante assessment.

Almost all our new investment decisions (89%) concern low or lower-middle income countries – in other words, countries where the demand for sustainable investments is greatest. More than half of the investments went into Africa.

In 2018, we received three external evaluations of the development impact of our investments. For instance, the Cabeólica wind farm in Cape Verde has lifted the country's renewable energy production from zero to over 20%. About 60% reduction in power cuts improved the productivity of local businesses, allowing them to offer people more and better jobs.

We also started calculating the climate impact of our entire portfolio. The calculations show that Finnfund's investments in forestry sequester more than 0.5 million carbon dioxide equivalent tonnes (tCO2eq). This amount is calculated on the basis of Finnfund's share of financing for the company.

"Finnfund has managed to combine strong impact with financial profitability"

Jaakko Kangasniemi

With its investments in clean energy, Finnfund helped avoid emissions in developing countries by 64,000 tCO2eq annually. This was before our biggest investment, Lake Turkana wind farm in Kenya, started its operation.

Last year we saw how the discussion about impact investing rose to a whole new level also in Finland. Finnfund has been active in this debate because we find it necessary to increasingly mobilise private investors' funds to advance sustainable development.

We have been in talks also with the European Commission about their plan to increase external investments especially in Africa. The Commission will need national development finance institutions for effective implementation of its investment plan.

Finnfund is a sought-after partner particularly in sustainable forestry as it has more experience and expertise in the sector than probably any other development financier.

During the year, we worked hard to improve the way we work, getting much appreciated help from our partners. We renewed our tax policy and updated our disclosure policy. Work on human rights statement proceeded in close dialogue with our stakeholders.

In other words, we made great strides towards Finnfund's objectives. For that, I am deeply grateful to our partners and our own staff.

Jaakko Kangasniemi
Chief Executive Officer

Year 2018 in brief

The implementation of Finnfund's new strategy started full steam. The company's assets (payments) were 494 million euros, which equals 25% growth from last year.

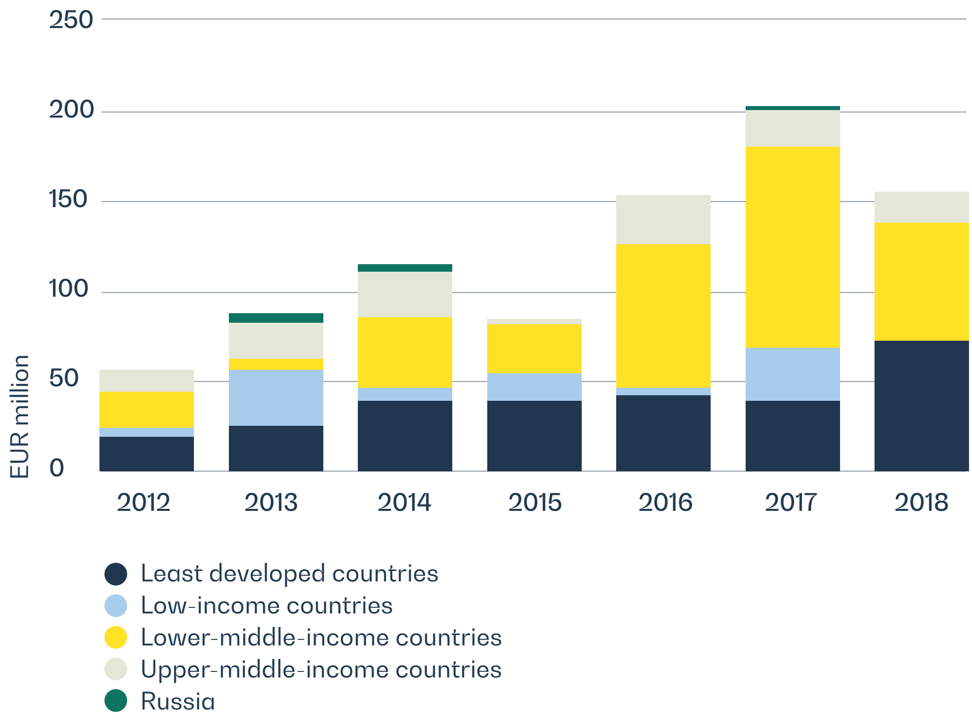
In 2018, we made a total of 26 investment decisions with a total value of 154 million euros.

No less than 93% of new investments were assessed to generate good or excellent development impact, which is well over targets set by our owners.

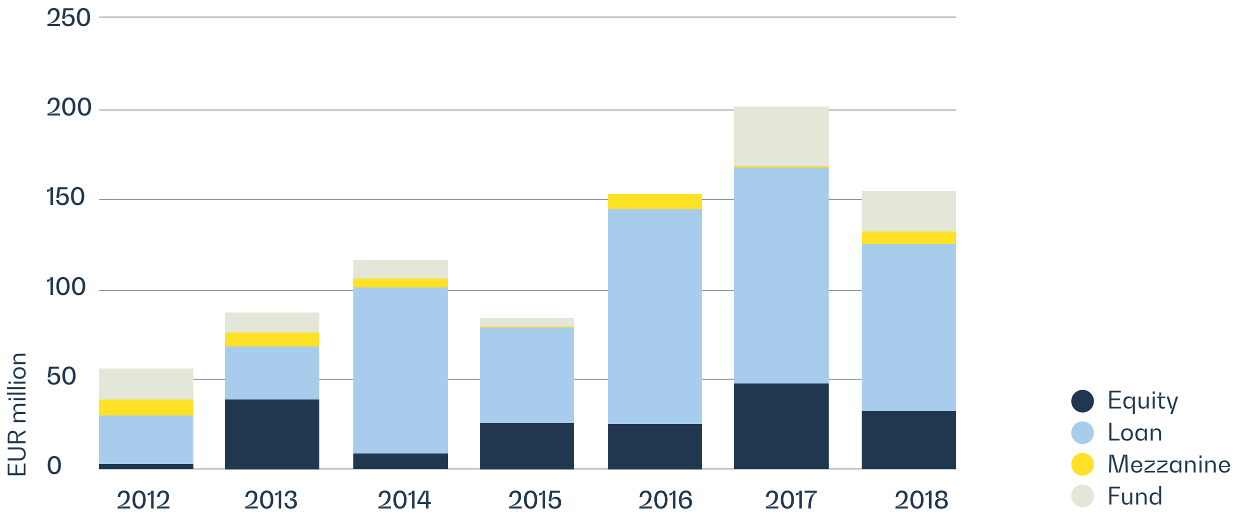
New investment decisions focussed heavily (89%) on least developed countries, low income countries and lower-middle-income countries. In these countries the need for new investments is greatest.

Growth of investment assets 25%

Annual investment decisions by DAC-groups
EUR million



Annual investment decisions by instrument in 2012–2018
EUR million



Investment decisions EUR 154 million

Our Development Impact Report 2018 *)
shows that Finnfund investees:

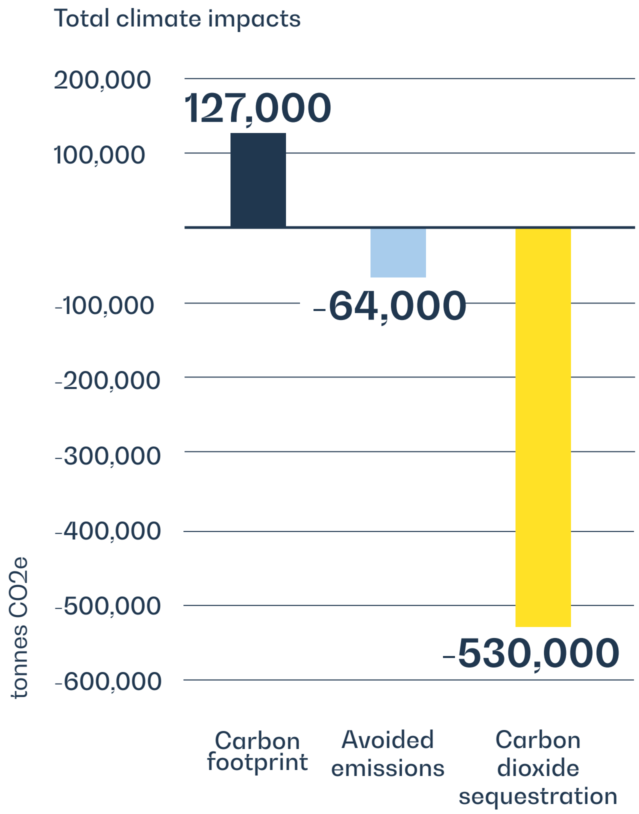
- employed directly 50,900 people (a third of them women)
- generated 6,065 gigawatt hours of cleaner energy
- managed 814,900 hectares of FSC-certified forest
- worked with 2,038,600 smallholder farmers or cattle-keepers (80% of them women)
- provided 845,400 loans for improving farming practices (78% to women)
- granted 5,900,000 micro and SME loans, with a total worth of 5,900 million euros
- paid 423 million euros in taxes and tax-like payments.

*) Finnfund collects data annually to monitor the impact of its investments. The 2018 report presents data from the end of 2017.

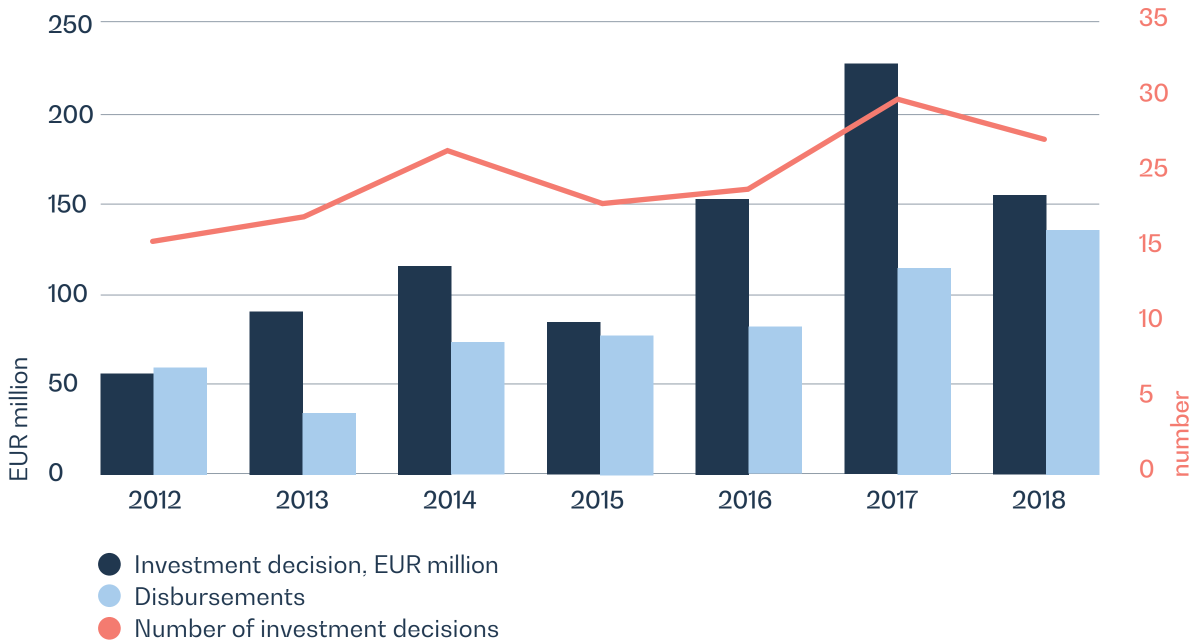
Finnfund investees:

- **Generated 50,900 direct jobs**
- **Issued 5,900,000 micro and SME loans**
- **Generated 6,065 GHW of clean electricity**

Climate impact of Finnfund's investment portfolio 2016



Investment decisions and disbursements



Finnfund started annual calculation of the climate impact of its investment portfolio.

The calculations show that Finnfund's investments in sustainable forestry sequester more than half a million carbon dioxide tonnes (tCO2eq) and investments in clean energy help developing countries avoid emissions by 64,000 tCO2eq annually. The combined amount of generated emissions, carbon footprint, was 127,000 tCO2eq.

Positive financial result

Although Finnfund actively sought greater development impact for its investments, the company made a profit of 2.1 million euros. Return on equity (five year moving average) remained under the two percent goal but interest income grew strongly. Investment income before taxes totalled 32.8. million euros. Finnfund recycles its returns into new sustainable investments.

Operating costs as share of investment assets remained under the two percent goal.

In 2018, 43.6 million euros of Finnfund disbursements were calculated as Finland's official development aid (ODA).

In September 2018, the government decided to reactivate the special risk financing instrument and increase its amount to a total of EUR 75 million. Sharing the investment risk between the Finnish state and Finnfund helps Finnfund invest in the poorest countries where impact is greatest.

Independent evaluations endorse selected strategy

In December the Ministry for Foreign Affairs published an independent evaluation of Finnfund's operations. The evaluation concludes that Finnfund has in a quite unique manner been able to combine strong development impact with financial profitability.

According to the evaluation, Finnfund systematically adheres to World Bank IFC's international sustainability practices, often exceeding them. In many cases Finnfund has had positive impact on the operation and sustainability of its investees. Finnfund's added value is greatest in sustainable forestry and agriculture.

Another evaluation commissioned by the Foreign Ministry found that the special risk financing instrument has helped shift Finnfund's portfolio to poorer countries and projects with higher risks but also greater impact.

Finnfund published three independent evaluations of its own, assessing the impact of some of its investments.

More guidelines on responsibility

In 2018, Finnfund renewed its tax policy and updated its disclosure policy. The preparation of the human rights statement progressed in close dialogue with stakeholders.

Tax policy brings together the principles and practices by which Finnfund assesses and promotes the tax liability of its own operations and the investees.

The aim of the disclosure policy update was to clarify the text and increase the transparency, especially for companies financed through funds.

Finnfund joined the international Gender Finance Collaborative, which aims to funnel more development financing to support gender equality, the value of women in leadership and women's economic empowerment worldwide.

Finnfund also signed international guidelines by which more than 50 investors and service providers for digital inclusion agreed on principles for responsible digital finance in developing countries.

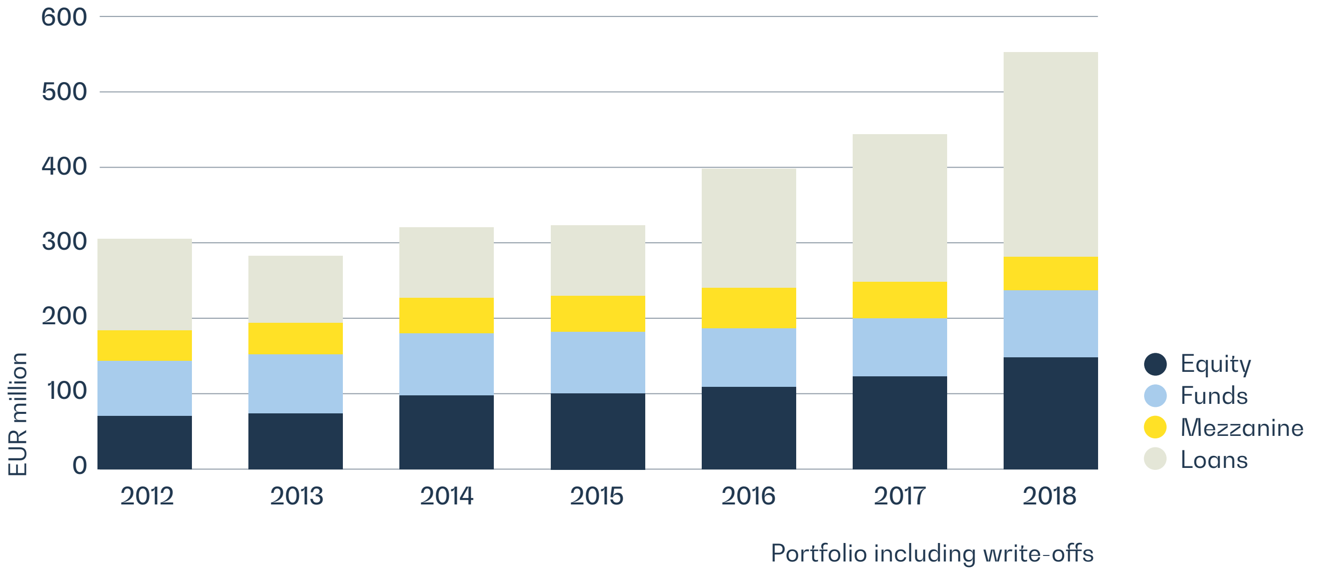
Finnfund started co-operation with WWF Finland with the aim of gaining Green Office certificate for Finnfund's new office.

Good or excellent impact from 98% of projects

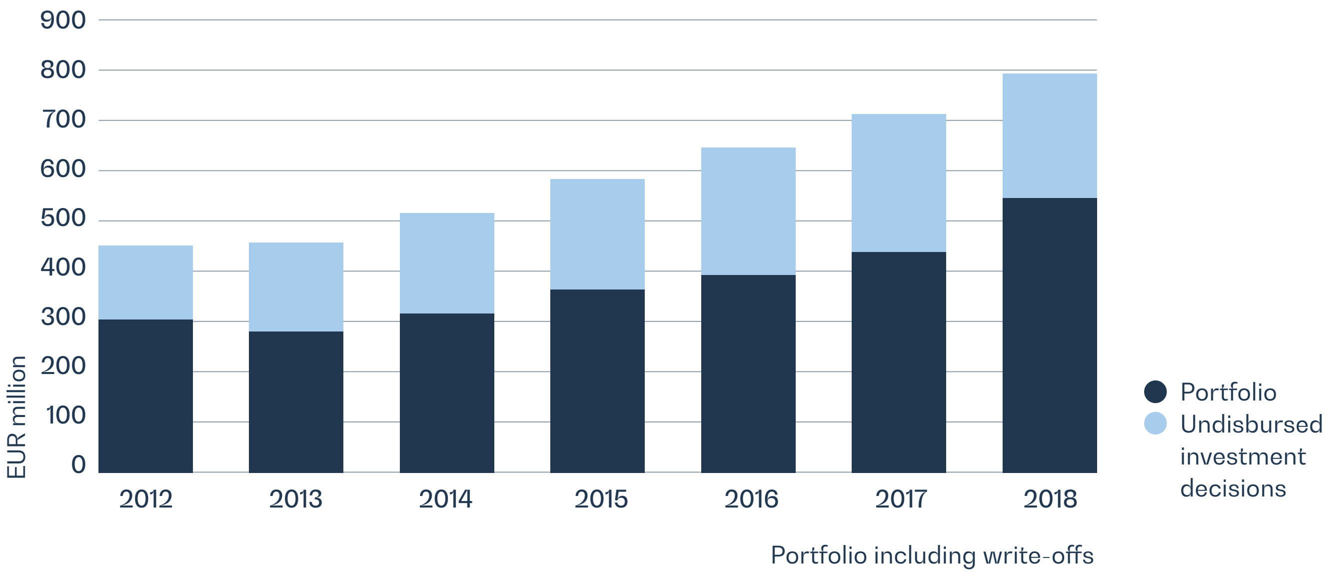
Key figures

This chapter contains key figures for 2018. For more information, see the section on financial statements.

Portfolio
EUR million



Portfolio and undisbursed investments decions
EUR million



Key figures 2014–2018

Year	2014	2015	2016	2017	2018
Number of project countries	32	33	34	39	45
Number of investments	160	160	167	171	181
Financing commitments, EUR million	115	84	152	201	154
Number of financing commitments	25	21	22	29	26
Disbursements, EUR million	73	77	81	114	135
Undisbursed investment decisions and commitments, EUR million	221	235	255	276	249
Portfolio, EUR million	320	368	397	443	551
Shareholders' capital, EUR million	236	251	233	244	257
Total assets/liabilities, EUR million	317	377	406	464	554
Number of personnel on average	51	56	60	71	75

Five years in review 2014–2018

Operational analysis, EUR million	2014	2015	2016	2017	2018
Financial income	12.9	16.2	19.2	24.6	29.2
Financial expenses	-1.8	-2.7	-5.1	-8.6	-10.8
Net financial income	**11.1**	**13.5**	**14.1**	**16.0**	**18.4**
Other operating income	1.6	1.8	1.6	1.5	1.5
Administration, depreciation and amortisation and other operating expenses	-8.4	-9.3	-10.6	-11.8	-13.4
Profit before impairment, sales of assets and taxes	**4.3**	**6.0**	**5.1**	**5.7**	**6.5**
Impairment and sales of assets	-1.9	-0.8	-4.8	-3.1	-4.4
Taxes	0	-0.1	0	-0.6	0
Net profit	**2.4**	**5.1**	**0.3**	**2.0**	**2.1**

Balance sheet, EUR million	2014	2015	2016	2017	2018
Assets					
Tangible and intangible assets	0.2	0.2	0.2	0.1	0
Investments	293.6	329.6	356.3	393.3	494.2
Current assets	23.4	47.3	49.5	70.3	59.7
	317.2	**377.1**	**406.0**	**463.7**	**553.9**
Liabilities					
Equity	235.7	250.8	232.9	244.1	257.2
Liabilities	81.5	126.3	173.1	219.6	296.7
	317.2	**377.1**	**406.0**	**463.7**	**553.9**

Financial indicators	2014	2015	2016	2017	2018
Equity ratio, %	74	67	57	53	46.4
Return on equity p.a., %	1.1	2.1	0.1	0.8	0.8

Development effects in numbers

This table compiles development impacts of Finnfund investee companies generated in 2017. The data is collected through on annual, sector-specific survey. The investment portfolio changes from year to year as new investments are included and others ended.

Development result	Direct investments (excl. financial institutions)	Financial institu-tions	Funds	Total 2017	Total 2016	Total 2015
Direct jobs, total	16,300	34,300	300	50,900	30,000	25,600
Direct jobs, women	3,400	12,700	100	16,200	9,500	9,100
Indirect jobs, total	13,700		75,400[5]	89,100	82,900[6]	105,500
Indirect jobs, women	5,000		24,800	29,800	24,600	24,400
Taxes and tax-like charges (EUR million)	47	203	173	423	334	289
Local purchases (EUR million)[1]	310	-	--	310	310[7]	300
Number of supported farmers, total[2]	1,948,700	-	89,900	2,038,600	38,000	15,800
Number of supported farmers, women	1,541,300	-	49,800	1,591,100	-	-
Energy generated (GWh)[3]	503	-	5,562	6,065	6,600	3,100
Number of microloans, total[4]		3,128,500	1,288,400	4,416,900	1,677,700	3,300,100
Number of microloans, women[4]		1,134,100	953,400	2,087,500	-	-
Value of microloans (EUR million)[4]		1,500	1,700	3,200	1,800	76,100
Number of small enterprise loans, total[4]		1,496,300	12,600	1,508,900	457,300	236,200
Number of small enterprise loans, women[4]		281,200	2,900	284,100	-	-
Value of small enterprise loans (EUR million)[4]		2,100	600	2,700	2,300	1,500
Number of agricultural loans, total[4]		236,500	608,900	845,400	-	-
Number of agricultural loans, women[4]		62,000	600,500	662,500	-	-
Value of agricultural loans (EUR million)[4]		1,000	100	1,100	-	-
Number of mortgages, total[4]		156,400	61,400	217,800	57,700	8,400
Number of mortgages, women[4]		44,800	34,100	78,900	-	-
Value of mortgages (EUR million)[4]		850	150	1,000	400	400
Climate effects: carbon footprint of investments (tCO2e)[8]				127,000	-	-
Climate effects: avoided emissions (tCO2e)[9]				64,000	-	-
Climate effects: carbon dioxide sequestration (tCO2e)[10]				530,000	-	-
Share of Finnfund's funding reported as official Finnish climate funding (EUR)[11]				17,594,000	7,600,000	

Responses were received from 103 companies, with a response rate of 99 per cent. In 2016, responses were received from 92 companies, and in 2015 from 89 companies. The numbers have been rounded off. As some of the indicators are sector-specific, the number of respondents differs from the total number of respondents as follows:

1) 28
2) 13
3) 13
4) 13 (the range of services of financial institutions varies).
5) Includes jobs in companies financed through funds (indirect investments).
6) The indirect jobs created in financial institutions was omitted from the chapter in the 2016 report.
7) This error was corrected in the 2016 report.
8) Portfolio accounting: all emissions resulting from the investments are based on the Exiobase database, using levels / scope 1 and 2 and 3 upstream. Includes emissions from operational activities, e.g. from construction. New indicator.
9) Portfolio accounting: emissions avoided through renewable energy investments, including investments in wind power, biofuel, hydroelectric power and solar energy. Based on the Exiobase database. New indicator.
10) Portfolio accounting: includes investments in sustainable forestry. The accounting covers area, tree species, rotation time, terrestrial biomass and margin of error. The accounting does not include such factors as end use of the wood, investments in natural forests, or protected areas. Calculated using USAID's and WinRock's Afolu Forest Carbon calculators. New indicator.
11) 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.

Investments in 2018

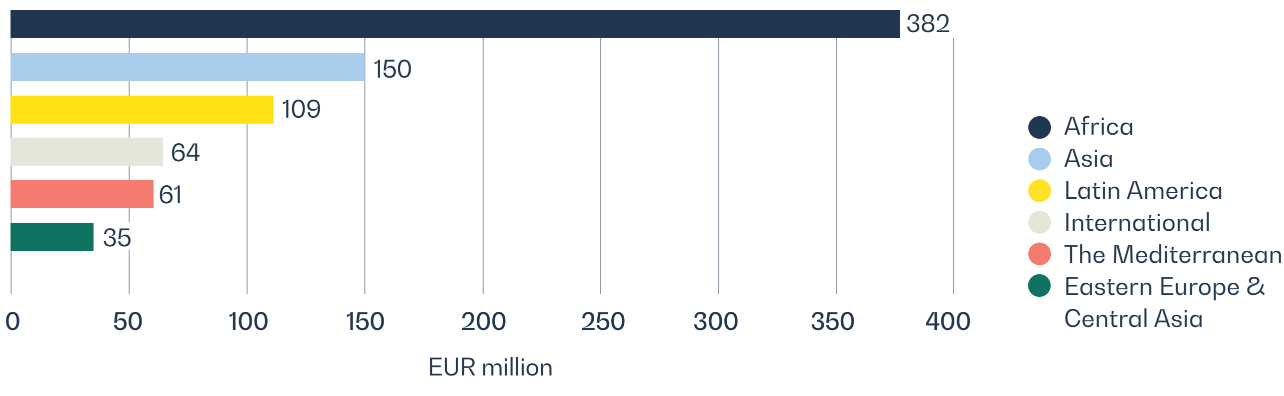
In 2018, Finnfund made 26 investments decision with a total worth of 154 million euros.

Investment decisions target projects with higher impact, as stated in Finnfund's strategy. As many as 93% of new investment decisions made in 2018 dealt with projects with "good" or "excellent" impact, based on our ex ante assessment.

New investment decisions target almost solely (89%) least developed countries and countries of low or lower-middle income, in which the need for sustainable development investments is greatest.

Most of the new investment decisions were made in Africa

Portfolio and undisbursed investment decisions and commitments on 31 December 2018, geographical distribution



Most (20) of our new investment decisions in 2018 targeted Africa. Africa was the most important region also in euro terms, with 67% of financing.

Finnfund's investment assets continued strong growth although we slightly lowered our project development target from previous year's record level. At the end of 2018, Finnfund's investments were 550 million euros.

Undisbursed commitments totalled 154 million euros at the end of 2018. In addition to that, we had made 95 million euros worth of new investments decisions which had not yet proceeded to contract.

At the end of 2018, Finnfund's portfolio contained 181 investments. A small portion of them were new investment in existing projects. In total, 79 investments, or 39% of the invested funds went to low or lower-middle-income countries. Of the new investment decisions, 89% were in the three poorest country categories, which is in line with the company's strategy.

Disbursements were the highest in Finnfund's history, 135 million euros.

How and where does Finnfund invest?

Finnfund invests in projects that advance sustainable development and are run by responsible businesses operating in developing countries. We expect all our projects to be economically profitable, environmentally and socially responsible, and generate measurable development impact in the countries of operation.

Our financing is always on market terms. We tailor our financing to the needs of each investee. The financing can be in the form of equity, mezzanine financing or debt.

We put special emphasis on sectors critical to sustainable development, namely clean energy, sustainable forestry and agriculture and financial institutions, but we can also invest in other sectors when projects meet our requirements. We are happy to invest in projects involving cooperation with Finnish companies, but it is not a precondition for investment.

We ensure right at the outset that projects meet Finnfund's sustainability criteria

We ensure right at the outset that projects meet Finnfund's sustainability criteria (see Responsibility and impact).

Majority of Finnfund's investments are made directly in companies operating in developing

CASE

Sustainable forestry in Africa and Latin America

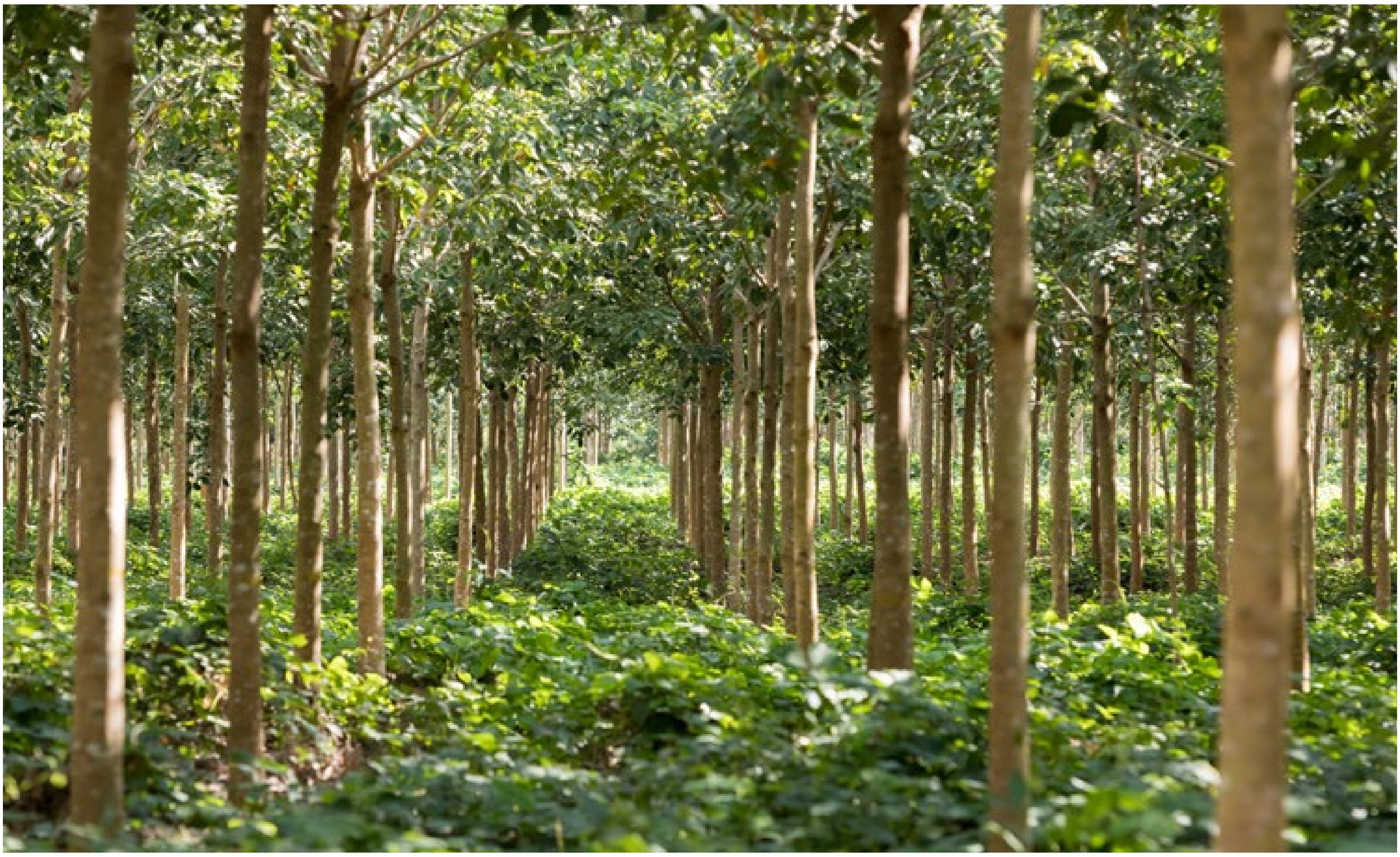
In September 2018 Finnfund made a USD 10 million investment in Arbaro Fund, which is focused on sustainable forestry in sub-Saharan Africa and Latin America.

Arbaro's goal is to sequester 20 million CO2 tons, preserve biodiversity and generate thousands of jobs in communities around its forests.

Arbaro's focus is in Latin America and sub-Saharan Africa where deforestration is advancing rapidly as the demand for timber grows. In these regions, reforestation has particularly great impact on the climate, forest preservation and local employment.

Thanks to its impact on the climate, environment and jobs, sustainable forestry is one of Finnfund's priority sectors.

Tropical Asia Forest Fund



CASE

Financing for agriculture

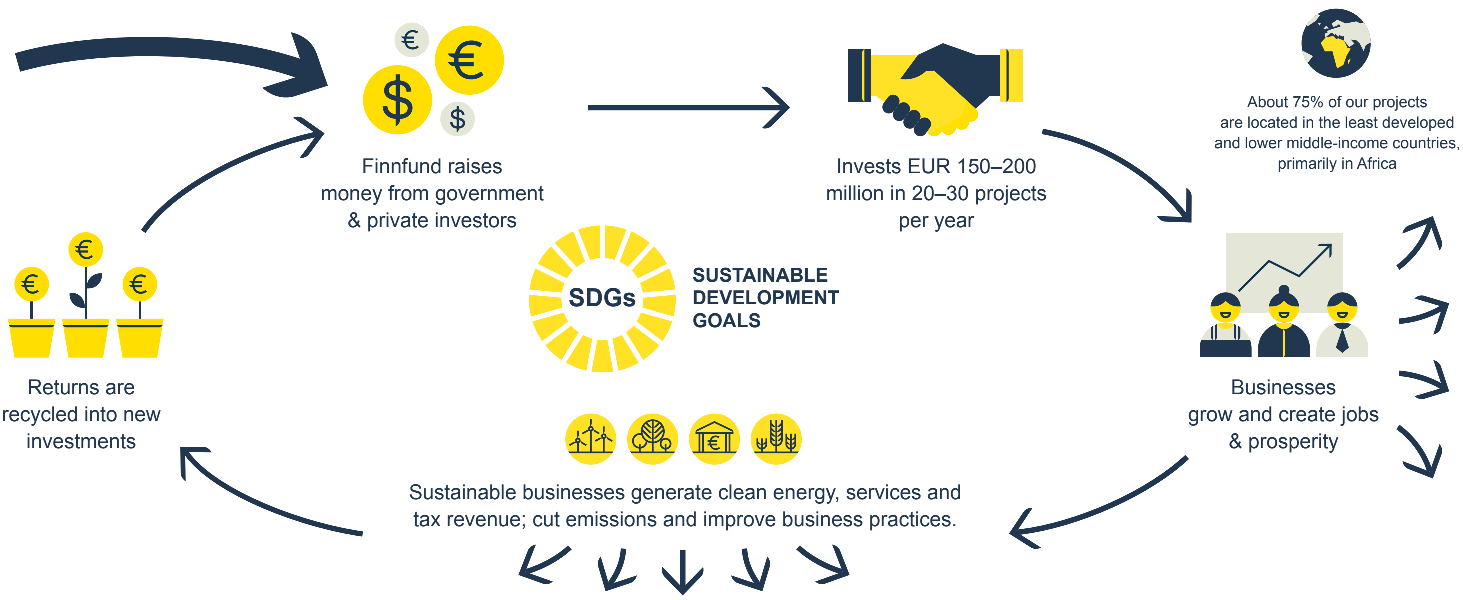
In February 2018 Finnfund granted a USD 12 million loan to Nigerian Access Bank. The investment is aimed at boosting the productivity of Nigeria's agriculture and reducing the country's dependency on imported agricultural products and food.

The financing will be used to provide loans for businesses working on the production, processing, and distribution of agricultural produce.

Agriculture continues to be the backbone of Nigeria's economy. Most Nigerians get their livelihood from agriculture and sector employs more than half of the country's workforce. The agriculture sector plays a key role in the development of Nigeria's economy as the country strives to move away from its dependency on oil.

Finnfund's loan is part of a USD 100 million loan package which includes contribution by the European development finance institutions FMO, Proparco, Norfund and Swedfund.

Finnfund recycles returns into new investments



countries. Besides such direct investments, we can make indirect investments through funds. On top of that Finnfund finances banks and financial institutions.

Funds can mobilise risk financing for smaller businesses and projects in poorer and more fragile countries, which often have no access to financial services. Well-managed funds can provide companies also with other types of support, such as expertise related to the industry sector or environmental sustainability.

Prior to investment decision, Finnfund examines the fund's investment policy and, if needed, seeks to improve it in line with Finnfund policies. Funds are asked to present exhaustive data on its investments and report, for instance, on its tax payments.

The financial institutions Finnfund funds are often focused on serving small and medium-sized enterprises, small-scale infrastructure projects, family businesses, or households. Finnfund financing helps financial institutions meet their local solvency requirements and increase their lending.

More information on Finnfund's investment process:
https://www.finnfund.fi/en/investing/

Finnfund investment process & criteria

Getting to know the project	Due Diligence & investment proposal	Negotiations & legal agreement	Co-operation & monitoring
Data about sponsor, company / project & operational environment Finnfund principles introduced to company	Additional information & site visit, incl. discussions with relevant stakeholders	Negotiations & documentation of legal documents, incl. conditions for disbursement	Annual reporting Monitoring visits Member of Board (equity) Member of advisory committee (funds) Funds disbursed when satisfactory responsibility practices in place
2–4 weeks	3–4 months	4–12 months	5–15 years
Clearance in principle	Investment Committee	Board decision	Signing of agreement

THREE CRITERIA

PROFITABILITY	Economic viability to generate lasting impact. Financial return that reflects the risk.
ESG	Responsible project implementation based on international standards and Finnfund guidelines.
IMPACT	High potential for measurable and lasting development impact.

EXIT (equity)
REPAYMENT (loan)

CASE

Finnfund invests in rebuilding Iraqi mobile network

In June 2018 Finnfund granted a USD 19 million loan to Iraq's leading mobile operation, Atheer Telecom Iraq, better known by its commercial name Zain Iraq.

With this funding the company will reconstruct and revamp its network in Northern Iraq and boost the capacity and quality of its 3G network in other parts of the country.

This is Finnfund's first investment in Iraq. It demonstrates the company's strategy to support post-conflict and fragile countries. The loan is part of a debt package syndicated by IFC, a member of the World Bank group.

The reconstruction of Iraq is estimated to require up to USD 100 billion worth of private investments in basic infrastructure and services. With its investment, Finnfund contributes to improved connectivity between Iraqis through mobile networks. Research shows that access to mobile services accelerates economic growth and reduces inequality.

CASE

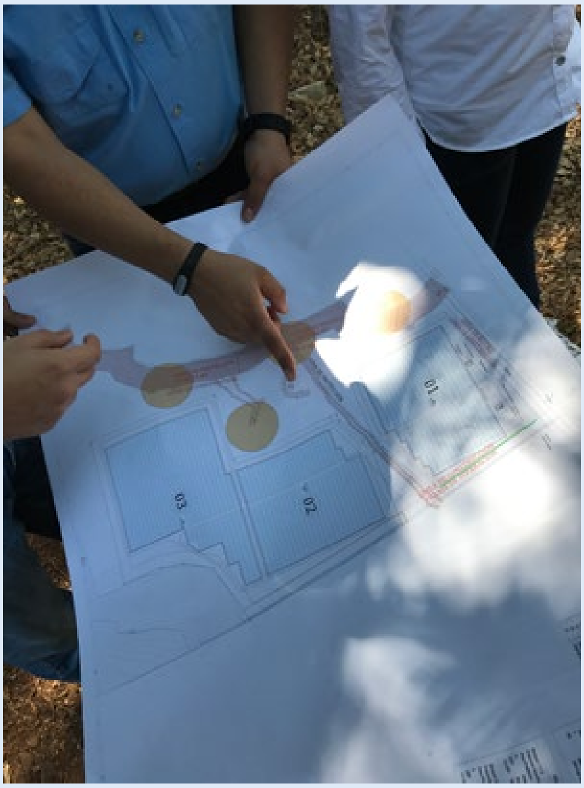
Clean energy in El Salvador

In January 2018 Finnfund issued USD 15 million senior loan for the construction of ten solar power plants in El Salvador in Central America.

The power plants are expected to be completed during 2019 and they will have a combined capacity of 100 MWh. Each plant will produce enough electricity to meet the needs of 30,000 households using less than 65 kWh per month.

The project will replace 250 GWh of energy currently produced with fossil fuels, hence cutting emission by an estimated 175,000 tCO_2eq.

The project is carried out by the project company Bósforo Ltda de CV, which is supported by experienced energy operators. The total investment in the project is approximately USD 160 million.



List of investments in portfolio
as of 31 December 2018

Investment agreements signed in 2018 are marked in bold.
* 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.

Investment	Country	Sector	Finnfund's financing*	Agreement year
AFRICA				
Access Bank	Nigeria	Bank	USD 12,000,000	2017
Africado Limited	**Tanzania**	**Agriculture**	**EUR 2,500,000**	**2018**
African Foundries Limited	Nigeria	Steel		2015
AfriCap Microfinance Investment Ltd	Africa	Microfinance		2007
AfricInvest Fund III	Africa	Private equity fund		2014
AfricInvest Fund Ltd. I	Africa	Private equity fund		2004
AfricInvest Fund Ltd. I B	Africa	Private equity fund		2007
AfricInvest Fund Ltd. II	Africa	Private equity fund		2008
Afrinord Hotel Investments A/S	Africa	Hotel		2005
Agri-Vie Fund II (Pty) Ltd	**Africa**	**Food and agriculture fund**	**USD 10,000,000**	**2018**
Aten Solar Energy S.A.E	Egypt	Solar power	USD 6,000,000	2017
Atlantic Coast Regional Fund	Africa	Private equity fund		2008
Aureos Africa Fund	Africa	Private equity fund		2009
CAL Bank	**Ghana**	**Bank**	**USD 15,000,000**	**2018**
Catalyst Fund I	Africa	Private equity fund		2011
Creditinfo East Africa	Africa	Credit information		2015
Ecobank II	**Togo**	**Bank**	**USD 5,000,000**	**2018**
Elgon Road Developments Co Ltd	Kenya	Hotel		2009
Elgon Road Developments Co Ltd II	Kenya	Hotel		2011
Elgon Road Developments Co Ltd III	Kenya	Hotel		2015
Elgon Road Developments Co Ltd IV	Kenya	Hotel		2015
Elgon Road Developments Co Ltd V	Kenya	Hotel		2016
Elgon Road Developments Co Ltd VI	**Kenya**	**Hotel**	**USD 2,794,760**	**2018**
Elgon Road Developments Co Ltd VII	**Kenya**	**Hotel**	**EUR 2,775,940**	**2018**
EthioChicken (AgFlow Poultry Limited)	Ethiopia	Poultry production	USD 10,000,000	2016
European Financing Partners	Africa	Development financing		2010
European Financing Partners	Africa	Development financing		2004
European Financing Partners III	Africa	Development financing		2009
European Financing Partners IV	Africa	Development financing		2010
Evolution II (Mauritius) LP	Africa	Private equity fund	USD 15,000,000	2017

Evolution One LP	South Africa	Private equity fund		2008
Fanisi Venture Capital Fund S.C.A.	Africa	Private equity fund		2010
Fidelity Equity Fund II Limited	Africa	Private equity fund		2008
Fuzu	Africa	Information technology	EUR 600,000	2016
GEF, Africa Sustainable Forestry Fund L.P	Africa	Forestry fund		2011
Ghana Airport Cargo Centre Limited	Ghana	Logistics		2014
Ghana Airport Cargo Centre Limited	Ghana	Logistics	USD 1,000,000	2016
Goldtree	Sierra Leone	Food production		2011
Goldtree	Sierra Leone	Food production		2011
Goldtree (S.L. Limited)	Sierra Leone	Food production		2016
Goldtree II	Sierra Leone	Food production		2013
Goldtree II	Sierra Leone	Food production		2014
Green Resources AS	Africa	Forestry and wood products		2012
Green Resources AS	**Africa**	**Forestry and wood products**	**USD 2,450,000**	**2018**
Green Resources AS	**Africa**	**Forestry and wood products**	**USD 1,100,000**	**2018**
GroFin East Africa Fund (GEAF)	Africa	Private equity fund		2007
Hakan-Quantum Biomass Fired Power Plant	Rwanda	Biomass fired power plant	USD 10,000,000	2016
Hakan-Quantum Biomass Fired Power Plant	Rwanda	Biomass fired power plant	USD 5,000 000	2016
Horizon Equity Fund III	South Africa	Private equity fund		2007
Horus Solar Energy S.A.E	Egypt	Solar power	USD 6,000,000	2017
Kilombero Valley Teak Company Ltd I	Tanzania	Forestry and wood products		2000
Kilombero Valley Teak Company Ltd I	Tanzania	Forestry and wood products		2011
Kilombero Valley Teak Company Ltd II	Tanzania	Forestry and wood products		2005
Kilombero Valley Teak Company Ltd III	Tanzania	Forestry and wood products		2009
Kilombero Valley Teak Company Ltd IV	Tanzania	Forestry and wood products		2010
Kilombero Valley Teak Company Ltd IX	Tanzania	Forestry and wood products		2016
Kilombero Valley Teak Company Ltd V	Tanzania	Forestry and wood products		2011
Kilombero Valley Teak Company Ltd VI	Tanzania	Forestry and wood products		2012
Lake Turkana Wind Power	Kenya	Wind power		2013
Letshego Uganda Limited	**Uganda**	**Microfinance**	**USD 5,000,000**	**2018**
M-Birr Ethiopia	Ethiopia	Information technology		2011
M-Birr Ethiopia	Ethiopia	Information technology		2011
M-Birr Ethiopia II	Ethiopia	Information technology		2014
M-Birr Ethiopia IV	Ethiopia	Information technology		2016
M-Birr Ethiopia V	Ethiopia	Information technology	EUR 1,000,000	2017
Miro Forestry Company, Ghana ja Sierra Leone	Ghana and Sierra Leone	Forestry and wood products		2014
Miro Forestry Company, Ghana ja Sierra Leone	**Ghana and Sierra Leone**	**Forestry and wood products**	**USD 8,065,115**	**2018**

Miro Forestry Company, Ghana ja Sierra Leone II	Ghana and Sierra Leone	Forestry and wood products		2015
Mobisol	Africa	Solar energy systems		2016
Mobisol	Africa	Solar energy systems	EUR 9,000,000	2017
Mobisol III	**Africa**	**Solar energy systems**	**EUR 1,000,000**	**2018**
New Forest Company (Tanzania) Limited NFCT	Tanzania	Forestry and wood products		2014
New Forests Company (Rwanda) Limited	Rwanda	Forestry and wood products	USD 7,500,000	2016
New Forests Company (Uganda) Limited	Uganda	Forestry and wood products		2015
Norsad Finance Limited	SADC/Africa	Development financing		2011
Penda Health	**Kenya**	**Health care**	**USD 2,495,225**	**2018**
Polykrome S.A.	**Senegal**	**Packaging products**	**EUR 4,000,000**	**2018**
Precision Air Services Ltd	Tanzania	Airline company		2008
Sanergy Inc.	Kenya	Waste management and recycling	USD 1,249,999	2017
Schulze Global Ethiopia Fund I	Ethiopia	Private equity fund		2014
SFC Finance Limited	Africa	Financial institution		2014
Silverlands Fund	Africa	Private equity fund		2011
Sini Furniture Interior Design PLC	Ethiopia	Furniture		2015
Sound and Fair Tanzania Limited	Tanzania	Forestry and wood products		2016
Synergy Private Equity Fund II LP	**Africa**	**Private equity fund**	**USD 15,000,000**	**2018**
Tanira Ltd.	Tanzania	Hand pumps		1991
TAQA Arabia for Solar Energy SAE	Egypt	Solar power	USD 7,804,000	2017
Up Energy Uganda Ltd	Uganda	Energy efficiency		2013

ASIA				
A.T. Biopower Co. Ltd.	Thailand	Biopower plant		2003
A.T. Biopower Co. Ltd.	Thailand	Biopower plant		2003
Ashley Alteams India PVT Limited	India	Aluminium components		2009
Australis Aquaculture Vietnam Limited	Vietnam	Fishing and aquaculture	USD 9,500,000	2017
Avain Technologies China Ltd.	China	Information technology		2013
BOPA	Asia	Microfinance	USD 3,000,000	2017
BOPA 2	**Asia**	**Microfinance**	**USD 1,500,000**	**2018**
Burapha Agro-Forestry Co., Ltd	Laos	Forestry and wood products		2016
Burapha Agro-Forestry Co., Ltd	**Laos**	**Forestry and wood products**	**USD 10,000,000**	**2018**
Cambodia-Laos Development Fund S.C.A.	Asia	Private equity fund		2009
Commercial Leasing and Finance PLC (CLC)	Sri Lanka	Microfinance		2015
Dolma Impact Fund I, Nepal	Nepal	Private equity fund		2014
Dolma Impact Fund I, Nepal	**Nepal**	**Private equity fund**	**USD 3,100,000**	**2018**

Everest Power Generation Company Limited	Bangladesh	Power plant		2013
Everest Power Generation Company Limited	Bangladesh	Power plant		2015
Frontier Tower	Indonesia	Telecommunication infrastructure	USD 10,000,000	2017
Fun Factory Ltd	Bangladesh	Textiles	USD 700,000	2017
Gemco Kati Exploration Pvt. Ltd.	India	Mining support service activities		2016
GreenStream ESCO	China	Energy efficiency		2014
GreenStream ESCO II	China	Energy efficiency		2014
GreenStream ESCO III	China	Energy efficiency		2016
LVDU Lapland Food (Fushun) Co., Ltd	China	Dairy products		2012
mBank Philippines	Philippines	Microfinance		2011
Mekong Brahmaputra Clean Development Fund	Asia	Private equity fund		2010
MongoliaNord GmbH	Mongolia	Hotel		2010
Nam Sim Power Company Limited	Laos	Hydro power		2011
Norrhydro Hydraulic System (Changzhou) Co. Ltd	China	Manufacturing of hydraulic sylinders		2011
Norrhydro Hydraulic System (Changzhou) Co.Ltd II	China	Manufacturing of hydraulic sylinders		2014
Peikko Construction Accessories (Zhangjiagang) Co., Ltd.	China	Metal products		2014
PRASAC Microfinance Institution Ltd	Cambodia	Microfinance	USD 15,000,000	2016
SaraRasa Biomass	Indonesia	Biofuels		2012
SaraRasa Biomass	Indonesia	Biofuels		2012
SaraRasa Biomass II	Indonesia	Biofuels		2013
SaraRasa Biomass III	Indonesia	Biofuels		2013
SaraRasa Biomass IV	Indonesia	Biofuels		2014
SaraRasa Biomass V	Indonesia	Biofuels		2016
SaraRasa Biomass VI	Indonesia	Biofuels	USD 500,000	2017
SATHAPANA Bank Plc	Cambodia	Bank		2014
Spica Metfab Solutions India Private Limited	India	Metal products		2009
SREI Equipment Finance	India	Equipment financing	EUR 15,000,000	2017
Stera Engineering (India) Private II	India	Contract manufacturer of electromechanics		2014
Thai Biogas Energy Company Ltd	Thailand	Biopower		2009
Tropical Asia Forest Fund	Asia	Private equity fund		2012
VME Precast Pvt. Ltd.	India	Concrete elements		2009
XacBank	Mongolia	Bank		2016
XTC Company Oy	China	Electrical equipment		2010
XTC Company Oy II	China	Electrical equipment		2011

CENTRAL AND EASTERN EUROPE				
Aqueduct	Ukraine	Metal products		2010
ArcelorMittal (Toplana Zenica d.o.o. Zenica)	**Bosnia and Hertzegovina**	**Power generation**	**EUR 1,800,000**	**2018**
Cibuk Wind Farm (Tesla Wind d.o.o.)	Serbia	Wind power	EUR 10,740,971	2017
Oy Nordic Russian Management Co - NORUM	Russia	Fund management		1995
Peikko OOO	**Russia**	**Metal products**	**EUR 2,000,000**	**2018**
SEAF CEE Growth Fund	Central and Eastern Europe EU	Private equity fund		2000
SEAF South Balkan Fund	Central and Eastern Europe UMIC	Private equity fund		2009
Skaala OOO	Russia	Windows and doors		2014

INTERNATIONAL				
Althelia Climate Fund SICAV-SIF	International	Environment fund		2013
Arbaro Fund SCSp	**International**	**Forestry fund**	**USD 10,000,000**	**2018**
Dasos Timberland Fund I	International	Forestry fund		2010
GEEMF Global Environment Emerging Markets Fund III	International	Private equity fund		2007
Interact Climate Change Facility II	International	Development financing	EUR 20,000,000	2016
Interact Climate Change Facility S.A.	International	Development financing		2011
Interact Climate Change Facility S.A. I	International	Development financing		2011
Interact Climate Change Facility S.A. I B	International	Development financing		2013
Jumo	International	Information technology	USD 6,000,000	2017
Jumo 2	**International**	**Information technology**	**USD 5,996,500**	**2018**
MBH BV	International	Microfinance		2011
Moringa S.C.A., SICAR	International	Agroforestry fund		2013
ShoreCap International Ltd. II	International	Microfinance		2009
WWB Capital Partners, LP	International	Microfinance / fund		2012

LATIN AMERICA				
Bosforo PV Project	El Salvador	Solar power	USD 15,000,000	2017
Carec - Central American Renewable Energy and Cleaner Production	Central America	Private equity fund		2006
Caseif II	Latin America	Private equity fund		2007
Central American Mezzanine Infra Fund II	Central America	Private equity fund		2014
Central American Mezzanine Infra Fund II	Central America	Private equity fund		2014
Central American Mezzanine Infrastructure Fund	Central America	Private equity fund		2009

CIFI - orporación Interamericana para el Financiamiento de Infraestructura, S.A.	Latin America	Financial institution		2014
Forest Company	Latin America	Forestry and wood products		2010
Forest First Colombia	Colombia	Forestry and wood products	USD 10,000,000	2017
Los Laureles	Honduras	Small hydropower		2011
Methax	Argentina	Power plant	USD 20,000,000	2017
Mezapa	Honduras	Small hydropower		2010
Pro Eucalipto Holding S.A.P.I. de C.V.	Mexico	Forestry and wood products		2014
Pro Eucalipto Holding S.A.P.I. de C.V. II	Mexico	Forestry and wood products		2015
Pro Eucalipto Holding S.A.P.I. de C.V. III	Mexico	Forestry and wood products		2015
San Francisco S.A.	Paraguay	Warehousing and transportation support	USD 8,000,000	2017
San Francisco S.A.	Paraguay	Warehousing and transportation support	USD 4,000,000	2017
SEAF Latam Growth Fund	Latin America	Private equity fund		2008
Valle Solar Power Project	Honduras	Solar power		2015
Valle Solar Power Project	Honduras	Solar power		2015

THE MIDDLE EAST				
Arabia One For Clean Energy Investments PSC	Jordan	Solar power		2014
Catalyst MENA Clean Energy Fund	The Middle East	Private equity fund		2016
Falcon M'an for Solar Energy LLC	Jordan	Solar power		2014
FRV Solar Holdings IX B.V. / Jordan PSC	Jordan	Solar power		2016
Jordan Solar One / Jordan PSC	Jordan	Solar power		2014
Zain Iraq (Atheer Telecom Iraq Limited)	**Iraq**	**Information technology**	**USD 19,000,000**	**2018**

THE MEDITERRANEAN				
Noksel A.S.	Turkey	Steel pipes		1992

finnfund

Corporate governance

Corporate governance

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

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 at a date set by the Board of Directors but within six months from the end of the financial period.

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

The 2018 Annual General Meeting was held in Helsinki on 25 April. The meeting handled the matters specified in Article 11 of the Articles of Association and decided to increase the Company's share capital. All of the company's outstanding shares were represented at the meeting.

Moreover, on 7 June 2018 the shareholders decided unanimously, without holding a General Meeting, to supplement the Supervisory Board.

Supervisory Board

The Supervisory Board is composed of 12 members. The Annual General Meeting elects the members for three years at a time. The term of each member of the Supervisory Board ends at the close of the third Annual General Meeting following their 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.

Members of the Supervisory Board in 2018

The task of the Supervisory Board is to monitor the company's administration under the Board of Directors' and the Managing Director's supervision. The Supervisory Board also issues a statement to the Annual General Meeting regarding the financial statements and the audit.

In addition to that, the Supervisory Board can advise/instruct the Board of Directors instructions on matters of principle or otherwise broad importance.

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 the General Meeting.

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

Members of the Board of Directors in 2018

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; confirming the company's strategy and 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 Board has an Audit Committee consisting of the Chair and 2 to 3 members the Board appoints from 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	Fees	Present
Erkki Tuomioja, chair	3,200	4/4
Pertti Salolainen, vice chair	2,400	4/4
Tiina Elovaara (as of 7 June 2018)	1,000	2/3
Eija Hietanen	500	1/4
Seppo Kallio	1,000	2/4
Johanna Karimäki	1,500	3/4
Johanna Kotaviita	1,000	2/4
Riitta Myller	2,000	4/4
Aila Paloniemi	1,000	2/4
Mika Raatikainen (until 7 June 2018)	500	1/1
Lenita Toivakka (as of 25 April 2018)	1,000	2/3
Tapani Tölli	2,000	4/4
Petri Vuorio	1,500	3/4

In 2018, the Supervisory Board met 4 times. The average attendance rate for members was 72.3 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 attended meeting. 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
Ritva Laukkanen, chair	18,600	15/15
Sinikka Antila, vice chair	12,900	15/15
Tuukka Andersén	11,400	14/15
Kristiina Kuvaja-Xanthopoulos	11,400	14/15
Pirita Mikkanen	11,400	14/15
Lars-Erik Schöring	11,700	15/15
Antero Toivainen (as of 25 April 2018)	8,400	10/10
Anne af Ursin (until 25 April 2018)	3,900	5/5
Tuula Ylhäinen	11,400	14/15

In 2018 the Board met 15 times. The average attendance rate for members was 96.7 percent.

Audit Committee

In 2018, 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
Tuukka Andersén, chair	1 800	6/6
Pirita Mikkanen	1 800	6/6
Tuula Ylhäinen	1 800	6/6

In 2018 the Audit Committee met 6 times. The attendance rate for members was 100 percent.

Managing Director

In the financial year 2018, managing director Jaakko Kangasniemi received taxable income of EUR 224,122.72 from the company. The remuneration of the managing director consists of a fully fixed monthly salary. The managing director is not eligible to the company's incentive system and was not paid a bonus in the financial year 2018.

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 2018 a reserve of EUR 50,914.93 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 2018 financial year, taxable income received from the company by the Management team, including the managing director and his deputy, totalled EUR 884,194.29.

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 and personal performance. The Board of Directors decides on the incentive system and its key criteria on an annual basis.

In 2018, 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 Pasi Rajala, Director of Communications.

SUPERVISORY BOARD, BOARD OF DIRECTORS AND AUDIT COMMITTEE IN 2018

Supervisory Board

Erkki Tuomioja
Member of Parliament,
Chair

Pertti Salolainen
Member of Parliament,
Vice Chair

Tiina Elovaara
Member of Parliament
as of 7 June 2018

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
until 7 June 2018

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

Board of Directors

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,
Metsä Group

Lars-Erik Schöring
CEO,
Leinolat Group

Antero Toivainen
Director for International
Tax Affairs,
Ministry of Finance
as of 25 April 2018

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

Tuula Ylhäinen
CFO,
Oras Invest Ltd

Audit Committee

Tuukka Andersén
Chair

Pirita Mikkanen

Tuula Ylhäinen

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

Supervisory Board

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

Board of Directors

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

finnfund

Impact and sustainability

Impact investments for a more sustainable world

Responsible businesses play an important role in resolving great global challenges including poverty, inequality and climate change. Meeting the UN's Sustainable Development Goals on a global scale, companies must become more closely involved.

Finnfund is a development financier and professional impact investor tasked with building a more sustainable world by investing in responsible, profitable companies in developing countries.

We work with private companies operating in developing countries, offering equity risk financing, long-term investment loans, mezzanine financing and specialist expertise related to investments in developing countries.

We provide long-term financing for sustainable development projects that would not otherwise be executed. Finnfund's financing often acts as the lever for mobilising commercial finance.

Finnfund requires its investments to be profitable, responsible in terms of the environment and society, and measurable in terms of development impact.

Corporate responsibility and impact at Finnfund

Finnfund advances corporate responsibility both in its own operations and those of its investees. Responsibility for the economic, social and environmental impacts of operations as well as good, transparent governance are key factors guiding Finnfund's decision-making.

Finnfund stresses measurable impact of its investments. With impact we mean investments' development effects that promote sustainable development.

In practice, this means conducting a prior appraisal of corporate responsibility and development impact before making investment commitments and tying disbursements to the implementation of actions to promote corporate responsibility. Every investment is assessed and monitored throughout its life cycle.

Investments may have positive impacts on the surrounding society directly (good jobs, clean energy, etc.) or indirectly (such as employment effects in the supply chain). Investments also have wider impacts on society, such as tax revenues, poverty reduction and climate change mitigation.

On one hand, corporate responsibility is part of risk management, but on the other it and contributes to positive development impacts. Impact arise from both what the company does and how responsibly it operates. For that reason, we consider improvements to a company's responsibility to be part of the impact of our operations.

Impact management and resources

In 2018, Finnfund activities on the environmental and social responsibility and development impacts of its investments were under the leadership of the Managing Director in collaboration with the Director of Risk Management and Impact.

The Managing Director, in co-operation with the Director of Administration, was responsible for the corporate responsibility of Finnfund's own activities. The Board of Directors monitors the management of corporate responsibility as an

Finnfund requires its investments to be profitable, responsible and impactful

Responsibility and impact are monitored throughout the project's life cycle

aspect of its stewardship of the company.

Specialists in environmental and social responsibility, corporate governance, tax responsibility and development impact ensure that the risks and effects related to the corporate responsibility and impact of all Finnfund investees are assessed and monitored throughout the projects' life cycles.

They constantly develop assessment and monitoring methods, collaborate with international networks of experts and train other Finnfund personnel when needed.

The specialists in environmental and social responsibility and the development impact advisors work in the risk management and impact unit. In terms of corporate governance and tax responsibility, the responsibilities are divided among the specialists in the investment function, the risk management and impact unit and the legal team.

Finnfund currently employs five specialists in environmental and social responsibility and three development impact advisors.

Each staff member complies with Finnfund's corporate responsibility principles.

Corporate responsibility principles and practices

Finnfund's own operations and those of the companies it invests in must be sustainable in terms of the environment, people and society. Assessing and managing environmental and social impacts is a key part of Finnfund's financing process.

Finnfund's first environmental policy was adopted in 2005. Since then, it has been updated several times and, in 2013, its name was changed to environmental and social policy. The policy is based on compliance with international standards and Finnfund's strategy.

Valle Solar, Honduras

Finnfund has also signed the joint principles of sustainable development and responsible financing drawn up by the European Development Finance Institutions (EDFI). Finnfund is committed to complying with these principles in its operations. These principles are consistent with the UN's Global Compact.

Finnfund applies the European development financiers' common blacklist, which lists the sectors that we do not finance.

In 2018, we decided to update our environmental and social policy in the course of 2019.

When Finnfund assesses investments, it complies with the International Finance Corporation's Performance Standards, as well as common procedures and requirement levels with other European development financiers.

Finnfund's environmental and social responsibility policy is based on, among others, the UN Global Compact, the UN's Guiding Principles on Business and Human Rights, and the International Labour Organization's Fundamental Principles and Rights at Work.

Finnfund has also entered into a commitment with 24 other development financiers on corporate governance principles and guidelines on how development financiers promote good governance within the companies they finance, thereby supporting sustainable economic development in developing countries.

Moreover, Finnfund has an environmental and social responsibility manual for internal use, describing the procedures and responsibilities used in assessments. Project assessments, monitoring and any improvement measures take place accordingly. Assessment and monitoring cover financed projects and supply chains.

In practice, the environmental and social risks related to projects and the potential for advancing sustainable development vary considerably depending on the investee, sector, country and many other factors. Projects eligible for Finnfund financing must meet not only the environmental and social responsibility requirements under local legislation but also relevant international standards.

Finnfund's first environmental policy was adopted in 2005

When Finnfund considers financing a project, it pays special attention to identifying, managing and mitigating environmental and social risks, as well as reinforcing the positive impacts. Corporate responsibility is monitored, assessed and, if necessary, improved throughout the life cycle of the project.

Finnfund's specialists visit projects during monitoring and, if necessary, use external specialists for support. Companies that receive financing must commit to developing and maintaining a management system for relevant environmental and social responsibility matters as well as ensuring sufficient expert capacity at every phase of the project. The companies regularly report to Finnfund on the implementation of these commitments.

Read more about Finnfund's corporate responsibility and investment process.

Transparency and cooperation with stakeholders

Transparency is a central principle guiding Finnfund's operations. We publish as much information as possible about the principles guiding our operations, the practices we apply and the results we achieve. Finnfund encourages its investee companies and its partners to operate transparently and comply with good corporate responsibility practices.

Furthermore, Finnfund is engaged in continuous dialogue with its various stakeholders in Finland and abroad. We strive to identify stakeholders' expectations and any concerns they may have, and to respond to them quickly and transparently.

CASE

Finnfund accelerating M-Birr's growth

"At first, I thought this sort of financial service was a joke," admits **Eyob Lema**, a 30-year-old from Addis Ababa.

"In our area, there are banks on almost every corner, but they do not serve people like us. You can't go into a bank and deposit 20 birr (EUR 0.60)," Eyob says.

M-Birr is Ethiopia's first money transfer and payment service that is widely used among poor people in rural areas. Remittances from relatives who have moved to cities or other countries are an important source of income for them. In the past, it was necessary to deliver money in cash, and family members or bus drivers helped with this, but this increased the costs and risks.

The service has operated since 2015 and has gained popularity rapidly. Finnfund has supported M-Birr since 2011, when it became one of the owners of a company called MOSS, which developed the service. In 2018, an important stage was reached when Finnfund was joined by the European Investment Bank as a financier.

Read more about M-Birr

CASE

Responsible avocados from Tanzania

Coffee-growers in the Kilimanjaro area of Tanzania have seen their income plummet in recent years as the price of coffee has fallen. Responsible avocado cultivation has now become a promising alternative. For this reason, Finnfund invested in a producer name Africado.

Africado is Tanzania's first avocado producer on an international scale. It cultivates the Hass variety intended primarily for the European market. The company works in close cooperation with local small farmers, providing work and livelihoods for thousands of people.

The company holds Global GAP certification, a scheme that promotes international, safe and responsible cultivation practices. In 2016, it became the second company in Africa to win the GAP prize, which was awarded to the company for its farmers' programme.

"Thanks to Finnfund's financing, Africado has been able to make new investments. As Africado expands its production and cultivates new varieties, it can develop a sustainable business that provides financial benefit for the local community and for the country as a whole by creating jobs and generating export revenues," said **James Parsons**, CEO of Africado in February 2019.

Read more about Africado.

Finnfund's most important stakeholders are its owners, investee companies and co-financiers as well as the key operators in development policy, such as civil society organisations, Finnish businesses, European sister organisations and other development financiers and investors. In some cases, other important stakeholders may include the local authorities in target countries and other parties linked to the projects financed by Finnfund, such as local communities, the authorities and civil society.

In 2018, Finnfund began preparing a comprehensive stakeholder survey. The survey will be conducted in 2019.

Finnfund updated its disclosure policy in autumn 2018. With the update the text was made clearer and more information, particularly with regard to companies financed via funds, was disclosed.

Finnfund updated its website and other communication materials as part of the roll-out of the company's new strategy and updated graphic image. This was done to promote transparency and greater clarity of information.

In 2018, Finnfund engaged in active dialogue with various stakeholders both in Finland and internationally. We held several discussion events and various meetings, particularly in the process of developing our human rights policy and gender statement, as well as calculating the climate impact of our investments.

We asked a wide range of stakeholders to comment our draft human rights policy, completed at the end of the year, and we made the draft available on Finnfund's website in Finnish and English. We will continue the same practice as we finalise develop our gender statement.

Through the new website we strive to make our grievance mechanism more accessible. In addition to the grievance channels provided by our investee companies, Finnfund has its own grievance and whistleblowing mechanism: if anyone suspects breaches of human rights in Finnfund's operations or in relation to the operations of Finnfund investee companies, he or she can submit a report via Finnfund's website, by phone or by post.

The stakeholders of investee companies can also talk to Finnfund's representatives directly when they visit project site. Finnfund protects the privacy and safety of whistleblowers. The grievance mechanism is designed so that it allows also anonymous filing of reports.

In 2018, one suspected case of malpractice relating to an investment in the preparatory phase was brought to Finnfund's attention. Subsequently, preparation of the project was discontinued, and no investment commitment was made.

Lake Turkana Wind Power, Kenya

Development impact

Finnfund only invests in projects with clearly positive development impacts. The impacts vary from one investment to the next: some may focus on creating good jobs, while others may generate, for example, clean energy.

The development impact is analysed on different levels:

- Direct impacts arising from the company's operations (such as good jobs, increased electricity generation, improved infrastructure)
- Indirect impacts arising from operations (such as the benefit to contracted farmers, preventing deforestation, slowing the loss of biodiversity, lower price and better reliability of electricity supply)
- Large-scale societal impacts (such as tax revenues for public administration, economic growth, mitigation of climate change).

Companies often carry out various community projects with local groups alongside their core businesses. These typically include projects related to education, health, water supply or sanitation. These are typical for companies operating in remote rural areas or regions that often lag behind in developmental terms.

Finnfund assesses and monitors the development impact its investee companies before making an investment commitment, as well as throughout the life cycle of the investment.

In 2018, Finnfund further developed the Development Effect Assessment Tool (DEAT) which it uses to conduct prior assessments of the development impact, as well as the theories of change (TOC) developed for Finnfund's four priority sectors. During the year, Finnfund also commissioned separate evaluations of the impacts of renewable energy projects in Cape Verde, Honduras and Kenya.

Reporting on development impacts

Every year, Finnfund presents the impact of its entire portfolio in a development impact report. Investee companies can provide reliable information about their impacts only once their annual financial statements are ready. For this reason, Finnfund's development impact report always contains data for the preceding year.

In 2017, the companies financed by Finnfund:

- created even more jobs: directly financed companies directly employed 50,900 people and companies that were indirectly financed through funds employed 75,400 people, one-third of all these were women
- generated a total of 6,065 gigawatt hours of electricity
- managed 867,000 hectares of forests, 814,900 hectares of which is already covered by Forest Stewardship Council certification
- collaborated with 2,038,600 small farmers or cattle farmers, of whom 80 per cent were women
- granted 845,400 loans for agricultural development, of which 78 per cent to women
- granted 5,900,000 loans to microenterprises and SMEs with a total value of EUR 5,900 million.
- paid a total of EUR 423 million in taxes and levies.

Read more about development impact assessments.
Read more about development impact in 2017.

Individual impact assessments

In addition to assessing the impact of the portfolio as a whole, Finnfund commissions external evaluations of the realised development impacts of its projects. In 2018, evaluations of this type were conducted for the energy projects in Cape Verde, Honduras and Kenya.

Lake Turkana Wind Power in Kenya is Africa's largest wind farm and the largest ever individual investment in Kenya. The company has built a 310-megawatt wind power plant in the remote and very poor district of Marsabit.

The evaluation that examined the construction phase, which began in 2013, concluded that it led to significant development impacts. The company

Silverlands, sub-Saharan Africa

has built more than 200 km of roads, which have reduced the travel time between Loiyangalani and Laisamis from two days to four hours, and the mobility of people and goods has grown exponentially, transportation prices have fallen, and food has become cheaper. In addition, the company employed approximately 2,000 local workers during the construction phase.

In Cape Verde, the evaluation focused on the Cabeólica wind farm, which is located on four different islands and has a generation capacity of 25.5 megawatts. In Honduras, three hydroelectric power plants were examined– La Vegona, Los Laureles and Mezapa – as well as the Valle Solar solar power plant, which have a combined capacity of 104 megawatts.

According to the evaluation, the power plants have had substantial economic impacts: they have increased electricity generation, replaced millions of litres of diesel that previously fuelled generators, lowered the price of electricity, reduced the number of power cuts and increased the working time of companies, thereby also increasing their productivity, along with gross domestic product and employment.

Read more about evaluations.

Economic responsibility

The key to economic responsibility is profitable business based on responsible principles that ensure its continuity. For this reason, one of Finnfund's investment criteria is financial profitability: financially stable companies are able to meet their corporate responsibility requirements and generate sustainable development impacts.

The same principle also applies to Finnfund's own operations: in order to fulfil its mission over the long term and be able to carry the major financial risks of its business, the development financing operations must be financially profitable and the company's capital structure strong. Finnfund does not distribute profits to its owners – instead, it invests its returns into new investments.

Efficiency and profitability of Finnfund's operations

Although the Finnfund Act states that the company's purpose is not to generate a profit for its shareholders, all State-owned companies must be self-sustaining in accordance with the State's ownership policy. This means that their operating income must be sufficient to cover the costs and risks of their activities.

The State's ownership policy sets profitability and cost-efficiency as the owner's objective. According to the policy, also those State-owned companies with specific functions must be profitable businesses.

Prerequisites for financially sustainable operations include identifying risks, pricing them correctly and keeping the ratio of risks to the company's risk-bearing capacity under control. Finnfund's financing is not grant or otherwise soft, although, in line with its strategy, Finnfund aims to make blended financing available for its projects.

The cost-efficiency of Finnfund's operations was assessed in 2018 by comparing the operating costs with the value of investment assets. Finnfund's profitability is primarily assessed in terms of return on equity. Due to the nature of the operations, return on equity may vary considerably from year to year, so return is examined over the long term as the average value in a five-year period. The debt-equity ratio is also examined.

The efficiency and profitability of operations is reported in detail in the Board of Directors' review of 2018, which is available in the annual report section of the financial statements.

	2018	2017	2016
Financial income (EUR million)	50.6	67.4	29.9
Net profit (EUR million)	2.1	2.0	0.3
Return on equity (%)	0.8	0.8	0.1
Equity ratio (%)	46.4	52.6	57.4
Equity ratio (%) 2/3 of the convertible state bond included	62.1		

Formulae

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

$$\text{Equity ratio 1} = \frac{\text{Equity}}{\text{Balance sheet total} - \text{advances received}} \times 100\ \%$$

$$\text{Equity ratio 2} = \frac{\text{Equity} + 2/3 \text{ convertible state bond}^{*}}{\text{Balance sheet total} - \text{advances received}} \times 100\ \%$$

*EUR 130 million / 3*2=EUR 86.666.666,67

Key figures

In calculating the key figures, Finnfund also presents the equity ratio assuming that 2/3 of the long-term convertible bond of EUR 130 million provided by the state is treated as equity.

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 2018 Annual Report.

Financial cash flows to stakeholders

Public sector, taxes

Finnfund is exempt from income tax under the Act on Income Tax (1535/1992), so it does not pay tax to the Finnish State. In its financial statements for 2018, Finnfund reported it had paid a total of EUR 14,493.26 in taxes.

These taxes consist of capital gains taxes paid in target countries, as well as compensation for work and taxation paid at source on dividends. The taxes are divided up as follows:

Country	Type of tax	EUR
India	Capital gains tax	661.53
Panama	Tax at source on dividends	12,371.80
Turkey	Tax at source on work compensation	1,459.93
TOTAL		14,493.26

Finnfund adopted a new tax policy at the beginning of 2018. It combines the principles and operating methods Finnfund uses to assess and promote the tax responsibility of its own operations and those of its investees.

The key principle of the policy is that taxes paid by project companies in their operating countries are one of Finnfund's development impacts. They help strengthen developing countries public sectors and their service provision to citizens. Finnfund's operations support the development of international tax regulations and the tax responsibility of the companies it finances.

In 2018, the tax structures of all new investments were evaluated according to the policy: the tax structure of the project company and group, and its compliance with Finnfund's tax policy is assessed in a separate tax memorandum which is appended to the memoranda by the internal risk classification group and the Board of Directors. In the event of any ambiguity, Finnfund's internal expert group gives its advice and, if necessary, external experts are also consulted.

Financing agreements increasingly include clauses whereby the project companies commit themselves to procedures in accordance with Finnfund's tax policy. Finnfund does not support aggressive tax planning that prevents the accumulation of tax revenue from profitable business activities in developing countries.

In line with its new tax policy, Finnfund also publishes the tax footprints of the projects it finances, with details for each country at portfolio level. The data is collected at the same time as other development impacts, so the data for 2018 will be available in autumn 2019. The report for 2017 is included in the publication, Development Results 2017.

Shareholders

The purpose of the company is not to earn profits for its shareholders, and it does not distribute its assets in the form of dividends or other profit-sharing to its owners.

Investments

By its nature, the company requires little investment in its own operations, with only some investment required in fixed assets.

In 2018, Finnfund made new investment commitments in its target countries in a total value of EUR 154 million. A total of 26 new commitments were made. The majority of these commitments – both in terms of quantity and monetary value – focused on the least developed countries.

Charitable grants and donations

Finnfund exercises restraint in issuing charitable grants and donations, and it does not engage in any activities that could be considered sponsorship. At Christmas time, Finnfund donated EUR 3,000 to the Finnish WWF for protecting rainforests and to the Women's Bank for promoting women's entrepreneurship and livelihoods in developing countries.

Reporting and accounting principles

Finnfund's financial statements and annual report are prepared in accordance with the Finnish Accounting Standards (FAS), following the income statement and balance sheet models for ordinary companies. Finnfund is not a credit institution as referred to in the Act on Credit Institutions (610/2014), nor does it use income statement and balance sheet models intended for credit institutions. Since 2013, the company has presented an illustrative calculation of its operating profit in its annual report.

The company's annual financial statements are published on the website as part of the annual report, after the annual general meeting

Income level	No. of decisions	%	EUR million	%
Least developed countries	15	58	71.9	47
Low-income countries	0	0	0	0
Lower-middle-income countries	9	35	64.5	42
Upper-middle-income countries	2	7	17.5	11
Russia	0	0	0	0
TOTAL	26	100	154.0	100

has adopted the financial statements. At the same time, the company publishes the reporting and accounting principles used for the financial statements, along with any changes that have occurred in these principles.

From the beginning of 2018, Finnfund switched to quarterly reporting. It reports on matters such as its financial performance in the same manner as other State-owned companies by sending quarterly reports to the Prime Minister's Office and the Ministry for Foreign Affairs, which is responsible for ownership steering. Interim reports are prepared quarterly but they are not audited or published.

From its investees Finnfund generally requires reports based on the International Financial Reporting Standards to ensure reliability and comparability.

In extraordinary circumstances, Finnfund may approve financial statements and other financial reporting that complies with local norms, unless there is cause to doubt the reliability of these or if it is considered justified in light of the status of the reporting company.

First Finance, Cambodia

Responsibility for people

Promoting human well-being and equality and respecting human rights are key principles of Finnfund's activities. Finnfund attaches great value to internationally recognised human rights, and respects and promotes them in everything it does.

Quality of jobs in investee companies

Finnfund evaluates the social responsibility and human rights impact of all its new investments before it makes a commitment. It monitors and evaluates the realisation of corporate responsibility using its own assessment tool and the International Finance Corporation's Performance Standards.

These standards include international human rights principles, such as labour rights and standards, the rights of vulnerable groups such as indigenous populations, consultation and inclusion of communities, and complaint mechanisms. A precondition of Finnfund's financing is that the investee commits to meeting applicable standards.

Human rights

Several Finnfund target countries are known to have human rights challenges. Finnfund understands that the projects it finances, and its own operations may have direct and indirect impacts on human rights.

Finnfund respects human rights and it is committed to complying with the UN Guiding Principles on Business and Human Rights, as well as the human rights based approach applied by the Ministry for Foreign Affairs of Finland. Assessment of human rights impacts is a key element in Finnfund's investment process. Finnfund actively strives to identify, prevent and mitigate any negative human rights impacts its own activities or the operations of its investees may have, and intervene by all the means available to it.

Human rights perspectives are also incorporated in Finnfund's environmental and social policy and EDFI's principles of responsible financing.

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

The key human rights aspects of each project are initially defined at an early stage in the project preparation process known as the decision in principle, where the preliminary information is

Promoting human well-being and equality and respecting human rights are key principles of Finnfund's activities

used to decide whether to begin more comprehensive preparation of the project.

After this, the assessment of human rights aspects is elaborated in conjunction with project-specific environmental and social responsibility assessments. Human rights assessments are conducted by environmental and social responsibility specialists or, if necessary, external specialists.

In 2018, Finnfund prepared a human rights policy, which was adopted at the end of the year. The policy is part of the environmental and social policy, and it aims to incorporate the UN Guiding Principles on Business and Human Rights more effectively throughout the life cycles of investments.

Finnfund is aware that the most severe potential human rights impact of its operations are most likely to arise via the operations of the companies it finances. At the same time, Finnfund is aware that human rights impacts may also be caused by the company's own activities as an employer or through the operations of the service providers and subcontractors it uses.

The policy was prepared in close cooperation with various stakeholders such as Finnish and international CSOs and other experts. At the same time, Finnfund continued developing its tools, processes and expertise related to human rights: Finnfund developed its set of criteria for identifying the human rights risk level of various projects and determining the required scope of human rights assessments before making a decision in principle.

Human rights assessments were made for new direct investment commitments, and the results and corrective measures were included in the action plans for the projects. Development work will continue in the coming years based on the internal development programme for the human rights policy in 2019 and 2020.

Read more [about the human rights policy and the implementation of the policy as part of the investment process].

Gender equality

Finnfund's mission is to promote economic and social development in developing countries. Promoting gender equality and, in particular, the status and rights of women and girls is crucial in achieving this.

In 2018, Finnfund began preparing gender equality statement. The policy will be incorporated into the environmental and social policy, and it is due for completion in 2019.

The fundamental idea is that Finnfund's potential to positively influence gender equality is particularly significant in its investment operations and, in practice, this often means promoting the status and rights of women as members of the work force, in their local communities or as consumers of products and services. In addition, Finnfund will also endeavour to follow best practices in building a responsible and equal working culture in its own organisation.

The statement will be prepared in close cooperation with various stakeholders such as CSOs and other experts. As part of the preparatory process, Finnfund held a discussion in autumn 2018 focusing on the consideration of groups in vulnerable positions and the promotion of equality. The event contributed to the human rights policy and the gender statement.

Finnfund also signed up to the Gender Finance Collaborative initiative, which was publicised in November 2018. The financial institutions involved in the initiative seek to promote investments that take into account gender equality and to work in the interest of having more financing available, offered more strategically among development financiers and private financiers.

Africado, Tanzania

Finnfund signed up to international initiative to empower women and girls

In November, Finnfund signed up to an international initiative of development financiers aiming to promote the position and rights of women and girls. Development finance institutions play an important role in guiding money towards improving gender equality, promoting women's leadership and financially empowering women around the world.

Finnfund and the other 14 development financiers that signed the commitment along with the European Investment Bank commit to promoting investments that take into account gender equality and to working in the interest of having more financing available, offered more strategically among development financiers and private financiers.

"Gender equality, promoting the status and rights of women and girls, is very important to Finnfund. That is why we aim to be at the forefront of this initiative, which seeks to strengthen the impact of development financing in terms of improving the lives and livelihoods of women and girls," says **Jaakko Kangasniemi**, Finnfund's Managing Director.

Read more about the initiative.

Corporate responsibility when developing digital financing services

Financial institutions are one of Finnfund's main sectors. Digital solutions play a key role in providing banking services to many people in developing countries who have not previously had access to them. The opportunity to transfer, deposit and borrow money makes the lives and activities of hundreds of millions of people and small enterprises much easier. At the same time, the risks related to digital lending have increased as some products in the market are overpriced and customers end up taking too much debt.

In June 2018, Finnfund signed the Guidelines for Responsible Digital Financial Services with more than 50 other investors and developers of financing solutions. The guidelines concern matters such as transparent pricing, open disclosure of terms and conditions to customers, as well as actions to prevent excessive indebtedness and strengthen information security.

Finnfund's own personnel

Finnfund is a responsible employer which encourages its personnel to continuously learn new things and develop professionally.

Human resources management

Finnfund's Management Team decides on the company's human resources policies, while the Director of Administration, the Human Resources Manager and supervisors take operational responsibility for their implementation. general guidelines concerning remuneration, incentive scheme and the remuneration for members of the Management Team are decided by the Board of Directors decides on the in compliance with the remuneration policies for State-owned companies.

The company's managerial and supervisory work has been improved and evaluated over several years. Finnfund conducts regular personnel surveys covering topics such as the quality of supervisory and managerial work. Efforts are made to respond appropriately and rapidly to the feedback received from personnel.

The supervisor training programme, which began in 2017 and was implemented in cooperation with external specialists, ended in late spring 2018. The aim was to improve supervisors' management competencies and ensure a consistent quality of managerial and supervisory work. Since the end of the programme, the training has continued in the form of more streamlined quarterly coaching sessions.

Human resource targets

Every year, Finnfund prepares a human resources and training plan for the year ahead using a collaborative method. Annual career and target discussions are held with every staff member to review, for example, the need for training, and to monitor the realisation of the previous year's targets and set new targets for the coming year.

Furthermore, development and planning days are set aside for the personnel to review topical themes and promote interaction between the personnel and management.

The Pulse survey, conducted three times a year, reveals the short-term changes in the personnel's impressions of the status of their work, their ability to cope with their work and the quality of supervisory work. Since 2018, the results have also been reported to the Board of Directors.

Finnfund systematically monitors the job satisfaction, number of sick days, and the frequency of accidents. Efforts are made to identify and rectify the causes for any negative changes, and to reinforce the underlying causes of positive changes.

Number and structure of personnel

At the end of 2018, the company employed 80 people, seven of whom worked for the Ministry for Foreign Affairs' Finnpartnership programme managed by Finnfund. The average number of personnel for the year as a whole was 75. All of the company's personnel work in Finland at the company's offices in Helsinki.

In 2018, there were no reductions in the number of personnel, nor were any other rationalisation measures taken. During the year, the number of personnel increased as planned. Six permanent employees left the company and 11 new ones started working at Finnfund. The outgoing turnover was 7.5 per cent and the incoming turnover was 13.8 per cent.

The duration of permanent employment relationships is distributed as follows:

0–1	2–5	6–10	11–15	16–20	21–25	26–30	31–34	35–40
10	34	14	10	4	1	3	2	2

The average duration of permanent employment relationships is eight years. The age structure of permanent personnel, divided into five-year bands, is as follows:

25–29	30–34	35–39	40–44	45–49	50–54	55–59	60+
5	14	16	14	5	12	10	4

The average age of employees is 43.

Finnfund systematically monitors the job satisfaction, number of sick days, and the frequency of accidents

In 2018, personnel expenses amounted to EUR 8.1 million, including pension and other personnel add-on costs, as well as voluntary personnel costs. The payroll total in 2017 was EUR 6.9 million.

Equality

At the end of 2018, Finnfund employed 53 women (52 at the end of 2017), accounting for approximately 66 per cent (68.4 per cent) of all employees. 27 (24) employees were men, equating to approximately 34 per cent (31.6 per cent).

Five (6) of members of the Board of Directors were women, equating to 62.5 per cent (75 per cent). Three (2) were men, equating to 37.5 per cent (25 per cent).

Two (2) members of the Management Team were women, equating to 40 per cent (40 per cent). Three (3) members of the Management Team were men, equating to 60 per cent (60 per cent).

Finnfund conducts an annual equality and non-discrimination survey among its personnel. It forms the basis for updating the company's equality and non-discrimination plan and helps identify practical measures to promote equality and non-discrimination.

The key goal of the equality and non-discrimination plan is to promote equality and non-discrimination, identify and eliminate structures that generate and maintain inequalities and enable men and women of different ages to have equal terms of employment, working conditions, equal distribution between different positions, equal training and career development opportunities, and remuneration on equal principles.

In 2018, Finnfund began preparing a gender statement. The aim of the statement is to define the principles by which Finnfund will promote gender equality in its investments and in its own activities. The policy is due for completion in 2019.

Remuneration

Finnfund's remuneration system has three components: the base salary, fringe benefits and short-term incentives.

Remuneration at Finnfund consists primarily of the fixed monthly salary, which is determined according to the complexity of the position and the employee's professional competence, interaction skills and performance. The complexity grades of employees are defined every few years and a salary comparison is performed annually with the help of an external consultant to evaluate the remuneration level of the market as a whole.

In 2018, all of the complexity grades of positions within the company were updated and both the grounds for the complexity grades and the categorisation of positions were presented first to the supervisors and thereafter to the entire personnel in summary.

The company has an incentive scheme, which covers every member of personnel except the Managing Director. Employees can earn a bonus of either 1.5 or two months' salary, depending on their position, for reaching the targets set annually. In 2018, the incentive scheme was based partly on the company's performance and partly on the fulfilment of personal targets.

In addition, individual employees can earn a personal bonus worth a maximum of 1.5 months' salary for excellent performance that clearly surpasses the targets. The Board of Directors decides on the incentive scheme and the key terms and conditions of the scheme annually in line with the applicable State ownership policy on remuneration.

In the 2018 financial statements, a provision was made for the cost of bonuses corresponding to approximately 10.2 per cent of remuneration costs.

Finnfund pays constant attention to its employees' occupational wellbeing, ability to cope with workload, and job satisfaction

Competence development and training

Training is one way for Finnfund to achieve its targets. Finnfund takes a positive approach to personnel training and continuous competence development: employees require a diverse range of competences in the fields of international finance and development. Learning on the job and working with experienced colleagues are important factors in developing professional capabilities.

All of Finnfund's personnel are covered by the annual career and target discussions. The discussions are held every spring, using a set of forms developed for this purpose. The set of forms was updated in 2018, and the new discussion framework will be used for the first time in spring 2019.

The discussion covers matters related to professional expertise, the quality of work, professional development and motivation. It also includes assessment of how goals for the previous year were met and setting new personal targets for the following year. They also give everyone the opportunity to give feedback on supervisors, either directly to the supervisors themselves, the supervisor's superiors or a representative of the human resources department.

All new employees are given orientation to the organisation and their duties as they begin work at Finnfund (induction training). Finnfund strives to constantly develop and maintain its employees' competences by offering topical, supplementary and language training. The company's training plan is reviewed annually using a collaborative method as part of the review of the personnel and training plan. The training requirements of individual employees are discussed by the employee and the supervisor annually at career and target discussions, which also include agreements on personal training plans if necessary.

In 2018, Finnfund started to pilot an exchange programme to support professional development. The programme provides analysts with the opportunity to work for a fixed period in Finnfund investee companies or other partners. During the year, one exchange period took place in Kenya and another exchange period began with another development financier.

Occupational wellbeing, health and safety

Finnfund pays constant attention to its employees' occupational wellbeing, ability to cope with workload, and job satisfaction. Finnfund conducts regular occupational wellbeing and job satisfaction surveys. In addition, feedback is frequently collected from personnel using various instant quick surveys and other methods.

The personnel also have the opportunity to discuss matters of occupational wellbeing and job satisfaction during career and target discussions and to give anonymous feedback via the company's intranet or Finnfund's website. It is also possible to discuss issues with external parties if necessary.

In 2018, the management of occupational wellbeing, health and safety was the responsibility of the Director of Administration together with the Human Resources Manager and the Chief Technology Officer, who acts as the occupational health and safety manager. Finnfund also has an occupational health and safety committee. The most significant safety risks in the workplace have been assessed as the safety of travel, health risks due to travelling and ergonomics.

In 2017 and 2018, special attention was paid to travel safety by reviewing existing safety guidelines, related procedures and the need for personnel training. In 2018, the policies, guidelines and procedures concerning travel safety were updated and the personnel were offered training.

The workplace risk assessment is updated periodically, and efforts are made to respond rapidly to any changes to the risk levels or any new risks that become apparent. Ergonomics assessments are also updated periodically in conjunction with personnel turnover and changes affecting workstations. Every employee has an electric height-adjustable desk to prevent the health hazards associated with too much sitting down.

In 2018, Finnfund was not made aware of any work-related accidents.

The number of days taken as sick-leave, the trend in absences and the known causes of absences are continuously monitored in collaboration with the occupational health care provider. Overall, the number of absences due to illness is at an ordinary level and annual changes in the number have been moderate.

Finnfund encourages its personnel to take care of their health and well-being by offering more extensive occupational health care services than the statutory minimum and by subsidising its personnel's sporting and cultural activities. The company has a model for providing early support when employees' working capacity is in jeopardy and a substance abuse programme for preventing and treating the effects of substance abuse.

In autumn 2018, new offices were designed for Finnfund in Ruoholahti, Helsinki, and the company will move in March 2019. The entire personnel will move to an open-plan office environment, but everyone will have their own work station. The employees have been able to participate in the designing of the new offices, and their wishes have been taken into consideration wherever possible.

The company is moving to open-plan premises with the aim of promoting openness, working together and interaction, which are key elements of the updated company culture. Good washing and changing facilities have also been designed for the new offices, along with bicycle storage spaces to enable employees to combine commuting with exercise.

New Forests, Africa

Responsibility for the environment

Investments that improve the environment and responsible management of environmental risks are at the core of Finnfund's investment operations. In particular, Finnfund's key goals include mitigating climate change and supporting adaptation to it.

Environmental responsibility in investments

When Finnfund assesses the environmental and social responsibility of projects, it complies with the World Bank Group's IFC's Environmental and Social Performance Standards and sector-specific guidelines. These set out good practices in areas such as emissions, waste handling, responsible use of water and promoting biodiversity. A precondition of Finnfund's financing is that the investee commits to meeting the standards that apply to it.

On top of that, many of the projects financed by Finnfund have sector-specific corporate responsibility standards, such as Forestry Stewardship Council (FSC®) certification for sustainable forest management.

Finnfund does not finance coal-fired power plants or hydroelectric power projects requiring major dams that cause substantial population displacement.

Climate change mitigation and adaptation

Finnfund's key goals include climate change mitigation and adaptation. Finnfund strives to finance projects that mitigate climate change by reducing greenhouse gas emissions or help in adapting to climate change. The company's strategy emphasises projects focusing on renewable energy and sustainable forestry and agriculture.

With support from external specialists, Finnfund has developed a tool for calculating carbon dioxide emissions in accordance with international standards. The tool is intended for use in conjunction with project development. Two versions have been created: one for renewable energy projects and the other for forestry projects.

The calculation tools enable Finnfund to calculate the expected gross carbon dioxide emissions of projects, as well as the net reduction in carbon dioxide emissions on projects seeking to cut emissions. The estimated net emission reductions have been calculated for the applicable energy and forestry projects since the beginning of 2015.

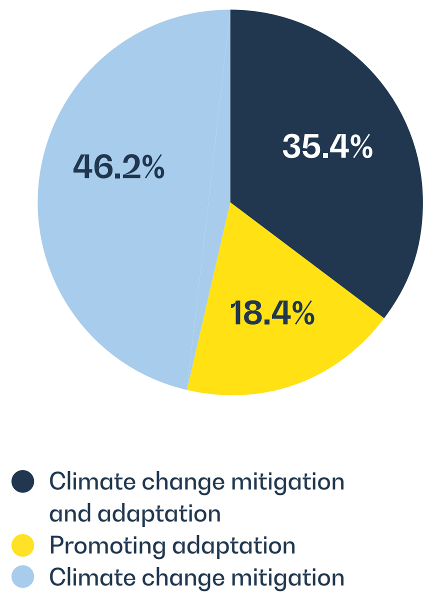
The tools were created by applying the guidelines issued by the Intergovernmental Panel on Climate Change (IPCC), the UNFCC Clean Development Mechanism (CDM) and the Greenhouse Gas Protocol. In addition, the calculation principles comply with the International Financial Institutions' harmonised greenhouse gas emission calculation instructions.

The new investment commitments made in 2018 are estimated to lead to emission reductions totalling 29,036,500 tonnes of CO2 equivalent over the entire terms of the investments.

This quantity can vary greatly from year to year depending on the types of investments and the sectors of investments in any given year.

In 2018, Finnfund completed the work that had begun in the preceding year to calculate the climate impact of the entire investment portfolio. The calculation was prepared in December and it covers the status for 2016. After this, the calculation will continue for subsequent years.

In 2018, Finnfund made disbursements of EUR 71.9 million to companies or funds that work to mitigate climate change or promote adaptation to climate change. In practice, this means clean energy generation, sustainable forestry or agricultural development. The distribution of financing between mitigation and adaptation is shown in the figure below.



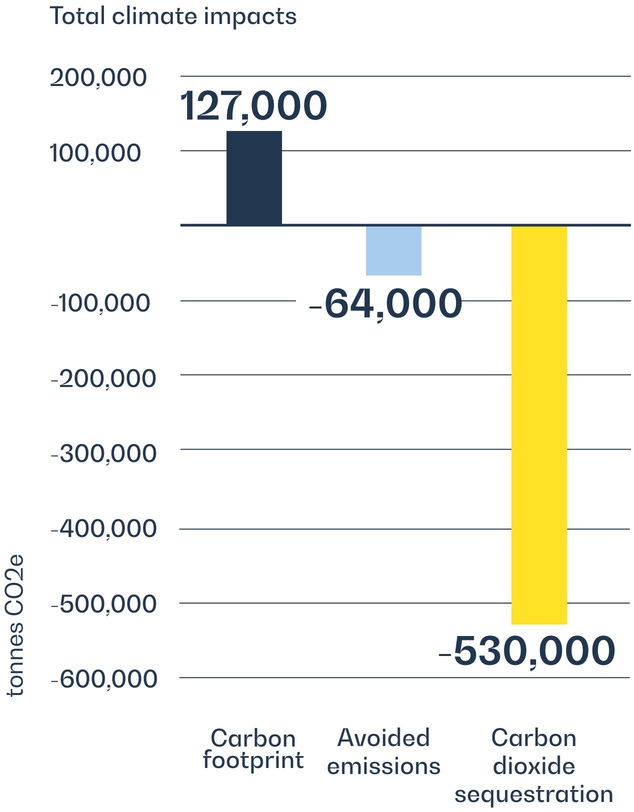
Finnfund calculated the climate impacts of its entire investment portfolio

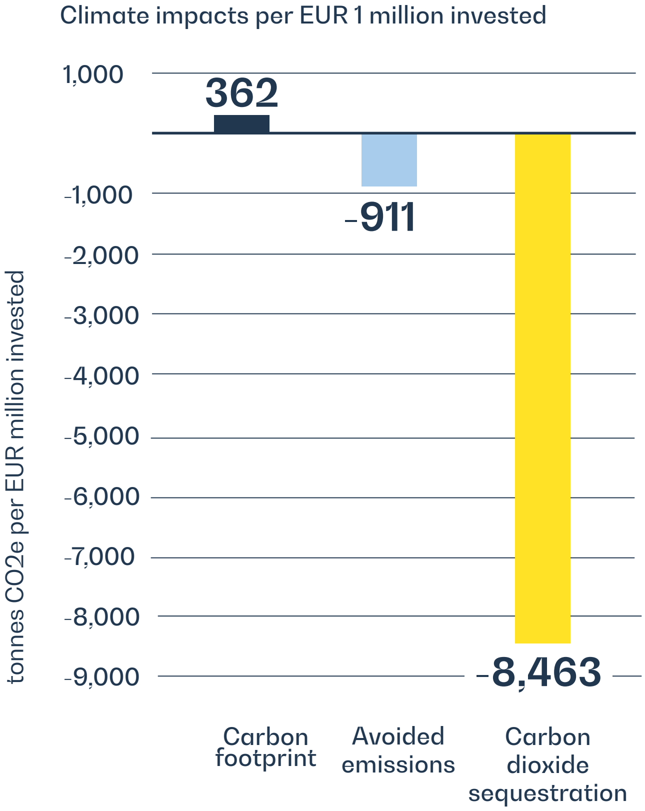
Finnfund has started annual calculation of the climate impacts of its entire investment portfolio. The calculation covers all investments (direct and indirect, new and old) in terms of the carbon footprint, avoided emission and carbon sequestration. A comprehensive calculation covering the entire investment portfolio makes it possible to examine and develop the portfolio on the basis of measurable quantitative data that can be monitored annually. The results based on the status in 2016 show that Finnfund's forest investment sequester more than half a million tonnes of carbon dioxide equivalent (CO2e) from the atmosphere. Finnfund's investments in clean energy avoid emissions of 64,000 t CO2e in developing countries. The carbon footprint of all investments – the sum of the emissions – is 127,000 t CO2e. The calculation takes into account Finnfund's share of the financing in each investment (attribution).

The calculation methodology was developed with the help of external specialists and it takes into consideration the international recommendations applying to the finance sector as well as the Greenhouse Gas Protocol guidelines. The calculation provides information on the carbon footprint, carbon binding and carbon dioxide emissions prevented by the entire portfolio.

Read more about calculating climate impacts.

Climate impact of Finnfund's investment portfolio 2016





Carbon footprint: Includes all direct and indirect investments, total EUR 351 million

Avoided emissions: Includes investments in renewable energy, total EUR 70 million

Carbon dioxide sequestration: Includes investments in plantation forests, total EUR 63 million

Finnfund's investments are a key part of Finland's official climate financing. Finnfund regularly reports to the Ministry for Foreign Affairs of Finland in line with the requirements of the Organisation for Economic Cooperation and Development (OECD) on projects that are significant in mitigating or adapting to climate change. Only equity investments are taken into consideration as official climate financing.

Environmental impacts of Finnfund's operations

Carbon footprint

Finnfund's operations require its staff to thoroughly familiarise themselves with investees and actively participate in management and monitoring of investments. This requires frequent visits to target countries, and these journeys give rise to greenhouse gas emissions. However, Finnfund is continuously developing its electronic tools and encouraging its personnel to use them actively and participate in events such as meetings via remote connections.

The company seeks to mitigate the greenhouse gas emissions arising from commuting by encouraging personnel to use public transport by offering the possibility of an employer-subsidised commuter ticket and partial teleworking.

In 2018, Finnfund completed the calculation of the climate impact of its entire investment portfolio. At the same time, the decision was taken to begin calculating the carbon footprint of Finnfund's operations in the following year.

Water, waste and energy savings

The company's operations consume small quantities of water and generate little waste. However, the company strives to improve the material efficiency of its operations by means such as reducing the consumption of office paper, promoting electronic document management and sorting waste, as well as by making use of energy-saving office equipment and lighting solutions.

In 2018, Finnfund prepared to move to new offices in Ruoholahti, Helsinki. The choice of location and design of the offices took account of the reduction of environmental impacts. As part of this work, Finnfund also decided to begin using the WWF's Green Office system, which enables better management of the environmental impacts of the company's operations.

Finnfund's investments are a key part of Finland's official climate financing

finnfund

Financial statements

Board of Director's report 2018
Mission and strategy extending to 2025

The Finnish Fund for Industrial Cooperation Ltd (FINNFUND) is a development finance company in which the Finnish State has a majority holding; with its special development policy mission, Finnfund falls under the administration of the Ministry for Foreign Affairs of Finland. The purpose of the company is to promote economic and social development in target countries by providing financing for private-sector projects involving Finnish interest.

Finnfund is a development financier, which builds a more sustainable world by investing in responsible, profitable businesses in developing countries. Finnfund works with private companies operating in developing countries, offering equity risk financing, long-term investment loans, mezzanine financing and specialist expertise related to investments in developing countries. We require every project to be profitable, environmentally and socially responsible, and generate measurable development impact in the target country.

In line with Finnfund's strategy extending to 2025, Finnfund's mission is to build a better world by financing responsible companies in developing countries. The company's vision is to be a valued partner and impact pioneer in European development financing.

All of Finnfund's operations are steered by four principles: impact, responsibility, profitability and professionalism

Finnfund emphasises sectors that are particularly important to sustainable development, including renewable and lower-emission energy generation, sustainable forestry, sustainable agriculture and the financial sector. The company may also finance other sectors.

The company's strategy emphasises the following:

- Achieving the development impacts of projects, and analysing and communicating impacts.
- Expanding investment volumes and allocating resources to responsible, impactful and profitable projects.
- Mobilising additional financing and convincing private investors of co-investment opportunities.
- Developing working methods with an appreciation for the work of company personnel and stakeholders.

All of Finnfund's operations are steered by four principles: impact, responsibility, profitability and professionalism.

In 2018, the Ministry for Foreign Affairs of Finland commissioned a comprehensive evaluation of Finnfund's operations, and the results and final report were published at the end of the year. The evaluation found Finnfund to be operating in accordance with its mission and meeting the owner's expectations and targets quite well.

The State budget for 2019, as approved by the Parliament, carries an authorisation to increase Finnfund's share capital by EUR 10 million and spend the so-called development policy investments for 2018 and 2019 on loans to Finnfund and the UN's International Fund for Agricultural Development (IFAD). In March 2019, the Minister for Foreign Trade and Development decided to lend EUR 50 million to IFAD, leaving EUR 210 million remaining.

Finnfund's strategy 2018–2025

Vision 2025

Valued partner and frontrunner in impact among European development finance institutions

Breakthroughs

Triple development impact
- Profitable and sustainable growth
- In project selection, emphasis on development impact, risk assessment and Finnish expertise
- Special focus on fragile states

Ensure sustainability
- Recognize and respond to sustainability challenges
- Show impact and responsibility
- Share our work, successes and challenges openly, honestly and proactively

Diversify funding base
- Convince owner of the need for additional funding
- Mobilise private funds to manage
- Successfully combine different financing instruments

Develop business culture
- Strengthen expertise and develop leadership
- Create an inspiring, stimulating and responsive working environment
- Bring processes, tools and working methods to frontrunner level

Strategy

Becoming frontrunner in impact

- Focus on delivering, analysing and communicating development impact of projects
- Double operational volume from 2018 level and be reliable partner in responsible, impactful and profitable investments
- Mobilise additional funding and convince private investors of our capacity to manage funds
- Improve policies and procedures while respecting the work of our colleagues and stakeholders

Principles

Impact, sustainability, profitability and professionalism

Mission

To build a better world by financing responsible companies that operate in developing countries

Funding and investments

The project development targets for 2018 (EUR 150 million and 20 projects) were relaxed slightly from the targets and realised volumes in 2017, when a record number of investment proposals was approved and, correspondingly, resources were reassigned to project monitoring and finalising the documentation for the previous year's projects. Reflecting the large number of decisions made in the previous year, investment assets continued to increase rapidly.

This year, the majority of Finnfund's new financing decisions were again allocated to projects with excellent development impact potential and a positive effect on climate change and poverty reduction.

In 2018, 26 (2017: 29) new financing commitments were made, amounting to a total of EUR 154 million (EUR 201 million). The targeting of financing decisions at various income levels is shown in the table below.

The majority – 14 (18) – of the financing decisions involved investment loans, accounting for about 60 per cent (62 per cent) of the monetary value of the decisions.

Nine (7) of the projects that were approved were equity investments or mezzanine financing, showing a slight increase over the previous year. However, in monetary terms, they accounted for a larger proportion – 25 per cent – of all approved projects, compared with 24 per cent in the previous year. Three new fund investment decisions were made, one of which was cancelled.

In terms of both number and value, the majority of the financing decisions concerned Africa, with 20 (9) decisions. Africa was also the most popular target area in monetary terms, with 67 per cent (31 per cent) of the financing. The monetary value was lower for Asia compared with the previous year, constituting 7 per cent (28 per cent) of the total value of commitments. The projects were evenly distributed among different countries, with four commitments for Kenya (one commitment in 2017), and two for Nigeria (one in 2017), Somalia (one of which was cancelled, no commitments in 2017) and Uganda (no commitments in

New investment decisions by country category

Income level	No. of decisions	%	EUR million	%
Least developed countries	15	58	71.9	47
Low-income countries	0	0	0	0
Lower-middle-income countries	9	35	64.5	42
Upper-middle-income countries	2	7	17.5	11
Russia	0	0	0	0
TOTAL	26	100	154	100

Investment assets continued to increase rapidly

2017), while the rest of the countries received one commitment.

Disbursements continued to increase, amounting to EUR 135 million (EUR 114 million). This amount was by far the highest in Finnfund's history. EUR 39 million (EUR 66 million) of the amount paid out was allocated to low-income countries or the least developed countries, EUR 79 million (EUR 15 million) to lower-middle income countries and EUR 17 million (EUR 33 million) to upper-middle income countries.

Of the disbursements during the 2018 financial year, EUR 43.6 million (EUR 21.7 million) is considered official development assistance (ODA) by the Finnish State.

The amount of undisbursed commitments at the end of 2018 totalled EUR 154 million (EUR 178 million). In addition, EUR 95 million (EUR 98 million) was tied up in investment commitments that had not yet progressed to the agreement stage.

Development and priorities

In 2018, the execution of Finnfund's strategy featured strongly in all areas of the company's operations. The company was managed, the personnel were set targets and all of the operations were planned and steered with a stronger focus on the strategy. The company's operations are monitored and reported on internally and externally in line with the four areas defined in the strategy as breakthroughs (multiplying our impact threefold, ensuring responsibility, extending our financing base and revamping our company culture).

In 2018, Finnfund commissioned three impact analyses of projects it had financed: The impact of Finnfund's renewable energy projects on employment and economic growth in Honduras and Cape Verde, and the impact of the construction of the Lake Turkana Wind Power project on the local community.

In 2018, preparation began on two public policy statements: the human rights statement and the gender statement. Representatives of civil society and other key stakeholders and experts were consulted during the preparation of these statements in the same way as for the tax policy, which was prepared in the previous year. The human rights statement was adopted and published at the end of the year. The statement concerning gender equality will be adopted and published in the first half of 2019. The practical implementation of the tax policy continued, and the related tools were further developed in the year under review.

In 2018, Finnfund's communications were strengthened, transparency was enhanced and the external appearance was revamped. A new Communications Director was appointed at the beginning of 2018, and the company's external communications and stakeholder work were systematically strengthened throughout the year. The company's new website was opened in the late spring and the new visual appearance was adopted in all of Finnfund's communications.

As in the preceding year, Finnfund's projects and operations attracted a great deal of interest but there was substantially less negative publicity around the company.

In 2018, the company opened dialogue with the European Commission on conducting a pillar assessment. An application for the assessment of Finnfund's eligibility was submitted to the European Commission in late 2018. The pillar assessment and the organisational and operational development measures specified in conjunction with the assessment will be implemented in 2019, after which Finnfund will be able to administer and channel EU funding or guarantees to its projects.

In 2018, the company decided to move to renovated offices in Ruoholahti, Helsinki, near the other entities in Team Finland. The office was designed together with the personnel and external advisors with the aim of strengthening the company culture in line with the strategy by offering opportunities for a more open working environment that supports teamwork. Finnfund will move to its new office in March 2019.

A coaching programme for supervisors and managers began in the preceding year and reached its conclusion in spring 2018, and the organisation switched to a quarterly training programme for supervisors and senior managers focusing on topical issues. Supervisors and senior managers receive continuous training with the aim of permanently developing the quality of management while reinforcing the implementation of the strategy with consistent operating methods.

During the year under review, work continued on the development of Finnfund's IT infrastructure and system environment, as well as further development of the customer relationship management and enterprise resource management system and the document management system, which were deployed in 2016 and 2017. In addition, the new reporting environment was completed from a technical perspective in the year under review, but content development and system integration will continue in 2019.

Finnfund commissioned an external evaluation i.a. of Cabeólica wind farm in Cape Verde

The Finnpartnership programme

Finnpartnership is a business partnership programme financed by the Ministry for Foreign Affairs of Finland and managed by Finnfund on the basis of a contract. Finnpartnership aims to promote sustainable development by establishing long-term company collaboration with positive development impacts.

For Finnpartnership, 2018 was a successful year in many ways. The activities and organisation of the programme underwent substantial additional development, which raised awareness of Finnpartnership and boosted demand for its services in Finland and internationally.

In the review year, Finnpartnership carried out a Somalia pilot project offering registered Finnish companies a more comprehensive matchmaking service. The service sought to identify suitable partners in Somalia and guide discussions about the potential for collaboration between the parties to a more tangible level. The pilot project ended in January 2019 with a financing seminar that was held in Mogadishu, Somalia, and attended by 90 people from Finland and Somalia. A total of 19 collaboration initiatives came to fruition. Cooperation with the Somalian diaspora in Finland played a major part in the pilot project's success.

In addition to the Somalia pilot project, Finnpartnership arranged a total of 12 (12) Doing Business with Finland (DBF) seminars, which were held in Uzbekistan, Kenya, Zambia, Botswana, Namibia, Rwanda, South Africa (two seminars), Kosovo, Macedonia and Malaysia (two seminars). The seminars were highly popular and they enabled several potential business partnerships to be formed between Finland and developing countries.

In 2018, a total of 145 (163) business partnership grant applications were received. Of these, 82 (121) applications were accepted. Grants were issued in a total amount of EUR 5.0 million (EUR 5.4 million). Business partnership grants were paid out to 95 (106) projects in a total amount of EUR 2.4 million (EUR 2.4 million).

A total of 250 (230) companies were either registered on the public database or proposed to Finnish companies via the matchmaking service in 2018. In 2018, a total of 310 (88) new business partnership connections were opened between Finnish companies and companies based in developing countries.

In autumn 2018, the Ministry for Foreign Affairs of Finland announced its intention to execute the continuation option based on the administration agreement, so Finnfund will continue to administer Finnpartnership from 2019 to 2021.

Risk management

The Finnfund Board of Directors confirms the company's risk management principles and instruments. The company's management is responsible for the practical implementation of risk management on the basis of the guidelines confirmed by the Board of Directors. The company's asset and risk management guidelines are assessed annually. No major changes were made to the management principles in 2018.

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. If the risk classification becomes weaker, the project's balance sheet value will be impaired and, conversely, if the risk classification becomes stronger, previous impairments will be reversed. The trends affecting projects identified as high-risk are monitored closely and measures to mitigate the risks to Finnfund are initiated if deemed necessary.

From 2012 to 2015, Finnfund had access to a special risk financing instrument worth a total of EUR 50 million. In September 2018, the Finnish State decided to bring back the special risk financing instrument in a total value of EUR 75 million. The instrument is valid from 2018 to 2023 for the purpose of distributing investment risks between the Finnish State and Finnfund. The instrument also covers a previous loss compensation commitment worth EUR 50 million, so the amount of the contingency increased by EUR 25 million.

Special risk financing is provided on the basis of a loss compensation commitment, whereby the State undertakes to compensate Finnfund for a maximum of 60 per cent of credit losses and investment losses on projects covered by special risk financing during the validity of the commitment. No new projects covered by special risk financing can be accepted after 31 December 2023. Projects that are approved for coverage by the special risk financing scheme while it is valid are covered by the Finnish State's risk-sharing arrangement until the projects are repaid, Finnfund exits the project or until the risk level has decreased to a level for which Finnfund can be liable on its own balance sheet. To be eligible for special risk financing, projects are required to have an extremely high developmental impact in low-income or lower-middle-income countries and carry risks that are otherwise considered too high for the project to qualify for Finnfund financing.

Special risk financing grew to EUR 75 million

At the end of 2018, projects worth a total of EUR 122.1 million were covered by special risk financing. The Finnish State is liable for 50.1 per cent of the related risks, amounting to EUR 61.2 million. The loss compensation commitment covers a maximum of EUR 7.5 million in compensation per year. No compensation had been applied for by the end of 2018.

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.

The general rule for share capital and fund investments, 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 with Nordic banks, and a commercial paper programme totalling EUR 300 million. The credit facilities provided by banks were not in use at the end of 2018.

At the end of 2018, the value of the commercial paper issued through the programme amounted to EUR 20 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 3.0 years (3.1 years) if the convertible bond granted by the State is not included in calculations, and 12.2 years if the State loan is included.

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

Net profit and balance sheet

In 2018, Finnfund made a profit of approximately EUR 2.1 million (approximately EUR 2.0 million). The profit was similar to the previous year and corresponds to the budgeted level.

The operating income is shown in the table below. Income from financing activities stood at EUR 18.4 million (EUR 16.0 million) and the net profit before value adjustment items, sales and taxes was EUR 6.5 million (EUR 5.7 million).

Income

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

Dividend income amounted to EUR 0.8 million (EUR 6.2 million) and dividends were received from three companies.

Interest income from investment loans came to EUR 21.1 million (EUR 13.2 million), and other interest income was EUR 0.1 million (EUR 0.2 million).

Operating income (EUR thousand)	2018	2017	Change (EUR)	Change %
Financial income	29,236	24,580	4,656	19
Financial expenses	-10,851	-8,568	-2,283	27
Income from financing activities	18,385	16,012	2,373	15
Other operating income	1,471	1,538	-67	-4
Administrative expenses, depreciation and other expenses	-13,350	-11,838	-1,512	13
Profit before value adjustments, sales and taxesa	6,506	5,712	794	14
Value adjustments and sales	-4,373	-3,147	-1,226	39
Income taxes	-15	-572	-557	6
NET PROFIT	2,118	1,993	125	6

Interest income totalled EUR 21.2 million (EUR 13.4 million). Other interest income mainly consisted of interest income from liquid assets.

Other income from long-term investments amounted to EUR 5.6 million (EUR 2.4 million), consisting of gains from fund investments. Capital gains from investments of EUR 3.6 million (EUR 11.9 million) were recorded as income.

Other financial income excluding foreign exchange gains, at EUR 1.7 million (EUR 2.6 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 32.8 million (EUR 36.3 million).

Foreign exchange gains amounted to EUR 17.7 million (EUR 31.0 million) and losses to EUR 17.8 million (EUR 32 million). The foreign exchange difference was EUR 0.1 million negative.

Other operating income amounted to EUR 1.5 million (EUR 1.5 million) and this comprised fees received for the administration of the Finnpartnership programme and other income from fees and charges.

Impairment losses

Newly recognised individual impairment losses amounted to EUR 13.1 million (EUR 14.7 million), representing about 2.6 per cent (3.7 per cent) of the balance sheet value of investment assets at the end of the year under review.

Reversals of previously recognised individual impairment losses amounted to EUR 6.0 million (EUR 5.5 million) in 2018. Of this sum, EUR 2.3 million was recognised as final losses in the financial statements, where the sum had previously been recognised as impairment losses.

The net effect of impairments on financial performance was approximately EUR -7.1 million (EUR 9.2 million).

Expenses

Interest expenses increased from the previous year's figure to EUR 6.8 million (EUR 3.9 million). Derivatives accounted for EUR 4.5 million (EUR 2.3 million) of the realised interest expenses. The increase was due to higher interest rates denominated in US dollars and an increase in liabilities. Interest expenses were incurred through borrowing in both US dollars and euros.

Other financial expenses were EUR 4.0 million (EUR 3.7 million), including management fees of EUR 3.7 million (EUR 2.6 million) associated with fund investments.

Investment and sale losses amounted to EUR 0.9 million (EUR 5.8 million), which is attributable to previously recognised individual impairment losses.

Administrative expenses totalled EUR 13.4 million (EUR 11.8 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.

The taxes recognised on the income statement, totalling EUR 15,000 (EUR 600,000), consist of both sales gains taxes paid to the target countries and taxes on remuneration for work and on dividends.

Balance sheet

The balance sheet total stood at EUR 553.9 million (EUR 463.7 million) at the end of the year under review.

The balance sheet value of investment assets was EUR 494.2 million (EUR 393.3 million) at the end of the year under review.

The breakdown of investment assets was as follows: loans (including subordinated loans and other mezzanine instruments) EUR 295.9 million (EUR 221.5 million) or 59.9 per cent (56.3 per cent); equity investments EUR 120.0 million (EUR 105.1 million) or 24.3 per cent (26.7 per cent); and fund investments EUR 78.3 million (EUR 66.7 million) or 15.8 per cent (17.0 per cent).

Liquid assets stood at EUR 46.2 million (EUR 45.8 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 unrestricted equity) totalled EUR 257.2 million (EUR 244.1 million) or 46 per cent of the balance-sheet total (53 per cent).

In 2018, the company executed one share issue. Under 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 from 25 April to 5 June 2018. As a result of the share issue, the share capital was increased by EUR 9,999,910, corresponding to the proportion subscribed by the Finnish State. 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 year under review, the company's registered share capital stood at EUR 186,988,950, divided between 1,099,935 shares, with the Finnish State holding 1,035,365 shares (94.1 per cent), Finnvera Plc holding 63,349 shares (5.8 per cent), and the Confederation of Finnish Industries EK holding the remaining 1,221 shares (0.1 per cent).

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

At the end of 2016, Finnfund signed an agreement with State Treasury on a subordinate convertible bond 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 equity 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 is recorded in the company's invested unrestricted equity fund.

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 262.4 million (EUR 149.7 million) and short-term interest-bearing debt at EUR 29.3 million (EUR 63.7 million), totalling EUR 291.7 million (EUR 213.4 million).

Long-term interest-bearing debt includes the EUR 100 million bond issued in summer 2017, as well as the long-term convertible bond of EUR 130 million granted by the State. 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 90 per cent (70 per cent) at the end of the period.

The company had no guarantee commitments at the end of 2018 (EUR 0.0 million).

Key figures	2018	2017	2016
Financial income (EUR million)	50.6	67.4	29.9
Net profit (EUR million)	2.1	2.0	0.3
Return on equity (%)	0.8	0.8	0.1
Equity ratio (%)	46.4	52.6	57.4

Formulae

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

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

Administration and personnel

In 2018, the Supervisory Board convened 4 times, the Board of Directors convened 15 times, and the audit committee of the Board of Directors convened 6 times.

The Annual General Meeting, held on 25 April 2018, 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.

The Annual General Meeting elected the following members to the Supervisory Board for the period from 2018 to 2021: Johanna Kotaviita (Member of Parliament), Aila Paloniemi (Member of Parliament), Erkki Tuomioja (Member of Parliament) and Petri Vuorio (Director). Anne-Mari Virolainen (Member of Parliament) resigned from the Supervisory Board, and Lenita Toivakka (Member of Parliament) was elected to replace her for the remainder of the current term, which will end at the Annual General Meeting to be held in spring 2020.

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

Ritva Laukkanen (Board Professional), Chair
Sinikka Antila (Ambassador, Senior Advisor on Trade and Development), Vice Chair
Tuukka Andersén (Director of Finance)
Kristiina Kuvaja-Xanthopoulos (Deputy Director General)
Pirita Mikkanen (Director)
Lars-Erik Schöring (CEO)
Antero Toivainen (Director of International Tax Affairs)
Tuula Ylhäinen (CFO)

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

The Board of Directors has an audit committee, with the following members since 25 April 2018:

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

The company's auditor is Deloitte Oy, with *Anu Servo* (Authorised Public Accountant and Chartered Public Finance Auditor), as the principal auditor.

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

During the year under review, the company employed an average of 75 personnel (71 personnel in 2017). At year-end, the number of employees in contractual employment was 80 (76), of whom 77 (70) were full-time. Of the employees, 53 were women and 27 were men.

The total salaries and bonuses paid to personnel in 2016–2018 were as follows:

	2018	2017	2016
Average number of personnel	75	71	60
Total salaries and bonuses (EUR thousand)	6,865	6,131	4,784

The final accounts include a provision for incentive bonuses earned in 2018, amounting to 10.2 per cent of payroll expenses (8.2 per cent). In 2018, the amount of incentives was partly based on the achievement of common targets and partly based on individual performance.

The Board of Directors decides on the incentive system and its key criteria annually. The company's remuneration follows the remuneration guidelines applying to state-owned companies.

Outlook and strategic direction for 2019

An evaluation commissioned by the Ministry for Foreign Affairs of Finland in 2018 found that Finnfund has succeeded in shifting the focus of its operations to the poorest countries without compromising on developmental impact and profitability. In line with its strategy, Finnfund will continue with this policy, doubling its volumes and tripling its development impact by 2025. The evaluation found this target to be ambitious but achievable. However, it will require additional resources. In 2019, the strategy will be updated to take into consideration the recommendations of the evaluation and the financing decisions made by the state owner.

A record number of investment proposals was approved in 2017 and, for this reason, the project preparation target for 2018 was relaxed slightly and resources were reallocated towards project monitoring and finalising the documentation for the preceding year's projects. In 2019, the company will return to strong growth in terms of investment decisions, while focusing on its impact targets. Work will continue to safeguard the company's financing opportunities. A key assumption is the realisation of the long-term loan that is being prepared by the Ministry for Foreign Affairs of Finland and that was included in the budget approved in 2018.

Liquidity is expected to remain good in 2019. If the desired additional resources do not materialise in 2019, the company will adapt its operations accordingly while ensuring that it is able to discharge its commitments under all circumstances.

The project preparation policy will more strongly favour projects that are expected to have very positive development impacts, including those that are known to be laborious. The adoption of the special risk financing instrument and the increase in authority over the prior state will offer a good opportunity for this. The evaluation and reporting of development impacts and risks will be strengthened and clarified during the initial phase of project selection as well as in project monitoring. The policy on environmental and social responsibility will be updated so as to highlight factors such as mitigating and adapting to climate change. Improving the status of women will be emphasised as a factor in project selection, preparation, financing proposals, monitoring and reporting. The implementation of the human rights policy will be improved. Profitability measurement, monitoring and reporting will be expanded as these are important aspects in terms of the sustainability of impacts.

In 2019, Finnfund will report on its operations and results more frequently and more openly. Discourse will also be actively pursued with stakeholders who are not yet familiar with Finnfund or the role of company operations in development policy.

The earnings prospects for 2019 are moderate because the value of loans issued by the company has increased and it is expected to continue along this trend. The company's financial performance will be crucially affected by how the measurement of its investment assets changes during the financial period and whether any profitable exits from projects occur. Although these tend to be difficult to predict in development finance, the outlook is positive, even based on cautious assumptions.

Proposal of the Board of Directors for the distribution of profit

The company recorded a profit of EUR 2,118,277.42 in 2018. The Board of Directors proposes that the profit be transferred to the retained earnings account and set aside for disbursement in accordance with Article 2 of the Articles of Association.

Profit and loss account

EUR 1 000

	Note	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Other operating income	1	1 471	1,538
Staff expenses	2		
Wages and salaries	3	-6,865	-6,131
Social security expenses			
Pension expenses		-1,161	-1,062
Other social security expenses		-110	-386
Social security expenses		-1,270	-1,448
Staff expenses		-8,135	-7,579
Depreciation according to plan	4	-96	-121
Other operating expenses	5, 6	-5,120	-4,138
OPERATING LOSS		**-11,880**	**-10,300**
Financial income			
Income from participating interests		4,423	12,981
Income from other investments		5,736	7,912
Other interest and financial income		40,404	46,496
Financial income total		50,562	67,390
Reduction in value of investments		-7,105	-9,239
Financial expenses			
Interest and other financial expenses		-29,445	-45,286
Financial income and expenses	7	14,013	12,865
PROFIT BEFORE TAXES		**2,133**	**2,565**
Income taxes	8	-14	-572
PROFIT FOR THE FINANCIAL YEAR		**2,118**	**1,993**

Balance sheet
EUR 1 000

ASSETS NON-CURRENT ASSETS	Note	31 Dec. 2018	31 Dec. 2017
Intangible and tangible assets	9		
Other capitalised long-term expenditure		35	21
Machinery and equipment		10	77
Total		45	98
Investments	10		
Participating interests		63,557	56,707
Receivables from participating interest	11	16,263	20,948
Other shares and similar rights of ownership		134,704	115,124
Other receivables	11	279,669	200,558
Total		494,194	393,336
NON-CURRENT ASSETS		**494,238**	**393,435**
CURRENT ASSETS			
Debtors			
Long-term	12		
Other long-term debtors		3,293	7,545
Short-term			
Amounts owned by participating interest undertakings	13	23	411
Other receivables		412	444
Prepayments and accrued income	14	9,717	16,145
Total		10,152	17,000
Debtors total		13,445	24,545
Financial securities	15		
Marketable securities		11,423	11,407
Cash in hand and at banks		34,824	34,361
CURRENT ASSETS		**59,691**	**70,313**
ASSETS		**553,930**	**463,748**

	Note	31 Dec. 2018	31 Dec. 2017
LIABILITIES			
EQUITY	16, 17		
Share capital		186,989	176,989
Retained earnings		68,127	65,111
Profit for the financial year		2,118	1,993
EQUITY		**257,234**	**244,094**
CREDITORS			
Long-term	18, 19		
Private placement		99,781	99,719
Convertible loans		130,000	10,000
Loans from credit institutions		32,606	40,023
Other long-term creditors		307	262
Total		262,694	150,005
Short-term	20		
Loans from credit institutions		29,315	63,669
Trade creditors		269	400
Other creditors		751	2,584
Accruals and deferred income	21	3,666	2,996
Total		34,002	69,650
CREDITORS		**296,696**	**219,654**
LIABILITIES		**553,930**	**463,748**

Cash flow statement
EUR 1 000

CASH FLOW FROM OPERATIONS	2018	2017
Payments received from operations	58,614	41,851
Disbursements to operations	-134,607	-114,062
Dividends received	1,101	6,116
Interest received	13,074	10,975
Interest paid	-6,294	-1,602
Payments received on other operating income	3,565	3,323
Payments of operating expenses	-17,370	-17,005
CASH FLOW FROM OPERATIONS (A)	**-81,917**	**-70,404**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-42	0
Proceeds from assets sold	0	0
CASH FLOW FROM INVESTMENTS (B)	**-42**	**0**
CASH FLOW FROM FINANCING		
Short-term loans drawn	20,000	6,999
Short-term loans repaid	-6,999	-54,981
Long-term loans drawn	120,000	109,687
Long-term loans repaid	-56,671	-5,059
New share issue	10,000	9,999
CASH FLOW FROM FINANCING (C)	**86,330**	**66,645**
CHANGES IN EXCHANGE RATES (D)	**-3,909**	**4,920**
CHANGE IN LIQUID ASSETS (A+B+C+D) increase (+) decrease (-)	**462**	**1,161**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**45,360**	**44,199**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**45,822**	**45,360**
	462	**1,161**

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 situation 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. Errors in the previous financial year have been adjusted to increase free equity and, respectively, fixed assets by EUR 580,288.73.

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 or decided on 20 September 2018 and in force until 31 December 2023, 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 are 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 7,5 million annually.

Other investments in current assets

Securities have been valued at lower of the acquisition cost or estimated market value.

Derivatives

Derivatives are presented in the financial statements in accordance with the fair value principle according to the IFRS standards. 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). 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 except for machinery and equipment for the new office premises. Depreciation on the machinery and equipment of the new premises will be recorded from 2019, when the proprietary rights will be transferred to the company.

Planned depreciations:

Other capitalised long-term expenses	3–7 years
Machinery and equipment	3–5 years

Pensions

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

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

Notes to the profit and loss account
EUR 1000

	2018	2017
1 Other operating income		
Operating income from participating interests	7	54
Remunerations	377	759
Other operating income	1,087	724
	1,471	**1,538**
2 Average number of staff employed		
Employees	75	71
3 Wages and salaries		
Managing Director and his alternate	396	365
The Board of Directors and the Supervisory Board	121	130
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	18	19
Machinery and equipment	77	102
	96	**121**
5 Other operating charges		
Voluntary staff expenses	631	546
Office	649	440
ICT	653	584
Travel and negotiation expenses	1,019	927
Entertainment and PR expenses	383	158
* including support to community projects in Honduras		

External services	1,408	1,040
Other expenses	378	444
	5,120	**4,138**
6 Auditor's remunerations		
Audit fee	14	9
Assignments	1	0
Tax services	0	6
Other services	9	73
	24	**88**
7 Financial income and expenses		
Financial income		
Income from participating interests		
Dividends	279	5,854
Income from funds	762	0
Profit from sales of assets	3,208	6,653
From others	174	475
Income from participating interests	4,423	12,981
Income from other investments		
Dividends	479	329
From funds	4,817	2,385
Profits from investments and sales assets	439	5,198
Income from other investments	5,736	7,912
Other interest and financial income		
Interest income	18,518	13,128
Interest income from participating interests	2,710	330
Financial income	1,439	2,065
Financial income from participating interests	57	14
Exchange rate gain	17,679	30,960
Other interest and financial income	**40,404**	**46,496**
Financial income total	**50,562**	**67,390**
Permanent write-offs of investments and their reversals		
Equity and funds	-9,351	-7,602
Loans and other receivables	-3,743	-7,144
Reversal of write-offs on shares and fund investments	4,972	3,531
Reversal of write-offs on loans	1,017	1,976
Write-offs of investments and their reversals	**-7,105**	**-9,239**

Interest and other financial expenses		
Interest expenses to others	-6,751	-3,903
Other financial expenses	-4,004	-3,650
Loss from investments, funds and sales of assets	-915	-5,758
Exchange rate loss	-17,775	-31,974
Interest and other financial expenses total	**-29,445**	**-45,286**
Financial income and expenses total	**14,013**	**12,865**
The item Financing income and expenses includes loss of exchange (net)	**-96**	**-1 015**
7 Income from financing operations by income level		
(does not include income from EU territory, liquidity and funding)		
Least developed countries (LDC)	18,307	17,828
Other low-income countries (LIC)	5,983	3,611
Lower-middle-income countries (LMIC)	15,744	32,090
Upper-middle-income countries (UMIC)	6,033	12,396
Russia	3,354	283
	49,420	**66,208**
8 Income taxes		
Tax on capital gains outside Finland	1	570
Withholding taxes on emoluments	1	2
Withholding taxes on dividends	12	0
	14	**572**

Notes to the balance sheet
EUR 1000

9 Intangible and tangible assets	Other long-term expenses	Machinery and equipment	Total
Acquisition cost 1 Jan. 2018	1,141	2,075	3,216
Increases	32	10	42
Acquisition cost 31 Dec. 2018	1,173	2,085	3,258
Accumulated depreciations 1 Jan. 2018	-1,120	-1,998	-3,118
Depreciation of the accounting period	-18	-77	-96
Accumulated depreciations 31 Dec. 2018	-1,138	-2,075	-3,214
Book value 31 Dec. 2018	**35**	**10**	**45**
Book value 31 Dec. 2017	21	77	98

10 Investments / Shares and funds	Participating interests	Others	Total
Acquisition cost 1 Jan. 2018	66,619	129,089	195,708
Adjustments to transfers to funds recorded during the previous year	0	580	580
Increases	11,751	22,620	34,371
Transfer between items	7,500	0	7,500
Decreases	-8,967	-2,674	-11,641
Acquisition cost 31 Dec. 2018	76,903	149,615	226,519
Individual write-offs accumulated as of 1 Jan. 2018	-9,912	-13,965	-23,878
Reversal of write-offs	1,301	3,670	4,972
Write-offs during the financial year	-4,735	-4,616	-9,351
Individual write-offs accumulated as of 31 Dec. 2018	-13,346	-14,911	-28,257
Book value 31 Dec. 2018	**63,557**	**134,704**	**198,262**

10 Investments / Loans	Participating interests	Others	Total
Acquisition cost 1 Jan. 2018	23,850	221,969	245,819
Increases	7,456	107,746	115,202
Capitalised interest	2,003	1,080	3,083
Transfer between items	-7,298	0	-7,298
Decreases	-6,298	-27,532	-33,830
Acquisition cost 31 Dec. 2018	19,713	303,262	322,975
Individual write-offs accumulated as of 1 Jan. 2018	-2,902	-21,411	-24,313

Reversal of write-offs	166	848	1 014
Write-offs during the financial year	-715	-3,030	-3,744
Individual write-offs accumulated as of 31 Dec. 2018	-3,450	-23,593	-27,043
Book value 31 Dec. 2018	**16,263**	**279,669**	**295,932**

	2018	2017
11 Subordinated receivables		
Capital loans to participating interests	16,263	20,948
Capital loans to others	23,010	17,595
	39,273	**38,543**
12 Other long-term receivables		
Acquisition cost 1 January 2018	1,340	
Deductions	-1	
Acquisition cost 31 December 2018	1,339	
Impairment losses	-670	
Book value 31 December 2018	669	
Derivative receivables	2,625	
	3,293	
13 Receivables from participating interests		
Interests	2	56
Other	21	73
Dividends	0	282
	23	**411**
14 Prepayments and accrued income		
Prepayment for account of a company to be established	900	0
Interests	7,734	3,308
Other	1,083	1,594
Receivable from sale of investment	0	11,243
	9,717	**16,145**
15 Marketable securities		
Fair value	11,685	11,663
Book value	11,423	11,407
DIFFERENCE	**263**	**255**
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.		

Restricted equity		
Share capital 1 Jan.	176,989	166,989
Increase of share capital	10,000	10,000
Share capital as of 31 Dec.	186,989	176,989
Unrestrected equity		
Profit from previous financial years 1 Jan.	67,105	65,899
Adjustments to interest and fund entries made in the previous year, refund of sales tax on capital gains from India in 2011-2012	1,022	-787
Retained earnings 31 Dec.	68,127	65,111
Profit/loss for the financial year	2,118	1,993
	70,245	67,105
	257,234	**244,094**
17 Share capital		
Number of shares	1,099,935	1,041,112
Nominal value, EUR	170,00	170,00
18 Loans with maturity more than 5 years		
Loans from credit institutions	32,606	33,353
Loans from government	130,000	10,000
	162,606	**43,353**
19 Private placements		
Private placement 2013/2018 Bullet Euribor 6 kk + 0,55 % p.a.	0	50,000
Private placement 2017/2022 Bullet Fixed 0,625 %	100,000	100,000
	100,000	**150,000**
20 Other short-term debt		
Loans from financial institutions	29,315	63,669
Derivative liabilities	386	2,364
Accounts payable	269	400
Other	365	220
	30,335	**66,653**
21 Accruals and prepaid income		
Deferral of personnel expensed	2,611	2,334
Interest	988	544
Taxes	57	55
Other	10	64
	3,666	**2,996**

Other supplementary information
EUR 1000

Other contingent liabilities

The company has terminated the leases of its current premises and the lease payment obligation expires on 31 March 2019. The company has entered into a non-fixed-term contract for its new premises. The lease period and the tenure will begin on 1 March 2019 and may be terminated for the first time on 31 May 2025 with a 12-month notice period. The monthly rent excluding VAT is EUR 49,341.00. The obligation to pay rent begins on 1 June 2019.

	2018	2017
Payable in the next financial period	475	517
Payable later	3,799	0
Other commitments		
Undisbursed commitments		
Contractual commitments	153,600	178,100
Special risk finance (cumulative)		
Decisions of the Board of Directors	122,074	87,731
Government's indemnity	61,189	50,000
Government's indemnity, %	50 %	57 %
Disbursements	76,417	61,088
Derivative contracts		

Fair values of derivatives in financial assets and liabilities

	2018			2017		
Receivables	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	390,207.80		390,207.80	443,915.68		443,915.68
Interest rate swaps	22,246.92	85,953.00	108,199.92		74,693.13	74,693.13
Currency and interest rate swaps		2,538,789.18	2,538,789.18		6,800,106.71	6,800,106.71
Total	412,454.72	2,624,742.18	**3,037,196.90**	443,915.68	6,874,799.84	**7,318,715.52**
Liabilities	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	386,103.41		386,103.41	17,686.40		17,686.40
Interest rate swaps		12,062.00	12,062.00		18,158.00	18,158.00
Currency and interest rate swaps			0.00	2,346,590.82		2,346,590.82
Total	386,103.41	12,062.00	**398,165.41**	2 364 277.22	18,158.00	**2,382,435.22**

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.

	2018				2017			
Receivables	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		390,207.80		390,207.80		443,915.68		443,915.68
Interest rate swaps		108,199.92		108,199.92		74,693.13		74,693.13
Currency and interest rate swaps		2,538,789.18		2,538,789.18		6,800,106.71		6,800,106.71
Total	0.00	3,037,196.90	0.00	**3,037,196.90**	0.00	7,318,715.52	0.00	**7,318,715.52**
Liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		386,103.41		386,103.41		17,686.40		17,686.40
Interest rate swaps		12,062.00		12,062.00		18,158.00		18,158.00
Currency and interest rate swaps				0.00		2,346,590.82		2,346,590.82
Total	0.00	398,165.41	0.00	**398,165.41**	0.00	2,382,435.22	0.00	**2,382,435.22**

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	2018	2017
Change of +/- 1% in EURIBOR interest	0 / 0	159 / -159
Change of +/- 1% in LIBOR interest	-921 / 921	-1,066 / 1,066
Change of +/- 10% in EUR-USD exchange rate	10,049 / -10,049	11,846 / -11,846

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 2018.

Undiscounted cash flow resulting from derivatives

	2018			2017		
Receivables	Under 1 year	1–5 years	**Total**	Under 1 year	1–5 years	**Total**
Forward exchange agreements	109,334,762.55	0.00	109,334,762.55	27,033,472.31	0.00	27,033,472.31
Interest rate swaps	494,778.54	570,454.36	1,065,232.90	308,253.54	605,222.47	913,476.01
Currency and interest rate swaps	625,000.00	101,875,000.00	102,500,000.00	20,144,707.54	102,500,000.00	122,644,707.54
Total	**110,454,541.09**	**102,445,454.36**	**212,899,995.45**	**47,486,433.39**	**103,105,222.47**	**150,591,655.86**
Liabilities	Under 1 year	1–5 years	**Total**	Under 1 year	1–5 years	**Total**
Forward exchange agreements	110,147,005.85	0.00	110,147,005.85	25,951,780.29	0.00	25,951,780.29
Interest rate swaps	421,403.32	524,741.32	946,144.64	336,346.08	704,029.39	1,040,375.47
Currency and interest rate swaps	3,756,257.69	106,704,029.15	110,460,286.84	24,294,035.00	100,115,284.46	124,409,319.46
Total	**114,324,666.87**	**107,228,770.47**	**221,553,437.33**	**50,582,161.37**	**100,819,313.85**	**151,401,475.22**

Receivables, liabilities and transactions with related parties

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

Exchange rate

31 December 2018 EUR/USD 1.145

Signatures of Board of Directors' report and financial statements

Helsinki, 29 March 2019

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

Antero Toivainen
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, 1 April 2019

Deloitte Oy
Audit Firm

Anu Servo
APA, CPFA

Auditor’s report (Translation of the Finnish Original)

To the Annual General Meeting of The Finnish Fund for Industrial Cooperation (Finnfund)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Finnish Fund for Industrial Cooperation (business identity code 0356880-6) for the year ended 31 December, 2018. 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 re quired 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, April 1, 2019

Deloitte Oy
Audit Firm

Anu Servo
KHT (APA), JHT (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 the Auditors' Report for 2018. 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, 2 April 2019

Erkki Tuomioja	Tiina Elovaara
Eija Hietanen	Seppo Kallio
Johanna Karimäki	Johanna Kotaviita
Riitta Myller	Aila Paloniemi
Pertti Salolainen	Lenita Toivakka
Tapani Tölli	Petri Vuorio