FINNFUND

Financial Statements 2016

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

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Mission and strategy

Finnish Fund for Industrial Cooperation Ltd (FINNFUND) is a development finance company in which the Finnish government has a majority holding; it belongs to the administrative sector of the Ministry for Foreign Affairs and has a special development policy mission. The purpose of the company is to promote economic and social development in target countries by providing financing for private-sector projects involving Finnish interests. Finnfund provides long-term risk capital to complement funding obtained from the financial markets, and it operates on a self-supporting basis. The majority of Finnfund financing is directed at low-income and lower-middle-income developing countries with the aim of building bridges between Finnish expertise and the needs of developing countries, and of augmenting the developmental impacts of Finnfund investments.

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

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

Funding and investments

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

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

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

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

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

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

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

Finnfund is actively involved in European Financing Partners (EFP), founded in 2004 as a joint financing venture of European Development Finance Institutions (EDFI) and the European Investment Bank (EIB), and in the Interact Climate Change Facility (ICCF) founded by the same actors and the French development funding provider AFD in 2011. ICCF invests in projects aimed at curbing climate change, such as renewable energy and energy efficiency. In 2016, a decision was made to commit additional funding to the ICCF.

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

Development and priorities

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

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

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

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

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

Finnpartnership

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

Finnpartnership provides advisory services and business partnership support for the planning, development and implementation of commercially viable projects carried out by Finnish companies and other Finnish actors targeting developing countries; for technology and solution pilot projects; and for education and training. As of 2016, training has also been provided to companies in the form of seminars and workshops.

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

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

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

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

Risk management

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

Owing to the nature of its activities, the company is exposed to greater than average risks. Risk management includes risk identification, hedging, and reporting to the company’s administrative bodies.

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

On 8 October 2012, the Ministry for Foreign Affairs decided on the introduction of special risk financing to share investment risks between Finnfund and the Finnish government. To be eligible for special risk financing, an extremely high developmental impact aimed at low-income or lower-middle-income countries was required of projects; or the risk was otherwise considered too high for the project to qualify for Finnfund financing. The arrangement considerably increased Finnfund's ability to take risks during the period of time when it was in effect. As of 31 December 2015, no new projects covered by special risk financing can be accepted.

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

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

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

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

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

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

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

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

Financial result and balance sheet

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

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

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

Income

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

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

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

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

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

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

Other operating income amounted to EUR 1.6 million (EUR 1.9 million) and this comprises fees received for the administration of the Finnpartnership programme and other income from fees and charges.

Impairment losses

New recognised individual impairment losses amounted to EUR 11.4 million (EUR 10.2 million), representing about 3.2% (3.1%) of the balance-sheet value of investment assets at the end of the year under review.

Reversals of previously recognised individual impairment losses amounted to EUR 12.4 million in 2016 (EUR 5.2 million).

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

Expenses

Interest expenses were EUR 1.3 million and increased from the previous year (EUR 0.8 million). Interest expenses were incurred through borrowing in US dollars, which is used to refinance Finnfund investment loans denominated in US dollars, and through euro-denominated commercial papers issued in 2015 and the bond issued in autumn 2013.

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

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

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

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

Balance sheet

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

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

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

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

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

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

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

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

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

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

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

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

Key figures

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

Formulae:

$$\text{Return on equity} = \frac{\text{Result before extraordinary items – taxes}}{\text{Equity}} \times 100\ \%$$

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

Administration and personnel

In 2016, the Supervisory Board met five times, the Board of Directors met 12 times, and the audit committee of the Board of Directors met five times.

The Annual General Meeting, held on 20 April 2016, reviewed the matters listed in Article 11 of the Articles of Association.

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

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

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

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

The Board of Directors has an audit committee, with the following members since 26 April 2016:

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

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

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

The company’s auditor is Deloitte & Touche Oy, authorised public accountants, with Jukka Vattulainen, APA, as the principal auditor.

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

During the year under review, the company employed an average of 60 (56 in 2015) people. At year-end, the number of employees in contractual employment was 64 (57), of whom 61 (55) worked full-time. Of the 64 employees, 43 were women and 21 were men.

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

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

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

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

Outlook for 2017

In accordance with the guidelines specified in the State Ownership Policy, Finnfund aims to improve the positive developmental impacts of its financing and to focus primarily on low-income and lower-middle-income developing countries. Approximately half of investment decisions are targeted at Africa. As before, priority will be assigned to projects where Finnish know-how and competence is used to curb climate change, to improve environmental conditions, and to improve the living conditions of poor people. As before, key sectors will be renewable energy and sustainable forestry. Several project ideas with a significant expected impact are being investigated, some in extremely poor or fragile states.

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

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

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

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

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

Proposal of the Board of Directors for the distribution of profit

The company recorded a profit of EUR 339,579.80 in 2016. The Board of Directors proposes that the profit be transferred to the retained earnings account and set aside for disposal in accordance with Article 2 of the Articles of Association.

Profit and loss account

EUR 1 000

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

Balance sheet

EUR 1 000

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

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

Cash flow statement

EUR 1 000

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

Accounting policy

Portfolio

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

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

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

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

Special risk finance

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

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

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

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

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

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

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

Planned depreciations:

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

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

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

Notes to the profit and loss account

EUR 1000

		2016	2015
1	**Other operating income**		
	Operating income from participating interests	38	29
	Remunerations	771	1,107
	Other operating income	791	729
		1,600	**1,865**
2	**Average number of staff employed**		
	Employees	60	56
3	**Wages and salaries**		
	Managing Director and his alternate	357	334
	The Board of Directors and the Supervisory Board	121	117
	The Board of Directors		
	Chair's monthly emoluments	1,100 €	
	Vice chair's monthly emoluments	700 €	
	Board members' monthly emoluments	600 €	
	Emolument per meeting of Board of Directors and Audit Committee	300 €	
	Supervisory Board		
	Chair's emolument per meeting	800 €	
	Vice chair's emolument per meeting	600 €	
	Board member's emolument per meeting	500 €	
	Managing Director has the right to retire at the age of 63. Retirement age is based on the contract renewed in 2012.		
4	**Depreciation**		
	Other capitalised long-term expenses	47	29
	Machinery and equipment	141	102
		188	**131**
5	**Other operating charges**		
	Voluntary staff expenses	498	419
	Office	724	483
	ICT	446	341
	Travel and negotiation expenses	851	743
	Entertainment and PR expenses	107	138
	External services	1,398	1,207
	Other expenses	381	327
		4,405	**3,658**

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

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

Notes to the balance sheet

EUR 1000

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

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

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

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

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

		2016	2015
15	**Shareholders' equity**		

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

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

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

Other supplementary information

EUR 1000

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

Receivables, liabilities and transactions with related parties

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

Off-balance sheet assets

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

Exchange rate

31 December 2016	EUR/USD	1.0541

Signatures of Board of Directors' report and financial statements

Helsinki, 28 March 2017

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

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 31 March 2017

Deloitte & Touche Oy
Authorized Public Accountant

Jukka Vattulainen
Authorized Public Accountant

(translation of the Finnish original)

Auditor’s Report

To the Annual General Meeting of Teollisen yhteistyön rahasto Oy

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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

Other Reporting Requirements

Other information

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

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

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

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

Helsinki, March 31, 2017

Deloitte & Touche Oy
Audit Firm

Jukka Vattulainen
APA

Statement of the Supervisory Board

At the meeting held today, the Supervisory Board of the Finnish Fund for Industrial Cooperation Ltd. examined the report of the Board of Directors and the corporation's financial statements prepared by the Board of Directors and the Managing Director, and also the Auditors' Report for 2016. The Supervisory Board reports to the Annual General Meeting of Shareholders that the report of the Board of Directors and the accounts give no cause for comment neither does the proposal of the Board of Directors on how to deal with the distributable funds for the year.

Helsinki, 7 April 2017

Erkki Tuomioja

Eija Hietanen

Seppo Kallio

Johanna Karimäki

Johanna Kotaviita

Riitta Myller

Aila Paloniemi

Mika Raatikainen

Tapani Tölli

Pertti Salolainen

Anne-Mari Virolainen

Petri Vuorio