Financial statements

Contents

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**

LIABILITIES EQUITY	Note 16, 17	31 Dec. 2018	31 Dec. 2017
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