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

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

Investment targeted at private projects

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

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

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

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

Experience and contacts

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

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

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

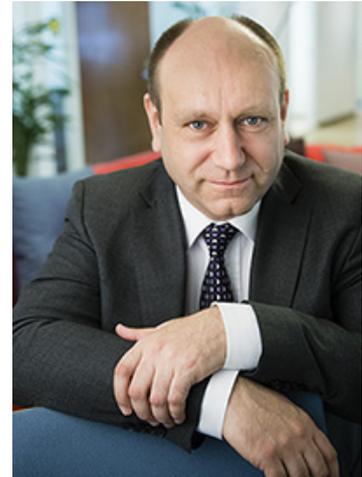
Finnfund collaborates closely with other European development financiers. It is a member of **EDFI**, the Association of European Development Finance Institutions.

www.finnfund.fi

Managing Director's Report

Catalysing change and sustainable development

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



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

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

Work and wellbeing for growing population?

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

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

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

More transparency and dialogue

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

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

Clean energy, jobs and microfinancing

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

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

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

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

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

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

Focus on poor countries and fragile states

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

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

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

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

Jaakko Kangasniemi
CEO

Key figures 2012 - 2016

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

Five years in review

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

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

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

Liabilities

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

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

Development effects in numbers

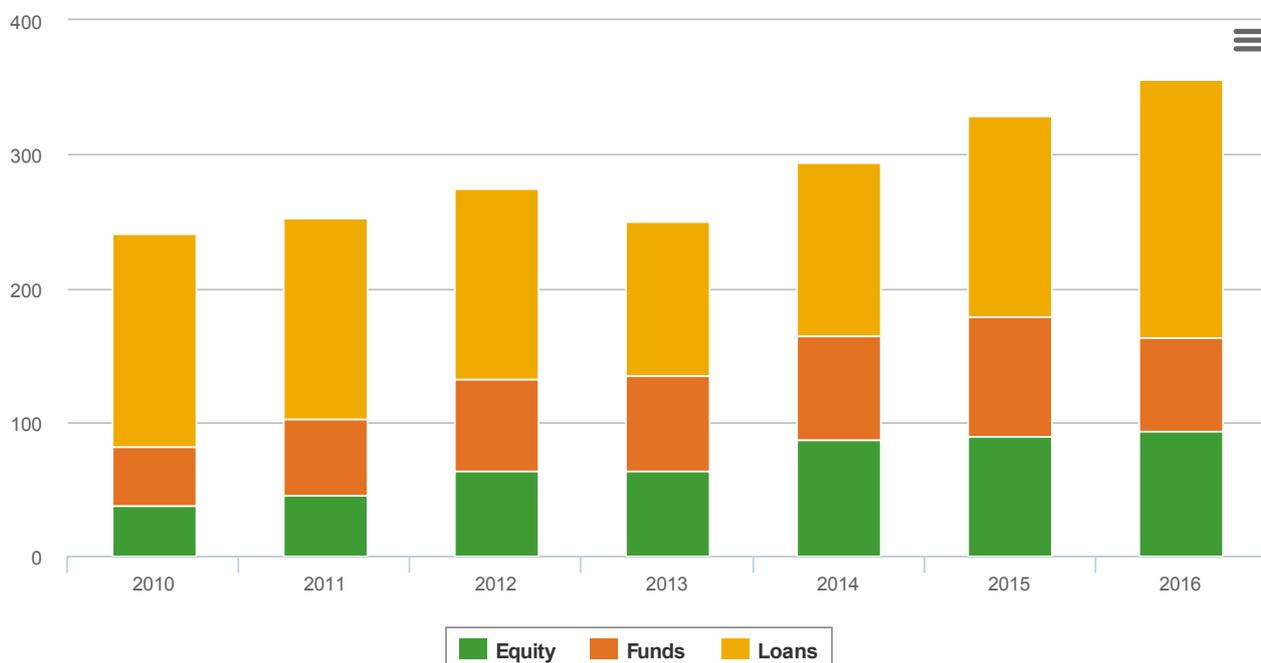
The number of reporting companies varies annually and by industry, therefore the years are not completely comparable. In 2015, data was obtained from 87 companies (82 percent of reporting companies). Data for 2016 will be collected during spring 2017. More information about **development effects** in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

Development effects in numbers 2013 - 2015

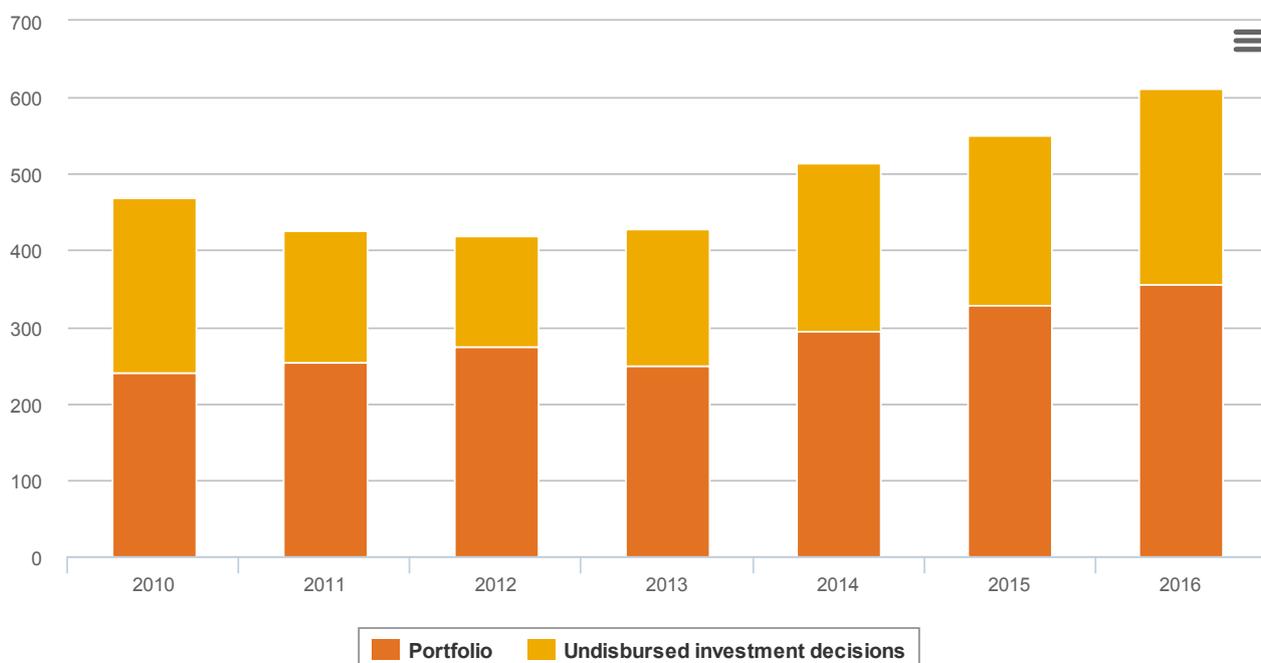
	2013	2014	2015
Number of persons employed in project companies	22,849	24,866	25,603
Female jobs out of total persons employed	7,060	8,607	9,137
Contribution to government revenues, EUR	434,419,000	277,306,982	284,781,553
Number of farmers reached	18,342	13,476	15,812
Energy delivered to off-takers GWh/annum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

Graphs

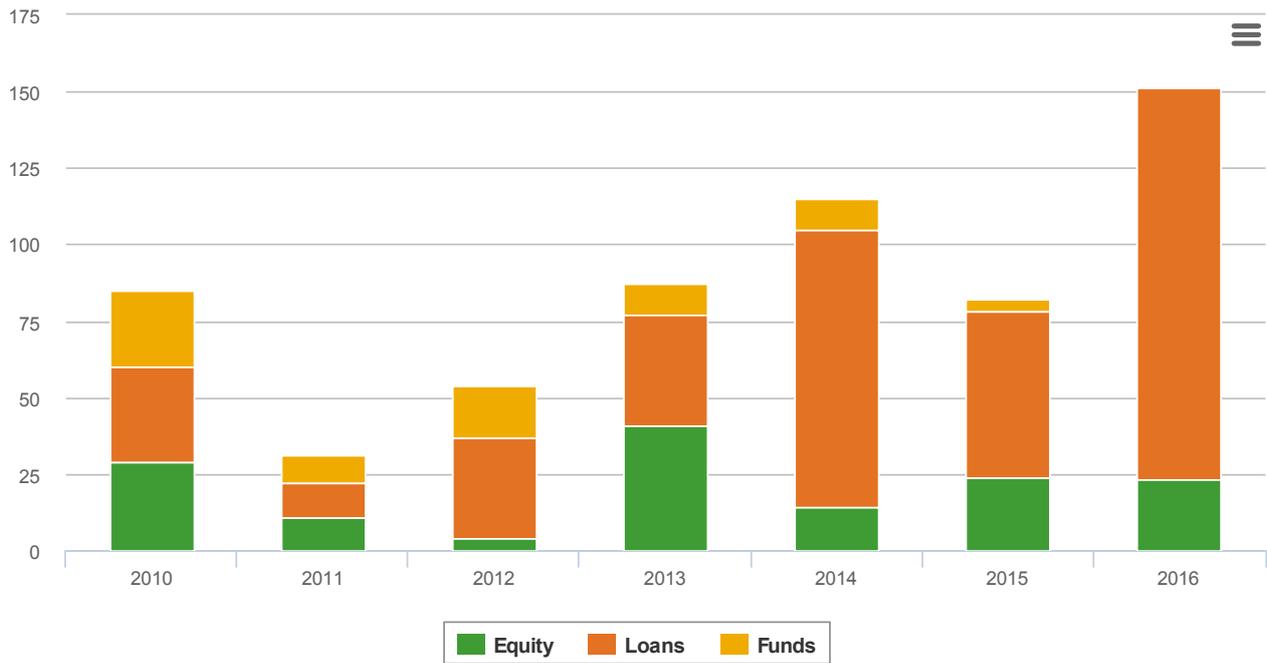
Portfolio, EUR million



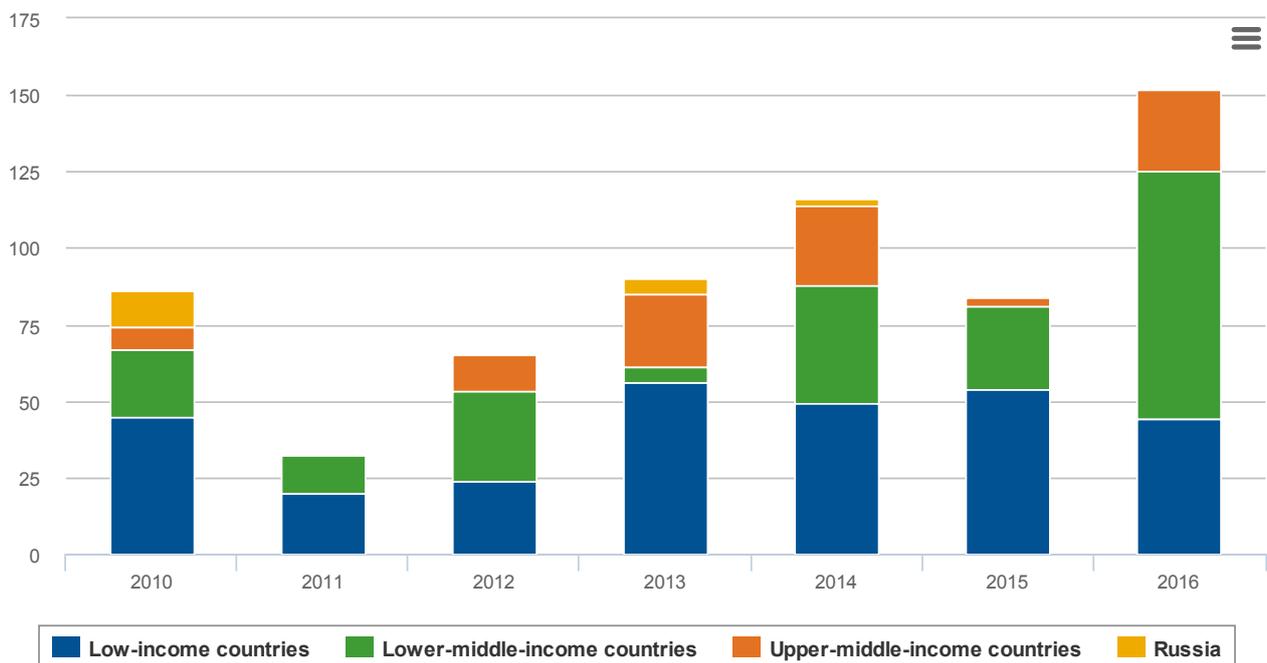
Portfolio and undisbursed investment decisions, EUR million



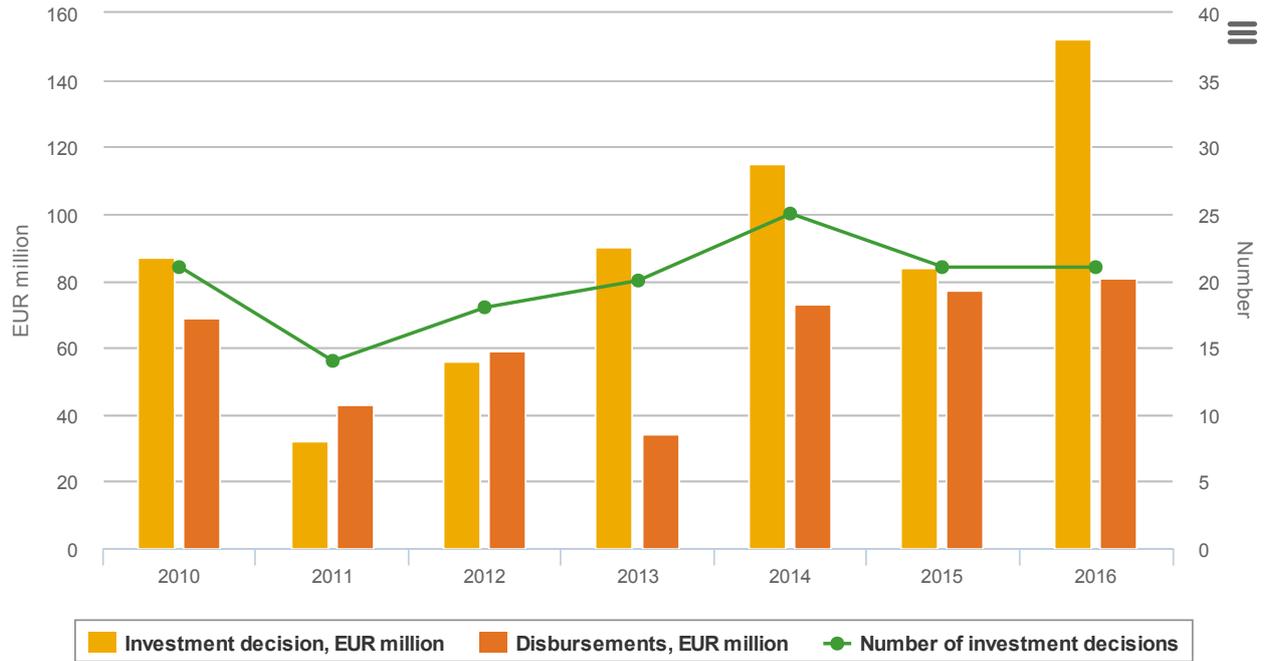
Investment decisions by instrument, EUR million



Investment decisions by income level of the country, EUR million

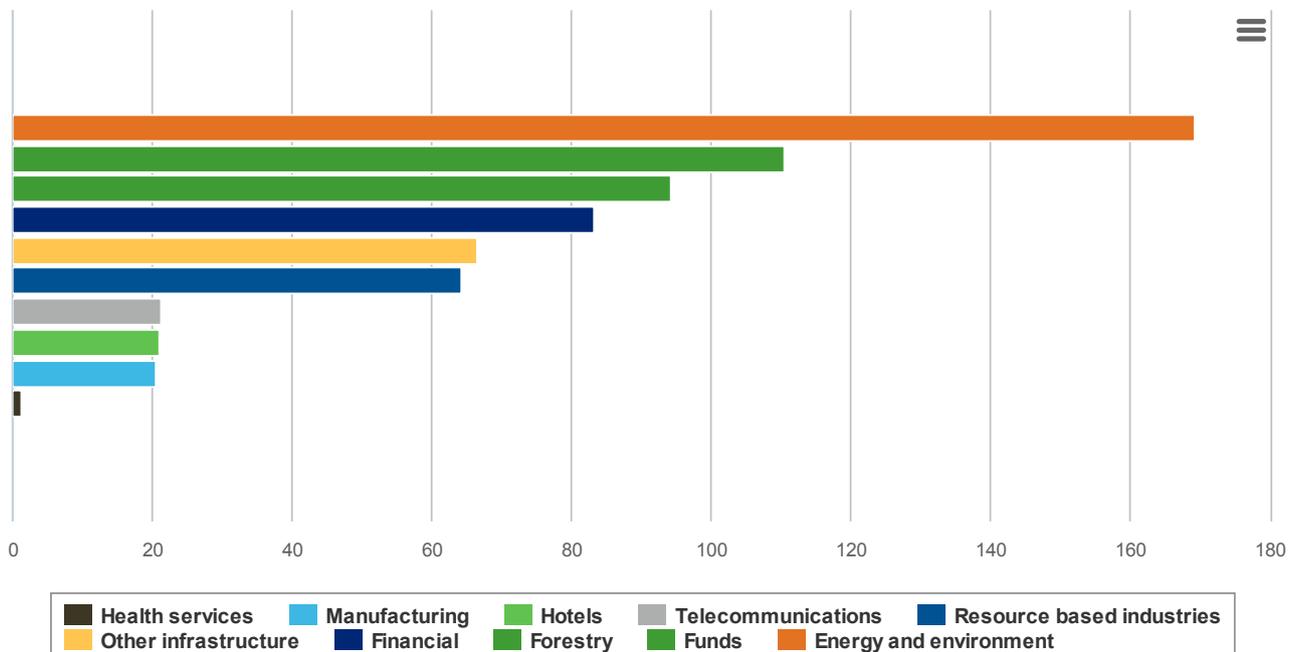


Investment decisions and disbursements



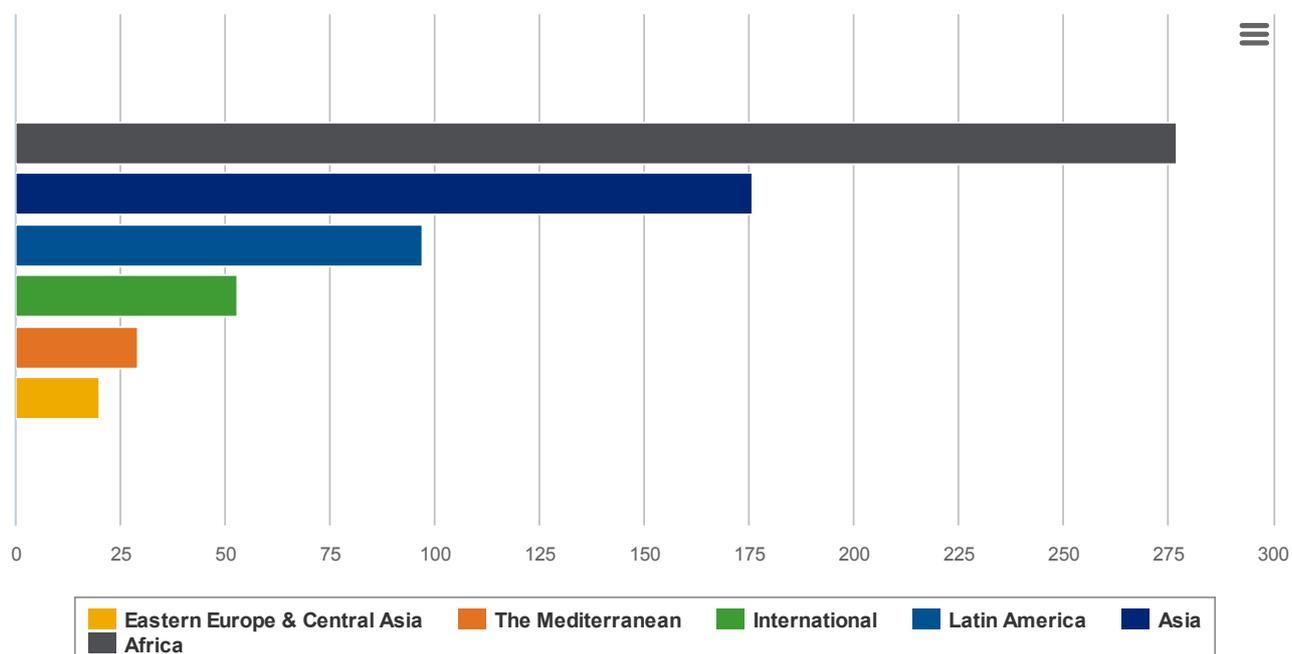
Portfolio and undisbursed investment decision and commitments by sector

(at original value, total EUR 652 million)



Portfolio and undisbursed investment decision and commitments, geographical distribution

(at original value, total EUR 652 million)



Interactive graphs

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

Shareholders and share capital, 31 December 2016

Share capital	EUR 166,989,130
<hr/>	
State of Finland	93.4%
Finnvera Plc	6.5%
The Confederation of Finnish Industries	0.1%

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

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

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

Business Partnership Support and new partners

Business Partnership Support is available for conducting feasibility studies, identifying business partners, training employees of the partner, providing expert services for capacity building, and importing from a developing country. Support can also be granted for vocational education and training and support for local education, and demonstrating or piloting technology and solutions, even for projects by the international organisations. Also non-governmental organisations can apply for grant for supporting activities.

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

Concrete results from projects

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

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

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

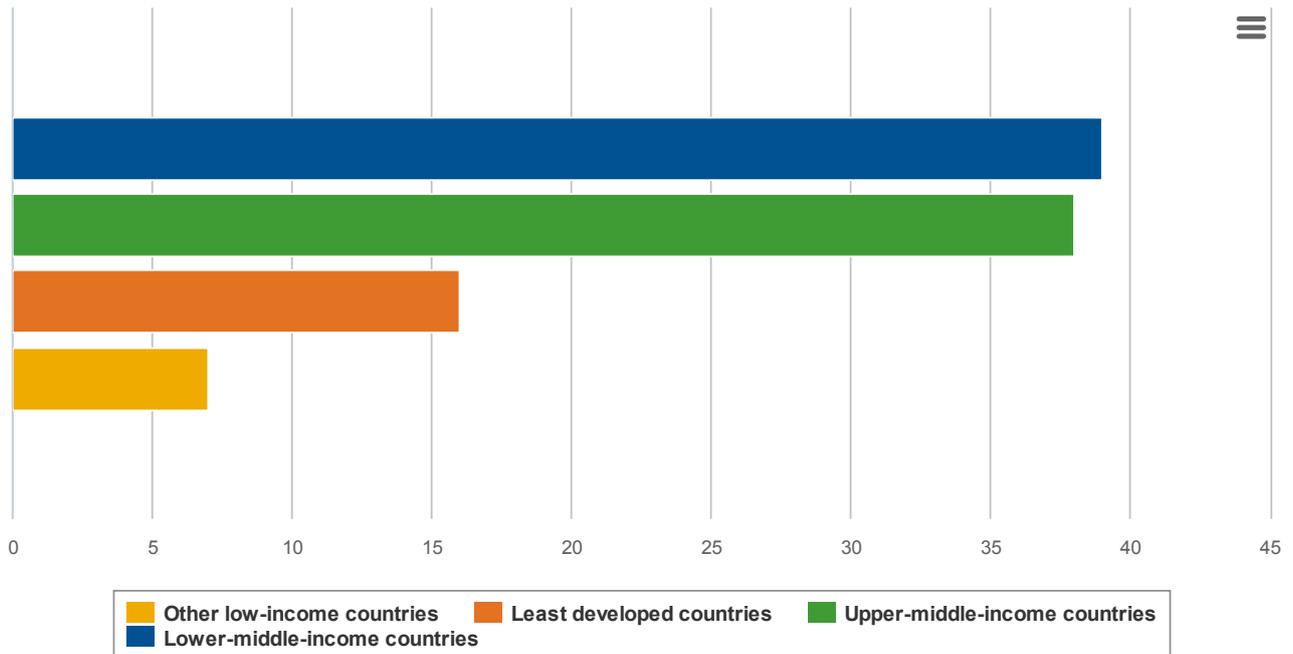
Matchmaking service connects companies in Finland and developing countries

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

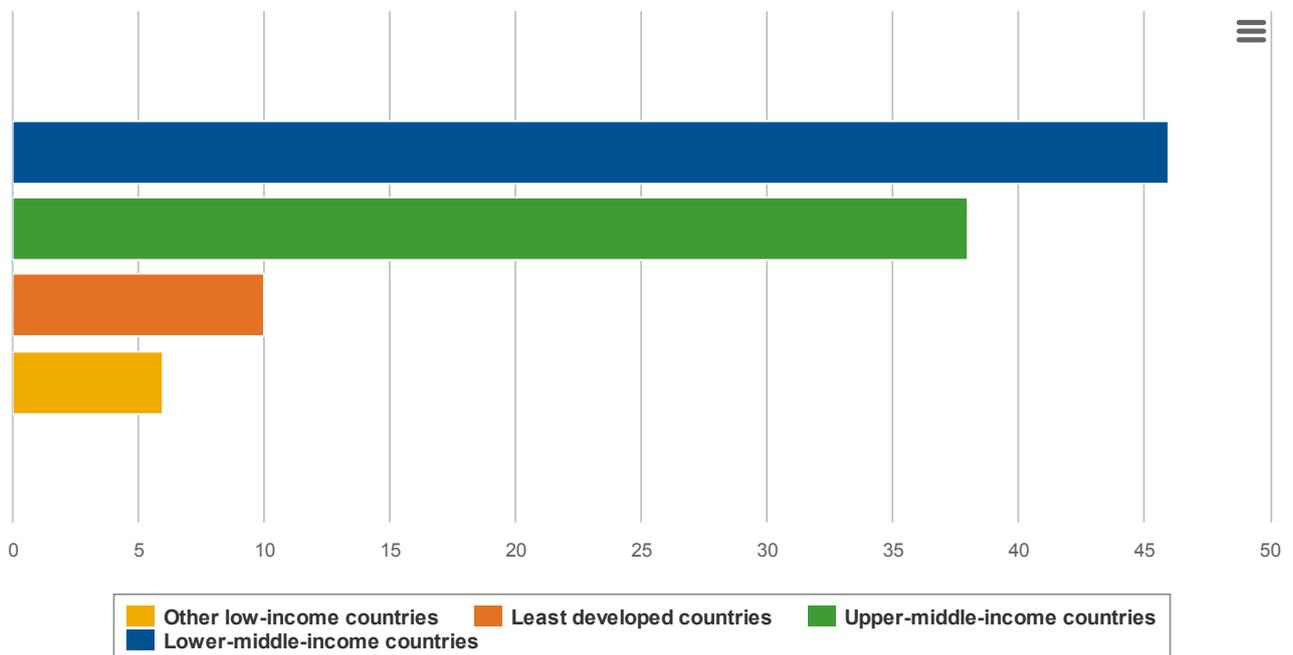
Examples of projects supported by Finnpartnership

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

Amount of approved business partnership projects in 2016 (%)



Business Partnership Support granted in 2016 in euros (%)



Interactive graphs

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

EDFI – cooperation with European development finance institutions



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

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

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

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

Finnfund is a member of the **Interact Climate Change Facility ICCF**, which provides long-term financing for renewable energy and energy efficiency projects in poor countries suffering from energy shortages. Other members of the ICCF are Agence Française de Développement AFD, the European Investment Bank, Finnfund and other ten EDFIs.

Team Finland

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



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

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

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

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

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

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

- Helena Arlander, Director, Portfolio and Risk Management



More information:

EDFI

European Financing Partners

Interact Climate Change Facility

Team Finland