Annual Report 2022

finnfund

Content

Cover: Gender and diversity is one of the key areas of impact for the African Forestry Impact Platform (AFIP). The forestry sector is traditionally very male dominated, but AFIP is committed to achieving improved gender diversity in the African forestry sector by increasing female employment and leadership. The picture was taken at Green Resources, East Africa's largest forest development and wood processing company, which is AFIP's first acquisition – and a Finnfund investee. Read more on p. 68.
Photo: Green Resources

Year 2022

Lake Turkana Wind Power, a Finnfund investee since 2013, is the largest wind farm in Africa. The wind farm was connected to the national grid in 2018, and it comprises 365 wind turbines, each with a capacity of 850 kilowatts. Today, the wind power facility, with its 310 MW capacity, meets up to approximately 14% of Kenya's current electricity demand.

This is Finnfund

Finnfund is a Finnish development financier and impact investor. We build a sustainable future and generate a lasting impact by investing in businesses that solve global development challenges such as poverty, inequality, climate change, and biodiversity loss.

Each year, we invest 200–250 million euros in 20-30 projects, emphasising renewable energy, sustainable forestry, sustainable agriculture, financial institutions, and digital infrastructure and solutions. Besides our five focus sectors, we invest in other sectors when projects meet our requirements and are aligned with our strategy. Today, Finnfund's investments, commitments, and investment decisions total 1.22 billion euros, with half of them in Africa.

We are a proactive investor, and we provide companies operating in developing countries with the expertise required for sustainable business. We expect our investments to be sustainable, to generate positive development impacts in their operating countries, and to offer an appropriate risk-adjusted return.

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

Finnfund's shareholders are the State of Finland (96.04%), Finland's export credit agency Finnvera (3.89%), and the Confederation of Finnish Industries (0.07%).

Finnfund's owners set annual targets for the company. The targets address financial results, development impact, geographical focus, and operational efficiency. The goals are documented in the Foreign Ministry's annual Ownership Steering Memorandum, which is available on our website. The company's share capital on 31 December 2022 was 276,988,480 euros.

Our mission

Building a sustainable future and generating a lasting impact by investing in businesses that solve global development challenges.

Our vision

People and the planet are at the core of every investment decision.

Our values

- Responsibility
- Respect
- Development
- Effectiveness

Our key strategic objectives

- Double the total impact from 2020 to 2025
- 50% of investments with private capital by 2030
- Maintain a carbon net-negative portfolio

Finnfund is also the administrator of the Finnpartnership Business Partnership programme, which is funded by the Ministry for Foreign Affairs. Finnpartnership offers advisory services and business partnership support to Finnish companies.

At the end of 2022, Finnfund employed 96 people, of whom 3 worked at the Nairobi office and 9 worked for the Ministry for Foreign Affairs' Finnpartnership programme.

Finnfund's approach to development.

Chief Executive Officer's review: Exceptional times

Exceptional times are still here. This underlines the role of Finnfund and other development financiers. While the magnitude and duration of the impact of the Ukraine crisis remain uncertain, surging food prices have already hit hardest the real incomes of the poorest people. Moreover, the crisis has amplified strained supply chains and affected the availability of capital in more risky, fragile markets. This is where we, as development financier, step in and can play a crucial role. The poorest people and countries should not be left alone.

This report illustrates the results of our long-term work and development. Despite the multiple challenges – the COVID-19 pandemic, conflicts, climate change, drought, the Ukraine crisis, food and electricity shortages – we have seen many glimpses of recovery and progress and have continued to make new investments. Last year, we took 28 investment decisions totalling 246 million euros, clearly exceeding our project preparation targets. Our impact is also constantly growing. We see it in growing numbers of newly created and restored jobs and livelihoods, better and affordable digital services, and insurance coverage for the unserved; we also see it in things such as access to clean energy and better nutrition with more efficient and affordable production and delivery methods – to name just a few. You can find impressive figures in this report. We have been empowering sustainable businesses in more than 50 countries for more than 40 years.

We launched the year 2022 with an updated strategy to raise the bar even higher – partly because many of the ambitious goals had been met prematurely. This is

"Finnfund has moved fast and will continue to do so in putting people and the planet first in every investment decision in these exceptional times."

Jaakko Kangasniemi
Chief Executive Officer

a bold move in exceptional times, and we are strongly committed to our key strategic objectives: to double the total impact from 2020 to 2025, to grow the percentage of private capital in our investments, and to maintain a carbon-negative portfolio.

Although we are now witnessing a drift towards de-globalisation and new divisions arising on the global political map, the climate cannot be de-globalised. It is a common asset for all people. Sustainable forestry is an elementary way to curb deforestation as well as climate change. Investing in responsible forestry companies has long been one of Finnfund´s focus areas. The forestry sector in Africa has enormous growth potential, and by partnering with fellow development financiers, we can bring the change needed to unlock that potential. Therefore, in October 2022, we were proud to announce the first acquisition, Green Resources, for the newly established dedicated African fund, the African Forestry Impact Platform (AFIP). This will continue to raise long-term institutional capital, with the aim of raising 500 million US dollars in the next two to three years. Besides sustainable forestry, biodiversity remained an important theme in our work and learning.

Our strategy places a strong emphasis on Africa, covering half of our incoming investments. Approximately 54 per cent of the decisions and 57 per cent of the monetary value were allocated to Africa. The opening of our first regional office in Nairobi, Kenya, in May 2022 has already greatly strengthened our position in the region and supported the follow-up of existing projects and collaboration with co-investors.

Our strategy also encourages us to foster sustainable development by providing investment opportunities for private investors. In October, we issued sustainability bonds valued at 75 million euros. The bond represents Finnfund's first issuance under its newly established sustainability bond, and it has the objective of climate change mitigation and adaptation, and improved living and health conditions for unserved groups. In addition, OP Finnfund Global Impact Fund I continued to invest alongside Finnfund, and after its second full year of operation, slightly less than half of its investable capital has been invested.

In 2022, we developed risk assessment as part of the investment process and monitoring. This means, for example, better consideration of political and macroeconomic risks and the risks and opportunities caused by climate change in our investment decisions. We also included an analysis of Finnfund´s operations in light of the new EU regulation, and we developed a scenario calculation regarding the carbon footprint. In exceptional times, more tools for getting more precise insight are valuable.

On the financial side, after two challenging pandemic years, we are back on a good track. The year 2022 was a turning point, and the year 2023 has already got off to a strong start. The earnings prospects for 2023 are positive.

We at Finnfund get our vitality from the successes of our partners. We began our 2022 by analysing the results of our stakeholder survey. The aim was to collect feedback and ideas, and the results show that we have succeeded in developing our operations in recent years, and we have also been able to make this visible through our work, results, and communication. At the beginning of the year, we also published an interim assessment of the functioning of our human rights policy. According to this report, Finnfund's commitments to human rights are at an internationally high level. In 2022, the work continued with a sector-based assessment of salient human rights issues in our investment portfolio.

Go faster. That was the UN secretary-general's message to the world on curbing emissions as scientists laid out their latest warnings. This call is easy to share. Finnfund has gone fast and will continue to do so in putting people and the planet first in every investment decision in these exceptional times. Thank you to all our customers, staff members and other stakeholders for your support.

Jaakko Kangasniemi
Chief Executive Officer

Our 2022 at a glance

Highlights

Portfolio
810
million euros

New investment decisions
246
million euros

Portfolio, commitments, and investment decisions
1.22
billion euros

New strategy!

Finnfund's new strategy entered into force at the beginning of the year, setting our operational guidelines until 2025. Read more on p. 26.

Portfolio, commitments, and investment decisions
92%
of new investment decisions targeted countries in three lowest income categories (OECD DAC; EUR)

New office in Nairobi

Finnfund's first local office was opened in June in Nairobi, the capital of Kenya. This is a branch of the Helsinki office, and its main task is to promote project preparation in the East African region. Finnfund's presence locally has already significantly increased our visibility in the target market, and cooperation with other financiers has strengthened. Read more on p. 126.

Our first sustainability bond

In October, Finnfund issued its first sustainability bond. Its sustainability framework was independently assessed by Sustainalytics, which concluded that Finnfund's operations and framework are in line with the principles published by the International Capital Markets Association (ICMA). The size of the bond was 75 million euros, and approximately 10 institutional investors from Finland and the Nordic countries invested in it. Read more on p. 117.

Sector-based approach to salient human rights risks

What are the most salient human rights risks in some of our key sectors? In 2022, we commissioned a sector-based assessment of salient human rights issues in our investment portfolio. The assessment helps us to prioritise the human rights issues that are most salient in our portfolio. It also identifies cross-cutting issues where we can take a whole-portfolio approach. Read more on p. 78.

Highlights from our impact figures 2021

Investees' net emissions
–134,131 tCO_2e

227,000
supported jobs – of which 37% for women

5,300 GWh
of energy generated

1,150,000
hectares of forest under sustainable management

Cooperation with
5.6 million
small-scale and livestock farmers – 73% of them women

4.9 million
micro and SME loans – total value EUR 10.4 billion

37 million
people reached and served through digital solutions and infrastructure

Read more on p. 42

Focus on biodiversity: training and a pilot project in Nicaragua

In 2022, biodiversity remained an important theme. We continued to develop our approach, principles, and tools, aiming to increase our own expertise and that of the funded companies in identifying and managing biodiversity-related risks and to create positive impacts related to biodiversity. Together with MLR Forestal, our investee company in Nicaragua, we also launched a pilot project with the aim of restoring forests of reduced natural value and better connecting valuable natural areas to each other. In addition, we launched a series of training sessions focusing on biodiversity for our investee companies, and especially those operating in the forestry sector. Training on biodiversity was also arranged for Finnfund's own personnel. Read more on p. 72.

Green light from EFSD+

In 2022, the European Commission opened a new Fund for Sustainable Development (EFSD+) to applications. Finnfund participated in the Commission's application round with its own digital sector guarantee application and several joint applications from European development financiers. The focus sectors in the applications were digitalisation, the forestry sector, and agriculture. In early 2023, the final negotiations with the Commission are still ongoing, but the Commission's preliminary decisions were positive from Finnfund's point of view. Read more on p. 117.

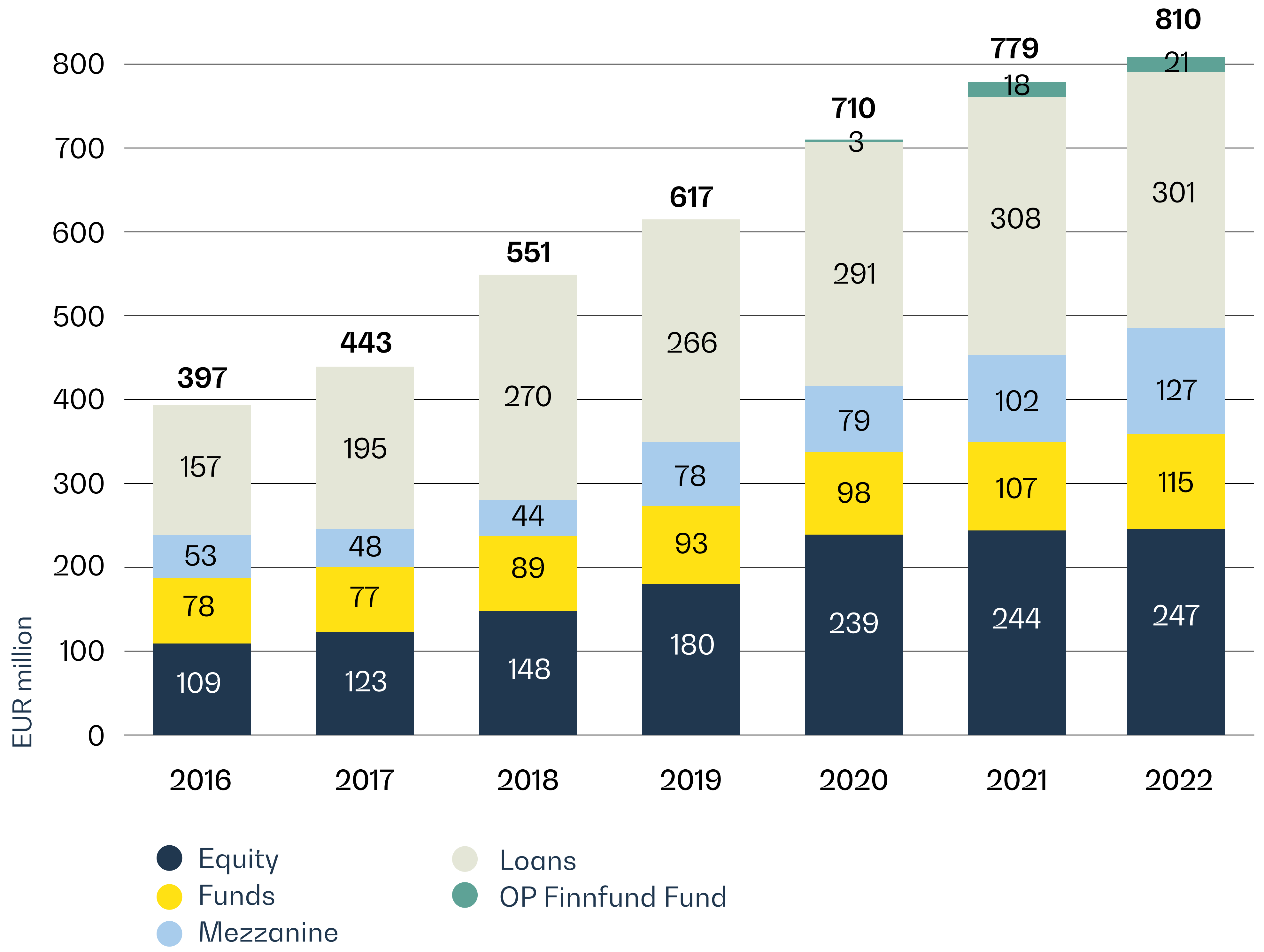
Innovative partnership to enhance sustainable forestry and climate action in Africa

In 2022, Finnfund, together with New Forests, British International Investment (BII), and Norfund, launched the African Forestry Impact Platform (AFIP). This followed an announcement at COP26 concerning the intention of these groups to partner to develop investment strategies designed to scale and transform the sustainable forestry sector in Sub-Saharan Africa.

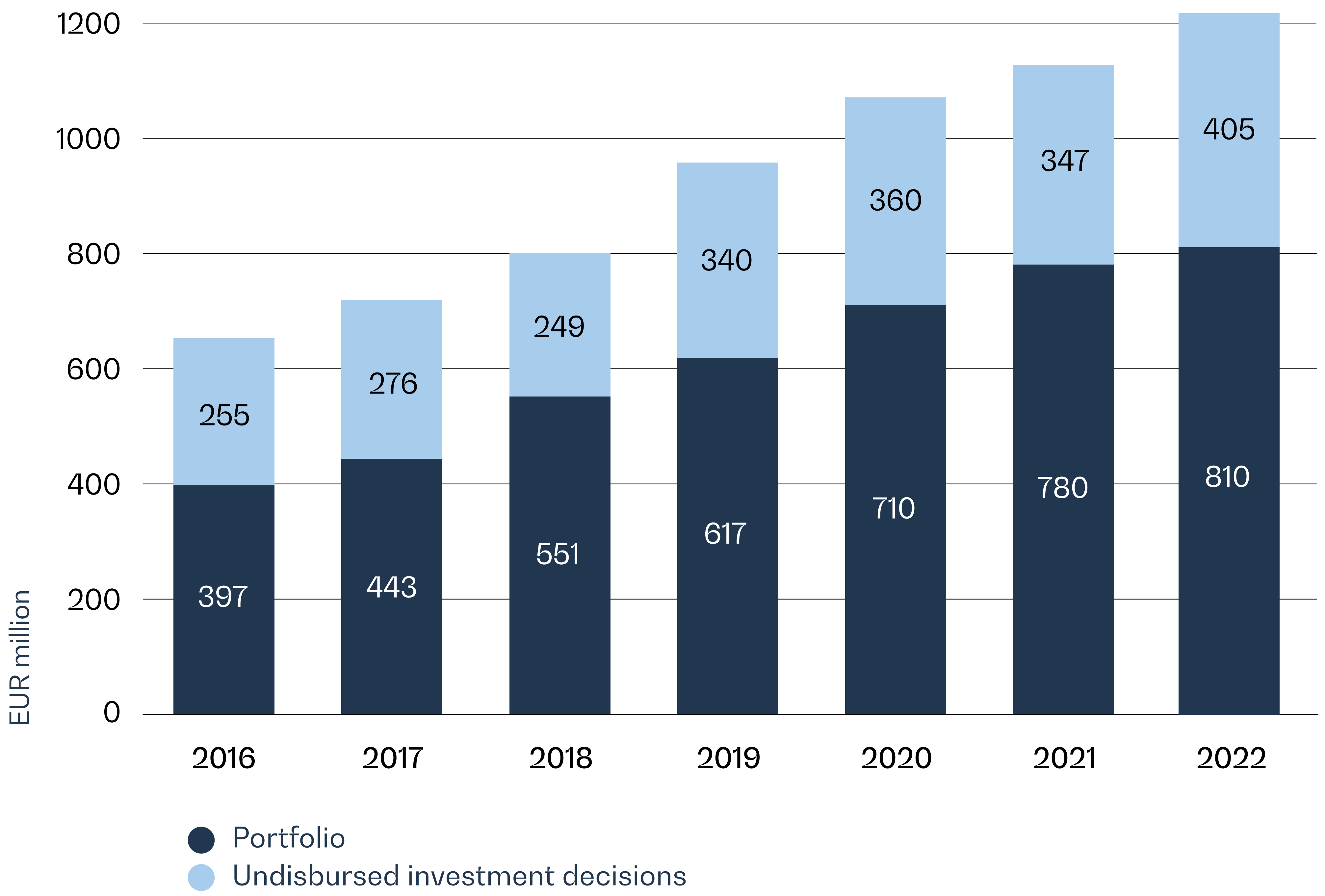
AFIP is an investment company focusing on African forestry, aiming to raise a total of 500 million USD over the next 2–3 years in support of sustainable forestry that mitigates climate change. In October, AFIP announced its first acquisition, Green Resources, which is East Africa's largest forest development and wood processing company – and a Finnfund investee. Read more on p. 68.

Key figures

Portfolio EUR million (total EUR 810 million)



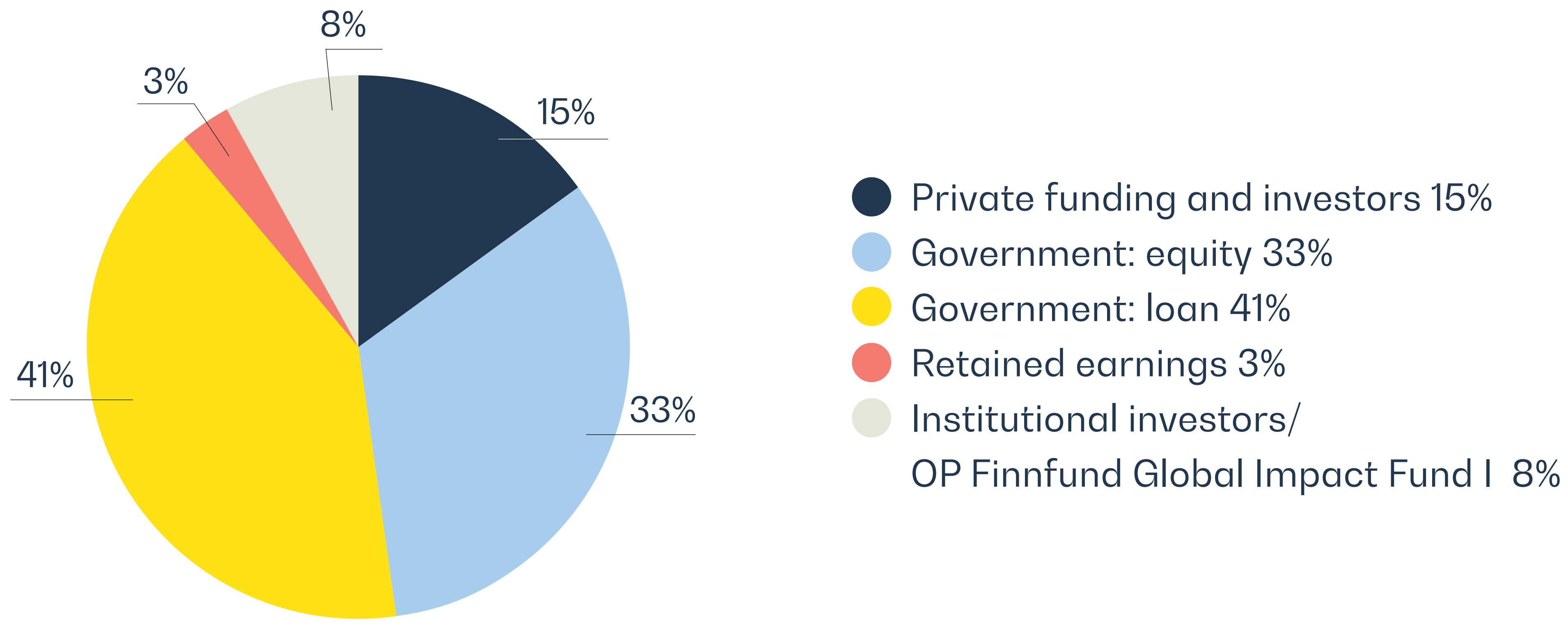
Portfolio and undisbursed investments decisions EUR million (total EUR 1.215 billion)



Key figures 2018–2022

	2018	2019	2020	2021	2022
Number of project countries	45	52	53	53	55
Number of investment decisions in portfolio	181	183	206	196	191
Number of investees	141	153	152	151	153
New investment decisions, EUR million	154	237	206	241	246
Number of new investment decisions	26	29	31	28	28
Disbursements, EUR million	135	125	149	144	110
Undisbursed investment decisions and commitments, EUR million	249	340	360	347	405
Portfolio, EUR million	551	617	710	780	810
Shareholders' capital, EUR million	257	267	301	291	301
Total assets/liabilities, EUR million	554	616	721	794	773
Number of personnel on average	75	77	84	83	90

Sources of Finnfund's funding, 31 December 2022



Five years in review

Operational analysis. EUR million	2018	2019	2020	2021	2022
Financial income	29.2	35.7	31.4	27.5	29.7
Financial expenses	-10.8	-12.0	-9.2	-9.6	-13.5
Net financial income	18.4	23.7	22.2	17.9	16.2
Other operating income	1.5	1.5	1.3	1.5	1.8
Administration. depreciation and amortisation and other operating expenses	-13.4	-14.1	-13.5	-14.0	-17.3
Profit before impairment. sales of assets and taxes	**6.5**	**11.1**	**10.0**	**5.4**	**0.7**
Impairment and sales of assets	-4.4	-10.4	-36.3	-25.4	-0.4
Taxes	0	0	0	0	0
Net profit	**2.1**	**0.7**	**-26.3**	**-20.0**	**0.3**

Balance sheet. EUR million	2018	2019	2020	2021	2022
Assets					
Tangible and intangible assets	0	1.0	1.1	1.3	1.2
Investments	494.2	556.7	607.6	657.4	697.6
Current assets	59.7	58.0	112.7	135.0	74.5
	553.9	**615.7**	**721.4**	**793.7**	**773.3**
Liabilities					
Equity	257.2	267.4	301.0	291.1	301.4
Liabilities	296.7	348.3	420.4	502.6	471.9
	553.9	**615.7**	**721.4**	**793.7**	**773.3**

Financial indicators	2018	2019	2020	2021	2022
Equity ratio. %	46.4	43.4	41.7	36.7	39.0
Return on equity p.a.. %	0.8	0.3	-8.7	-6.9	0.1

Investments

Over the past few years, Finnfund's target countries have been severely ravaged by the coronavirus pandemic. In addition, the Russian invasion of Ukraine, rising energy and food prices, and political and economic instability in many countries have affected the operating environment. Despite this, Finnfund has acted in accordance with its mission and continued to make new investments. In 2022, Finnfund took 28 investment decisions with a total value of 246 million euros.

The project preparation targets for 2022 – 230 million euros and 22 projects – were clearly exceeded: a total of 28 new projects totalling 246 million euros were prepared fully in 2022. Again, the majority of Finnfund's new financing decisions were allocated to projects with excellent development impact in terms of reducing poverty, combating climate change, and improving the position of women and girls.

Africa continues to be Finnfund's primary investment destination, with 57% of volume and 54% of decisions. Asia comes second, with slightly less than a quarter of investments. The remaining share, about 20 per cent, was allocated to other continents or international projects.

Of the financing decisions, 10 involved loans, accounting for about 37% of the monetary value of the decisions. Of the projects that were approved, 16 were equity investments or mezzanine financing, which, when calculated in euros, accounted for 49% of all approved projects. Two investment decisions were made in private equity funds, accounting for about 14% of the monetary value of the decisions.

In line with our strategy to triple our impact, we kept investing in low-income countries. In terms of number, 36% (10), and in terms of volume, 43% (EUR 106 million) of new investments decisions targeted least developed countries. For lower-middle-income countries, the number of decisions was 53% (15) and the volume 49% (EUR 121 million); and for upper-middle-income countries, the figures were 11% (3) and 8% (EUR 19 million), respectively.

The profit for 2022 was 324,426 euros.

With regard to the expansion of the financing base, OP Finnfund Global Impact Fund I continued to invest in Finnfund-sourced projects. Finnfund also invites other Finnish investors to become direct co-investors.

In 2022, disbursements for investments totalled 110 million euros, and undisbursed commitments at the end of the year totalled 234 million euros. In addition, 170 million euros was tied up in investment commitments that had not yet progressed to the

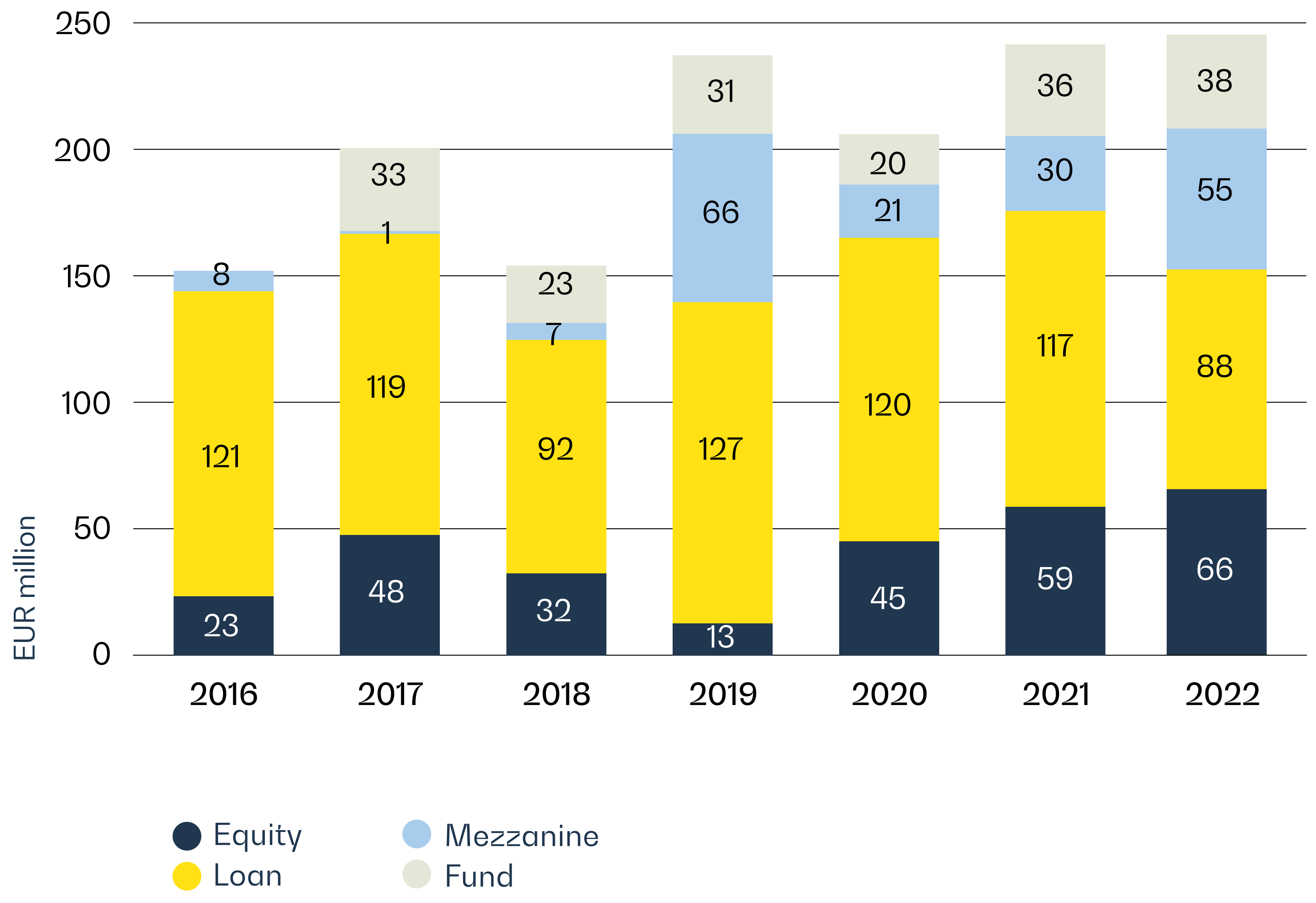
"The war in Ukraine and the deterioration of the global economy have led to uncertainty in the outlook for the corporate sector. This development has made fundraising more difficult for many companies in emerging and frontier markets. We, as an impact investor, see more opportunities to create impact and participate as an equity and debt investor in capital-raising for financially attractive companies. The market will continue to be difficult for the foreseeable future, but our pipeline of investments remains robust."

Markus Pietikäinen
Chief Investment Officer

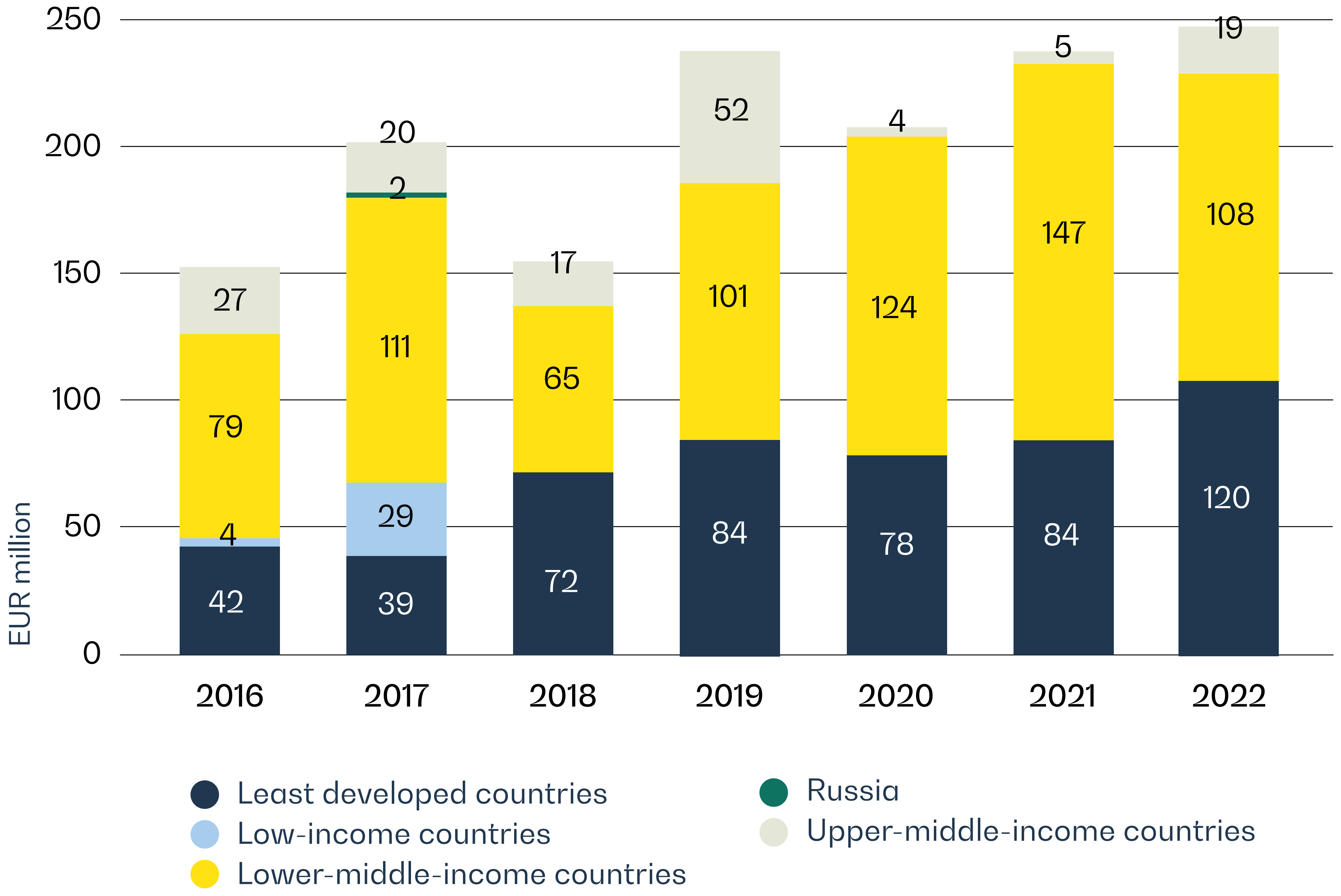
agreement stage. Of the disbursements during the 2022 financial year, a total of 51 million euros is considered official development assistance (ODA) by the Finnish State.

At the end of 2022, Finnfund's portfolio comprised 153 investments. Some of these were new investments in existing projects. Finnfund's investments, commitments, and investment decisions total 1.215 million euros.

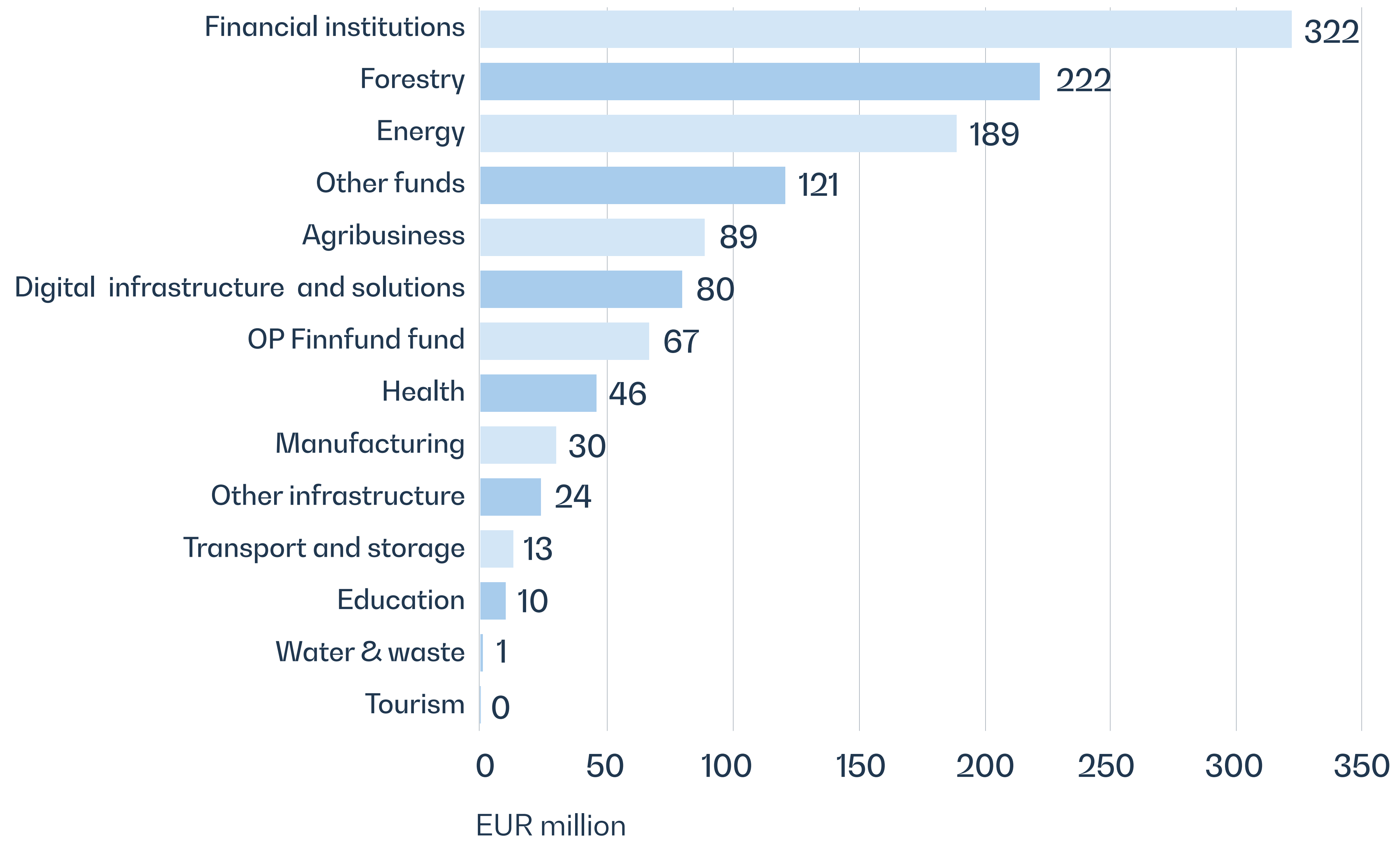
Annual investment decisions by instrument EUR million



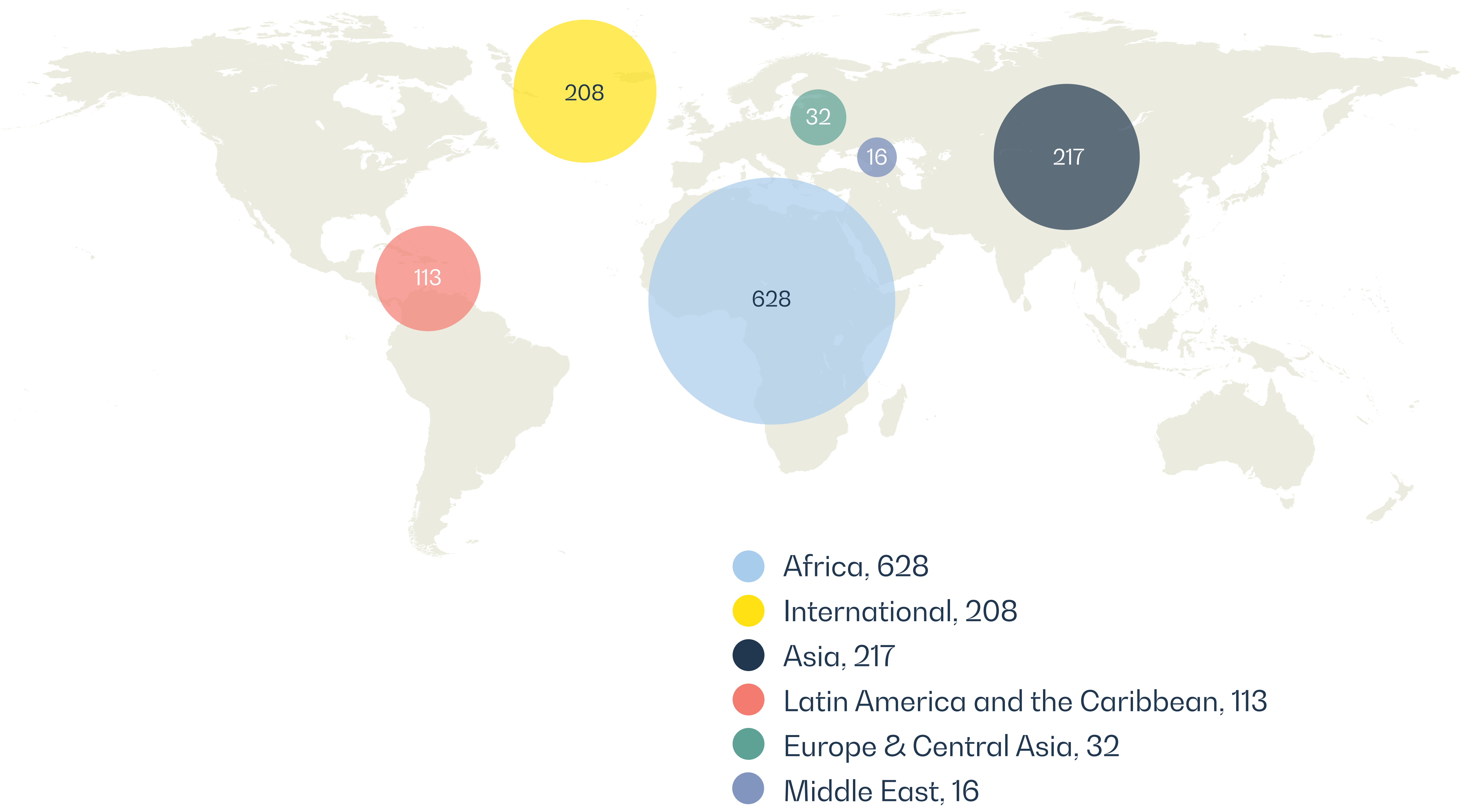
Annual investment decisions by country category (OECD, DAC) EUR million



Portfolio and undisbursed investment decisions and commitments by sector (total EUR 1.215 million)



Portfolio and undisbursed investment decisions and commitments (EUR million) **on 31 December 2022, geographical distribution** (total EUR 1.215 billion)



List of investments in portfolio as of 31 December 2022

Finnfund's disclosure policy has been updated in 2018 and 2016. Since 2016 Finnfund has published for example its share of financing of new investments. More information on our website. The list includes investments which agreements were signed by the end of the year.

Investment	Sector	Region	Country	Currency	Finnfund's financing	Agreement year
Access Bank PLC	Financial institution	Africa	Nigeria	USD	32,000,000	2017, 2019, 2020
African Development Partners III Mauritius L.P.	Other fund	Africa	Africa	USD	26,000,000	2021
Africa Sustainable Forestry Fund L.P	Other fund	Africa	Africa	USD		2011
Africado Limited	**Agribusiness**	**Africa**	**Tanzania**	**EUR**	**4,500,000**	**2018, 2022**
African Edu Holdings	Education	Africa	Africa	USD	6,999,800	2019
AfriCap Microfinance Investment Company Ltd	Other fund	Africa	Africa	USD		2007
AfricInvest Fund Ltd. III LLC	Other fund	Africa	Africa	EUR		2014
AfricInvest Fund Ltd IV LLC	Other fund	Africa	Africa	USD	20,000,000	2020
AfricInvest Fund Ltd. II LLC	Other fund	Africa	Africa	EUR		2008
Agri-Vie Fund II (Pty) Ltd	Other fund	Africa	Africa	USD	10,000,000	2018
Aten Solar Energy S.A.E	Energy	Africa	Egypt	USD	6,000,000	2017
Atlantic Coast Regional Fund LLC	Other fund	Africa	Africa	USD		2008
BCS Group (Bandwidth and Cloud Services Group Holdings)	Digital infrastructure and solutions	Africa	Africa	USD	12,000,000	2021
Catalyst Fund I LLC	Other fund	Africa	Africa	USD		2011
Convergence Partners Digital Infrastructure Fund L.P.	**Other fund**	**Africa**	**Africa**	**USD**	**15,000,000**	**2022**
Co-operative Bank of Kenya Ltd	**Financial institution**	**Africa**	**Kenya**	**USD**	**12,000,000**	**2022**
Ecobank Transnational Incorporated	Financial institution	Africa	Africa	USD	10,000,000	2021

Investment	Sector	Region	Country	Currency	Finnfund's financing	Agreement year
ETC Group	Agribusiness	Africa	Africa	USD	25,000,000	2020, 2021
EthioChicken (AgFlow Poultry Limited)	Agribusiness	Africa	Ethiopia	USD	10,000,000	2016
European Financing Partners	Financial institution	Africa	Africa	EUR		2004
European Financing Partners IV	Financial institution	Africa	Africa	EUR		2010
European Financing Partners VI	Financial institution	Africa	Africa	EUR	10,000,000	2020
Evolution II (Mauritius) LP	Energy	Africa	Africa	USD	15,000,000	2017
Evolution One (BVI) LP	Energy	Africa	South Africa	USD		2008
Fidelity Equity Fund II Limited	Other fund	Africa	Ghana	USD		2008
First City Monument Bank Limited	Financial institution	Africa	Nigeria	USD	5,000,000	2019
First National Bank Ghana Limited	Financial institution	Africa	Ghana	USD	10,000,000	2020
Fuzu Ltd.	**Digital infrastructure and solutions**	**Africa**	**Africa**	**EUR**	**1,499,690**	**2016, 2022**
Ghana Airport Cargo Centre Limited	Transport and storage	Africa	Ghana	USD	1,000,000*	2014, 2016
Green Resources AS (GRAS)	Forestry	Africa	Africa	USD	13,300,000*	2012, 2018, 2019
Hakan-Quantum Biomass Fired Power Plant (Yumn Ltd)	Energy	Africa	Rwanda	USD	15,000,000	2016
Horus Solar Energy S.A.E	Energy	Africa	Egypt	USD	6,000,000	2017
Hospital Holdings Investment B.V.	Health	Africa	Africa	USD	9,400,000	2018
Humania North Africa Holding Company	Health	Africa	Africa	USD	18,750,000	2019
Kasha Global Inc.	Digital infrastructure and solutions	Africa	Africa	USD	1,000,000	2020
Kentegra Biotechnology Holdings LLC	**Agribusiness**	**Africa**	**Kenya**	**USD**	**5,000,000**	**2022**
Kilombero Valley Teak Company Ltd	Forestry	Africa	Tanzania	GBP	345,000*	2000, 2006, 2009, 2010, 2011, 2012, 2021
Lake Turkana Wind Power Limited	Energy	Africa	Kenya	EUR		2013
Lona Group Ltd (**Lynx Food Group**)	**Agribusiness**	**Africa**	**South Africa**	**USD**	**4,000,000**	**2022**
M-Birr Limited	Digital infrastructure and solutions	Africa	Ethiopia	EUR	1,466,000*	2011, 2014, 2016, 2017, 2021
QPEA GT Menengai Limited	**Energy**	**Africa**	**Kenya**	**USD**	**8,000,000**	**2022**
Miro Forestry Company, Ghana and Sierra Leone	**Forestry**	**Africa**	**Africa**	**USD**	**21,921,221***	**2014, 2015, 2018, 2019, 2020, 2022**

* This amount only includes investments signed since September 2016, based on Finnfund's disclosure policy

Investment	Sector	Region	Country	Currency	Finnfund's financing	Agreement year
Neoma Africa Fund L.L.C.	Other fund	Africa	Africa	USD		2009
New Forest Company (Tanzania) Limited NFCT	Forestry	Africa	Tanzania	USD		2014
New Forests Company Uganda UK Limited	Forestry	Africa	Uganda	USD		2015
New Forests Company Holdings I Limited	Forestry	Africa	Africa	USD	10,680,552	2019, 2020
Norsad Capital Limited	Financial institution	Africa	SADC	USD		2011
Penda Health Limited	Health	Africa	Kenya	USD	2,495,225	2018
Phatisa Food Fund 2 Parallel LLC	Other fund	Africa	Africa	USD	15,000,000	2021
Planting Naturals BV (Goldtree)	Agribusiness	Africa	Sierra Leone	USD	2,300,000	2011, 2013, 2014, 2016, 2019, 2022 **
Polykrome S.A.	Manufacturing	Africa	Senegal	EUR	4,000,000	2018
Precision Air Services (Swala Leasing and Finance Limited)	Transport and storage	Africa	Tanzania	USD		2008
Sanergy Inc.	Water & waste	Africa	Kenya	USD	1,249,999	2017
Schulze Global Ethiopia Growth and Transformation Fund I, LP	Other fund	Africa	Ethiopia	USD		2014
SFC Finance Limited	Financial institution	Africa	Africa	USD		2014
SilverStreet Private Equity Strategies SICAR	Other fund	Africa	Africa	USD		2011
Sini Furniture Interior Design PLC	Manufacturing	Africa	Ethiopia	EUR		2015
JTF Madagascar SARL	Agribusiness	Africa	Madagascar	EUR	3,750,000	2019
Sound and Fair Tanzania Limited	Forestry	Africa	Tanzania	USD		2016
SPARK Schools (eAdvance Proprietary Limited)	Education	Africa	South Africa	USD	5,166,581	2020
Synergy Private Equity Fund II LP	Other fund	Africa	Africa	USD	15,000,000	2018
TAQA Arabia for Solar Energy SAE	Energy	Africa	Egypt	USD	7,804,000	2017
Uhuru Growth Fund I-A, SCSp	Other fund	Africa	Africa	USD	10,000,000	2021

** Shared transfer within the corporate structure, no new capital invested

Investment	Sector	Region	Country	Currency	Finnfund's financing	Agreement year
Valency International Trading SARL	**Agribusiness**	**Africa**	**Ivory Coast**	**USD**	**10,000,000**	**2022**
Vantage Mezzanine IV Feeder Partnership	**Other fund**	**Africa**	**Africa**	**USD**	**20,000,000**	**2022**
Wave Mobile Money	**Digital infrastructure and solutions**	**Africa**	**Africa**	**EUR**	**12,000,000**	**2022**
Yalelo Limited	Agribusiness	Africa	Zambia	USD	6,000,000	2019
A.T. Biopower Company Limited	Energy	Asia	Thailand	USD		2003
Annapurna Finance Private Limited	Financial institution	Asia	India	EUR	15,000,000	2019
Australis Aquaculture Vietnam Limited	Agribusiness	Asia	Vietnam	USD	9,500,000	2017
BOPA PTE. LTD	Financial institution	Asia	Asia	USD	9,500,000	2017, 2018, 2020
Burapha Agro-Forestry Co., Ltd	Forestry	Asia	Laos	USD	10,000,000	2016, 2018
Cambodia-Laos Development Fund S.C.A., SICAV-SIF	Other fund	Asia	Asia	USD		2009
Dolma Impact Fund I B, Nepal	Other fund	Asia	Nepal	USD	3,100,000*	2014, 2018
Vietnam Debt Fund SPC	Other fund	Asia	Vietnam	USD	15,000,000	2021
Early Dawn Microfinance Company Limited	Financial institution	Asia	Myanmar	USD	11,000,000	2020
Fortum Charge & Drive India Private Limited	Energy	Asia	India	EUR	4,000,000	2020
Frontier Tower Associates Pte.Ltd.	Digital infrastructure and solutions	Asia	Indonesia	USD	10,000,000	2017
Fun Factory Ltd	Manufacturing	Asia	Bangladesh	USD	1,200,000	2017
Gemco Kati Exploration Pvt. Ltd.	**Manufacturing**	**Asia**	**India**	**EUR**	**2,000,000**	**2016, 2022**
GreenStream ESCO	Energy	Asia	China	EUR		2014, 2016
Igloo (Axinan Pte Ltd)	**Insurance**	**Asia**	**Asia**	**USD**	**5,999,794**	**2022**
Kashf Foundation	Financial institution	Asia	Pakistan	USD	10,000,000	2020
LVDU Lapland Food (Fushun) Co., Ltd	Agribusiness	Asia	China	EUR		2012
Mekitec Oy	Digital infrastructure and solutions	Asia	China	EUR		2010, 2011
Nafoods Group Joint Stock Company	Agribusiness	Asia	Vietnam	USD	5,000,000	2020
Nam Sim Power Company Limited	Energy	Asia	Laos	USD	200,000*	2011, 2020
Proximity Holding Company Pte. Ltd	Financial institution	Asia	Myanmar	USD	4,666,371	2020

* This amount only includes investments signed since September 2016, based on Finnfund's disclosure policy

Investment	Sector	Region	Country	Currency	Finnfund's financing	Agreement year
Salo Tech (Thailand) Limited	Energy	Asia	Thailand	EUR	2,756,250	2020
SaraRasa Biomass	Manufacturing	Asia	Indonesia	USD	500,000*	2012, 2013, 2015, 2016, 2017, 2018
Sathapana Bank PLC	Financial institution	Asia	Cambodia	USD	15,000,000	2019, 2021
Softlogic Life Insurance Plc	Insurance	Asia	Sri Lanka	USD	7,500,000	2020
Spica Metfab Solutions India Private Limited	Manufacturing	Asia	India	EUR		2009
SREI Equipment Finance	Financial institution	Asia	India	EUR	15,000,000	2017
New Forests Tropical Asia Forest Fund L.P. / Mekong Timber Plantations Company Limited	**Forestry**	**Asia**	**Laos**	**USD**	**4,000,000**	**2022**
Thai Biogas Energy Company Ltd (TBEC Singapore PTE Ltd)	Energy	Asia	Thailand	EUR		2009
TPL Insurance Limited	**Insurance**	**Asia**	**Pakistan**	**USD**	**3,000,000**	**2022**
New Forests Tropical Asia Forest Fund L.P.	Forestry	Asia	Asia	USD		2012
VinFast Trading and Production Joint Stock Company	**Manufacturing**	**Asia**	**Vietnam**	**USD**	**15,000,000**	**2022**
VME Precast Pvt. Ltd.	Manufacturing	Asia	India	USD		2009
XacBank II LLC	Financial institution	Asia	Mongolia	USD	5,000,000	2019
Afrinord Hotel Investments A/S	Tourism	Europe and Central Asia	EU	EUR		2005
Bank of Georgia	Financial institution	Europe and Central Asia	Georgia	USD	10,000,000	2019
Cibuk Wind Farm (Taaleri Tesla Ky)	Energy	Europe and Central Asia	Serbia	EUR	10,740,971	2017, 2018
Oasis Invest Uzbekistan Limited	**Financial institution**	**Europe and Central Asia**	**Uzbekistan**	**USD**	**2,500,000**	**2022**
SEAF South Balkan Fund B.V.	Other fund	Europe and Central Asia	Serbia	EUR		2009
Syvash Wind Farm (SyvashEnergoProm LLC)	Energy	Europe and Central Asia	Ukraine	EUR	15,000,000	2019
Toplana Zenica d.o.o	Energy	Europe and Central Asia	Bosnia and Herzegovina	EUR	1,800,000	2018
Advans Group	Financial institution	International	International	EUR	20,000,000	2019, 2021
Althelia Climate Fund SICAV-SIF	Other fund	International	International	EUR		2013
Arbaro Fund SCSp	Forestry	International	International	USD	10,000,000	2018
Bayport Management Ltd	**Financial institution**	**International**	**International**	**USD**	**10,000,000**	**2022**

* This amount only includes investments signed since September 2016, based on Finnfund's disclosure policy

Investment	Sector	Region	Country	Currency	Finnfund's financing	Agreement year
Catalyst MENA Clean Energy Fund LP	Other fund	International	International	USD		2016
Dasos Timberland Fund I SICAV-SIF	Forestry	International	International	EUR		2010
GEEMF Global Environment Emerging Markets Fund III L.P.	Other fund	International	International	USD		2007
Interact Climate Change Facility II	Financial institution	International	International	EUR	20,000,000	2016
Interact Climate Change Facility II B	Financial institution	International	International	EUR	15,000,000	2020
Interact Climate Change Facility S.A. I	Financial institution	International	International	EUR		2011
Interact Climate Change Facility S.A. I B	Financial institution	International	International	EUR		2013
IPI Group (Holding) S.A.L. (IPT Powertech)	Digital infrastructure and solutions	International	International	USD	10,000,000	2019
Jumo World Limited	**Digital infrastructure and solutions**	**International**	**International**	**USD**	**13,996,500**	**2018, 2022**
Kaios Technologies Pte. Ltd.	**Digital infrastructure and solutions**	**International**	**International**	**USD**	**3,400,000**	**2022**
Moringa S.C.A., SICAR	Forestry	International	International	EUR		2013
Nordic Impact Cooperation AS	Energy	International	International	EUR	7,400,000	2021
OP Finnfund Global Impact Fund I	OP Finnfund fund	International	International	EUR	67,350,000	2020
ShoreCap International Ltd. II	Other fund	International	International	USD		2009
WWB Capital Partners, LP	Other fund	International	International	USD		2012
Bósforo Ltda. De C.V.	Energy	Latin America and the Caribbean	El Salvador	USD	15,000,000	2017
Caseif II, Caseif Corporation II Ltd	Other fund	Latin America and the Caribbean	Central America	USD		2007
Central American Mezzanine Infrastructure Fund II	Other fund	Latin America and the Caribbean	Central America	USD		2014
Central American Mezzanine Infrastructure Fund	Other fund	Latin America and the Caribbean	Central America	USD		2009
CIFI (Corporación Interamericana para el Financiamiento de Infraestructura, S.A)	Financial institution	Latin America and the Caribbean	Latin America	USD	15,000,000*	2004, 2021
Forest First Colombia	**Forestry**	**Latin America and the Caribbean**	**Colombia**	**USD**	**10,000,000**	**2017, 2022**
Mezapa (Sociedad Electrica Mesoamericana S.A. de C.V. (SEMSA))	Energy	Latin America and the Caribbean	Honduras	USD		2010

* This amount only includes investments signed since September 2016, based on Finnfund's disclosure policy

Investment	Sector	Region	Country	Currency	Finnfund's financing	Agreement year
Valle Solar Power Project	Energy	Latin America and the Caribbean	Honduras	USD		2015
MLR Forestal de Nicaragua S.A.	Forestry	Latin America and the Caribbean	Nicaragua	USD	10,000,000	2019
Pro Eucalipto Holding S.A.P.I. de C.V.	Forestry	Latin America and the Caribbean	Mexico	USD		2014, 2015
Productora Cartonera S.A. (Procarsa), Surpapelcorp S.A. (SPC)	Forestry	Latin America and the Caribbean	Ecuador	USD	9,000,000	2020
San Francisco S.A.	Transport and storage	Latin America and the Caribbean	Paraguay	USD	8,000,000	2017
SEAF Latam Growth Fund LLC	Other fund	Latin America and the Caribbean	Latin America	USD		2008
The Forest Company Limited	Forestry	Latin America and the Caribbean	Latin America	USD		2010
Arabia One for Clean Energy Investments PSC	Energy	Middle East	Jordan	USD		2014
Falcon M'an for Solar Energy LLC	Energy	Middle East	Jordan	USD		2014
FRV Solar Jordan Holdings IX B.V.	Energy	Middle East	Jordan	USD		2016
Hanwshah for Power Generation PSC (Jordan Solar One)	Energy	Middle East	Jordan	USD		2014

How and where Finnfund invests

Finnfund invests in sustainable businesses that generate a measurable development impact in developing countries. We require all our investment projects to be economically viable, and environmentally and socially sustainable, and to generate a measurable development impact in their countries of operation. We vet each investment at the outset against Finnfund's sustainability criteria. Our financing is always on market terms.

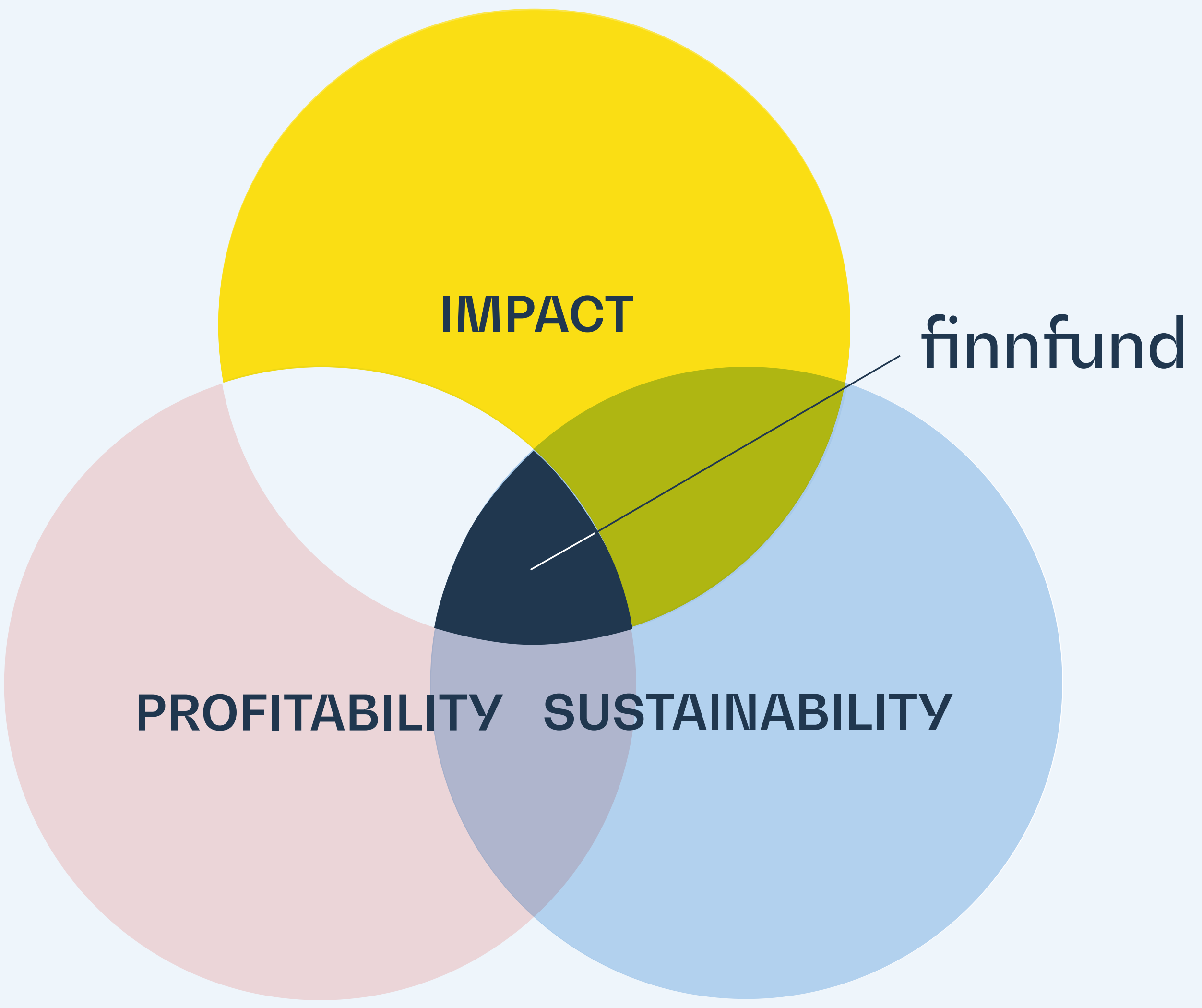
We tailor our financing to the needs of each investee. It can be equity, mezzanine financing, or debt. We put special emphasis on sectors critical to sustainable development, namely clean energy, sustainable forestry and agriculture financial institutions, and digital infrastructure and solutions. We can also invest in other sectors when pro-jects meet our requirements and are aligned with our strategy.

The majority of Finnfund's investments are made directly in companies operating in developing countries. Besides such direct investments, we can make indirect investments through funds. Additionally, Finnfund finances banks and financial institutions. Funds and financial institutions complement direct investments by mobilising risk financing for smaller businesses and projects in fragile countries, which often have no access to financial services. The financial institutions funded by Finnfund often focus on serving small and medium-sized enterprises, small scale infrastructure projects, family businesses, or households. Well-managed funds can also provide companies with other types of support, such as expertise related to the industrial sector or environmental sustainability.

We advance Finnish development policy interests. We are happy to invest in projects involving co-operation with Finnish companies, but this is not a precondition of investment.

Read more about our investment process on our [website.]

Finnfund has three criteria for all investments: impact, profitabilty and sustainability.



CASE

Finnfund's first investment in geothermal energy

In December 2022, Finnfund invested 8 million US dollars in geothermal project in Nakuru County, Kenya.

Menengai is a 35MW greenfield geothermal project and part of the first phase of the wider Menengai complex, which is the second large-scale geothermal field being developed in Kenya after Olkaria. Globeleq, the leading private power company in Africa, is providing equity, project development and construction management experience. Other financiers, together with Finnfund, include the African Development Bank (AfDB), and the Eastern and Southern African Trade & Development Bank (TDB).

"This investment is yet another step in Finnfund's commitment to make EUR 1 billion of new investments in climate finance by 2030. The Menengai geothermal project will provide clean and affordable power to the Kenyan grid and will be a domestic source of energy which can generate base load and will have important social and economic impacts. We are proud to continue investing in the power sector in Kenya with our partners," said **Helena Teppana**, Associate Director at Finnfund.

Read more on our website.

Name: **QPEA GT Menengai**
Country: **Kenya**
Investment year: **2022**
Sector: **Energy**

The project is part of the first phase of the wider Menengai complex, which is the second large-scale geothermal field being developed in Kenya.

CASE

Bridging the digital divide between rural and urban populations in Sub-Saharan Africa

In November 2022, OP Finnfund Global Impact Fund I announced a commitment to support the growth of Africa Mobile Networks, a telecom provider focused on rural Sub-Saharan Africa.

AMN aims to build 10,000 base stations in over 20 Sub-Saharan countries while serving a total population of 35 million people. AMN's portfolio is spread across different countries, with exposure to a significant number of least developed countries (LDCs) such as DRC, Liberia, Congo and Guinea. AMN has strong and substantial partnerships with global telecommunication and technology firms.

Mobile network access and connectivity are instrumental to promote financial inclusion and support the development of rural populations in emerging economies.

In numerous African countries, daily activities such as transferring money, taking and repaying credit loans, subscribing to an insurance policy, or paying school fees for their children are only conducted via mobile phones.

OP Finnfund Global Impact Fund I is the first global emerging markets impact fund in Finland. Finnfund acts as an advisor and anchor investor, and OP Asset Management Ltd, part of OP Financial Group, acts as a portfolio manager for the fund.

Read more on our website.

Name: **OP Finnfund Global Impact Fund I / Africa Mobile Networks (AMN)**
Country: **Sub-Saharan Africa**
Investment year: **2022**
Sector: **Telecom**

AMN aims to build 10,000 base stations in over 20 sub-Saharan countries.

Strategy and targets

Finnfund's strategy, approved by the Board of Directors in December 2021, sets our operational guidelines until 2025. The strategy states that Finnfund's mission is to build a sustainable future and generate a lasting impact by investing in businesses that solve global development challenges. Our vision is that people and the planet are at the core of every investment decision.

Finnfund emphasises those sectors that matter for sustainable development, such as renewable energy, sustainable forestry, sustainable agriculture, financial institutions, and digital infrastructure and solutions. The company can also invest in other sectors.

We emphasise three global impact themes: climate action, diversity and inclusion, and digitalisation. In addition to these, the geographical focus is strongly on Africa, with three regional impact themes: food security, job creation, and energy access.

Finnfund's strategy emphasises three global impact themes, as well as three regional impact themes particularly relevant in Africa.

Three strategic goals

As explained above, the strategy sets three strategic goals that are monitored closely:

- Double the total impact from 2020 to 2025
- 50% of investments with private capital by 2030
- Maintain a carbon net-negative portfolio

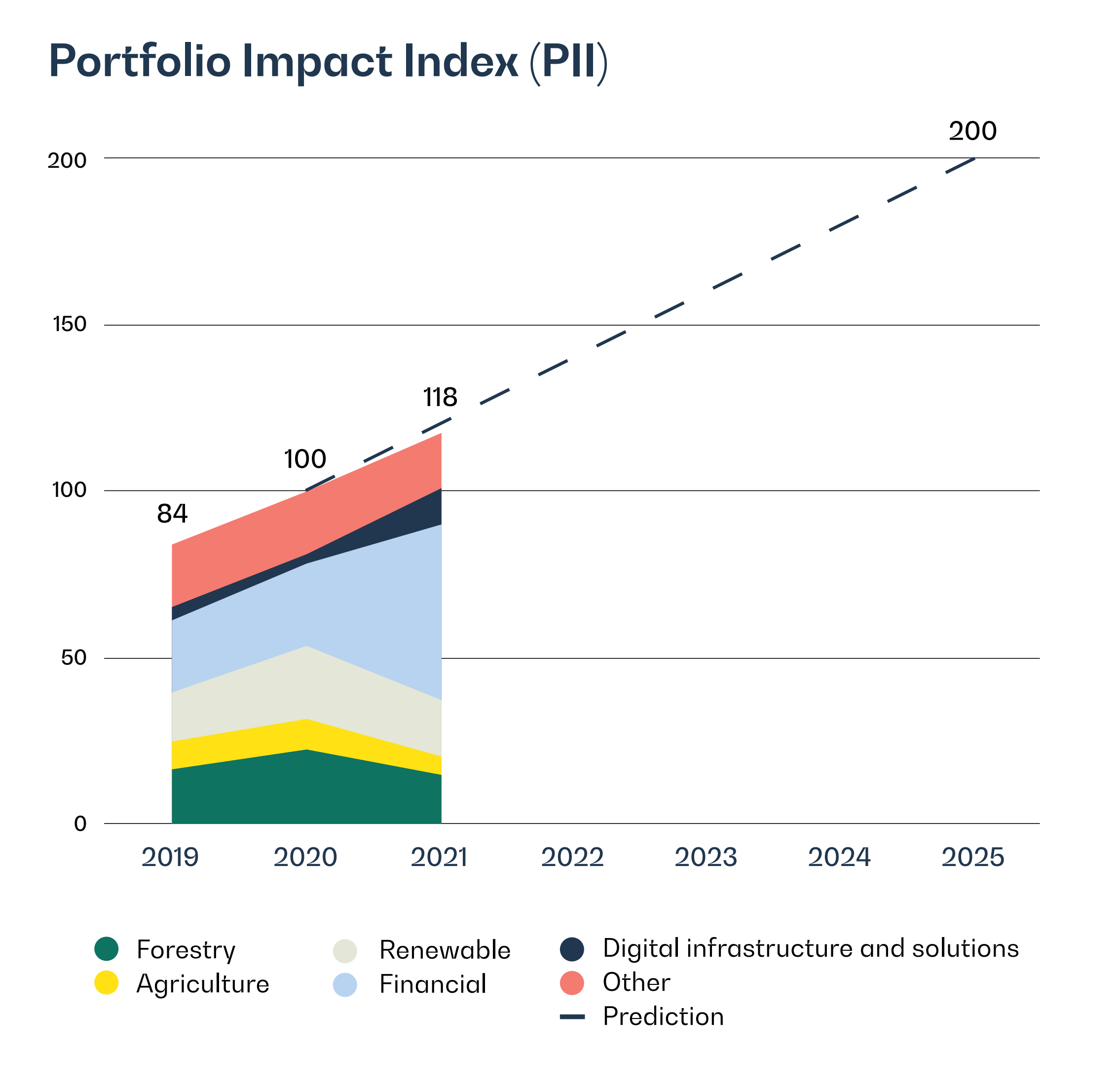
In 2022, the implementation of the strategy began well, and the year 2023 has also got off to a strong start in terms of both new investments and impact. In 2022, we also issued our first sustainability bond (p. 117).

The effects of climate change and biodiversity loss, as well as the effects of the coronavirus pandemic and Russian military aggression, on, for example, food security and healthcare are clearly visible in many of Finnfund's target countries. On one hand, this creates opportunities for investments with an exceptionally significant impact, but on the other hand, it also highlights the importance of assessing and managing financial and responsibility-related risks.

Finnfund will further deepen the identification of, for example, biodiversity loss and the impacts and opportunities created by climate change from the perspective of both climate change mitigation and adaptation. The assessment and management of human rights risks will also be further strengthened in 2023.

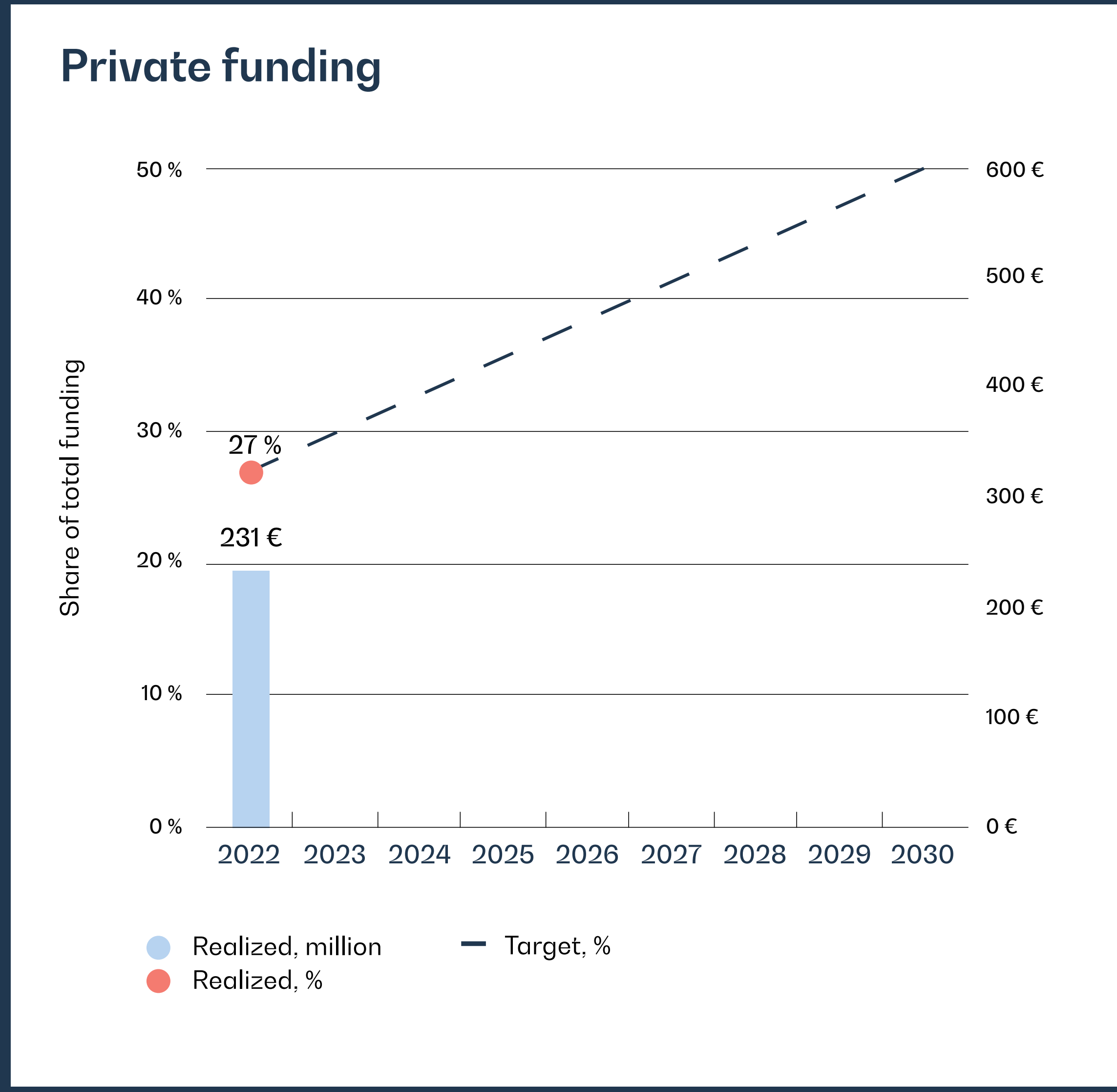
The progress of these three strategic goals is presented in the table on p. 27. You may read more about our strategy on p. 114.

1. Double total impact from 2020 to 2025



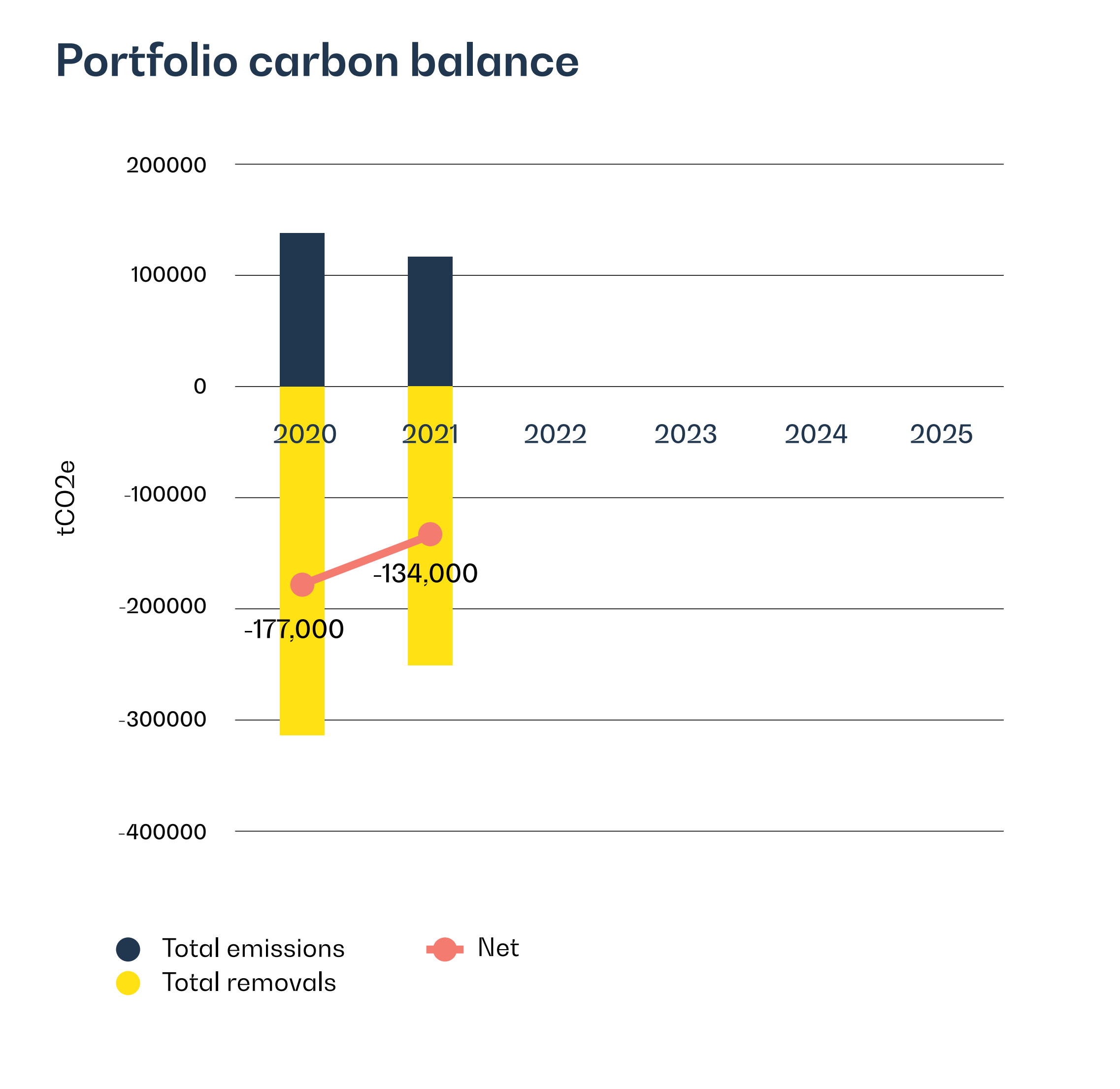
Definition: Portfolio level indicator capturing both portfolio and investee impact growth
Base year: 2020

2. Fund 50% of investments with private capital by 2030



Definition: Share (%) of Finnfund's total funding, including several off-balance sheet items
Base year: 2022

3. Maintain carbon net-negative portfolio



Definition: Sum (tCO2e) of portfolio investments, including Scope 1-3 emissions (+) and removals (-)
Base year: 2020

Finnfund closely monitors the progress of its three strategic objectives. You can find more information on the first goal, doubling the total impact by 2025, on p. 85.

Annual targets set by the Ministry for Foreign Affairs

Each year, the Ministry for Foreign Affairs issues a Government Ownership Steering Memorandum, in which it sets Finnfund's development policy and operational goals. The memorandum can be found on [our website.](#)

The targets and the results for the year 2022 are presented in the table.

	Indicators	Reference level 2021	Target 2022	R 2022 Q4
1	Investments in low- and lower-middle-income countries of the value of Finnfund's new investment decisions (%)	> 75% -95%	> 75%	92%
	, of which values by LDC, LIC and LMIC (%)		To be reported	LDC 43%, LMIC 49%
2	Climate investments of the value of Finnfund's new investment decisions (%)	> 50% -51%	> 50%	53%
	, of which for adaptation	-50%	To be reported	86%
3	Investments in Africa of the value of Finnfund's new investment decisions (%)	> 50% -56%	> 50%	57%
4	Jobs generated by investees (direct investments/fund portfolio companies)	(81,477 direct investments, 108,371 fund's portfolio companies)	To be reported	82,630 direct investments, 143,935 fund's portfolio companies
	, of which for women	-40%	To be reported	37%
5	Number of investees (direct investments/fund portfolio companies)	(111 companies 36 funds 195 fund portfolio companies)	To be reported	117 companies, 36 funds, 174 fund portfolio companies
	, of which SME companies (number)	(43 direct investments, 88 fund portfolio companies)	To be reported	44 direct investments, 57 fund portfolio companies
	, of which owned by women (%)	(1% direct investments)	To be reported	1% direct investments
	Number of Finnish companies involved in Finnfund's investments and their share of Finnfund's portfolio (%) (including suppliers, owners and Finnish investors and service providers)		To be reported	12 projects 8% (12/153)
6	Number of investments promoting gender equality that have met the 2X Challenge criteria		To be reported	46% of new investments

1 Based on the World Bank classification. Also to fragile states and other countries in exceptionally challenging situations.
2 Applying the OECD DAC climate markers, investments, whose partial or main objective is to mitigate or adapt to climate change.
3 The indicator is calculated as a three-year moving average.
4, 5 The Ministry of Foreign Affairs' development cooperation performance reporting methodology is followed.

	Indicators	Reference level 2021	Target 2022	R 2022 Q4	Budget 2022
7	Return on equity as a five-year moving average	> 2% (-1.4%)	> 2%	-3.0%	-2.7%
8	Share of operating costs of the investment assets (including undisbursed decisions, excluding administrative expenses of the Finnpartnership program)	< 2% (1.3%)	< 1.8%	1.5%	1.4%

Pandemic recovery was cut short by the war in Ukraine

Russia's hostile invasion of Ukraine in March 2022 set the global economy into renewed crisis mode and cut short the pandemic recovery. The war heightened global uncertainty, increased supply chain constraints, pushed up energy and food prices, and significantly elevated geopolitical risks.

These developments had a major impact on global macro-economic conditions. Notably, the war further accelerated inflation, which rose to levels not seen since the mid-1990s, leading to the largest ever seen synchronised global monetary policy tightening, risk aversion in the markets, and fast appreciation of the US dollar. This prompted capital outflows from many developing market economies, especially those with weaker macroeconomic fundamentals. Moreover, the economic insecurity increased political risks in Finnfund's markets.

The multiple shocks of the past years – geopolitical, energy, and economic – are still evolving and affecting each other, bringing continued uncertainty to the global outlook. Overall, in 2023, we will see global growth slowing, but the picture is looking brighter for emerging and developing economies, particularly in Asia.

Challenges but also (investment) opportunities

The appreciating US dollar, tightening of financial conditions, and increases in commodity prices have been particularly challenging for many developing markets. Countries such as Ghana, Sri Lanka, Egypt, Nigeria, Tunisia, Pakistan and Kenya have effectively been shut out of market financing and are relying on international organisations. Moreover, mounting debt risks are likely to increase debt restructuring pressures.

However, investors have continued to differentiate across emerging market economies, and many of the stronger emerging markets seem to be more resilient to external vulnerabilities. For Finnfund, the ongoing turmoil requires careful consideration and analysis of investment exposures to macroeconomic and political risks. Moreover, the new high interest-rate environment may pose challenges to certain sectors, such as banking, or sectors requiring large capital investments, such as clean energy. On the other hand, opportunities are arising in food production, export-oriented production, and digital transformation.

Read more on pp. 120 and 126.

"The multiple shocks of the past years – geopolitical, energy, and economic – are still evolving and affecting each other, bringing continued uncertainty to the global outlook. Overall, in 2023, we will see global growth slowing, but the picture is looking brighter for emerging and developing economies, particularly in Asia."

Kristiina Karjanlahti
Lead Economist

Five key sectors

Each year, Finnfund invests 200–250 million euros in 20-30 projects with a special emphasis on sectors that are critical to sustainable development and where the private sector can play a crucial part: namely, renewable energy, sustainable forestry, sustainable agriculture, financial institutions, and digital infrastructure and solutions.

We have created Theories of Change for each of these sectors to guide our impact thinking. Theories of Change, or impact pathways, describe how our financing and other inputs lead to changes in a company's performance, generating direct, indirect, and wider economic, social and environmental impacts.

In addition to these five key sectors, we also invest in other areas relevant to sustainable development, whenever they match our investment strategy and meet our requirements.

Sustainable forestry

Sustainable forestry has long been one of Finnfund's key sectors, and it has a key role in maintaining our target to keep our portfolio carbon balance net-negative.

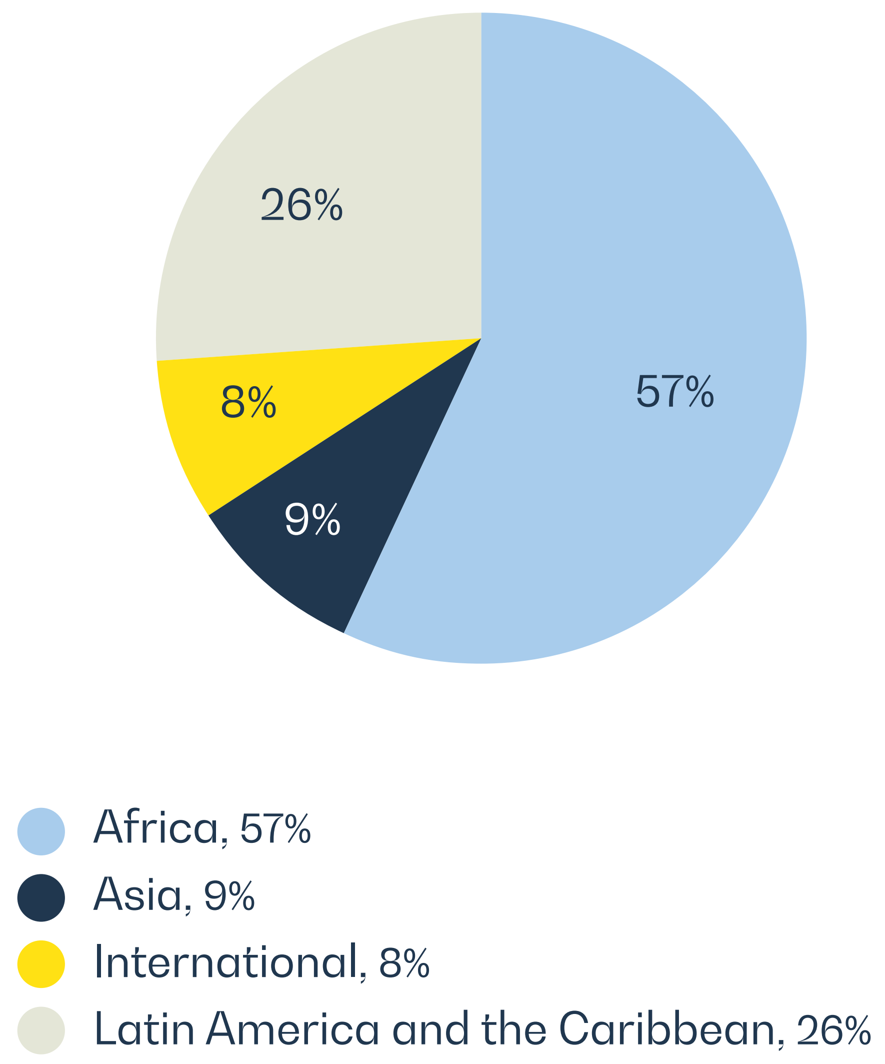
Forests are vital for our well-being – and survival – at both global and local levels. They play a key role in the fight against climate change and biodiversity loss. Forests sequester approximately one third of the carbon emissions stemming from the use of fossil fuels.

In addition, forests prevent erosion, help maintain clean water supplies, and provide many sources of well-being for local communities. Sustainably managed forests also bring jobs, services, and prosperity to people living in remote rural areas. However, rapid deforestation, particularly in many parts of Africa and Latin America, is diminishing global forest cover at an alarming rate.

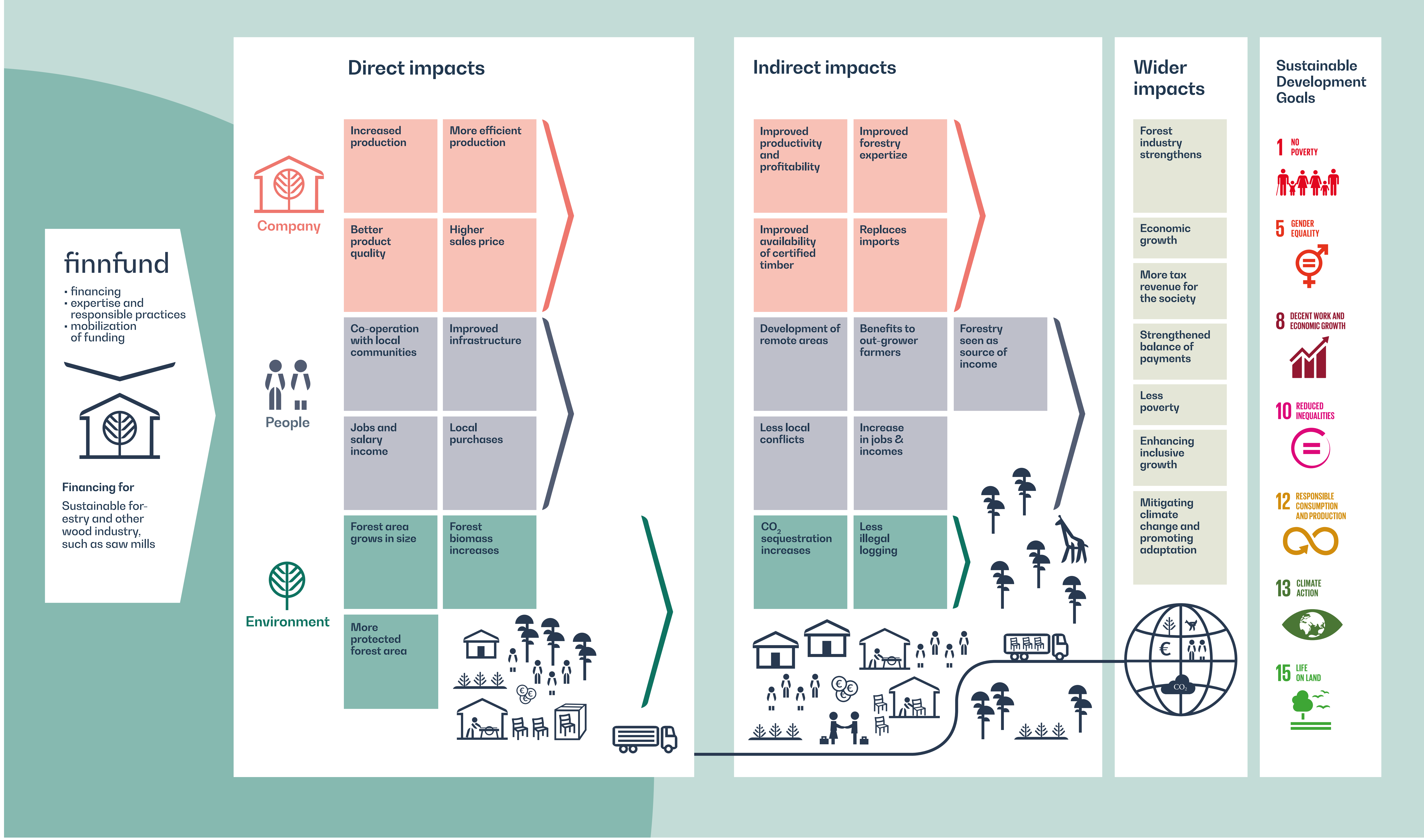
At the end of 2022, our investments in forestry (portfolio and commitments) were worth 177 million euros, which represented 16,9% of the total portfolio. This is higher than in any other development finance institution (DFI), making Finnfund a leading DFI in investment in forestry. Finnfund's forestry investments include, for instance, plantations, sawmills, and other wood-processing facilities.

A large majority of the forests managed by our investee companies have been certified by the international Forestry Stewardship Council (FSC®) as being socially and environmentally responsible and sustainable. This means, for example, that the companies must preserve at least 10% of a forested area. In the case of Finnfund investees, the share of protected forest is often considerably higher.

Forestry porfolio and commitments, on 31 December 2022, geographical distribution
(177 EUR million)



Our Theory of Change (ToC) for sustainable forestry



Renewable energy

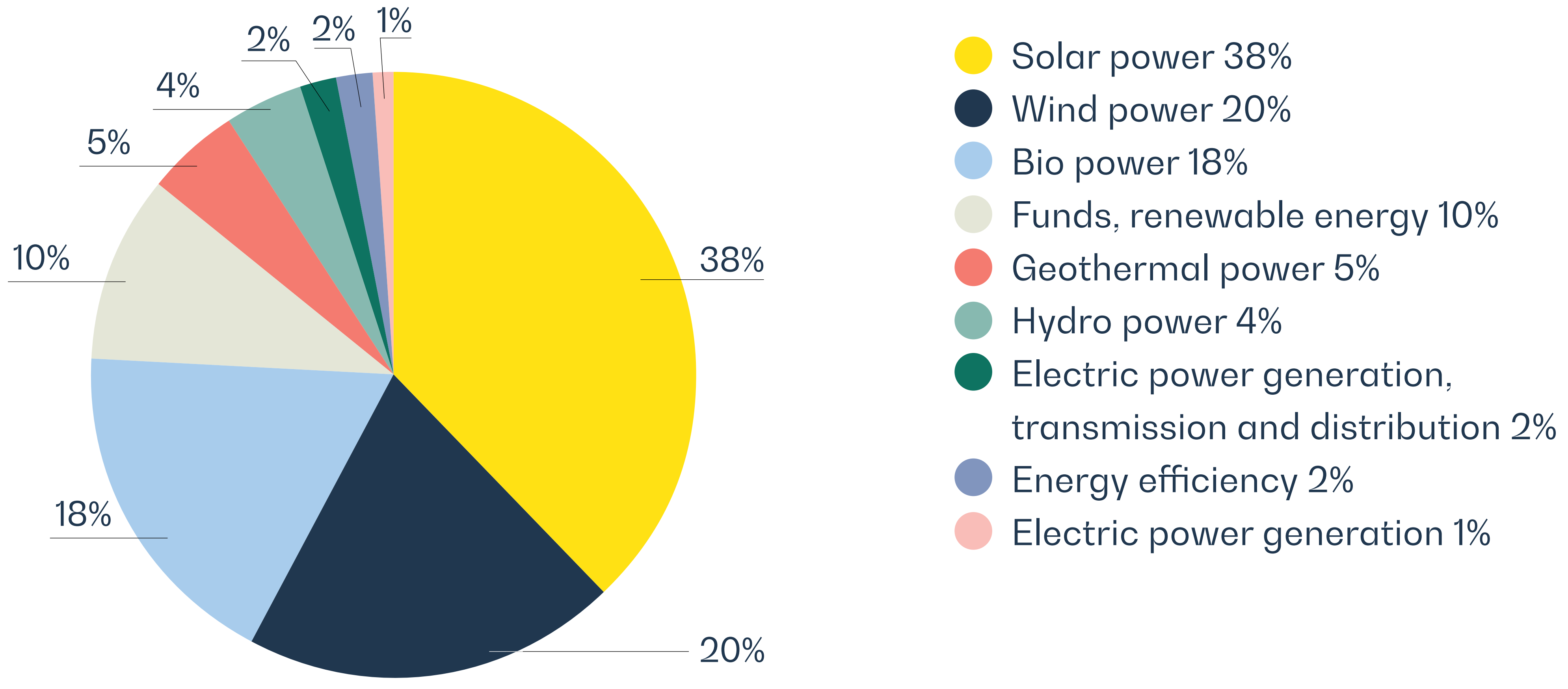
Finnfund invests in companies that generate cleaner, cheaper, and more reliable energy than existing alternatives. Energy and access to energy is at the heart of development. Hundreds of millions of people live without access to energy or with unreliable or expensive power, which poses a key barrier to economic development in emerging economies.

Renewable energy is clearly a sector that can generate significant positive impacts at both global and local levels. All pathways that limit global warming to 1.5°C will require rapid and far-reaching transitions in energy, and such transitions are only feasible through a significant upscaling of investments in the sector. In addition, a reliable and affordable supply of cleaner energy can generate significant social and economic impacts at all levels of society.

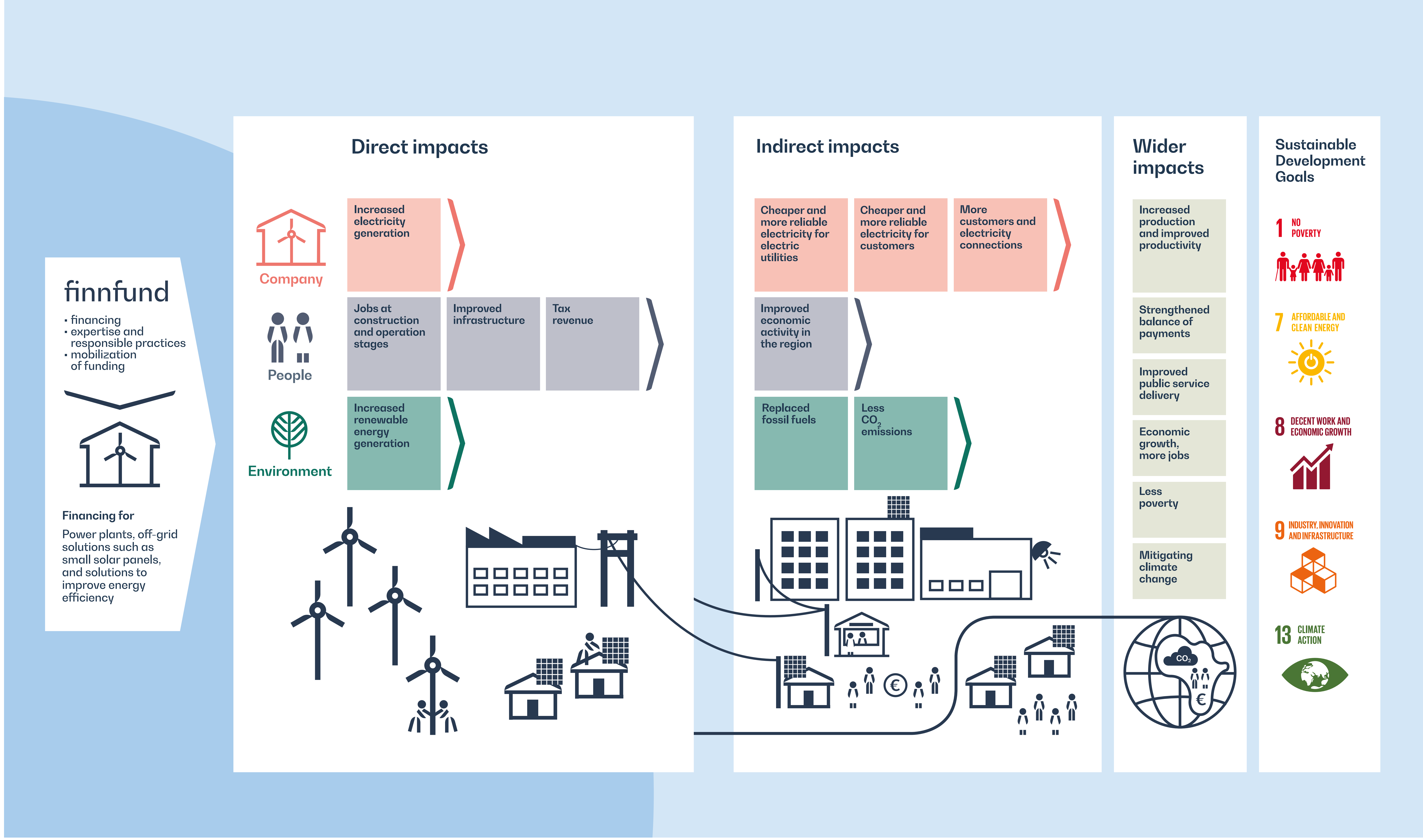
Our Statement on Climate and Energy underlines our commitment to the Paris Agreement and explains what this commitment means in practice. In addition, we are committed to making 1 billion euros worth of new investments in climate finance by 2030 (p. 60).

At the end of 2022, our investments (portfolio and commitments) in this sector were worth 163 million euros, representing approximately 15.5% of our portfolio. Most of our energy investments are in grid-connected renewable energy power plants, but we believe that commercial and industrial (C&I) solar-based and hybrid power solutions are becoming increasingly important. Investments include, for instance, solar, wind, biomass and geothermal energy, and energy efficiency.

Energy portfolio and commitments as of 31 December 2022
(total EUR 163 million)



Our Theory of Change (ToC) for renewable energy



Sustainable agriculture

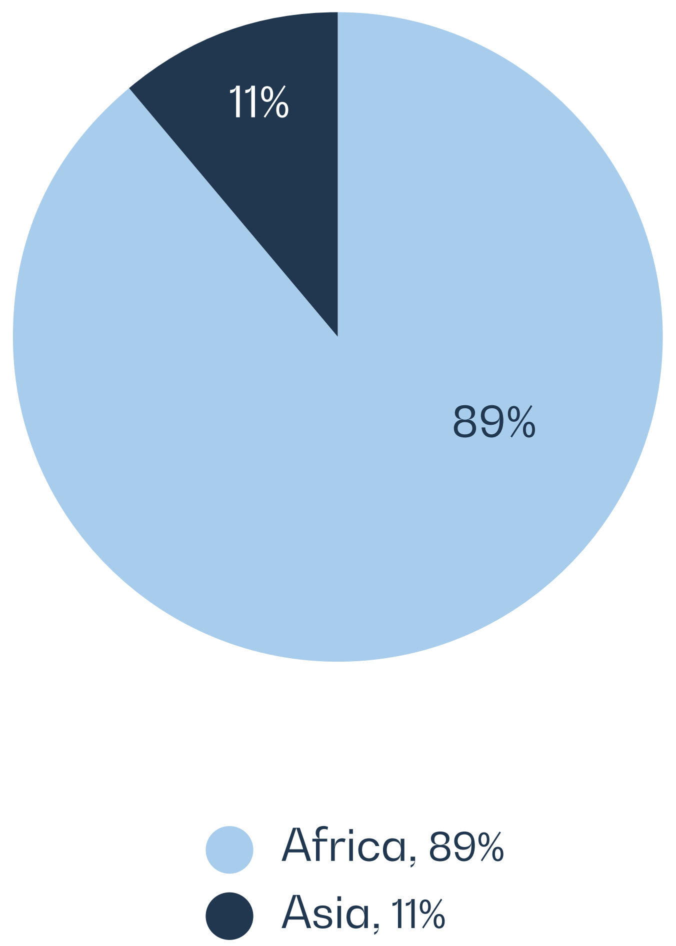
Finnfund invests in the entire value chain of agriculture with the aim of improving primary farm production, particularly in Sub-Saharan Africa. Improving the productivity of agriculture in a sustainable manner creates jobs and raises the income of people dependent on farming.

Improving agricultural productivity is essential for feeding the world's growing population. Agribusinesses can generate significant development impacts at local and regional levels, as they usually operate outside cities and towns, where they are often important and sometimes even the sole local employers. In many cases, agribusinesses are strongly associated with the local economy, working directly with local small-scale farmers, providing a marketplace for local produce, and helping farmers improve their productivity.

Climate change is making farming increasingly risk prone. Growth in productivity and yield, enabled by modern agricultural methods, improves food security in developing countries and strengthens the balance of payments. It also supports the entire agricultural value chain, including local food production, and helps climate change adaptation by, for example, introducing more resilient crops. Therefore, climate change adaptation is both a potential business opportunity and a precondition for any business to survive.

At the end of 2022, Finnfund's investments (portfolio and commitments) in sustainable agriculture were worth 88 million euros, representing approximately 8.4% of our portfolio. Finnfund had 13 direct investments in agriculture and 2 indirect investments through funds. We have also invested in financial institutions that increase access to finance in this capital-scarce sector.

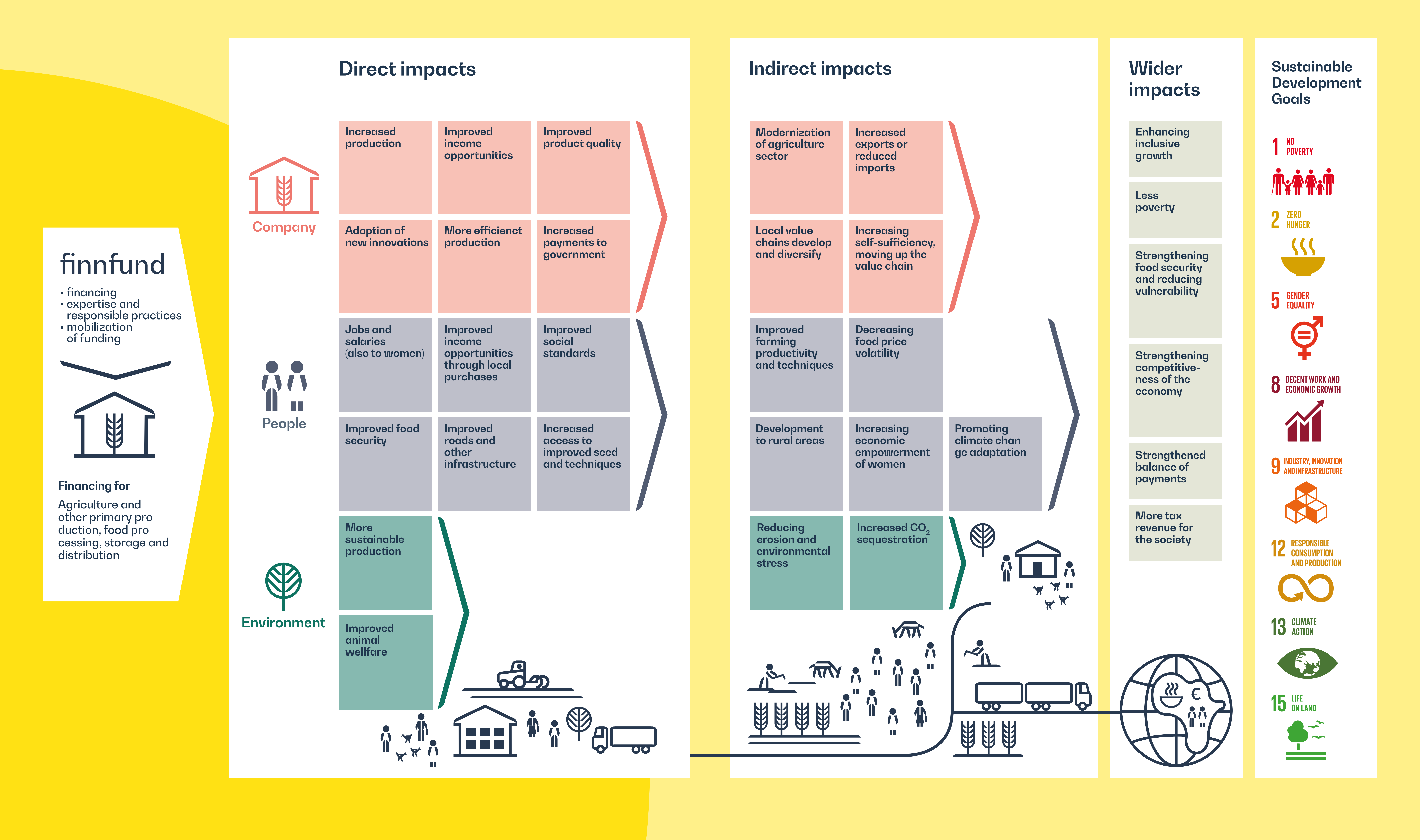
Agribusiness porfolio and commitments, on 31 December 2022, geographical distribution
(88 EUR million)



"Sustainable forestry and agriculture play a key role in how we deal with today's burning issues, such as climate change, deforestation, and food security. First the pandemic, and then Russia's invasion of Ukraine, affected the global markets for food and fertilisers, and they continue to cause challenges in developing countries. The global timber trade has also seen a dramatic shift due to geopolitics, and that has created opportunities for new producers in, for example, emerging markets."

Ilkka Norjamäki
Senior Investment Manager,
Head of Agri and Forestry portfolio

Our Theory of Change (ToC) for sustainable agriculture



Financial institutions

Finnfund invests in local financial institutions, to build their capacity to better reach micro and small and medium-sized businesses. Finnfund promotes financial inclusion by investing in selected financial service providers, including commercial banks, inclusive of insurance, and financial innovations.

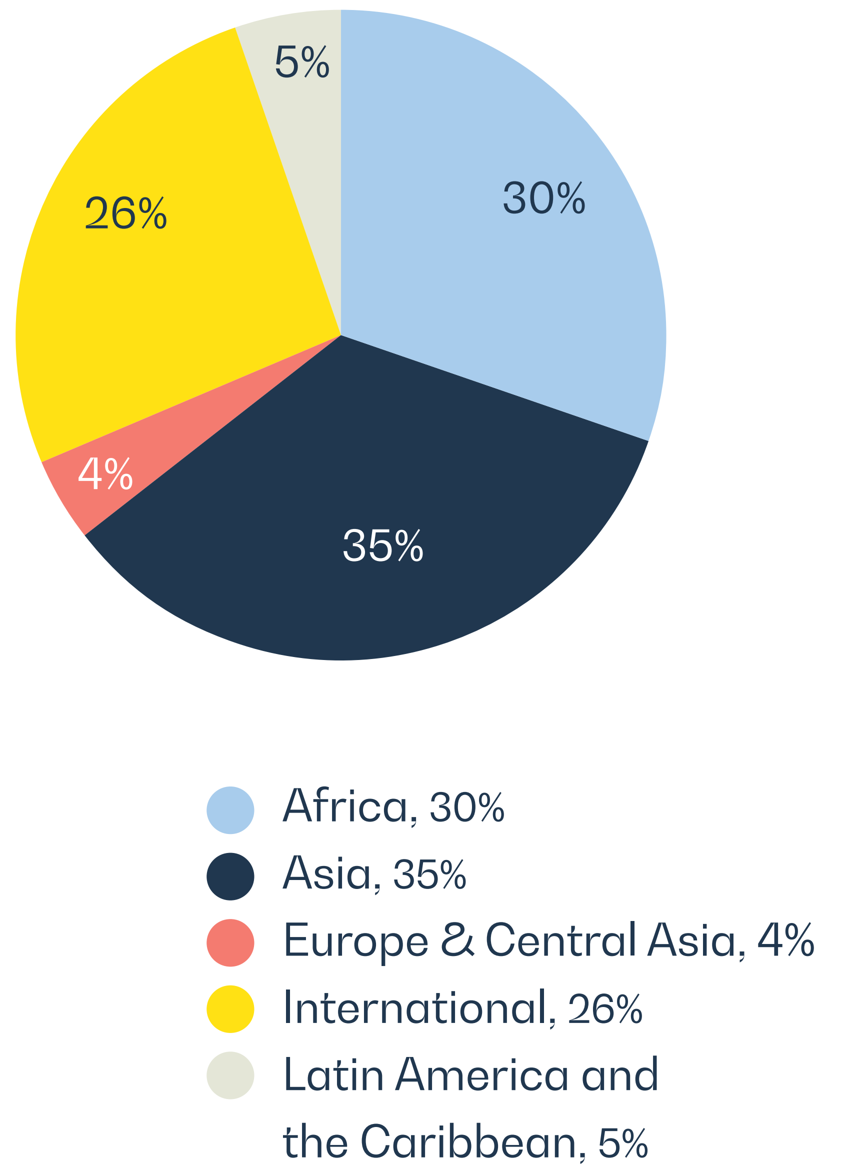
In developing countries, many people do not yet have access to reliable, affordable financial services. Access to financial services plays a significant role in reducing poverty, creating jobs, and bridging the gender equality gap. Reliable, easily accessible financial services for the poorest people and small and medium-sized enterprises help build resilience to shocks and improve the livelihoods of people and businesses. Digitalisation is playing a key role in fostering financial inclusion, as it enables financial institutions to reach new and previously excluded people.

Gender equality and, more specifically, women's improved access to financial services is a significant criterion for us in selecting new investments. For instance, most microfinance customers in our portfolio companies are women.

Responsible lending practices are key. Finnfund is committed to the Client Protection Principles (CPPs), which strive to ensure that microfinance is based on responsible, sustainable lending practices, data privacy, and respect for human rights.

At the end of 2022, Finnfund's investments (portfolio and commitments) in this sector were worth 274 million euros, representing approximately 26.2% of our portfolio. Finnfund had 26 direct investments in financial institutions and 4 indirect investments through funds. Finnfund's investees typically provide financial services to micro, small and medium-sized enterprises (MSMEs), as well as to individuals who have few alternative sources of reliable and formal banking services, such as savings and digital money transfers. In addition, Finnfund has invested in insurance companies.

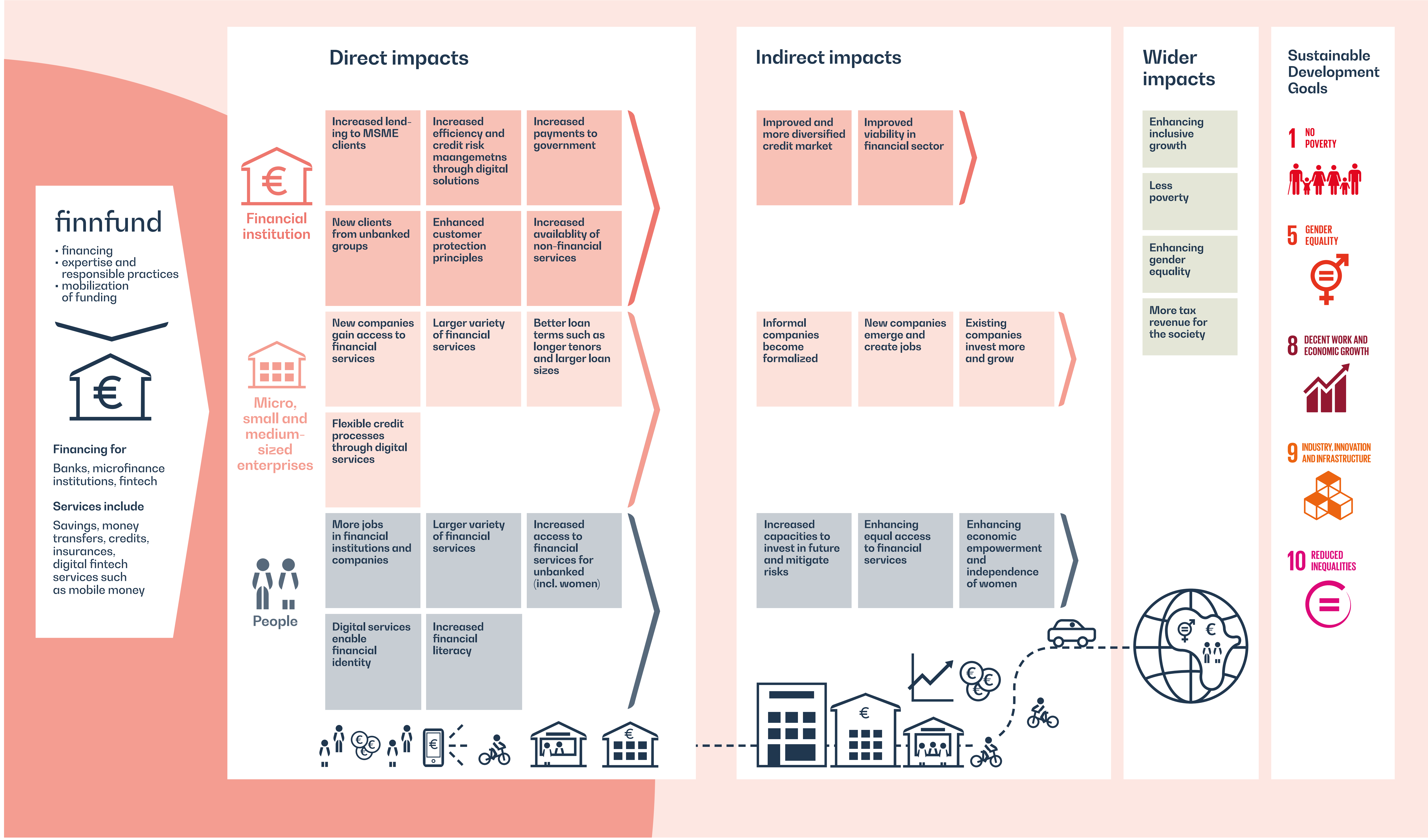
Financial institutions porfolio and commitments, on 31 December 2022, geographical distribution
(274 EUR million)



"Our investments in financial institutions and funds allow us to provide funding and generate support for small and medium-sized businesses that play a key role in inclusive growth. Very often, our focus is on women entrepreneurs or specific sectors, such as agribusiness. In 2022, we also grew our portfolio with two new investments in the insurance sector, enabling the companies to extend their services and products to those previously underserved."

Ulla-Maija Rantapuska
Investment Manager

Our Theory of Change (ToC) for financial institutions



Digital infrastructure and solutions

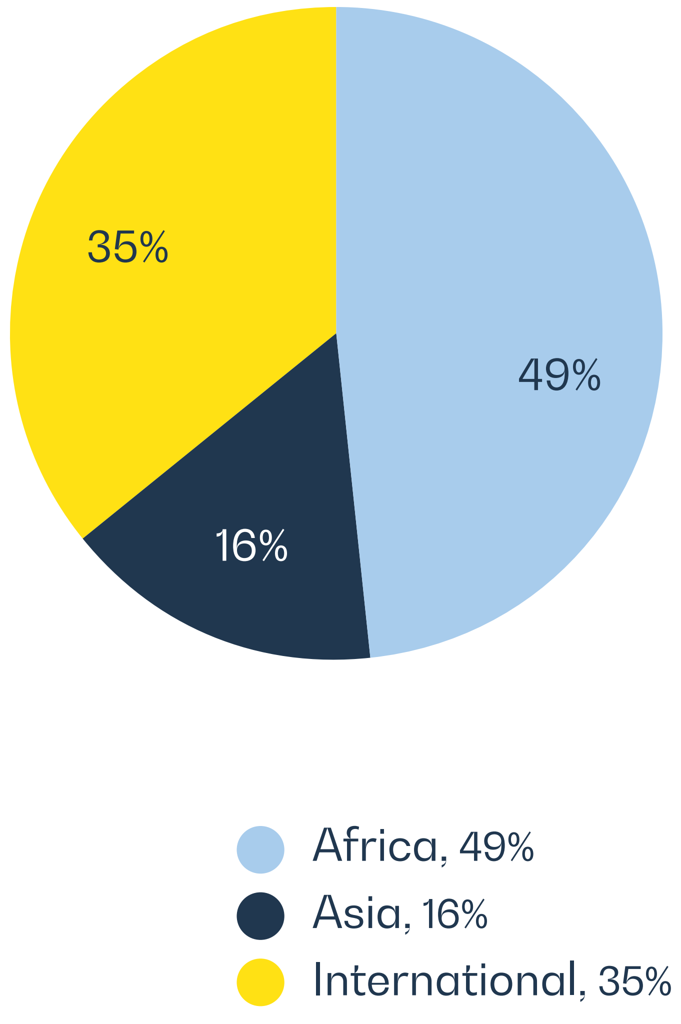
Finnfund invests in high-impact businesses within the emerging markets digital value chain, focusing on rural connectivity, access to data, and digital solutions that increase productivity and improve access to products and services.

Infrastructure investments are needed to enable access to basic mobile services and more affordable and higher-speed internet connections in developing countries. Digital solutions increase productivity and improve access to products and services. This all contributes to inclusive growth. Increasing digital connectivity not only supports economic growth but also facilitates inclusive access to critical services in finance, education, and health, and provides possibilities for small businesses to connect with global value chains.

Digital technology also presents an opportunity to narrow the gender gap by enhancing access to welfare services, identification and financial services, and information. This can lead to increasing privacy, bargaining power, household welfare, and female labour force participation.

At the end of 2022, Finnfund's investments (portfolio and commitments) in this sector were worth 63 million euros, representing approximately 6.1% of our portfolio. The majority of the investments were in telecommunications and information technologies (30%), fintech (47%), and information and communication (18%).

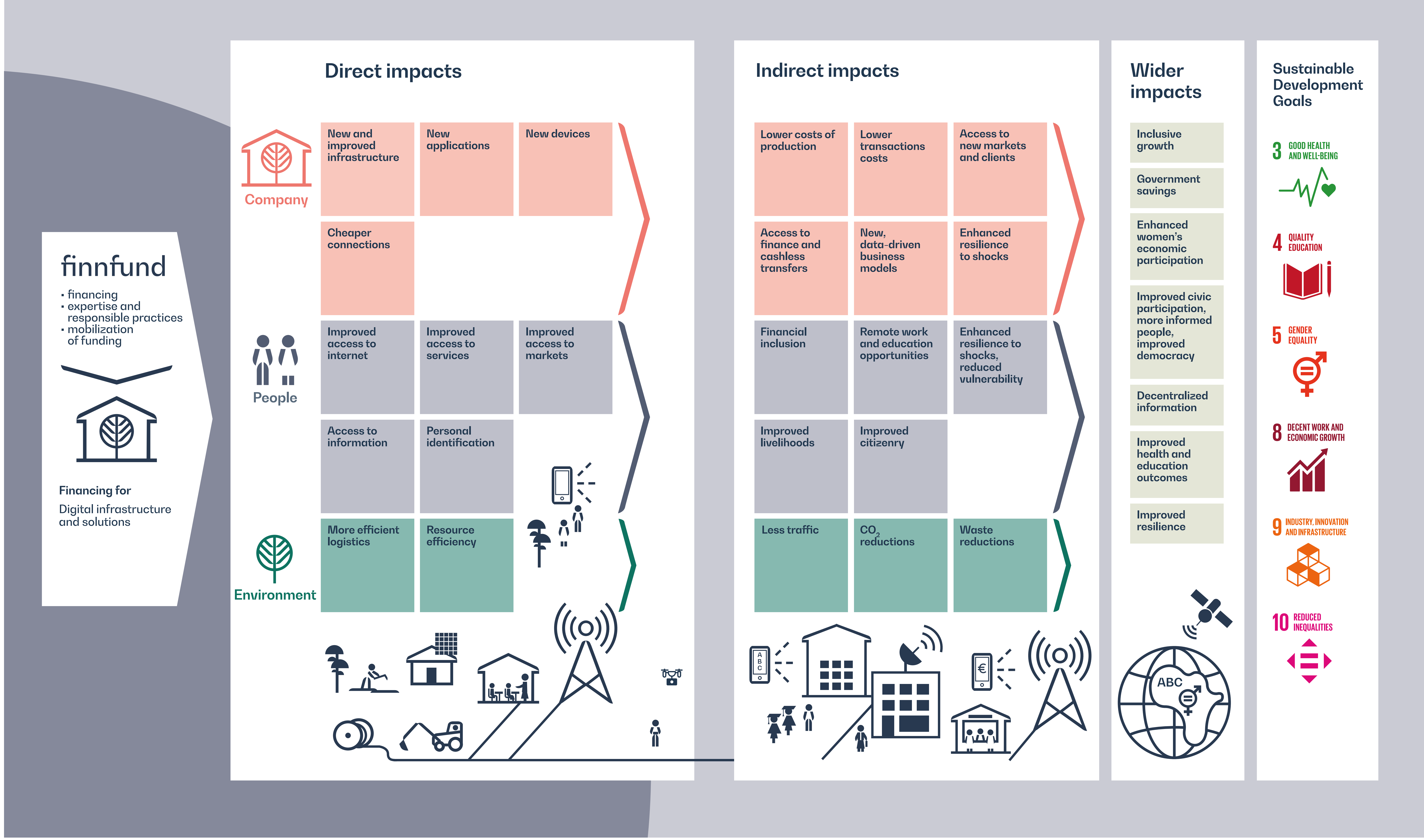
Digital infrastructure and solutions porfolio and commitments, on 31 December 2022, geographical distribution (63 EUR million)



"Despite the challenges posed by global headwinds, it is worth noting that the digital sector has experienced continued growth, particularly in Africa and Southeast Asia. I anticipate that this upward trend will persist and remain resilient. We are well-positioned to implement our investment strategy, which prioritises rural connectivity, improved access to data, and digital solutions that improve productivity and access to products and services."

Jussi Ahonen
Associate Director,
Head of Digital Infrastructure and Solutions

Our Theory of Change (ToC) for digital infrastructure and solutions



CASE

Vietnam's first fully-electric public transport bus fleet

Finnfund is one of the investors in a 135 million US dollar financing package to VinFast in Vietnam. The company manufactures Vietnam's first fully-electric public transport bus fleet and developed the first national electric vehicle (EV) charging network.

The investment will support Vietnam's efforts to achieve net-zero greenhouse gas emissions and expand high-tech manufacturing industries. Vietnam's transport sector accounts for 18% of the country's annual greenhouse gas emissions, and its decarbonization, through options like e-mobility, will directly impact the country's ambition to achieve net zero emissions by 2050.

"VinFast's development impact is so strong because it not only supports emissions reduction in some of the most polluted cities in Asia, but also creates world-class manufacturing jobs in an industry which, in Vietnam, is still emerging", said **Noah Law**, Investment Manager at Finnfund.

The investment in VinFast is well-aligned with Finnfund's e-mobility strategy – supporting the innovation and heavy capital investment needed to succeed in the electric automotive industry by harnessing the strength of the Vingroup's balance sheet and integrating the national charging network.

Read more on our website.

Name: **VinFast**
Country: **Vietnam**
Investment year: **2022**
Sector: **Manufacturing**

VinFast manufactures fully electric public transport bus fleets and has developed the first national electric vehicle charging network in Vietnam.

Impact

Menengai is a 35MW greenfield geothermal project located in Nakuru County, Kenya. Read more on p. 24.

Investing in impact

Finnfund's mission as a development financier and impact investor is to build a sustainable future and to generate a lasting impact by investing in businesses that solve global development challenges (p. 26). Responsible companies play an important role in solving major global challenges such as poverty, inequality, climate change, and biodiversity loss, and in meeting the Sustainable Development Goals (SDGs) by 2030.

We strive to mobilise funding to enhance sustainable development and climate actions in developing countries. At the end of 2022, 27% of Finnfund's financing was from private capital markets. In our new strategy (p. 26), we set a strategic objective of increasing this percentage to 50% by 2030. We also aim to double our total impact from 2020 to 2025 and to maintain a carbon net-negative investment portfolio.

We acknowledge that the greatest positive impacts are generated through our investments. However, sustainable business practices, and all aspects of environmental and social sustainability and good governance, lay the ground for all our work.

Impact and sustainability governance

We strongly believe that sustainability is part of everyone's role within Finnfund, which is also seen in the way responsibilities are divided within our organisation. At Finnfund, impact and sustainability are owned by the Board of Directors and the managing director/chief executive officer (CEO). The CEO has ultimate responsibility for the successful implementation of Finnfund's sustainability and impact approach. In terms of implementation, the Director of Impact and Sustainability oversees our sustainability policies and practices in our investment process. The whistleblowing mechanism and the environmental and sustainability issues surrounding procurement are overseen by the Director of Administration. The Chief Financial Officer oversees sustainability in human resources management, and Finnfund's own funding, such as the issuance of Finnfund's first sustainability bond. Read more about the management of Finnfund on p. 107.

"Our mandate and strategy put impact and sustainability at the very core of our investment operations. We are aiming to double our impact by 2025, and I am glad to say that we are well placed to meet our target."

Kaisa Alavuotunki
Director, Impact and Sustainability

Transparency and stakeholder engagement

Finnfund believes that stakeholder engagement is the basis for building the strong, constructive, and responsive relationships that are essential for successful, strategically savvy business decisions, as well as for the management of positive and negative impacts and risk mitigation within both our investments and our own operations.

Stakeholder engagement is an ongoing process. We require our investees to actively engage with their stakeholders in all project phases, including planning, implementation, and monitoring. Specific requirements for stakeholder engagement vary, depending on the project size, scope, and impact, but compliance with host country obligations, as well as applicable international standards, is essential. Likewise, Finnfund strives to build and maintain a mutually beneficial and fruitful dialogue with its stakeholders in Finland and in our target countries, as well as internationally.

Transparency as a guiding principle

Transparency is a key guiding principle in Finnfund's operations. Transparent information on Finnfund's operations is important to fulfilling its development mandate. We publish information on the principles, practices, and results guiding our activities as widely as possible. We also encourage the companies that we finance and our partners to be transparent and to adhere to good corporate responsibility practices.

Based on our Disclosure Policy (2018), we publish information about our activities and investments on a continuous basis, for example on our website, in our annual report, and in our impact and sustainability report, as well as in other publications. As stated in our Human Rights Statement (2019), Finnfund provides an open, easy-access complaint and feedback channel for stakeholders to voice their concerns related to Finnfund's investments.

Finnfund also requires its investees to establish and maintain operational-level grievance mechanisms that are accessible to affected communities and other stakeholders. Effective grievance mechanisms provide a channel for the communities and other stakeholders to voice their concerns, and they are important from a human rights perspective. They enable investees to address and resolve disputes and grievances in a systematic manner. Read more about our grievance mechanism on p. 77 and p. 81.

Our stakeholders

Finnfund has many different types of stakeholders in Finland and in our target countries, as well as internationally. Our stakeholders are, for instance, Finnfund shareholders, namely the State of Finland, Finland's export credit agency Finnvera, and the Confederation of Finnish Industries; our staff; our investees, co-financiers, and their stakeholders; civil society, academia, consultants, and other partners both in Finland and abroad, such as Finland's embassies; and other Team Finland members and development financiers, namely European Development Financiers (EDFI).

In 2021, we conducted a stakeholder survey to collect feedback and ideas from various stakeholders in Finland and abroad. The aim was to gather information, for instance, on brand image, strengths, and weaknesses, as well as to ask stakeholders how they see the changes in the operational environment and what their expectations are for Finnfund. We also wanted to know what aspects of sustainability and impact are particularly interesting for our stakeholders, and what their expectations are, for example, in terms of our reporting and communications. The results have been used for our materiality assessment.

Active engagement is key

Finnfund conducts a continuous open discussion with various stakeholders both in Finland and abroad. We actively engage in discussions with our stakeholders, including public sector institutions, the private sector, and national and international civil society organisations, on the development and implementation of our policies and procedures. We aim to look for and make use of collaboration opportunities with our stakeholders.

With our co-financiers, and particularly with our development financier partners, we actively work to harmonise our requirements and procedures for streamlined project assessment, and implementation procedures for improved efficiency and increased leverage in negotiations with our investees.

In 2022, after the coronavirus pandemic subsided, face-to-face meetings were again made possible, and active, face-to-face dialogue was again allowed to take place with various stakeholders, such as civil society, the media, and decision-makers. During the year, several events were organised, such as the Growth from Africa (Kasvua Afrikasta) seminar in cooperation with Kasvu Open and Technology Industries of Finland, as well as an event focusing on human rights in investment activities, in co-operation with Finland's Sustainable Investment Forum, Finsif. Meetings of the Impact Network, a network of Finnish actors interested in measuring and developing impact and responsibility, were again held face-to-face. Finnfund's experts also actively participated as speakers at various events in Finland and internationally.

In addition, Finnfund's internal debate series "FF Talks" also continued to give the floor to both internal and external experts and civil society representatives. The topics included carbon markets and offsetting, international tax regulation, and the political situation in Kenya.

In 2022, Finnfund continued conducting impact surveys and studies to gain better insight into the voices of individual stakeholders, including our investee companies' employees and local communities. To read more about these projects, please see pp. 54 and 94.

Memberships

- 2X Collaborative Limited
  Africa Infrastructure Development Association
- EDFI ASBL (European Development Finance Institutions)
- EMPEA Emerging Markets Private
- Finland-South East Asia Business Association
- Finnish Business & Society ry
- Finnish Business Travel Association
- Finsif, Finland's Sustainable Investment Forum ry
- Finnish Venture Capital Association
- Helsinki Region Chamber of Commerce
- Loan Market Association-LMA
- MT Investors for Health
- Yritystutkimus Association

Scope of this report and materiality

Finnfund acknowledges the concept of double materiality in its impact and sustainability approach, and it aims to incorporate that approach increasingly into its reporting and communication.

As stated above, we acknowledge that the greatest potential for positive and negative impacts lies within our investments. Therefore, in this impact and sustainability report, we also put a strong emphasis on reporting the development impact of our investments and the sustainability work within our investments. In addition, we aim to provide information about our strategy, policies, and practices in terms of sustainability and impact, as well as report openly and transparently both the results and the challenges we have faced in 2022.

The focus is on impact management and sustainability (environmental, social, and governance) aspects that present the most significant risks and opportunities – and that play an integral role in our mandate and strategy – such as climate change, biodiversity, human rights, gender equality, responsible tax, and good corporate governance. These aspects have also been highlighted by our stakeholders, for instance, in our latest stakeholder survey, as explained above.

In October, Finnfund organised the "Kasvua Afrikasta" (Growth from Africa) seminar together with Finnpartnership, Kasvu Open, and Technology Industries of Finland. Among the guest speakers were Vesa Perälä, CEO at Claned, who shared their experiences of entering African markets, and Unna Lehtipuu, Communications Director at Finnfund.

CASE

Finnfund's investment expands the insurance industry in Pakistan

In April 2022, Finnfund announced a 3 million US dollar equity investment in TPL Insurance Limited, Pakistan's first direct insurance company.

"I take deep pride in welcoming Finnfund on board at a time when the global economy is facing extremely challenging times. Working with the experience and expertise of Finnfund will help us accelerate our growth and make a larger impact in developing the insurance sector in Pakistan. I am confident that Finnfund's entry to the Pakistani market will provide impetus to more foreign investments in the country and boost the economic growth of Pakistan," said Muhammad Aminuddin, CEO at TPL Insurance.

The investment enables TPL Insurance to introduce innovative and tech-driven products, such as yield based crop and livestock insurance, as well as women specific insurance programs, thereby increasing penetration of insurance in Pakistan in diverse segments. TPL Insurance intends to further develop its digital assets and bring efficiencies through digitisation of business processes. The equity injection will also improve the financial strength and underwriting capability of TPL Insurance.

Read more on our website.

Name: **TPL Insurance Limited**
Country: **Pakistan**
Investment year: **2022**
Sector: **Insurance**

Finnfund's investment enables TPL Insurance to introduce innovative and tech-driven products, such as yield-based crop and livestock insurance, as well as women-specific insurance programmes.

Development impact and sustainability of our investments

Every Finnfund investment must meet three criteria: it must generate positive impact, be sustainable, and offer an appropriate risk-adjusted return. We assess each investment against these criteria before making an investment decision, and we continue to monitor its performance throughout our investment period. Using our leverage as a financier, we encourage our investees to constantly improve their sustainability practices towards people, the environment, and society.

Finnfund's strategy also guides us to invest in business projects that contribute to the Sustainable Development Goals (SDGs). Before any investment decision, we assess the investment against the SDGs.

Finnfund invests only in private companies that are expected to generate a positive net impact on society, as well as to solve global or

It is estimated that developing countries will require fresh investments worth up to USD 4,000 billion US dollars to achieve the Sustainable Development Goals (SDGs) by 2030.

Visiting the sites and meeting key people, both before the investment decision and throughout the investment life cycle, is very important. In this picture, Peter Chappell, Investment Manager, and Justin Nthala, Senior Investment Manager, are visiting a potential investment in southern Africa.

How does Finnfund promote Sustainable Development Goals?

This figure illustrates how Finnfund's investments promote the achievement of the 17 Sustainable Development Goals.

Why do companies matter? During the preparation of Agenda 2030 and the Sustainable Development Goals, it became clear that they cannot be met by official development aid only. It is estimated that developing countries will require fresh investments worth up to USD 4,000 billion to achieve these goals. A significant share of this would need to come from the private sector.

It is also clear that companies alone cannot resolve all development challenges – as is hardly ever the case with a single tool. Different types of actions and actors are needed. However, responsible companies can create stability and prosperity, and develop and provide tools e.g. to make it easier to adapt to dry seasons caused by climate change.

IMPACT

1 NO POVERTY
- Eradicating poverty from the world by 2030

RESULTS

10 REDUCED INEQUALITIES
- Taxes and payments to the state
- Jobs and services for the poorest

13 CLIMATE ACTION
- Financing for climate change mitigation and adaptation

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- Introduction of new technologies
- Improving infrastructure and services

8 DECENT WORK AND ECONOMIC GROWTH
- Decent jobs and wages
- Access to official financial services, financial inclusion and economic growth

5 GENDER EQUALITY
- Promoting equality in the workplace
- Support for female entrepreneurship
- Professional development for women
- Micro loans and financial services for women

ACTIVITIES

2 ZERO HUNGER
- Development of sustainable agriculture, forestry and food production

6 CLEAN WATER AND SANITATION
- Sanitation
- Responsible water use, waste management

7 AFFORDABLE AND CLEAN ENERGY
- Improving energy supply, renewable energy

3 GOOD HEALTH AND WELL-BEING
- Improving access to health services and medicines

15 LIFE ON LAND
- Sustainable forestry
- Protecting biodiversity, fighting deforestation

11 SUSTAINABLE CITIES AND COMMUNITIES
- Innovative technology solutions, waste management, improving air quality, housing finance

4 QUALITY EDUCATION
- Training and development of workers
- Education and teaching

16 PEACE, JUSTICE AND STRONG INSTITUTIONS
- Promoting responsible and lawful practices
- Supporting fragile states and regions

14 LIFE BELOW WATER
- Responsible fish farming
- Responsible cleaning of waste water

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- Responsible production methods

TOOLS

17 PARTNERSHIPS FOR THE GOALS
- Financing and mobilising private funding for businesses that promote sustainable development
- Support for poor countries and fragile regions
- Promoting good practices in environmental and corporate responsibility
- Promoting tax compliance and increasing the tax revenue of developing countries
- Promoting cooperation with different actors

local development challenges. Our experts assess the expected development impact of every investment before the investment decision, and we monitor different levels of impact throughout the life cycle of the investment.

Our approach to impact and sustainability

We believe that sustainability is a prerequisite for positive impact. Sustainable, responsible business practices add value to investments and contribute to generating a positive impact. They play a key role in the risk management of each project and in ensuring that the "do no harm" principle is respected in our investments. Simultaneously, responsible and environmentally, socially, and economically sustainable business practices can improve the operational and financial performance of a company, enhance employee well-being and commitment, and bring a competitive advantage.

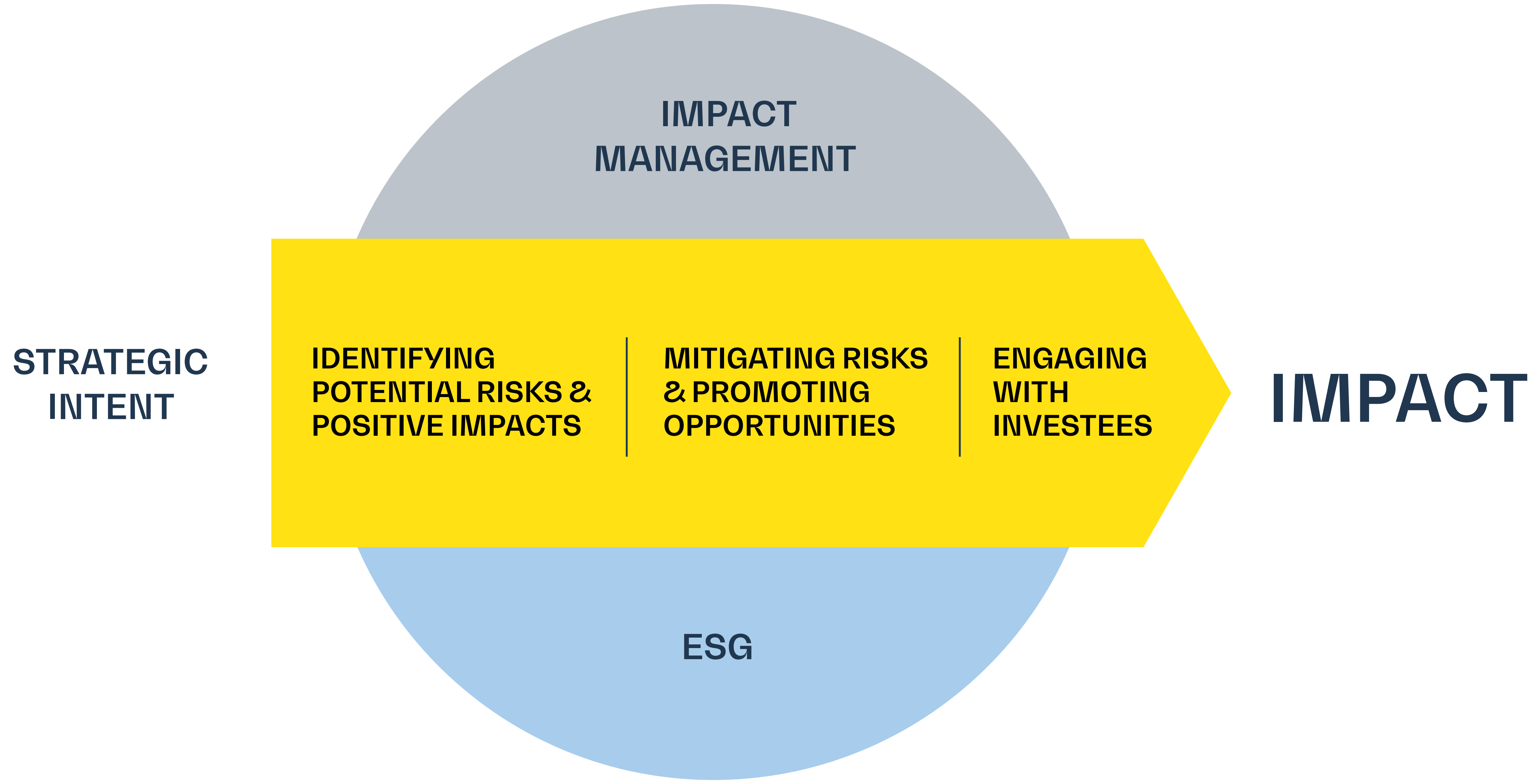
We strongly believe that it also improves the company's risk management to ensure that the "do no harm" principle is respected in our investments, as it helps to anticipate unexpected risks and impacts, enhances cooperation with stakeholders, and strengthens the social licence to operate.

When financing private companies, financial profitability is key to creating impact. If a company fails to keep its business running, it will not achieve the desired impact. Therefore, the viability of the business model is another prerequisite for Finnfund's investment.

Catalytic financing

Many projects that have a significant development impact would never take off without long-term financing provided by Finnfund and other development financiers. Finnfund's funding is often catalytic because it helps projects to raise additional commercial financing.

Most of our investee companies also have community development projects alongside their core business activities. This is particularly typical of businesses operating in remote rural areas where public services are weak.



Impact creation at Finnfund.

Finnfund sustainability and impact capacity

Finnfund has designated experts and teams working on environmental, social, and governance matters, as well as on development impact. In 2022, the team for environmental and social responsibility consisted of six specialists, and the development impact team had four specialists. Governance matters were integrated into the workstreams of various in-house teams, namely investment operations and legal affairs. In 2022, responsible tax and Know-your-customer (KYC) processes, previously taken care of by the legal team, became a responsibility of the new Compliance team.

Finnfund's experts continuously follow the latest developments in sustainability and impact, and develop their capacities, as well as Finnfund's processes and tools. They actively participate in relevant training and networking sessions.

In 2022, our experts participated in training sessions, for instance, on supply chains, biodiversity risk identification and mitigation, human rights, gender, and climate. Special attention was given to the onboarding and training of new team members, to maintain and ensure the strong commitment to the Finnfund strategy and sustainability framework. The well-being of the team in high-risk environments was enforced with safe travel practices and supporting management practices.

Development impact

As a development financier and impact investor, the generation of positive development impacts and the mobilisation of funding for sustainable development and climate actions are the raison d'être for Finnfund. The UN Sustainable Development Goals and the targets set by the Paris Agreement cannot be met without private sector involvement.

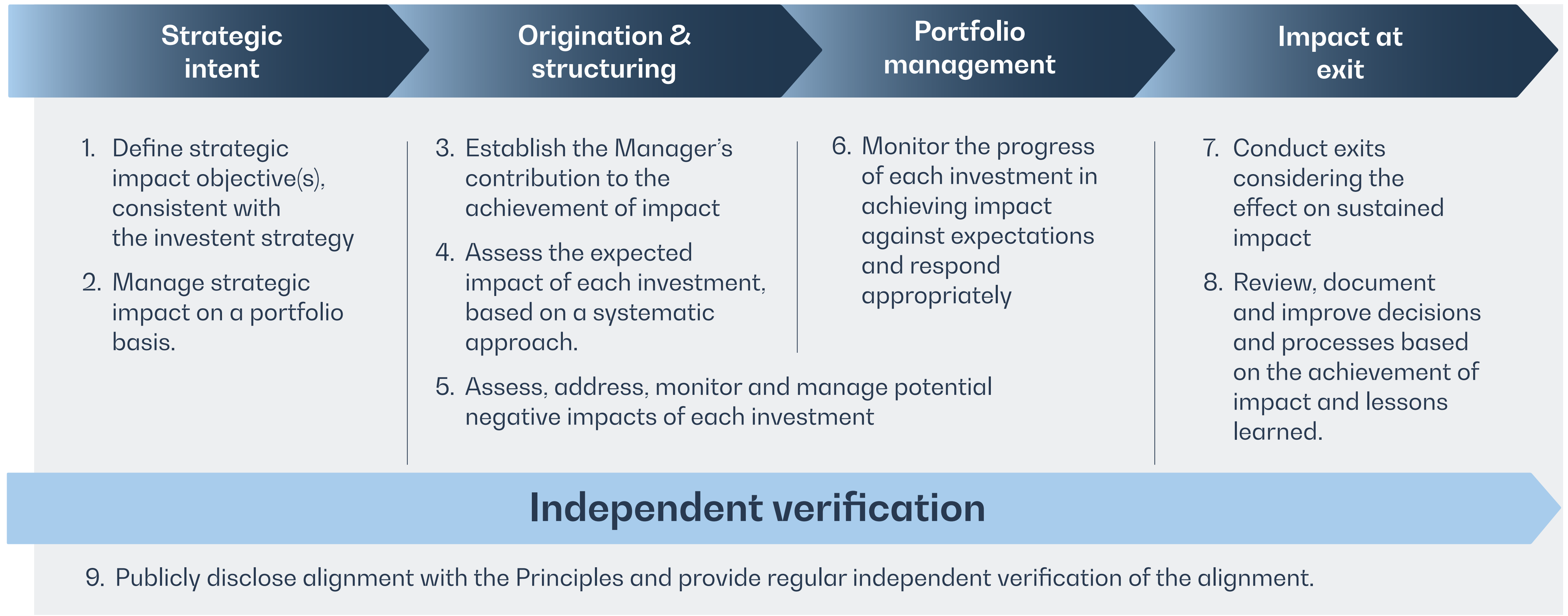
Finnfund invests only in private companies that are expected to generate a positive net impact on society, as well as to solve global development challenges.

In our strategy, introduced at the end of 2021, we aim, for instance, to double our total impact between 2020 and 2025, and to maintain our investment portfolio as carbon net-negative (p. 26).

Impact management framework

Finnfund assesses the expected development impact of every investment before the investment decision, and monitors and manages the development impact throughout the life cycle.

Finnfund is one of the first signatories to the Operating Principles for Impact Management (OPIM). The nine principles of OPIM provide an internationally recognised framework for investors, to ensure that impact considerations are purposefully integrated throughout the investment life cycle and require a robust investment thesis of how the investment contributes to achieving an impact.



The Operating Principles for Impact Management (OPIM) provide a framework to ensure that impact considerations are purposefully integrated throughout the investment life cycle.

Theories of Change guide our impact work

For each of our five key sectors, we have created Theories of Change (p. 30). These guide our impact thinking when we assess investments before financing decisions, monitor projects annually, and commission specific impact studies and surveys.

The Theories of Change lay the foundation for all impact assessments by defining their broader social impact and their contribution to the SDGs, and by helping us better identify potential direct and indirect impacts of investments.

Development Effect Assessment Tool (DEAT)

Impact is one of the key components in making investment decisions. Our tool for preliminary screening of investments before making an investment decision is the Development Effect Assessment Tool (DEAT).

Each potential investment gets an impact score, which consists of its strategic relevance (e.g. its climate and gender impacts), its contribution to market and local economic development, and the additionality of Finnfund's financing.

Monitoring direct impact on an annual basis

As part of the due diligence process, Finnfund collects baseline values for key indicators. In addition, Finnfund agrees with the client on impact key performance indicators (KPIs), which best measure the enhancement of the development impact of the investment. For these impact KPIs, the targets will serve as a basis for monitoring in subsequent years. Monitoring takes place annually.

The majority of our indicators are based on the Harmonized Indicators for Private Sector Operations (HIPSO), or the IRIS+ indicators developed by the Global Impact Investing Network (GIIN) and hence collectively agreed upon by international development finance institutions and impact investors.

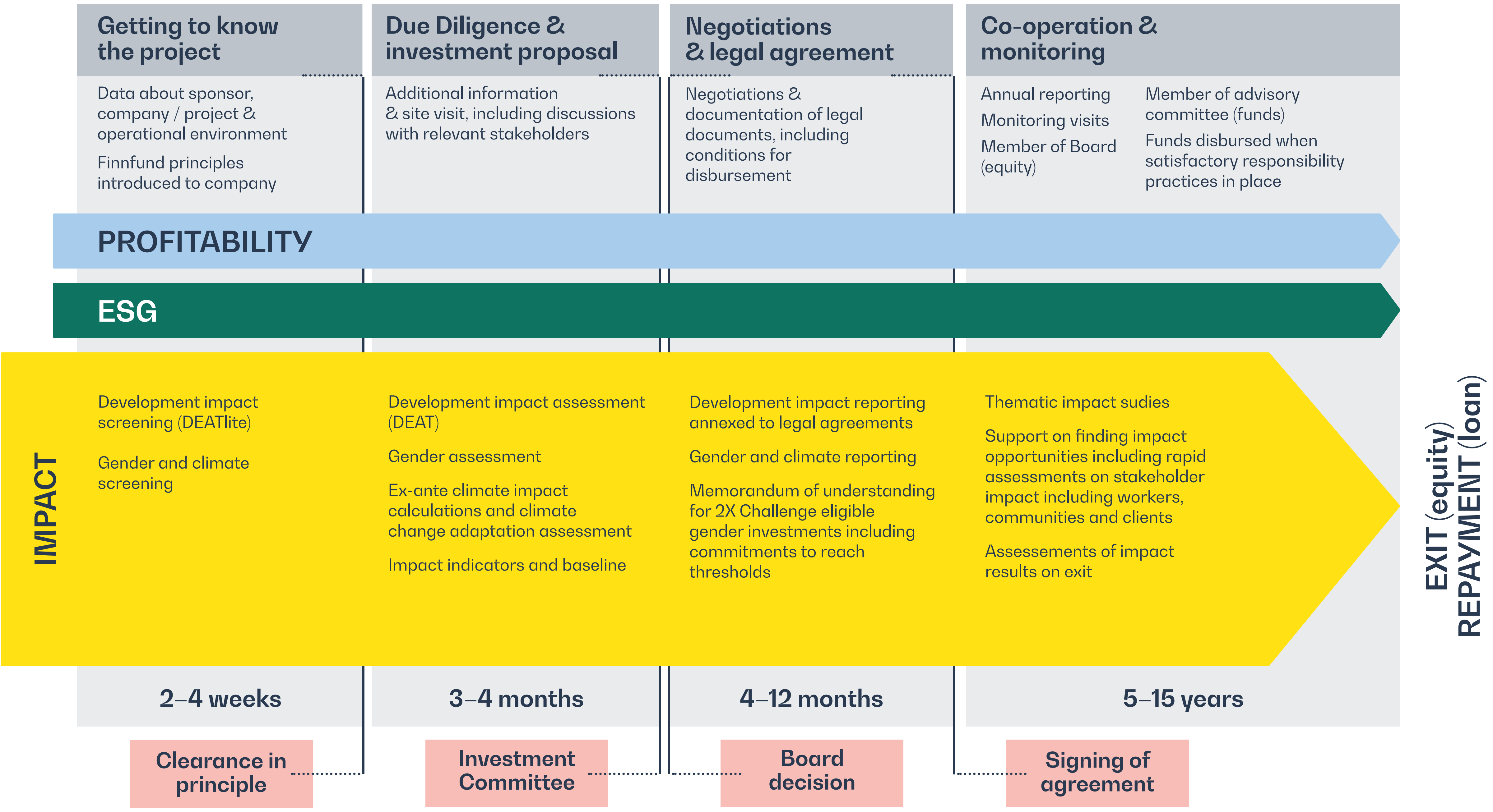
Capturing indirect impact through studies, surveys and modelling

With direct impact being only a fraction of the total outcome, identifying indirect impact is a key aspect of understanding the results of our investments. For example, our interest is not primarily in the number of jobs, but in the impact these jobs create. We are interested in jobs because a formal job is the surest way out of poverty.

In 2022, we continued conducting rapid stakeholder surveys, asking the main stakeholder groups of our portfolio companies how the companies' operations have affected their lives. We concluded three studies and started six studies to be completed in 2023. These surveys help our investee companies to better understand who their stakeholders (such as employees, customers and community members) are, how they experience the impact of the company, how significant the impact is, and what could be done to further improve the benefits. One benefit of the rapid surveys is that the results are available to enable the management to take action in due course, if it is deemed necessary.

For indirect and induced economic and employment impacts, where primary data is not available, Finnfund uses the Joint Impact Model (JIM), which is a modelling tool commonly used by most development finance institutions. In addition to economic and employment impacts, JIM is used for CO2 emission calculations, and especially for Scope 3 emissions.

You can read more about the surveys on pp. 54 and 94, and on our website.



Development impact as part of Finnfund's investment process.

What do we want to know? Some of the key questions addressed as part of impact and ESG management during the investment life cycle.

CASE

Improving food security and quality of life in the midst of turmoil

“I bought household goods and paid school fees for my children by selling the eggs.”

This is one of the comments by a 28-old female respondent received in a customer survey that EthioChicken, an Ethiopian poultry company, conducted to gauge their customer’s views and assess whether their lives have improved through partnering with EthioChicken. For a company operating in a midst of significant instability, this has been quite an achievement.

EthioChicken operates eight poultry farms and four hatcheries, which produce and supply young chickens for households in urban, peri-urban and rural areas. With its two feed mills, EthioChicken is also a significant feed producer. In 2016, Finnfund provided a USD 10 million loan to the company. In addition, in 2021 OP Finnfund Global Impact Fund I invested 5 million in the company.

In order to know what customers think and how they benefit from the high-quality chickens supplied by the company, a customer survey was conducted by 60 Decibels, an independent research company.

Money for school fees and household expenditures as well as better nutrition are some of the main benefits people mentioned in their survey responses. The survey also revealed that 87% of EthioChicken’s customers say their quality of life improved, and that money they earn from chicken rearing has increased.

Read more on our website.

Name: **EthioChicken**
Country: **Ethiopia**
Investment year: **2016, 2021**
(**OP Finnfund Global Impact Fund I**)
Sector: **Agriculture**

Ershawerk Tesfaye Melka takes care of chicken at EthioChicken.

Sustainability

We believe that responsible business is both smart and good business. Responsible, environmentally, socially and economically sustainable business practices can improve the operational and financial performance of a company, enhance employee well-being and commitment, and bring a competitive advantage. They also improve a company's risk management, helping to alleviate unexpected risks and impacts, enhance cooperation with stakeholders, and strengthen the social licence to operate.

Our sustainability approach

Finnfund's overarching Sustainability Policy (2020) guides the assessment and management of sustainability within investments. It covers environmental, social and governance issues, as well as the impact created through sustainable business practices. The Sustainability Policy is accompanied by several thematic statements on, for example, human rights, gender equality, and responsible tax, as well as adopted internal guidelines and tools to support implementation. In 2021, we adopted a new Statement on Climate and Energy.

Sustainability is a joint effort by Finnfund, its investees, and third parties, such as co-financiers. Together with like-minded investors, such as the other members of the Association of European Development Finance Institutions (EDFI), Finnfund builds leverage and maximises impact and sustainability in its investments.

Finnfund has endorsed the EDFI Principles for Responsible Financing of Sustainable Development (2019) and the IFC Operating Principles for Impact Management (2020). We have aligned our practices and investee requirements with the jointly agreed harmonised minimum environmental and social requirements applicable to EDFI co-investments, including the Exclusion List.

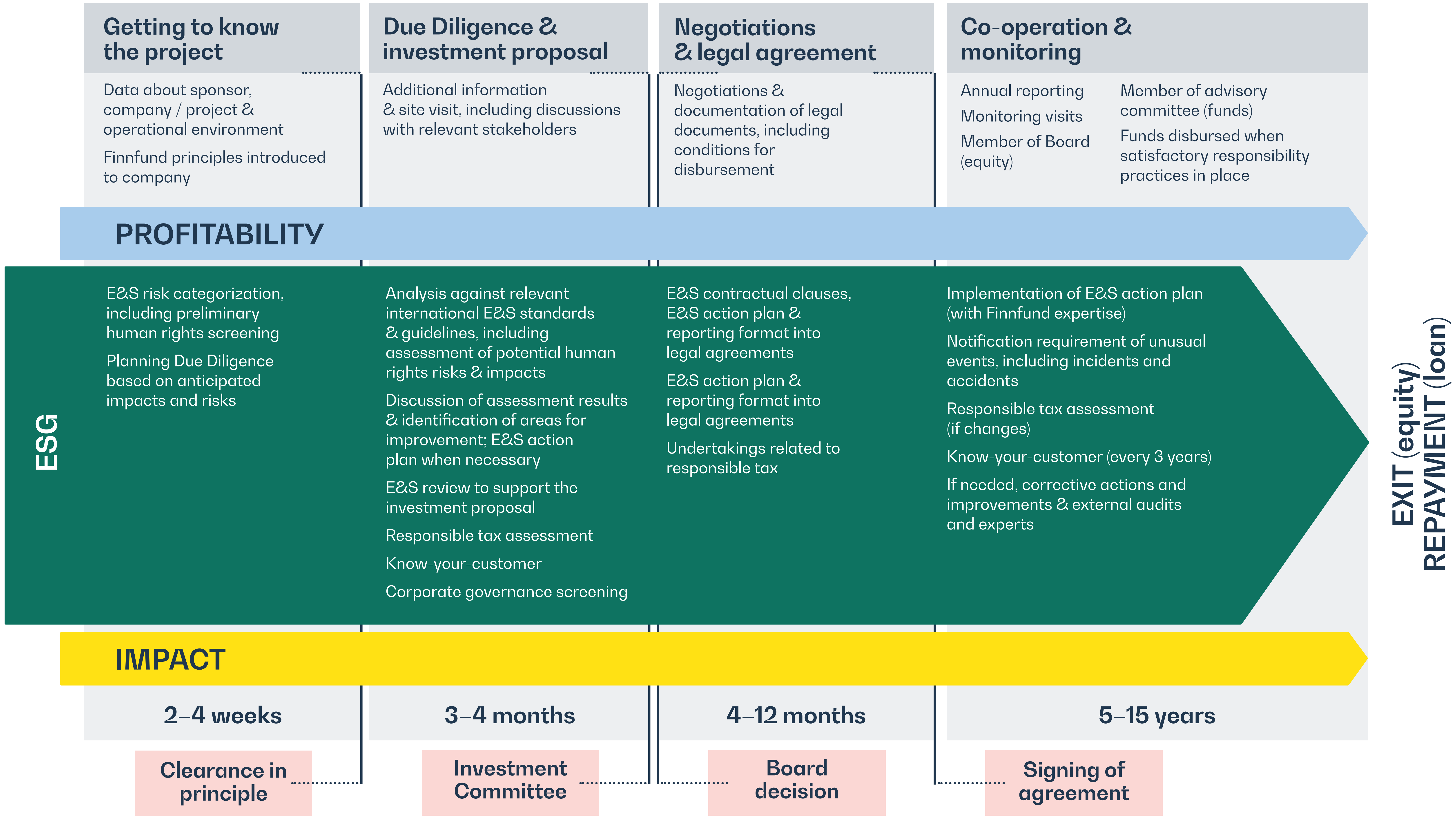
In 2022, Finnfund put special focus on developing its human rights approach, namely the assessment of salient human rights risks across the key sectors, as well as on the assessment risks and opportunities related to biodiversity and climate change.

Sustainability in Finnfund's investment process

Finnfund investee companies must commit to our sustainability requirements. Environmental sustainability, social responsibility and corporate governance (ESG) are integrated into all phases of our investment process, from identification of potential investments to monitoring, as shown in the figure on page 56.

"The Finnfund experts are well experienced, they continuously follow the latest developments on sustainability and impact, and they develop their capacities, as well as Finnfund's processes and tools."

Riikka Thomson
Manager, Environmental and Social



Finnfund's investment process from a sustainability point of view.

Finnfund focuses on the key ESG impacts, risks, and opportunities relevant for each project. The greater the risks and anticipated adverse impacts are, the more stringent the requirements become and the more closely Finnfund monitors each project.

Finnfund applies specific procedures for environmental and social due diligence, management, and monitoring, as well as corporate governance, corruption, and taxation matters. All are integrated into the investment process and codified in our internal guidelines. We adopt different procedures for direct and indirect investments, as well as for different financing instruments.

We actively encourage and assist our investees in developing their policies and processes regarding sustainability, and we monitor them to ensure they take action if discrepancies are found between their practices, commitments, and the reality on the ground.

IFC Performance Standards as a basis for environmental and social assessment

Finnfund requires its investees to comply with Finnfund's Exclusion list, applicable host country laws and regulations, and relevant international obligations, including the ILO core labour standards and conventions on basic terms and conditions at work. In addition, all Finnfund investments associated with medium to high inherent environmental and social risks and adverse impacts are required to achieve compliance with international standards on environmental and social management and performance, over a reasonable time period.

The nature of a project and its associated negative impacts and risks define which standards apply to it. The principal environmental and social risk management framework defining Finnfund clients' responsibilities for managing their environmental and social risks is the IFC Performance Standards on Environmental and Social Sustainability (IFC PS) with the associated World Bank Group general and industry-specific Environmental, Health, and Safety Guidelines.

The IFC Performance Standards address eight topics:

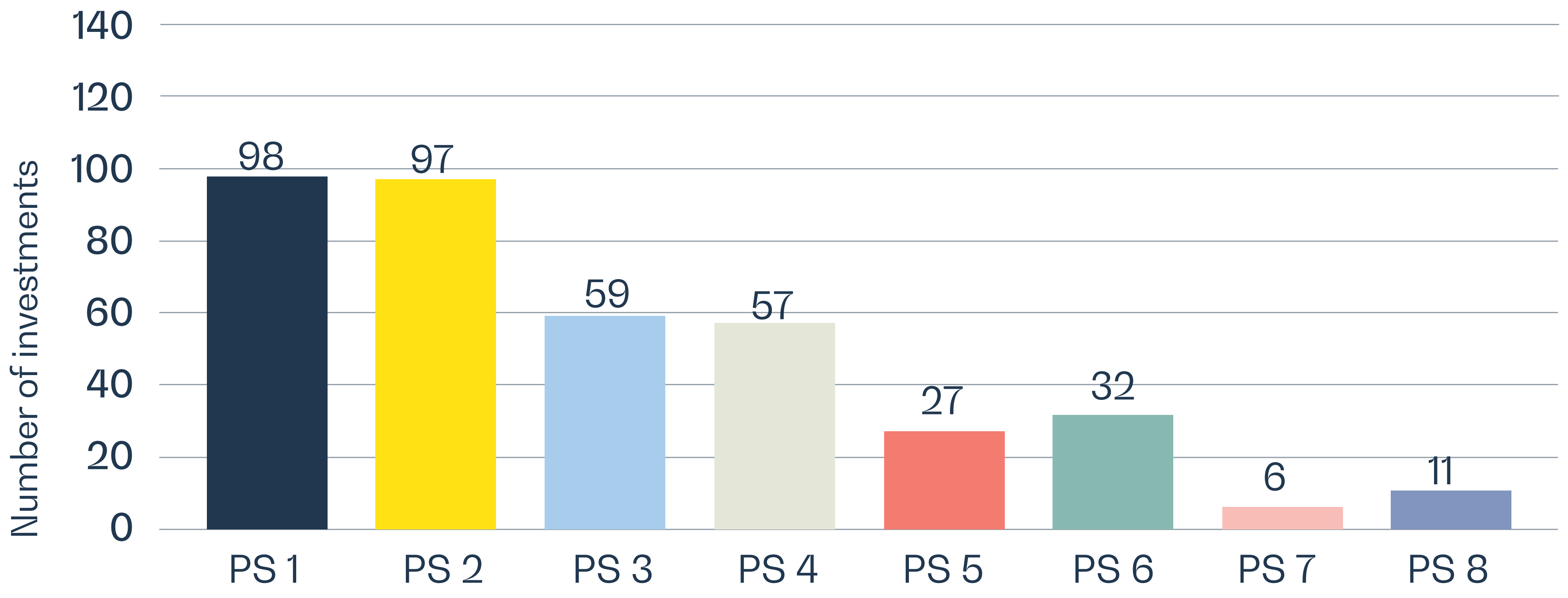
- PS 1 Assessment and Management of Environmental and Social Risks and Impacts;
- PS 2 Labour and Working Conditions;
- PS 3 Resource Efficiency and Pollution Prevention;
- PS 4 Community Health, Safety, and Security;
- PS 5 Land Acquisition and Involuntary Resettlement;
- PS 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources;
- PS 7 Indigenous Peoples;
- PS 8 Cultural Heritage.

Compliance with PS 1 and PS 2 is relevant to all medium- to high-risk investments, and compliance with PS 3-PS 8 is required when risks related to the specific themes are triggered by the project and its indirect area of influence.

Other relevant international standards and principles include, for example, the UN Guiding Principles on Business and Human Rights (UNGP), which also create a basis for our human rights management approach (p. 75), as well as various internationally recognised certification standards such as the ISO management system standards for environmental management, occupational health and safety, and social management, and sector-specific certifications such as FSC for sustainable forest management, GlobalGAP for good agricultural practices, and SA8000 for social accountability, among others.

Finnfund is also a signatory to the Investor Guidelines for Responsible Digital Financial Inclusion of the Responsible Finance Forum and requires its investees to adhere to the responsible digital finance and client protection principles.

The IFC PS triggered by the Finnfund portfolio as of 31 December 2022



The IFC Performance Standards triggered by the Finnfund portfolio as of December 2022.

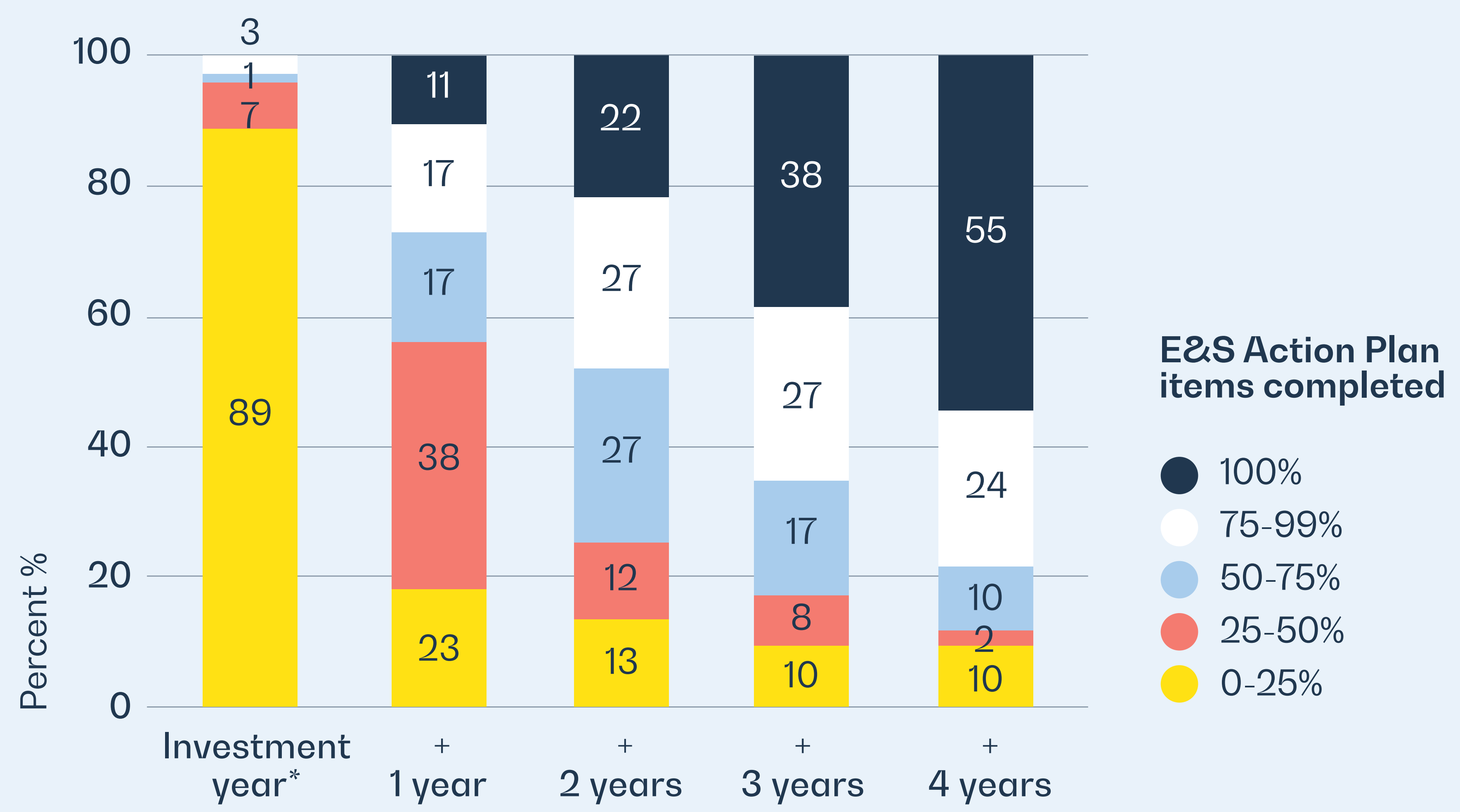
Working together to improve sustainability

When assessing potential investments, any gaps identified in the investees' management and performance against the applicable requirements are discussed with the investee company and documented in an Environmental and Social Action Plan (ESAP) with a clear description of the gap identified, necessary actions, resources, expected outcomes, defined budget, and mutually agreed deadlines. The ESAP is annexed to the financing agreements, becoming a legally binding requirement, and followed up regularly. The depth and demands of the ESAP are commensurate with the E&S risks and impacts of the operations in their direct and indirect areas of influence.

To become a Finnfund investee, a company does not need to be perfect. Finnfund aims to invest in companies that are ready to commit to and keen on establishing clear sustainability goals and continuously improving their environmental and social management and performance. Typically, after Finnfund's investment decision, it takes an investee company 1–3 years to close the ESAP and achieve the required level of performance, as shown in the figure below; however, E&S compliance continues to develop and improve throughout the life of the project.

The ESAP is developed together with the investee to ensure realistic deliverables and timelines. A Finnfund E&S adviser offers advice and support during the process. The progress of the ESAP reflects the positive impact of the work in environmental and social matters that the investee is achieving with Finnfund support.

Progress of Environmental & Social Action Plans of Finnfund's investments since 2014, as of 31 December 2022



*The first year of investment, e.g., investments made in 2021.

CASE

Fostering sustainable cashew production in Côte d'Ivoire

"We are very grateful to have a partner like Finnfund to support cashew growers/farmers in the region, enhance sustainability and improve livelihood through our operations in Côte d'Ivoire," said **Sumit Jain**, Chief Executive Officer at Valency International Group. Finnfund is committed to provide a USD 10 million debt facility to Valency International Trading SARL, a Valency International Group company. With the funding provided by Finnfund, the company is setting up a new state of the art cashew processing plant in Côte d'Ivoire and expected to become a leading cashew kernel processor in the countr

Once operational, the new processing plant is expected to have a processing capacity of 45,000 tons of raw cashew nut per year. With this capacity, the company is expected to generate approximately 2,000 direct jobs and cooperate and provide income for up to 10,000 smallholders. Due to the large capacity of the processing plant, the company is expected to reach up to 5% of the cashew farmers in the country.

Valency is committed to responsible business practices and to developing sustainability and transparency in the cashew supply chain. Valency will, for instance, develop a sustainable cashew supply chain management program, that allows them to work directly with smallholders and reduce the role of the middlemen in the current supply chain, hence provide more income for the smallholders.

Read more on our website.

Name: **Valency International Trading**
Country: **Côte d'Ivoire**
Investment year: **2022**
Sector: **Agriculture**

Supervisor Guei Marie Ange Manuella in Valency International's cashew peeling centre in Attingué, Côte d'Ivoire. Photo: Valency International

Climate action: Task Force on Climate-related Financial Disclosures

Climate change is one of the biggest global challenges of our time. As a development financier and impact investor, mitigation of climate change and support for adaptation to it are among Finnfund's key objectives and development achievements.

This is reflected in Finnfund's strategy and the key sectors that we finance, as well as in our investment processes, including development impact assessments of our investments. We acknowledge that climate change most affects developing countries, which often have less capacity to adapt to climate change. Women and the poor living in rural areas will be hit hardest, which is another reason why these groups are at the centre of Finnfund's work.

In 2021, we began to develop our approach to assessing and managing climate-related risks, aligned with the four pillars of the Task Force on Climate-related Financial Disclosures (TCFD): governance, strategy, risk management, and metrics and targets.

Climate governance

Finnfund's Board of Directors is responsible for overseeing Finnfund's overall climate approach, including keeping climate-related risks and opportunities under review, and setting and ensuring the implementation of Finnfund's related strategy. In this context, the Board of Directors approved Finnfund's Climate and Energy Statement in 2021 and is regularly updated on Finnfund's ongoing climate risk work and evolving processes.

Finnfund's Management Team, led by the CEO, oversees Finnfund's operative climate agenda. Finnfund's Director of Impact and Sustainability is responsible for overall climate-related substantive issues, while the Chief Financial Officer manages and oversees Finnfund's climate risk exposures.

We acknowledge that climate change most affects developing countries, which often have less capacity to adapt to climate change.

This includes managing and overseeing the implementation of Finnfund's strategic climate targets, as explained below.

Finnfund's Investment Committee assesses the climate risks related to and adaptation capabilities of Finnfund's investees as part of reviewing new investments, while the Portfolio Management Committee is responsible for annual project monitoring, including in terms of climate risks, and climate mitigation and adaptation.

At the beginning of 2023, Finnfund established a Climate, Nature and Biodiversity Committee to bring together the Finnfund teams working on climate issues, and as a forum for addressing the cross-cutting themes of climate change, nature and biodiversity. The committee consists of subject-matter experts from the following teams/departments: Managing Director's office, Investment operations, Impact, Sustainability (Environmental and Social Responsibility), Risk management, and Communications. The committee will promote active ownership related to climate issues and is responsible for developing Finnfund's internal processes and capabilities with regard to climate-related matters. This includes matters such as climate risk assessments, climate impacts, climate reporting, and overall risk assessments. The Committee meets approximately once a month and reports to the management team on a quarterly basis.

Investment-related responsibilities for identifying, assessing, and managing climate risks lie with the investment and portfolio management teams, which are responsible for both identifying new investments and managing existing ones. These teams consist of subject-matter experts from the following teams/departments: Managing Director's office, Investment operations, Impact, Sustainability (Environmental and Social Responsibility), Risk management, Communications, and Legal.

Climate strategy

Finnfund updated its strategy at the end of 2021 for the period 2022-2025. Climate change mitigation and adaptation are a key part of the new strategy. Maintaining a carbon net negative portfolio is one of the three key strategic objectives, together with doubling the impact by 2025 and increasing the amount of investments with private capital. In addition, the new strategy recognises climate action as a sustainability priority and one of Finnfund's three global impact themes, together with diversity and inclusion, and digitalisation.

Climate change as one of Finnfund's key objectives is reflected in our key sectors, including agriculture, forestry, and renewable energy, as well as in our investment process and the development impact assessment of our investments.

Finnfund's climate approach, with assessment and management of climate-related risks and opportunities, is based on Finnfund's strategy (p. 26), the Sustainability Policy (p. 55), the Exclusion List, the Climate and Energy Statement, and the Government Ownership Steering Memorandum issued annually by the Ministry for Foreign Affairs of Finland (p. 28).

"Finnfund continues to report a net carbon-negative investment portfolio. We strive to keep it that way in the future, balancing our financed emissions with financed removals."

Marko Berglund
Senior Development Impact Adviser

The Climate and Energy Statement, adopted in July 2021, underlines our commitment to the Paris Agreement and outlines objectives related to portfolio management, the investment process, and measurement of the portfolio's carbon footprint. In December 2022, Finnfund published a clarifying note on its position on fossil fuels, underlining Finnfund's commitment to the Paris Agreement on Climate Change as well as to the Statement on International Public Support for the Clean Energy Transition, adopted on the occasion of COP26 in Glasgow in November 2021.

The Climate and Energy Statement is built upon three key targets. Finnfund is committed to:

1. Keep our investment portfolio net carbon negative and align all new investments with the Paris Agreement.
2. Make EUR 1 billion worth of new investments in climate finance by 2030.
3. Push for more systematic, harmonised, and transparent climate finance disclosures and reporting.

The first target is based on an investment portfolio that aims to finance at an annual level more greenhouse gas emissions removals than greenhouse gas emissions. Monitoring of this target is undertaken through thorough carbon accounting of Finnfund's investment portfolio (p. 89). Since 2019, Finnfund has released annual data showing that its total investment portfolio has a net-negative carbon balance, enabled by the carbon sinks from our forestry investments.

The second target underlines our commitment in contributing to the vast need for mitigation and adaptation finance. The progress of climate finance is being reported to the Board of Directors annually as part of Finnfund's company-level strategy. In 2022, Finnfund made investment decisions worth EUR 125.9 million in climate change adaptation and/or mitigation projects.

As part of the third target, Finnfund actively follows and adopts best practices related to climate finance reporting, and to climate reporting and accounting more broadly. For example, we apply the Common Principles for Climate Mitigation Finance Tracking and joined TCFD and the Partnership for Carbon Accounting Financials in 2022. For our carbon removals projects, we use the FRESCOs tool, developed jointly with other DFIs.

Besides Finnfund's own climate finance targets, Finnfund's investments are also a key part of Finland's climate-related official development assistance. In 2022, Finnfund reported EUR 20.8 million as part of Finland's climate-related official development assistance.

Climate risk management

The intensity and frequency of physical climate risks, which refer to risks posed by extreme weather events and chronic climate-related changes, are increasing globally.

In terms of climate-related transition risks, changes in regulations, markets, competition, and reputational aspects also continuously shape our target markets.

Together, these changes have an inevitable impact on the private sector and economic activity, with varying magnitudes, depending on the sector and its reliance on natural resources and market dynamics. Identifying and understanding these risks and finding ways to mitigate them and adapt to the changes is a precondition for businesses' survival and success.

We believe that investors should understand the risks they have in their portfolio, and actively seek ways to diversify investments and, in collaboration with the investee companies, find not only mitigation measures but also business opportunities that climate change adaptation and resilience may bring.

Work in progress

Finnfund started to develop its climate risk and adaptation framework and tools in 2020; this work is by its nature iterative and ongoing. The framework and tools are aligned with the principles of the EU Taxonomy Regulation and the Taxonomy Climate Delegated Act. Finnfund's physical climate risk (acute and chronic) and transition risk assessment tools were incorporated into the investment process in June 2021 and March 2022, respectively. A new country risk assessment tool will be implemented in the investment process in spring 2023, and the effect of climate change is considered as part of the overall country risk.

These tools include, for instance, examples of typical risks faced in our five key sectors, as explained in the table below.

While European Union regulations do not apply directly to investments made outside the EU, the European sustainable finance package, including the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy (EUT), potentially indirectly impact financiers active outside the European Union. To keep abreast of these regulatory developments, Finnfund initiated a study towards the end of 2022 to assess and review the implications of SFDR and EUT for Finnfund's investment activities. The study is expected to provide valuable lessons with regard to reporting requirements, data demands, and linkages with substantive EU legislation.

In 2022, we also actively participated in the work of the Adaptation and Resilience Investors Collaborative (ARIC), a joint body of 18 Development Finance Institutions (DFIs) aiming to promote finance in climate change adaptation and resilience. One of the ARIC work streams relates specifically to physical climate risk. Participating in the work of this group has enabled Finnfund to share its own practices and to work together with peers to develop joint tools for climate risk management.

In 2023, we will do further analytical work on physical climate risks to inform us of the magnitude of physical climate risks across key sectors in our target geographies. We will also keep developing the assessment and management of climate-related risks and opportunities on a portfolio level, including different climate-related scenarios.

Key sector	Physical risks, Acute	Physical risks, Chronic	Transition risks
Renewable energy	Flooding damages a power plant	Changes in rain patterns impact hydro powerplant power generation	Political uncertainties affect energy policy
Sustainable forestry	Wildfire destroys a forest plantation	Accelerating biodiversity loss weakens tree quality	Increasing insurance premiums
Sustainable agriculture	Drought results in harvest losses and food insecurity	Emergence of tropical pests kills crops	Regulations related to fertilisers or water use, or demand for certification or carbon data, disproportionally impact smallholders
Financial institutions	Natural disaster leaves local people unemployed	Rising sea levels hamper local economic activity	Climate change driven costs harm clients' ability to repay loans
Digital infrastructure and solutions	Hurricane destroys telecommunication infrastructure	Biodiversity loss restricts land use in infrastructure projects in remote areas	Increased raw material costs

Some examples of climate risks in our five key sectors.

Every investment is assessed

Many of Finnfund's key strategic sectors, such as agriculture, forestry, and renewable energy, are highly dependent on natural resources and vulnerable to the climate hazards and chronic risks that climate change imposes on them. Transition risks also play an important role, affecting our investments through regulation, market changes, competition, and reputational aspects.

Finnfund assesses the climate risks of every investment before the investment decision, as well as annually during the investment period. This assessment includes both physical and transition risks of climate change for all direct investments.

Based on the risk assessment, we also identify possible climate change adaptation needs and opportunities in every investment, both from a business adaptation perspective and in terms of the support the business may give to adaptation efforts among their clients and in society. In some cases, the company's business idea may be in providing adaptation solutions; in others, the adaptation benefit is delivered as a side-product of the business.

In terms of indirect investments, the same principles of assessing the risks and opportunities apply, but the assessment can be made either by Finnfund or by the fund manager. Whenever applicable, the processes and methodologies of the fund manager are assessed as part of the due diligence process. The assessment of the capability of the fund manager is key, as the manager is responsible for managing their own portfolio assets.

Direct investments: Three phases for assessing climate risks and adaptation opportunities

The following summarises and explains step by step the current process and methods of our climate risk and climate change adaptation assessment at an individual investment level for direct investments.

The assessment is made in three stages:

1. Screening of climate risks and adaptation opportunities

The first step in Finnfund's investment process is an initial project screening, followed by a clearance in principle to proceed from the Investment Committee.

Climate change affects developing countries the most. The poor and women living in rural areas will be hit hardest, which is another reason why these groups are the focus of Finnfund's work.

Physical climate risks and adaptation potential are included in this first screening with the aim of assessing the investment's exposure and vulnerability to climate-related risks/hazards. Transition risks are also discussed in this phase, but a more thorough transition risk assessment is only conducted in the due diligence phase.

Identifying physical climate risks guides us in identifying climate change adaptation needs at economic activity level, and the potential contribution of the investment to adaptation and climate change resilience, either focusing on the economic activity itself or looking at the wider business environment, at system and society levels. Both acute hazards and chronic changes are included in the screening, and their relevance to the business is assessed.

An environmental and social adviser undertakes the physical risk screening and a development impact adviser then assesses the adaptation opportunities of and in the investment. Every potential investment receives a risk score that guides the next steps in the process, and the adaptation potential also contributes to the development effect scoring of the investment.

Screening for risks relies on existing databases and data sources, such as IPCC, ND-Gain, and Think Hazard. The final scoring of the screening process provides an initial scaling for the existing risks in the business operating environment (geographical location(s) and sectoral risks), taking into consideration the vulnerability and readiness of the operating environment to adapt to hazards and changes.

In addition, based on the risk identification, the screening provides an assessment of the adaptation potential in the investment.

2. In-depth climate risk and adaptation analysis during due diligence

After a positive clearance in principle from the Investment Committee, the potential investment case proceeds to the due diligence phase.

Any climate risks or adaptation potential identified in the screening will be further investigated during due diligence. Finnfund's transition risk assessment is carried out by Investment Operations team members. The transition risk assessment builds on potential risks related to policy, technology, market and reputation. The tool that Finnfund has developed assists the project team in identifying such transition risks in Finnfund's key sectors. Individual risks are identified and graded on a three-tier scale. The likelihood of the risk materialising over the investment lifetime, as well as the impact on the investee itself, is also assessed. Risk mitigation measures are identified, and a residual transition risk level is identified.

Many Finnfund investments support adaptation and resilience to climate change. Microfinance institutions, for instance, strengthen the resilience of the poorest people, who are the most vulnerable in the face of climate change. Reforestation projects not only store carbon but can also improve watershed management amid changing rainfall patterns. Solar and wind power projects provide energy sources that do not depend on water or biomass – both of which are becoming scarce resources in many regions. Adaptation also plays a key role in many of our investments in sustainable agriculture.

"The effects of climate change are already tangible in many of our target countries. Therefore, it is necessary that we assess climate change impacts, as well as the risks, mitigation, and adaptation opportunities, for every investment before the investment decision and monitor the situation throughout the investment life cycle."

Aleksi Heiskanen
Environmental and Social Adviser

In the due diligence phase, the climate risk analysis covers the main supply chains of the economic activity and the market side, to build a comprehensive understanding of the risks and adaptation potential. The risks are assessed using a 'gender lens'; in other words, guiding questions are used to assess whether the risks and vulnerabilities differ between the company's stakeholder groups, and between men and women.

The adaptation potential is further investigated in parallel with the risk identification, to align the adaptation cases with the EU Taxonomy requirements. If the company's adaptation activities increase the adaptive capacity and resilience of others, due diligence will specify the adaptation product or service, its benefits and beneficiaries, and the scale of benefits. Work to further develop risk assessment processes and tools, to identify and finance adaptation opportunities, and to harmonise adaptation impact monitoring and reporting continues, together with our partners, under the Adaptation and Resilience Investors Collaborative.

If the due diligence process identifies a need to improve the mitigation and adaptation efforts in the company, this may be included, for example, in the Environmental and Social Action Plan or in other contractual documents between Finnfund and the investee company (p. 58).

3. Monitoring

After the investment agreement, Finnfund monitors its investee companies on an annual basis for their financial and environmental and social performance, and for development impacts. Climate risk monitoring is integrated into this monitoring process, to cover physical and transition climate risks and related residual risks.

We are also collaborating with other development financiers to develop harmonised metrics and indicators to monitor adaptation impact.

Metrics and targets

Finnfund assesses the climate effects of every investment before the investment decision, as well as annually during the investment period. This assessment includes the absolute emissions of the investment, avoided emissions for energy investments, and carbon removals for forestry projects.

Finnfund's carbon accounting stems from its desire to better understand the climate impacts of all its investments. To support this goal, Finnfund has joined the Partnership for Carbon Accounting Financials (PCAF).

Finnfund's accounting is based on the PCAF Standard and the GHG protocol principles, which are industry standards. It takes into account the direct and indirect emissions of the production and purchased services of each investee company (scopes 1 and 2, as well as scope 3 upstream), but not post-production use (scope 3 downstream). The impacts are attributed to Finnfund in proportion to its financing share.

Only the impacts of the investments currently in the portfolio are included. If, for instance, Finnfund's financing share declined in a forestry company that removes carbon from the atmosphere, Finnfund's reported carbon removals would decline as well, even if the company continued removing as much carbon as before.

Finnfund also assesses the scope 1, 2, and 3 upstream climate effects of every investment before the investment decision, as part of due diligence, as well as annually during the investment lifecycle. Finnfund's carbon accounting is based on primary data collected from the companies. The climate effects are assessed using input/output models that include country- and sector-specific emissions factors. When primary data is not available, Finnfund uses the Joint Impact Model (JIM) for annual portfolio GHG accounting for scope 1 and 2 emissions, and always for scope 3 (upstream) emissions.

Finnfund uses primary data to calculate and analyse the amount of carbon sequestered in its forestry projects using the FRESCOS tool. During 2022, the GHG protocol released a draft version of the Land Use and Removal accounting guidance, and Finnfund reviewed the draft against its current practices and the FRESCOS tool.

Finnfund does not recognise compensation or carbon offsets as part of its portfolio emissions or removals. We follow the principles of absolute accounting and only account the absolute climate effects. However, in order to increase the transparency of reporting, we started to collect data on carbon credits sold by our forestry investments and carbon credits bought by all investments.

The annual attributed climate effects of Finnfund's investment portfolio, covering the year 2021, are presented on p. 89. The results for 2022 will be available in 2023.

Finnfund assesses data quality and strives to improve data quality continuously. Data quality is presented as the weighted average of Finnfund's outstanding amount.

The total portfolio emissions and carbon sequestration are reported to the Board of Directors annually, as is the carbon intensity (emissions per million euros invested) of the existing portfolio and new investment decisions. Emissions and carbon sequestration of new investment decisions are followed on a management and board level each quarter. Similarly, the amount of mitigation and adaptation finance is followed annually by the management and the Board of Directors.

With regard to adaptation and resilience metrics, Finnfund works together with DFI peers under the ARIC initiative to identify a suitable common framework related to impact metrics.

Carbon footprint of our own operations

Besides portfolio emissions, Finnfund assesses and manages the carbon footprint of its own operations on an annual basis, covering the most essential emission sources.

As presented on p. 104, in 2022, the total operational carbon footprint of our own operations was 546 tonnes (t) of CO2e, which averages approximately 6.4 tCO2e per employee.

In principle, the most significant source of our emissions is business travel, which accounts for approximately 95% of our emissions. Finnfund's operations require its staff to thoroughly familiarise themselves with the investees and to actively participate in management and monitoring of investments. This requires frequent visits to target countries. Finnfund is continuously developing electronic tools and encouraging personnel to use them.

Our work in practice

INTERESTED IN KNOWING MORE?

Read more about climate accounting on our website: Climate accounting - our work in practice

CASE

Biodiversity, gender, and livelihoods impacts alongside climate actions

In 2022, Finnfund, together with New Forests, British International Investment (BII), and Norfund, launched the African Forestry Impact Platform (AFIP). This followed an announcement at COP26 around the intention of these groups to partner to develop investment strategies designed to scale and transform the sustainable forestry sector in sub-Saharan Africa.

AFIP is an investment company focusing on African forestry, aiming to raise a total of USD 500 million over the next 2–3 years in support of sustainable forestry that mitigates climate change. In October, AFIP announced its first acquisition, Green Resources, East Africa's largest forest development and wood processing company – and a Finnfund investee.

AFIP has four key areas of impact: climate change mitigation, biodiversity conservation, gender and diversity, and community and livelihoods. New Forests, as the platform manager, is also committed to these areas, and its performance is monitored against an Impact Incentive Mechanism with measurable targets for each of the key areas of impact. Targets, such as the ones below, are set at portfolio level but tracked at the investment or asset level.

Climate: Forests and forestry are globally recognised as a cost-efficient way to mitigate climate change. The target is to promote additional CO_2 sequestration and to prevent emissions from deforestation and degradation of natural forestry through sustainable forestry practices. The mitigation target is set at 2.26 million tCO_2e. The target reflects net removals and long-term carbon storage in wood products from production and conservation area, inclusive of carbon offsets. CO_2 calculation and monitoring will rely on best practices and conservative models, and emissions and removals will be verified by a credible third party.

Gender and diversity: The forestry sector is traditionally very male dominated, and the share of women employees is low in general, and even lower in managerial or board positions. AFIP is committed to achieving improved gender diversity in the African forestry sector by increasing female employment and leadership, and it applies the 2X framework to set targets and indicators for this area of impact at investee level. AFIP strives to create more inclusive employment opportunities for women. After 10 years, 80% of AFIP investees should be 2X qualified.

Biodiversity: AFIP aims to increase the area of quality habitats protected and restored. According to the criteria of applied sustainability frameworks (such as the HCV Toolkit, High Carbon Stocks, IFC Good Practice Guides, and FSC Ecosystem Services procedure), there are ecosystems that are automatically protected if found in an area managed by an investee/asset owner, but in addition to that, investees should also actively enhance biodiversity values, for example, through restoring natural and native vegetation.

Communities and livelihoods: The target is to address community needs by benefiting additional individuals across investees' stakeholder communities. Benefits can be financial compensation, income, new knowledge or skills, societal development, or alternative livelihoods. Internal stakeholders considered as beneficiaries include direct employees, temporary and contracted employees, and suppliers. External stakeholders are new local community members involved in supportive activities and members in smallholder or outgrower programmes. Impactful engagement activities will be determined at asset level to best meet the needs arising in the local context. AFIP has set a numeric target of a 14% increase in alternative and improved livelihoods.

Read more on our website.

Name: **African Forestry Impact Platform (AFIP)**
Country: **Africa**
Investment year: **2022**
Sector: **Sustainable forestry**

In October, AFIP announced its first acquisition, Green Resources, East Africa's largest forest development and wood processing company – and a Finnfund investee. Photo: Green Resources

Biodiversity

Due to Finnfund's strong focus on sectors in which company activities and/or supply chains are dependent on nature, such as forestry, agriculture, and renewable energy, the assessment and mitigation of negative risks and impacts of our investee companies is at the core of our sustainability approach.

In addition, we increasingly aim to seek and promote nature-based solutions (NbS) and nature positive impacts in our projects. By this commitment, we challenge ourselves and our present and future investee companies to take biodiversity thinking and execution to the next level in the coming years.

IFC Performance Standard 6 focuses on biodiversity and ecosystem services

Finnfund has assessed the biodiversity risks and impacts of its investments since our first Environmental Policy was published in 2005. Today, our biodiversity commitments are included in the current Finnfund Sustainability Policy 2020 and the Climate and Energy Statement 2021.

In addition to compliance with local laws and environmental regulations, Finnfund requires all investees to comply with the requirements of the IFC Performance Standards, such as Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources (PS 6) when triggered. The requirements of this performance standard are guided by the UN Convention on Biological Diversity, and they are the most complete framework on biodiversity in the world.

PS 6 requires the application of the mitigation hierarchy to avoid, minimise, restore/rehabilitate, and offset impacts and residual impacts on biodiversity during the entire project life cycle. Biodiversity offsets are required in case, despite all efforts, there are residual impacts that could not be avoided, minimised, or restored/rehabilitated.

By the end of 2022, approximately 23% of our investments had triggered IFC PS 6, hence there are biodiversity risks and impacts that need to be actively managed by the investees.

"One of the highlights of 2022 was the launching of a series of training sessions on biodiversity, focusing on forestry and specific regions. We aim to foster knowledge-sharing in biodiversity, to encourage active ownership, and to create a forum for exchanging best practices in the sector."

Harold Gordillo
Environmental and Social Adviser

Restoration project, training and knowledge sharing

In 2022, Finnfund, together with MLR Forestal, a Nicaraguan agroforestry company, launched an innovative pilot project to restore 554 hectares of degraded forest lands with significant biodiversity potential in Nicaragua (p. 72). The funding will be provided through a carbon credit programme whereby emission reductions, equivalent approximately to the emissions generated by Finnfund's own operations over three years (p. 104), will be sold to Finnfund and a biodiversity action plan for the restoration area will be implemented in tandem under the agreement. The project was published as part of Finnfund's contribution to COP15 on biodiversity, held in Montreal. Finnfund took part in the conference as part of Finland's delegation.

In 2022, Finnfund also began organising a series of learning sessions on biodiversity for its investee companies, particularly in the field of sustainable forestry and climate-resilient agriculture, aiming to foster active ownership and knowledge sharing on biodiversity and the correct application of PS 6. In 2023, the series has continued with a focus on forestry and agroforestry companies operating in specific countries and regions.

In March, we also organised an internal Lunch and learn session for all Finnfund employees, as well as a workshop for teams working, in particular, with forestry investments. These events were also Finnfund's contribution to the National Nature Dialogue Day, organised by Sitra, the Finnish Innovation Fund. The specialist team of environmental and social advisers has also received additional training on how to fully utilise IBAT, the most complete screening tool in the market to identify, early in the investment process, critical biodiversity risks and impacts.

Basiliscus plumifrons lives in MLR Forestal's forests in Siuna, Nicaragua. Read more on p. 72.
Photo: MLR Forestal

CASE

Remediating biodiversity in Nicaragua

"This is an amazing hot spot for biodiversity," summarises **Harold Gordillo**, Environmental and Social Adviser at Finnfund.

In December 2022, Finnfund and MLR Forestal, a Nicaraguan agroforestry company and a Finnfund investee since 2019, launched an innovative pilot project to restore 554 hectares of degraded forest lands with significant biodiversity potential in Nicaragua.

The company manages approximately 5,000 hectares of land, mostly in Siuna with a small proportion in Bonanza. The forests are certified under Forest Stewardship Council Forest Management TM (FSC-FM TM), and the cacao plantations are certified under the Rainforest Alliance. More than 28% of the area is designated for conservation.

With the funding provided by Finnfund, the company is aiming to implement an ambitious restoration plan by enhancing regeneration, which will then improve connectivity to nearby protected areas with high biodiversity value. Using the expertise of local and international experts, the company is planting native tree species on these degraded lands, testing different species and planting schemes to find the best models for restoration.

The enhanced connectivity between ecosystems is intended to increase both biodiversity and the quality of ecosystem services. For example, through improving riparian buffer zones, the project aims to enhance water quality for the benefit of both biodiversity and the communities living in a wider area.

"The ecological restoration project embodies MLR Forestal's raison d'être, which is defined as an economically viable, environmentally sustainable and socially responsible impact investment. By enhancing the regeneration of these 554 hectares, we are making our objectives a reality. This is a major undertaking for a private company in Nicaragua, and it would have been much more difficult if we did not work hand in hand with organisations like Finnfund," says **Luis López**, Sustainable Development Director at MLR Forestal.

Read more on our website.

The Bosawas Biosphere Reserve is home to many endagered species, such as Ateles geoffroyi. Photo: MLR Forestal

Name: **MLR Forestal**
Country: **Nicaragua**
Investment year: **2019**
Sector: **Sustainable forestry and agriculture**

Gender equality

Women and girls should have equal rights and opportunities everywhere and in all dimensions of life. Women's equality and empowerment is integral to all dimensions of inclusive and sustainable development.

The right of women and girls to equal treatment is not only an integral human rights issue, but also a fundamental pre-condition for the peaceful development of societies and the opportunities for future generations to live free from poverty. Equal participation of women and girls in society also strengthens economic productivity and economic growth.

Finnfund's Gender Statement compiles the measures through which Finnfund guides its investment decisions to better promote gender equality, the role of women in the markets, and women's economic empowerment.

Finnfund is also a founding member of the 2X Collaborative, a new global industry body that convenes the entire spectrum of investors to promote gender lens investing.

In practice, as part of our due diligence process, the potential of every investment to promote gender equality and women's empowerment is assessed before an investment decision. This means that we screen all our investments through 2X Challenge criteria, launched by the international 2X Challenge initiative, including indicators on ownership, leadership, employment, and consumption. The 2X Challenge has defined specific thresholds for each criterion, to determine whether an investment is eligible. Each new investment is required to report annually on the 2X indicators, and the data is also collected from the companies.

In addition, a gender lens is always integrated into our surveys and studies, meaning that each time we launch a study, it includes an assessment of the results through a gender lens. In 2022, we also conducted two studies focusing on gender equality: one of them with CIM Santé Group in Morocco (p. 74).

"Promoting gender equality is at the very core of our mandate and investment process, and the potential of every investment to promote gender equality and women's empowerment is assessed before every investment decision."

Anne Arvola
Senior Development Impact Adviser

CASE

Developing the private healthcare sector in Morocco

In Morocco, the resources of the current healthcare system remain limited, in view of an increasing need for medical care. However, several projects have been initiated to ensure broader accessibility to quality healthcare for all citizens.

The CIM Santé Group, the leading Moroccan private healthcare group, is a key actor in the accomplishment of this mission, by covering a wide range of medical and surgical specialities. The CIM Santé Group is also committed to supporting women at all levels of the organisation. In 2022, Finnfund supported the company in conducting a gender study.

"Women are half of the population, playing a key role as both healthcare professional and patients. At CIM Santé Group, women currently make up nearly 70% of the total workforce and are well represented in both senior and middle management positions. This investment is part of our mission to create career opportunities for women in developing countries," says **Johanna Raehalme**, head of the Nairobi office at Finnfund.

OP Finnfund Global Impact Fund I, the first Finnish global emerging markets impact fund, has been financing the group since 2021, together with Vantage Capital, a leading private investment fund in Africa. Through this investment, OP Finnfund Global Impact Fund I aims to foster the development of Morocco's healthcare sector, accessibility to quality care, and gender equality in the sector.

OP Finnfund Global Impact Fund I is the first global emerging markets impact fund in Finland. Finnfund acts as an adviser and anchor investor, and OP Asset Management Ltd, part of OP Financial Group, acts as a portfolio manager for the fund.

Read more and watch a video on our website.

Name: **OP Finnfund Global Impact Fund I / CIM Santé Group**
Country: **Morocco**
Investment year: **2021**
Sector: **Healthcare**

At CIM Santé Group, women currently make up nearly 70% of the total workforce and are well represented in both senior and middle management positions.

Human rights

Respecting and promoting human rights remain essential in Finnfund's work as a development financier and responsible impact investor. Our human rights due diligence (HRDD) approach – based on the UN Guiding Principles on Business and Human Rights (UNGPs) – is part of our Sustainability Policy and described in our Human Rights Statement (2019), but it is also strongly linked to our wider impact approach and to our aim to promote gender equality, decent work, and so forth. A human rights perspective is embedded into our investment process.

In addition, the IFC Performance Standards (IFC PS) and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work (also known as the ILO Core Labour Standards, ILO CLS) are the environmental and social management reference framework against which we assess our potential investments.

Human rights risk screening

All medium-to-high environmental and social risk investments are first screened using our exclusion list and then appraised against the IFC PS and the ILO CLS, which address potential impacts on certain human rights, such as rights to land, cultural and religious rights, workers' rights, child labour, forced labour, right to health, safety and security, right to a decent standard of living, and indigenous peoples' rights.

For example, with regards to labour rights and decent jobs, the IFC performance standards with the ILO core labour standards include requirements on non-discrimination, freedom of association and collective bargaining, child labour, forced labour, human resource management, working conditions and terms of employment, occupational health and safety, grievance mechanisms, and retrenchment, also extending to contracted workers and workers employed by primary suppliers.

Nevertheless, impacts on some human rights, or rights holders, are not covered as comprehensively as others, including potential impacts on workers' rights beyond primary suppliers, the right to privacy, civil and political rights, and children's rights. Therefore, we sometimes need to go beyond our regular – IFC PS and ILO CLS-based – environmental and social appraisal and perform additional human rights assessments. For this purpose, we have developed and used a specific screening tool, which is described on our website.

"This year, our focus has been on developing our sector-based salient human rights risk assessment for selected sectors. If we understand better the potential human rights risks related to specific sectors, we can also better address them, not only before the investment decision but throughout the investment life cycle."

Sylvie Fraboulet-Jussila
Senior Environmental and Social Adviser

Human Rights Based Approach and promotion of positive human rights impacts

The Finnish Ministry of Foreign Affairs' Human Rights Based Approach to development defines four levels of the approach to human rights in development financing:

- human rights blind
- human rights sensitive
- human rights progressive
- human rights transformative

The Human Rights Based Approach (HRBA) requires financing via private sector instruments, such as Finnfund, to be human rights sensitive at a minimum, and to carry out human rights due diligence in line with the UNGPs. The long-term objective is also to increase the share of human rights progressive financing.

In addition to being human rights sensitive, Finnfund's investments are human rights progressive, meaning that they promote the realisation of human rights. This happens through our developmental impact mission and our commitment to development impact, the SDGs, the 2X Challenge (p. 73), and decent work.

As stated by the Office of the High Commissioner for Human Rights of the United Nations *"Although the specific SDGs are not framed in terms of human rights, many targets reflect the content of international standards. For instance, SDG 1 (no poverty), SDG 2 (zero hunger), SDG 3 (good health and well-being), SDG 4 (quality education), SDG 6 (clean water and sanitation), SDG 8 (decent work and economic growth), and SDG 11 (sustainable cities and communities) reflect much of the core content of economic, social and cultural rights. SDG 16 on peace, justice, and strong institutions addresses some key dimensions of civil and political rights, including personal security, access to justice, and fundamental freedoms. SDG 17 addresses issues related to the right to development and means of implementation."*

The Advans Group is one of the leading international microfinance group serving over one million clients in nine countries in Asia and Africa. Finnfund has been financing Advans Group since 2019. In 2021, Finnfund announced a new debt facility commitment to the group, aiming to generate funding for micro and small businesses and to promote responsible business practices and gender equality within microfinancing. University of Helsinki participates in this investment with Finnfund.
Photo: Advans Group

Grievance mechanisms

Addressing human rights risks and impacts requires timely information on the ground. Investees are expected to have operational-level grievance mechanisms and are committed to notifying Finnfund within days of any significant incidents that may have human rights impacts, and to informing us about the results of investigations and measures taken to remediate and prevent re-occurrence of such events.

Rights holders can voice their concerns directly using our investees' grievance mechanisms or Finnfund's whistleblowing channel. In 2022, we received four grievances either directly via email or via our grievance mechanism, all related to the labour rights of staff of our investee companies (see the table below).

By the end of 2022, one of the cases was closed and three were still ongoing. In one case, the complainant's grievance and position would make that person easily identifiable by the company, which could lead to retaliation. Protecting the complainant is the priority of Finnfund and other financiers, which slows down the investigation and resolution process. However, this grievance is also investigated and addressed.

As the legislation and requirements are evolving, due to regulatory changes, in 2023 Finnfund is investing in a new, improved whistleblowing platform and updating the grievance procedure.

Grievance number	Subject of the grievance	Location	Follow-up actions	Status
1	Gender discrimination, unfair treatment	Asia	Agreed with other financiers that one financier addresses the grievance on behalf of the groupy	ongoing
2	Labour dispute, retrenchment	Africa	Grievance is being addressed at the investee company board	ongoing
3	Drought results in harvest losses and food insecurity	Africa	Anonymous – no possibility to contact and investigate	ongoing
4	Unfair dismissal	Africa	Agreed with other financiers that one financier addresses the grievance on behalf of the group	ongoing

Our work in practice

INTERESTED IN KNOWING MORE?

In this article on our website we explain how the policy works in practice: Human rights management system - our work in practice.

Finnfund's sector-based salient human rights assessment

As recommended in the 2021 human rights review, Finnfund commissioned a sector-based assessment of salient human rights issues in its investment portfolio, which was performed by Pillar Two.

As indicated in the report: *"A salient human rights issue assessment ('saliency assessment') is a high-level assessment which identifies a business' most salient human rights issues based on an analysis of the most severe potential adverse human rights impacts. It is based on desktop research and analysis and stakeholder input via workshops, interviews, and surveys. This saliency assessment uses a sector-based approach to identify the salient human rights issues in Finnfund's portfolio and financing activities. It does not provide information about specific potential or actual risks relating to actual projects financed by Finnfund. To robustly identify all actual and potential human rights impacts which are specific to a given project, a human rights impact assessment (HRIA) would be needed, including consultation with potentially affected groups and other relevant stakeholders."*

The sectors assessed are:

- Large-scale and small-scale agriculture (smallholder schemes)
- Renewable energy (focus on solar power)
- Digital infrastructure
- Microfinance and micro-insurance

Ensuring the perspective of external and internal stakeholders has been essential to ensure that the results of the saliency assessment are appropriate and accurate. Stakeholders consulted included international subject experts, members of civil society organisations working on identified issues, representatives of Finnfund's clients, a development finance institution, and Finnfund's staff from different teams, including those with expertise working in the chosen sectors.

Engagement was conducted through a working group, individual interviews and a survey. On this occasion, it was not possible to engage directly with potentially affected rightsholders, due to the breadth of the assessment, but we strove to select representatives from civil society and academia to help provide this perspective.

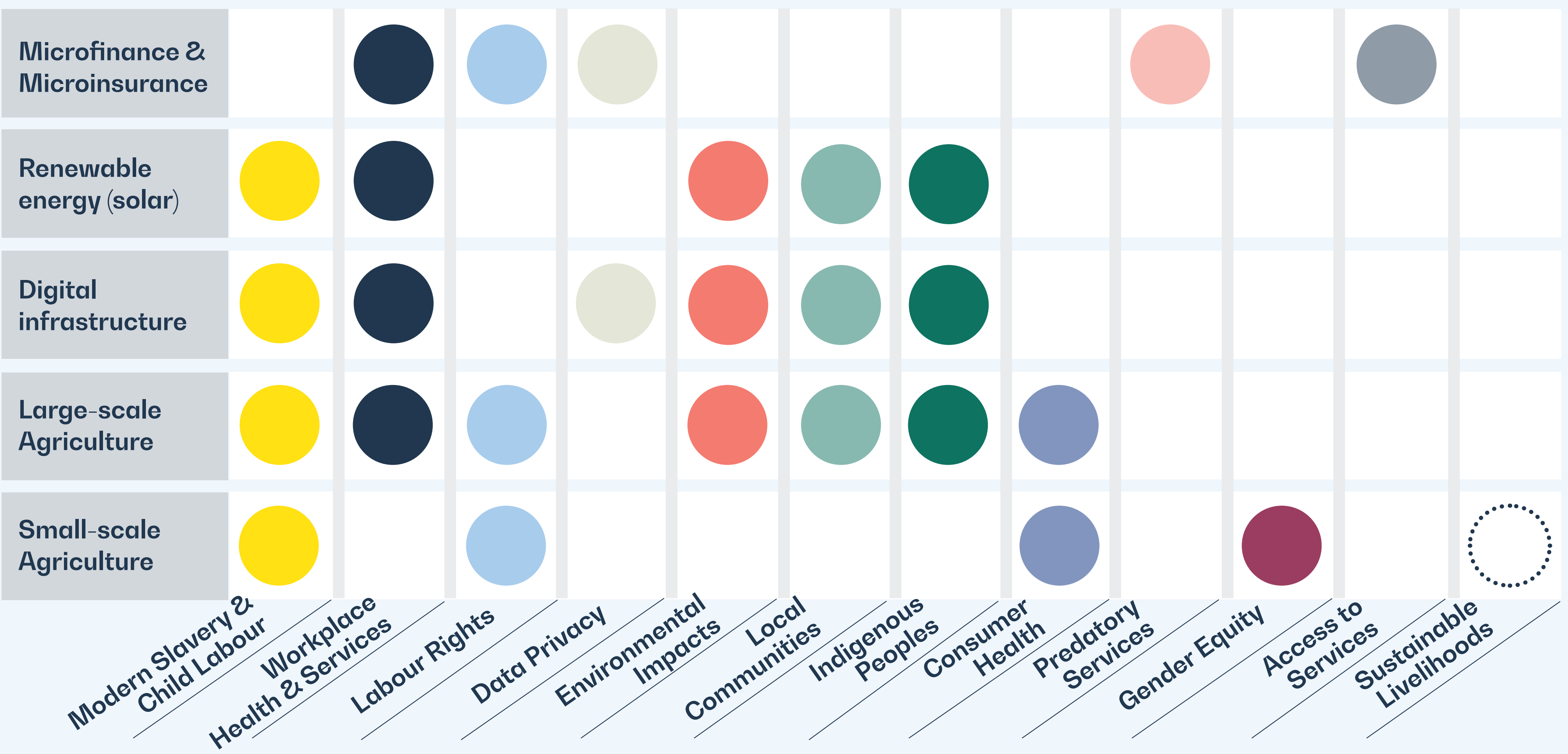
The saliency assessment's results help us to prioritise the human rights issues that are most salient in our portfolio. The assessment has also identified cross-cutting issues where we can take a whole-of-portfolio approach.

We will need to expand the saliency assessment to additional sectors and update it regularly in the future.

It is important to consider the issues identified here through the lens of rights holders, and how this could affect both vulnerability and the appropriate response. The assessment highlights that, in particular, Finnfund should consider how salient issues may affect women, children, migrant workers, persons with disabilities, indigenous peoples, minorities, and other at-risk groups differently.

In the assessment, gender was only identified as a stand-alone salient risk when it is an underlying cause of structural factors creating potentially severe impacts (i.e. in small-scale agriculture, where restrictions on land and property ownership can severely impact women small holders). However, as many stakeholders involved in the assessment pointed out, gender is relevant as a cross-cutting issue across all sectors and should be taken into account in Finnfund's response to these issues.

The salient human rights issues identified for the five selected sectors



Example 1

Sexual violence at the workplace

In autumn 2022, a Finnfund investee reported that a female employee had been sexually assaulted by a male colleague in a manager position during a night shift. Finnfund discussed the matter with the company, which had immediately taken an active role in the situation, firstly, to secure the rights of the victim, who was directed to receive appropriate care. The case was taken to the police, resulting in a court case that found the accused guilty. The sentence was unconditional imprisonment. In addition, corrective actions were taken. For instance, senior Human Resources and Health and Safety staff members will attend an IFC training course, to equip them to train staff and improve safety for women in the workplace. Since the beginning, the investee has been required to follow the IFC Performance Standards.

Example 2

Discriminative loan policy

Finnfund assessed an Asian microfinance institution as a potential client. At the beginning of the due diligence phase, which is before the actual investment decision, when assessing the financial institution's loan policy, it became apparent that the bank does not grant loans at all to single or widowed women or to migrant workers, who are often among the most vulnerable groups. Finnfund stated that this policy violates human rights principles and is discriminatory, even though it may represent the traditions of the country in question. Both Finnfund's investment team and the investment committee stated that financing cannot be granted to a microfinance institution unless their lending policy is changed to be more inclusive.

During the negotiations, the financial institution referred to the country's culture and traditions and stated that unmarried women would not apply for loans. However, a more detailed assessment showed that the financial institution had rejected more than 10,000 loan applications from unmarried women and had thus lost a significant number of customers. After discussions, the financial institution changed its loan-granting criteria and contacted the unmarried women whose loan applications had been rejected. By doing this, the financial institution improves its competitive position in the market, corrects its previous discriminatory and anti-human rights practice, and promotes the human rights of unmarried women. In the future, should Finnfund invest in the company, it will continue to monitor and support the implementation of the new loan policy.

Example 3

Improvement to labour conditions

Many workers of a Finnfund investee's subcontractors work outdoors and are exposed to natural conditions such as heat, dust, wind, or high humidity. In 2021 and 2022, a subcontractor received a large number of complaints about various working conditions at the site. In addition to wage levels, workers complained about the quality and quantity of food, a lack of drinking water, a lack of generators despite the hot temperatures, and a lack of air conditioning on the transport buses. The lenders, including Finnfund, communicated the issues to the investee. As a result, at the end of 2022, the subcontractor made improvements in working conditions and labour relations at site, including wage increases, better meal quality, and availability of drinking water.

Responsible taxation

Tax revenue and other tax-like fees paid by companies to the public sector in developing countries constitute one of the development aims of Finnfund's work with the companies it finances. Finnfund's operations support the tax responsibility of the companies it finances.

Finnfund's approach to responsible taxation is based on our tax policy (2018). In addition, Finnfund is committed to complying with the Responsible Tax Principles of European Development Financiers (EDFI).

Based on our tax policy, we require our investees to act responsibly and transparently in taxation matters. We encourage them to adopt their own internal tax policy. Finnfund does not accept aggressive tax planning or allow its investees, including investment funds, to engage in such activities.

The tax structures of all new investments are evaluated against our tax policy, and the evaluations are attached to the memoranda presented to our investment committee and the Board of Directors. In the event of any concerns, the issue is reviewed internally and, if necessary, external tax experts are also consulted.

Financing agreements include clauses whereby the project companies commit themselves to responsible tax principles in accordance with our tax policy. Finnfund does not accept aggressive tax planning, which prevents the accumulation of tax revenue from profitable business activities in developing countries.

Tax footprint of our investments

As part of our approach to responsible taxation, we collect data from our investees and publish the tax footprints of the projects we finance, with details for each country at the portfolio level (p. 92).

The focus in reporting the tax footprint of companies is often mainly on the corporate income tax (CIT) paid by the company. It is, nevertheless, important to acknowledge the vital role that private companies play in mobilising other government revenue streams in the developing country context. In addition, companies help governments to formalise the collection of, for example, payroll and income taxes paid by employees.

To capture these other government revenue mobilisation effects, Finnfund monitors both CIT paid by the companies and "other taxes and tax-like fees", which include other relevant contributions by the company, including sales tax, business tax, value added tax, licensing fees, customs duties, and dividend tax, as well as different types of administration and public permit fees. The tax systems, principles, and enforcement capacity of the poorest developing countries can vary greatly. In many developing countries, the state takes part of its revenue from businesses through various types of fees.

Our work in practice

INTERESTED IN KNOWING MORE?

In this article on our website we explain how the policy works in practice: Responsible tax principles – our work in practice

Knowing our customer

In terms of compliance, the starting point for every customer relationship is a KYC due diligence process (Know Your Customer). KYC is an integral part of the investment process and is followed throughout the entire life cycle of an investment.

The aim of regulation is to have uniform procedures regarding customer due diligence that are observed in global financial markets. The Financial Action Task Force, FATF, an intergovernmental task force to combat money laundering and terrorist financing, which operates under the auspices of the OECD, plays an important role. The same is true of the European Commission, which, for its part, identifies countries at high risk of money laundering and terrorist financing.

The prevention and detection of money laundering and terrorist financing is regulated in Finland by the Act on Preventing Money Laundering and Terrorist Financing (444/2017 Money Laundering Act). In addition to the law and government regulations, Finnfund aims to follow the best market practices in procedures against money laundering and the financing of terrorism.

Regulation has significantly evolved over the years and continues to evolve, contributing to the development of our own processes and tools. The starting point for customer identification is Finnfund's risk assessment. In this separate risk assessment, Finnfund assesses the risks associated with Finnfund's operations from the point of view of preventing money laundering and terrorist financing. Based on the risk assessment and the requirements of the Money Laundering Act, Finnfund sets out the level at which each customer identification is conducted. Finnfund also verifies that the customer is not on the UN, UK, EU, or US sanctions lists and is not subject to financial sanctions. In terms of the Money Laundering Act, Finnfund must report any suspicious transaction to the Finnish Financial Intelligence Unit (FIU).

In addition to the KYC due diligence process, projects are monitored during the customer relationship to keep the identification information up to date. Finnfund's riskiest projects require conducting enhanced customer due diligence, which includes specific actions and checks prior to commencing the customer relationship, as well as enhanced continuous monitoring. If Finnfund is unable to carry out the customer due diligence process, it may not establish a customer relationship, and hence may not invest in the company.

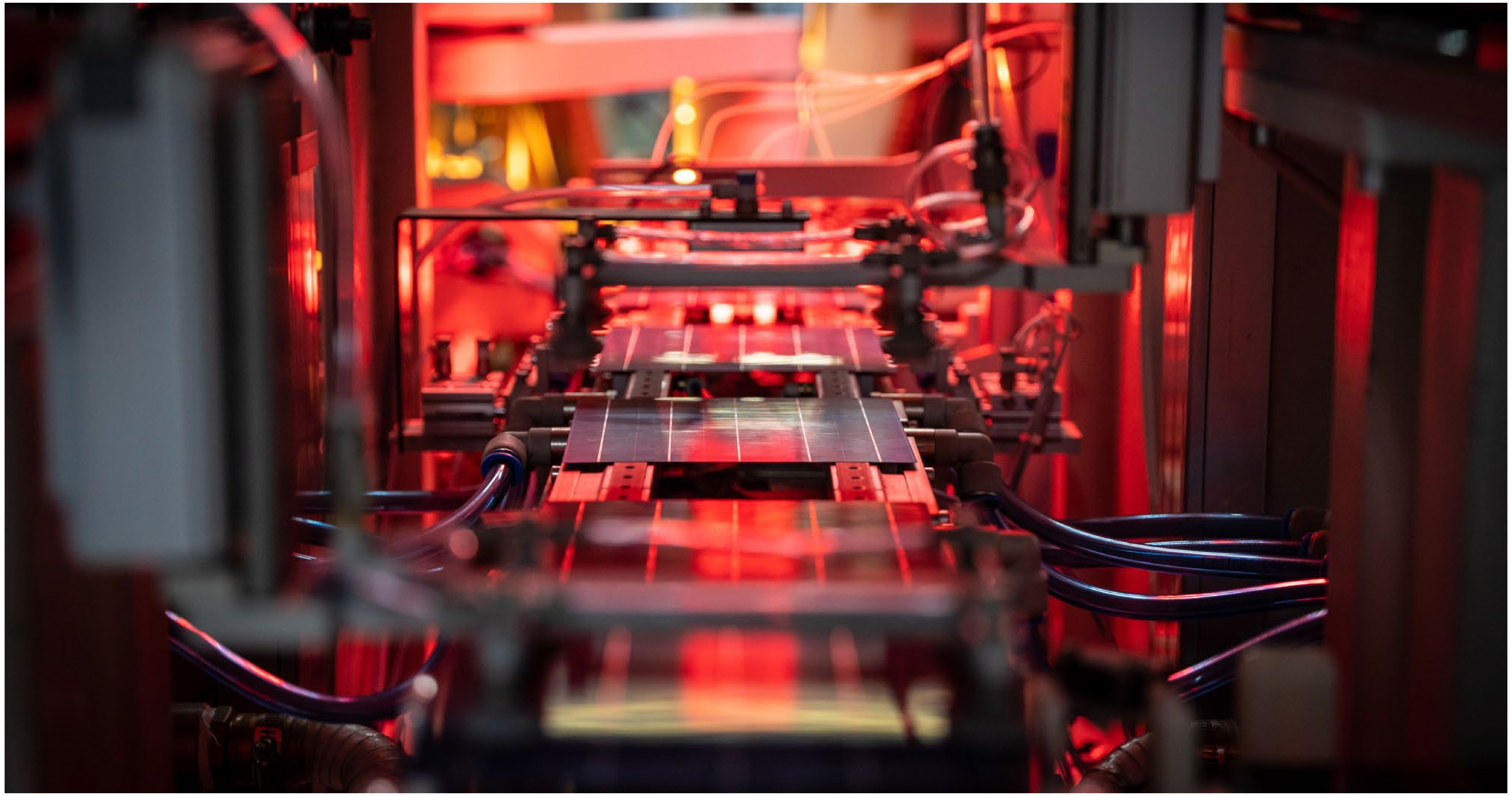
In 2022, Finnfund went through an organisational change and, as a result of that, an independent compliance func-

"We are investing in very different types of and often challenging environments. Through establishing a new, independent compliance unit and continuously developing our processes and tools, we aim to strengthen our know-your-customer and compliance approach."

Terhi Hannula
Senior Compliance Counsel

tion has been established. Besides the KYC process, the compliance function is responsible for whistleblowing and sanctions-related issues. A senior compliance counsel manages the operations of the function. KYC due diligence verifications and monitoring work are conducted by two dedicated employees. They are assisted by an investment officer from each project team and, if necessary, a legal counsel. The senior compliance counsel serves as the person in charge of KYC and the contact person for money laundering affairs.

Mandatory anti-money laundering and terrorist financing training is provided for investment personnel and relevant support functions on a regular basis. New employees also receive KYC training. In addition to customer due diligence and monitoring, Finnfund ensures that each financing agreement contains clauses (satisfactory to Finnfund) related to preventing money laundering and combating the financing of terrorism.



Salo Tech Thailand produces photovoltaic modules in Thailand. Production is based on best international practices, such as the ISO standards for quality, the environment, occupational health and safety, as well as the supply chain traceability protocol. The company is owned by Solar Finland Investment, Finnfund, and PEA Encom International, a Thai state enterprise owned by Provincial Electricity Authority.
Photo: Solar Finland

Corporate governance

Corporate governance is the system of rules, practices, and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders. Overseeing and developing the corporate governance approach is the responsibility of the risk management function, and the implementation and daily work is conducted by the investment team as part of due diligence and portfolio management.

We believe that good corporate governance is a precondition for the achievement of sustainability in business and long-term economic development. Finnfund promotes good corporate governance in its investments. Together with 35 development financiers, Finnfund has signed the Corporate Governance Development Framework to address the governance risks and opportunities in its operations. The framework is based on the IFC corporate governance assessment methodology, and it is specifically developed for development finance.

During the due diligence phase, Finnfund uses corporate governance screening tools to assess the maturity of the investee's governance structures and systems. During the investment period, especially in equity investments, we put emphasis on developing these structures further.

Key impact figures 2021

Due to the timeframe for collecting the data from Finnfund's investees, the figures representing the direct impact indicators on the following pages are from 2021. Data for 2022 will be presented in the 2023 Annual Report.

As Finnfund's investment portfolio kept growing in 2021, so did the aggregate impact of our investments. The content of our investment portfolio is constantly changing, which is good to keep in mind if comparing figures across years (see the summary table on p. 93). We make 20–30 new investments each year, while we also exit old investments. Portfolio-level data gives a good overview of the types of investments in the portfolio, even if it does not show the impact of an individual investment over time.

The figures in this report are the direct impact indicators that have been provided by the investee companies, and they do not reflect the proportion of Finnfund's investment.

In most cases, this report therefore presents the overall impact to which Finnfund has contributed. An exception to this is the measurement of climate effects, for which Finnfund applies the PCAF standard and which subsequently presents results directly attributed according to our share of funding (p. 89).

"Impact measurement is important, but only if it is used for management purposes, to improve companies' performance. That is why we continuously strive to improve our feedback loop with the customers and enhance joint impact ownership."

Juho Uusihakala
Head of Impact

Impact by five key sectors

Portfolio Impact Index

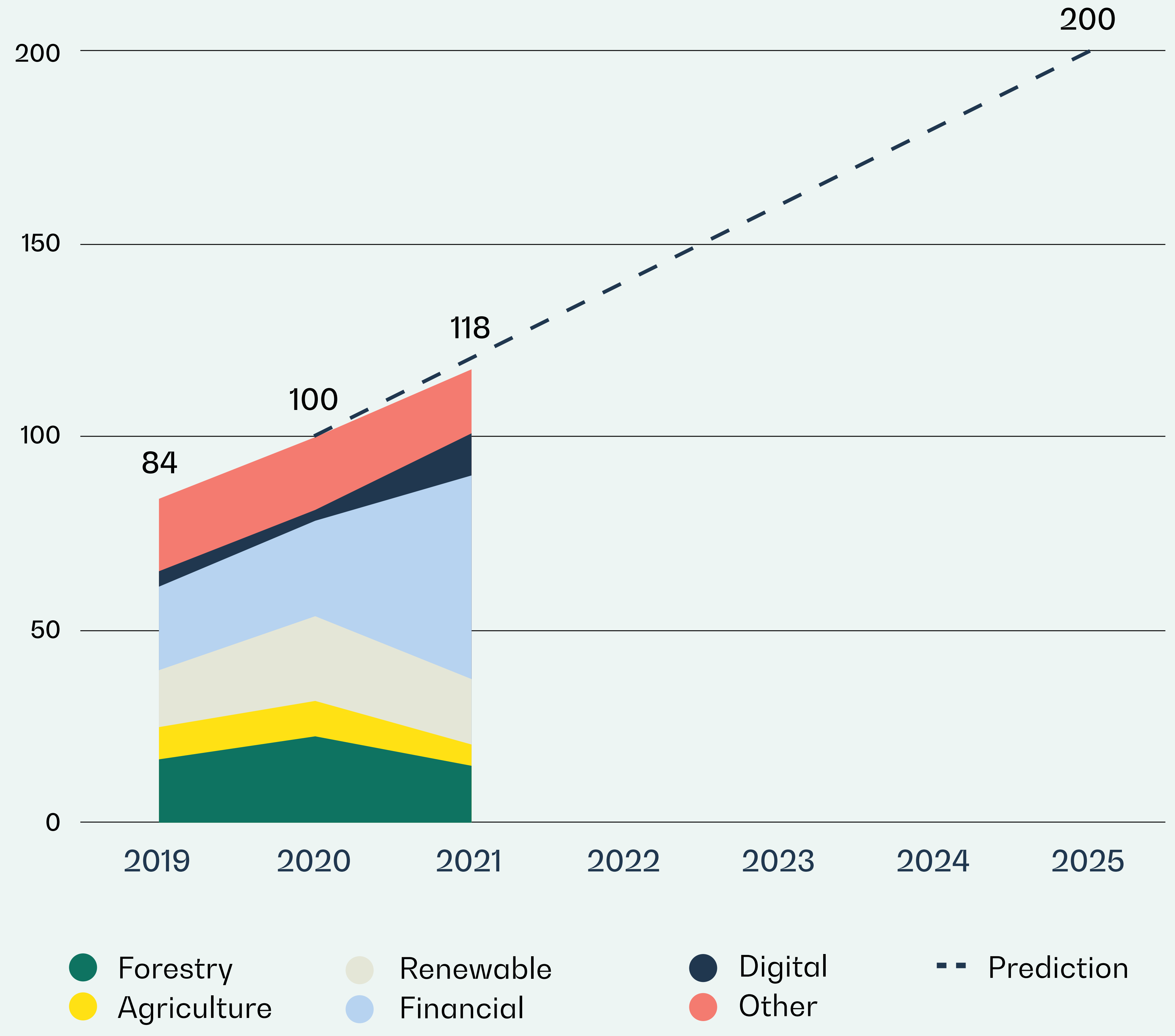
The portfolio Impact index (PII) was constructed to track our strategic target to double our impact by 2025 (p. 27).

Each sector is assigned a key impact indicator that captures both portfolio growth and investee level impact growth. The index takes into account Finnfund's financing share, hence attributed, and the relative size of each sector in Finnfund's portfolio. The baseline is set to 2020.

Sector specific impact key performance indicators (KPIs) are:

- **Sustainable forestry:** Sequestrated CO2. While forestry investments have multiple impact pathways, a key reason to invest in forestry is the sequestration potential of growing forests.
- **Renewable energy:** Avoided CO2. Energy plays a key role in helping countries to develop. Increasing energy production by investing in clean and more affordable energy production is at the heart of this development.
- **Sustainable agriculture:** Number of people fed or small-holder farmers reached. Local food production and enhancing local agriculture value chains help to increase food security and create inclusive livelihood opportunities.
- **Financial institutions:** Number of loans to micro, small and medium sized (MSME) companies. Limited access to financial services remains a fundamental constraint on development in most of Finnfund's target countries.
- **Digital infrastructure and solutions:** Number of users / beneficiaries. Access to digital services is vital for inclusive development for people especially in rural regions.
- **Other:** Number of jobs in the investee company (full time equivalent)

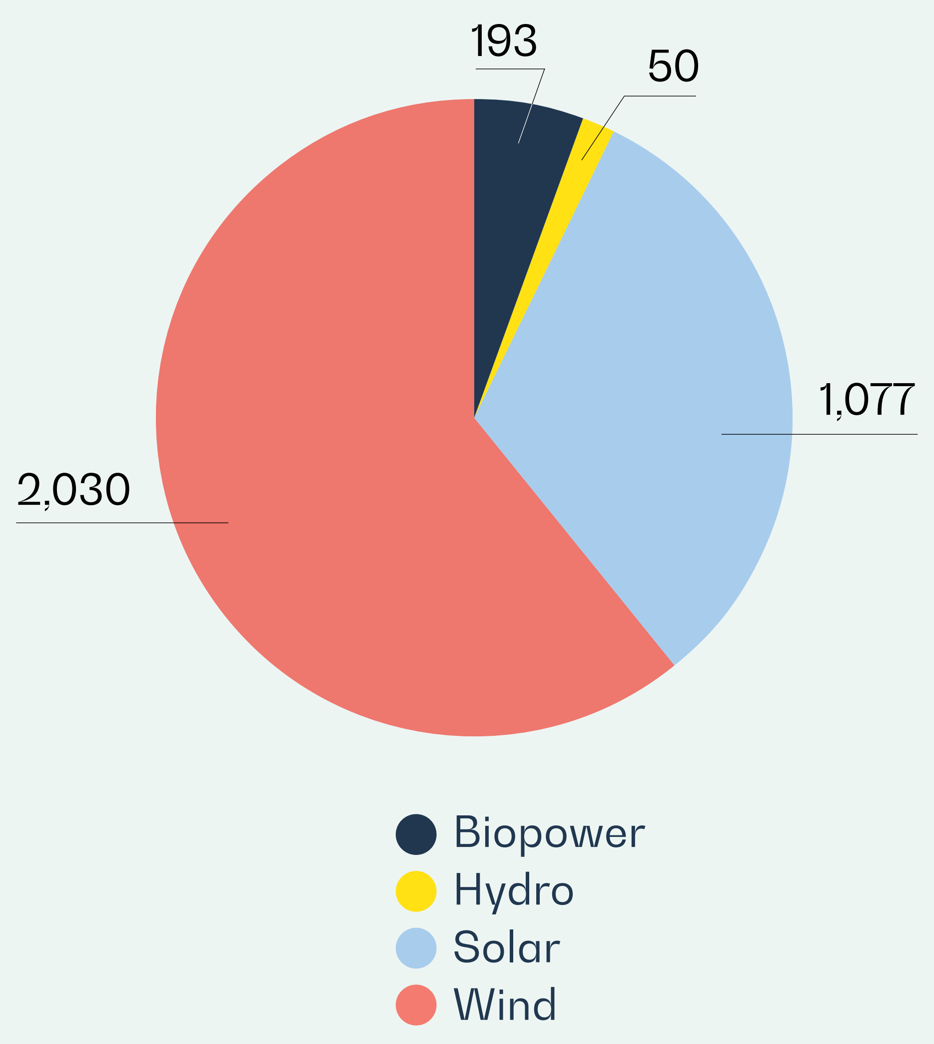
Portfolio Impact Index (PII)



Renewable energy

- Our investees generated **5,300 GWh of energy**, which represents a 16 % decrease from the previous year.
- Similarly, electricity generation from our direct renewable energy investments decreased by 27% and totalled 3,350 GWh. The decrease is due to non-availability of information from Syvash, a wind park in Ukraine.
- The majority of the generated electricity originated from our two wind power plants Lake Turkana (1,600 GWh) in Kenya, and Cibuk in Serbia (415 GWh).

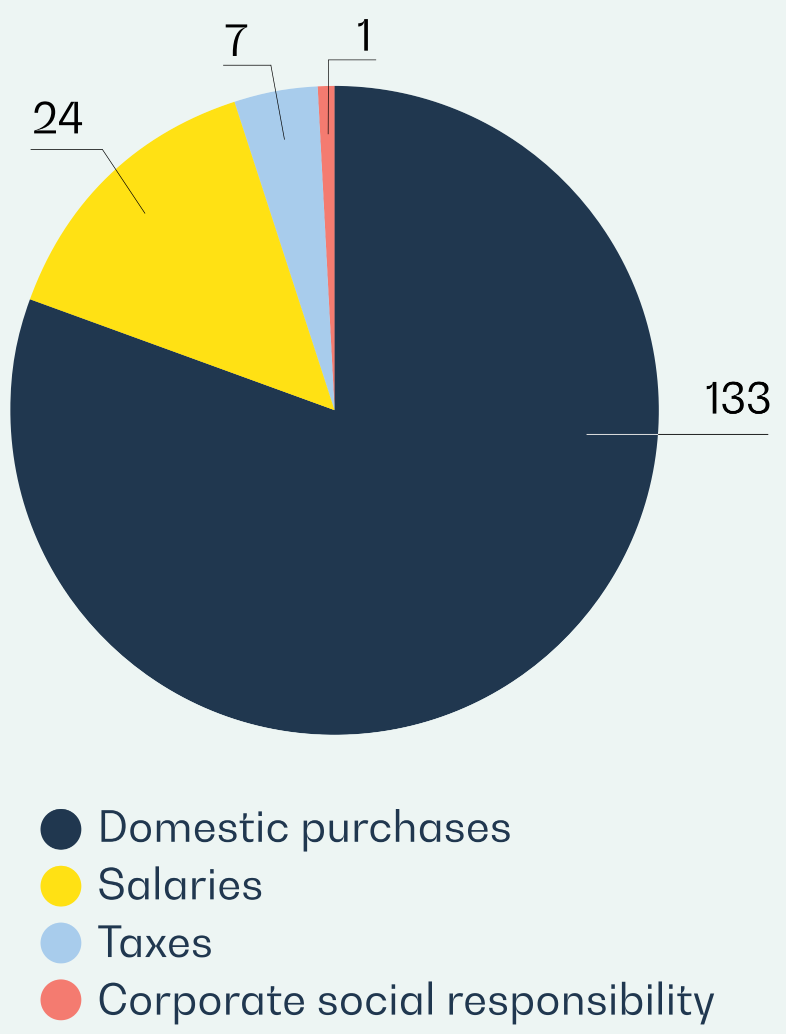
Renewable energy generation by source in 2021, direct investments (total GWh 3,350)



Sustainable forestry

- Finnfund's direct investees had approximately **350,000 hectares under sustainable management**, of which 125,000 hectares were planted and growing, and approximately 110,000 hectares (31%) were protected areas.
- In addition, through funds, Finnfund financed over **800,000 hectares of forest under sustainable management**. A majority of this area is FSC-certified natural forest.
- Our direct forestry investees had **5,900 employees, of whom 1,400 (24%) were women.**
- These companies contributed **EUR 165 million to local economies** through salaries, local taxes, and especially through purchasing local goods and services.

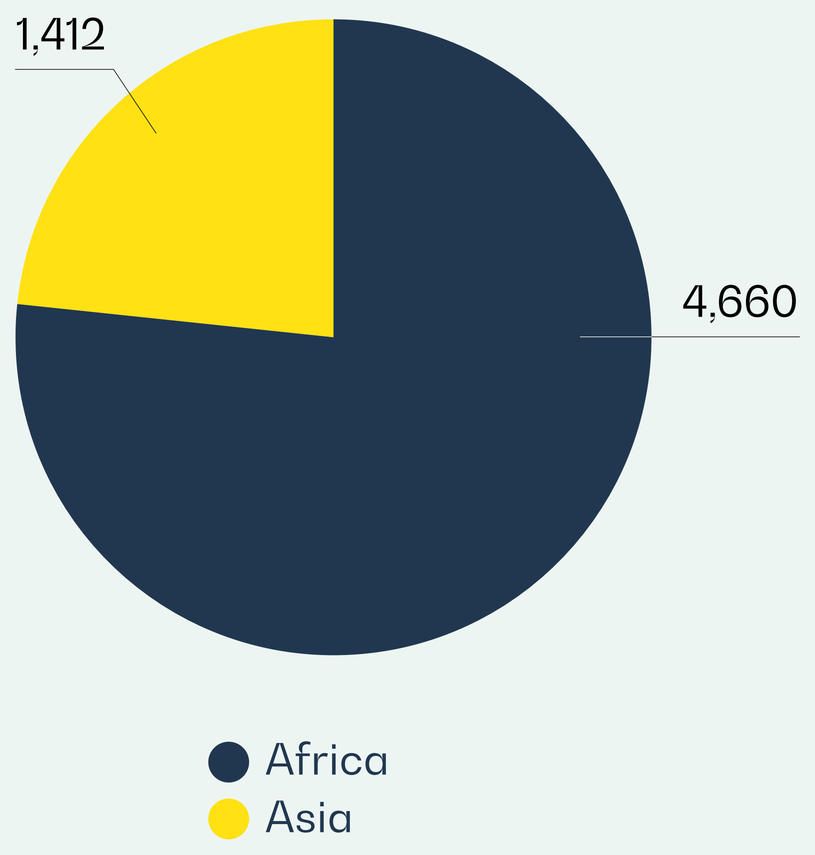
Forestry contribution to local economic development in 2021 (total EUR 165 million)



Sustainable agriculture

- Our eight agribusiness companies had 6,000 employees, of which 36% were women.
- The companies paid salaries worth EUR 13.8 million and made local purchases worth of EUR 98 million.
- Our investees are working with **5.6 million small-scale and livestock farmers**, of which 73% were women.
- Produced 49,500 tons of food and **24 million chickens and 2.7 million passion fruit seedlings**, equivalent to the daily calorie intake of **530,000 people**.
- 2.5 million loans to small-scale agriculture worth EUR 2.4 billion of which 76% were granted to women.
- **6,026 jobs** in agriculture in direct investments.
- In addition, through our fund investments we supported **14,800 jobs in agriculture**.

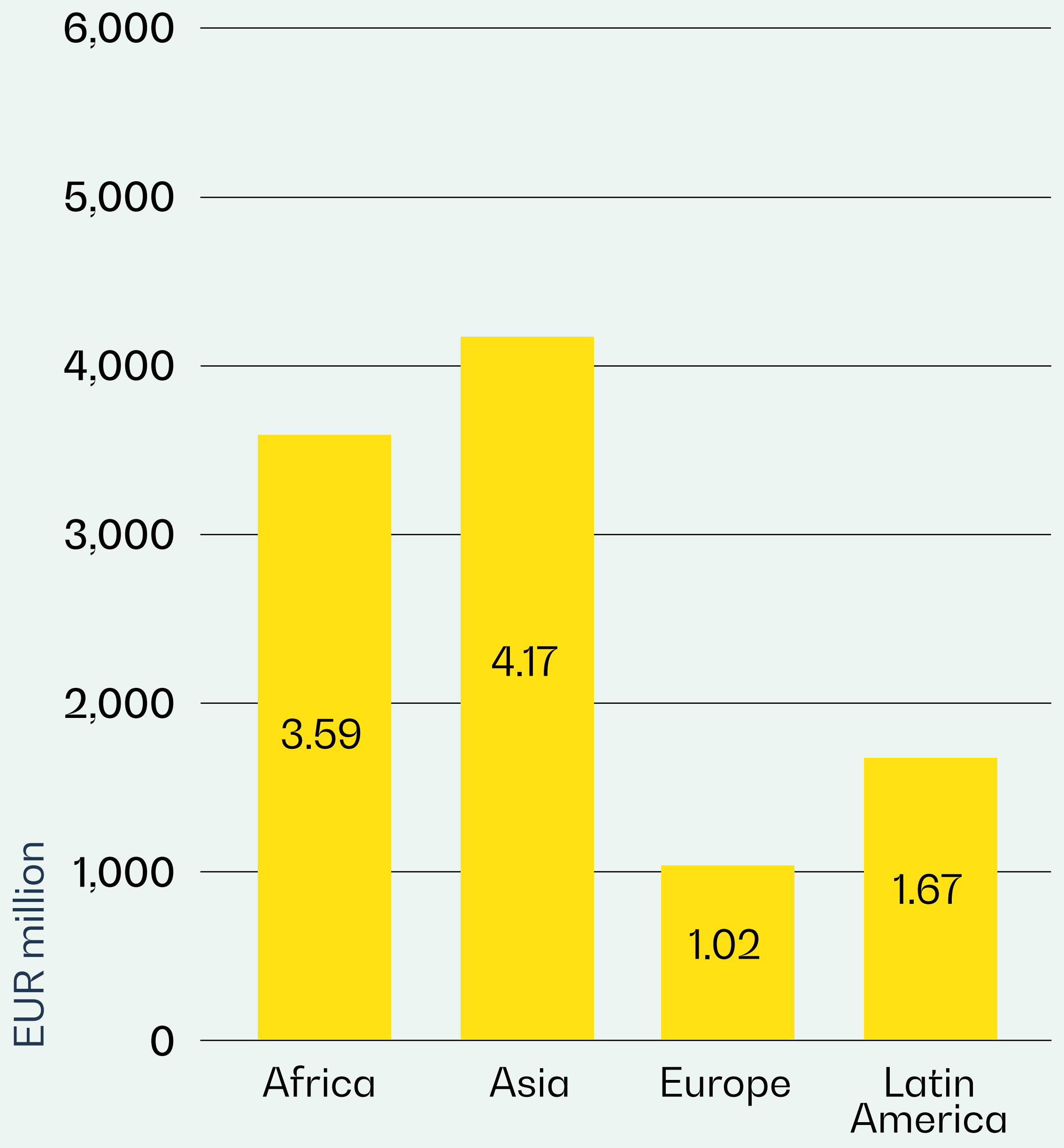
Jobs in agriculture by geography in 2021, direct investments (total 6,026)



Financial institutions

- **4.9 million micro and SME loans** – total value EUR 10.45 billion.
- **110,000 housing loans**, of which 39% were to women.
- **78% of micro and SME loans paid to women** – 31% of mobile loans paid to women

Micro and SME loans EUR million **geographical disribution in 2021** (total 10.45 million)



Digital infrastructure and solutions

- **37 million people reached and served** through digital solutions and infrastructure.
- Our four investee companies in the sector had 1.5 million customers, half of whom were women.
- One of our digital infrastructure investments helped connect **32 million people in DRC.**
- Provided **1,100 jobs** in total, of which 340 (31%) were for women.
- Paid salaries of EUR 12 million and made local purchases worth EUR 128 million.
- Facilitated **23 million digital loans** – total value EUR 1 billion.

Impact across sectors

Jobs

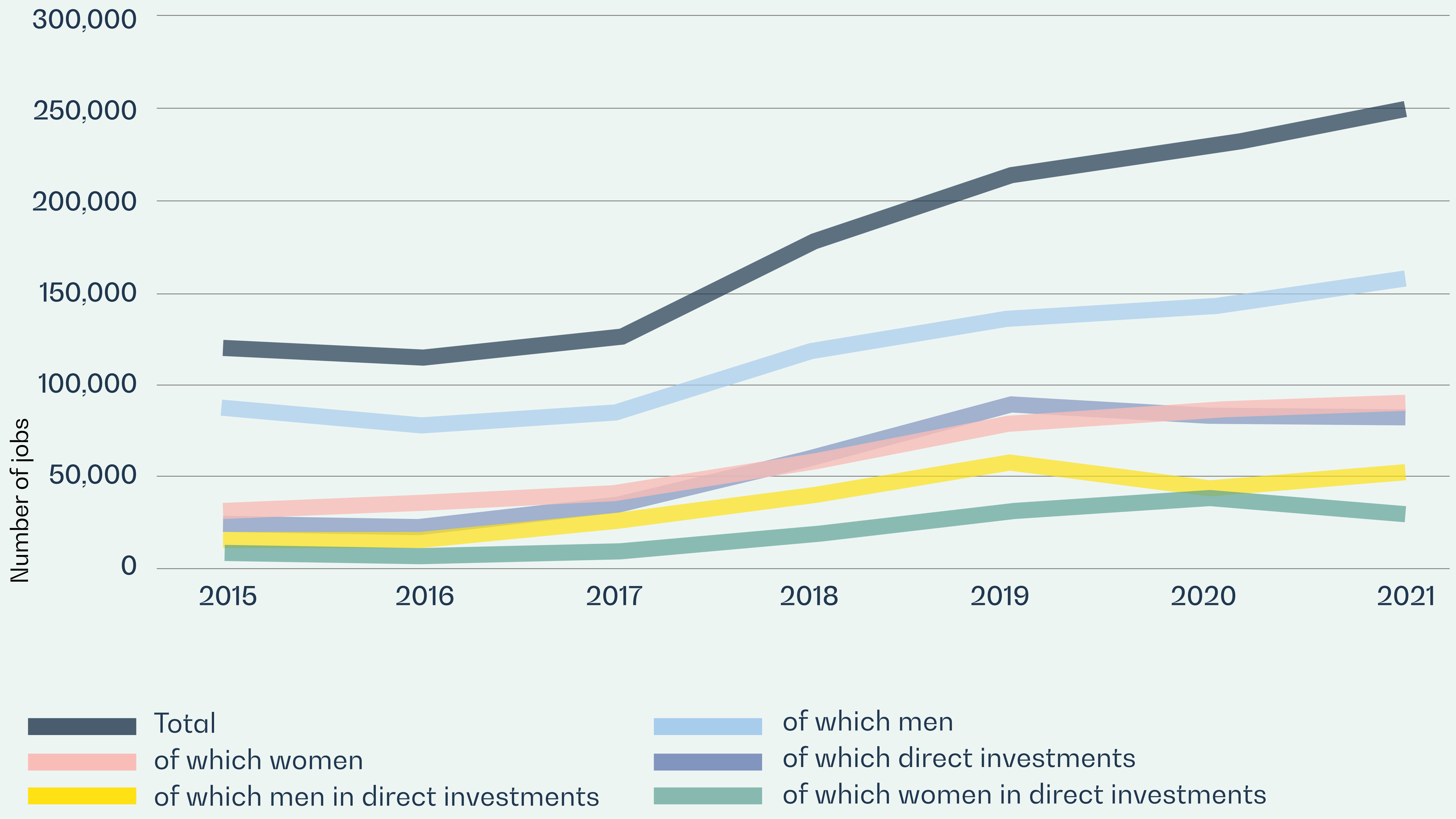
- Direct investments supported **83,000 jobs**, of which **37% were for women.**
- Fund portfolio companies supported **144,000 jobs**, of which **38% were for women.**
- In total, our investees supported **227,000 jobs.**

In addition to this, based on the estimations conducted by the Joint Impact Model (JIM), our direct and indirect investments created **1.8 million indirect and induced jobs** bringing the total employment effect to 2 million. These indirect jobs and induced jobs are created and supported by domestic purchases.

Approximately one third of the jobs were estimated to be in agriculture, forestry and fishing and one quarter in wholesale and retail trade. In terms of countries, the biggest number of jobs were created and supported in Ethiopia (170,000), Nigeria (137,000), Kenya (120,000), and Tanzania (76,000).

In 2021, the domestic purchases and salaries generated by our direct and indirect investments amounted **EUR 2.8 billion** in total.

Jobs in indirect and direct investments in 2015-2021



Climate

Investments attributed to Finnfund removed more greenhouse gas emissions, measured as carbon dioxide equivalent, from the atmosphere than they emitted during 2021.

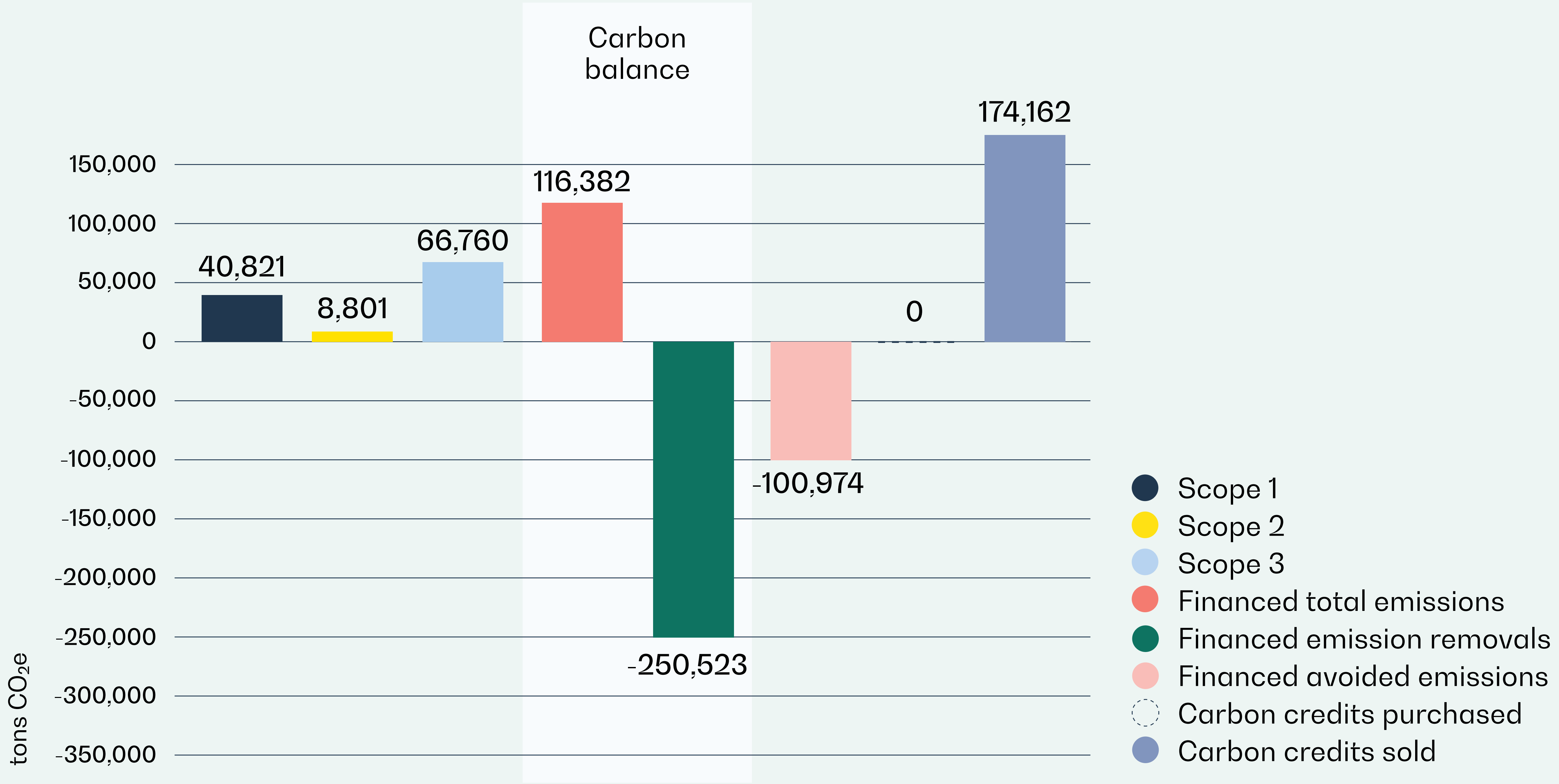
In 2021, Finnfund's portfolio **emissions were 116,382 tCO2e, which is equivalent to 195 tCO2e per outstanding million.**

Finnfund's portfolio **carbon removals were -250,523 tCO2e, which is equivalent to 2,089e per outstanding million.** Most of the forests in Finnfund's portfolio are afforestation and reforestation projects and still relatively young, which means that the average annual growth of the forests is larger than the amount harvested. This leads to a significant carbon sink. Once the forests mature, the carbon storage in forest biomass will reach a steady state. Finnfund also calculates the carbon stored in harvested wood products, which is approximately 12% of total removals.

This means, that Finnfund's portfolio **net emissions were -134,131 tCO2e.**

In 2021, Finnfund's **renewable energy investments avoided 100,974 tCO2e of emissions.** These are accounted only in renewable energy investments.

Finnfund's portfolio's climate impact in 2021



DATA QUALITY
Finnfund assesses data quality and strives to improve data quality continuously. Data quality, according to the PCAF standard, is presented as the weighted average of Finnfund's outstanding amount (scale 1-5).

Scope 1: 3.3
Scope 2: 3.34
Scope 3: 3.79

Gender

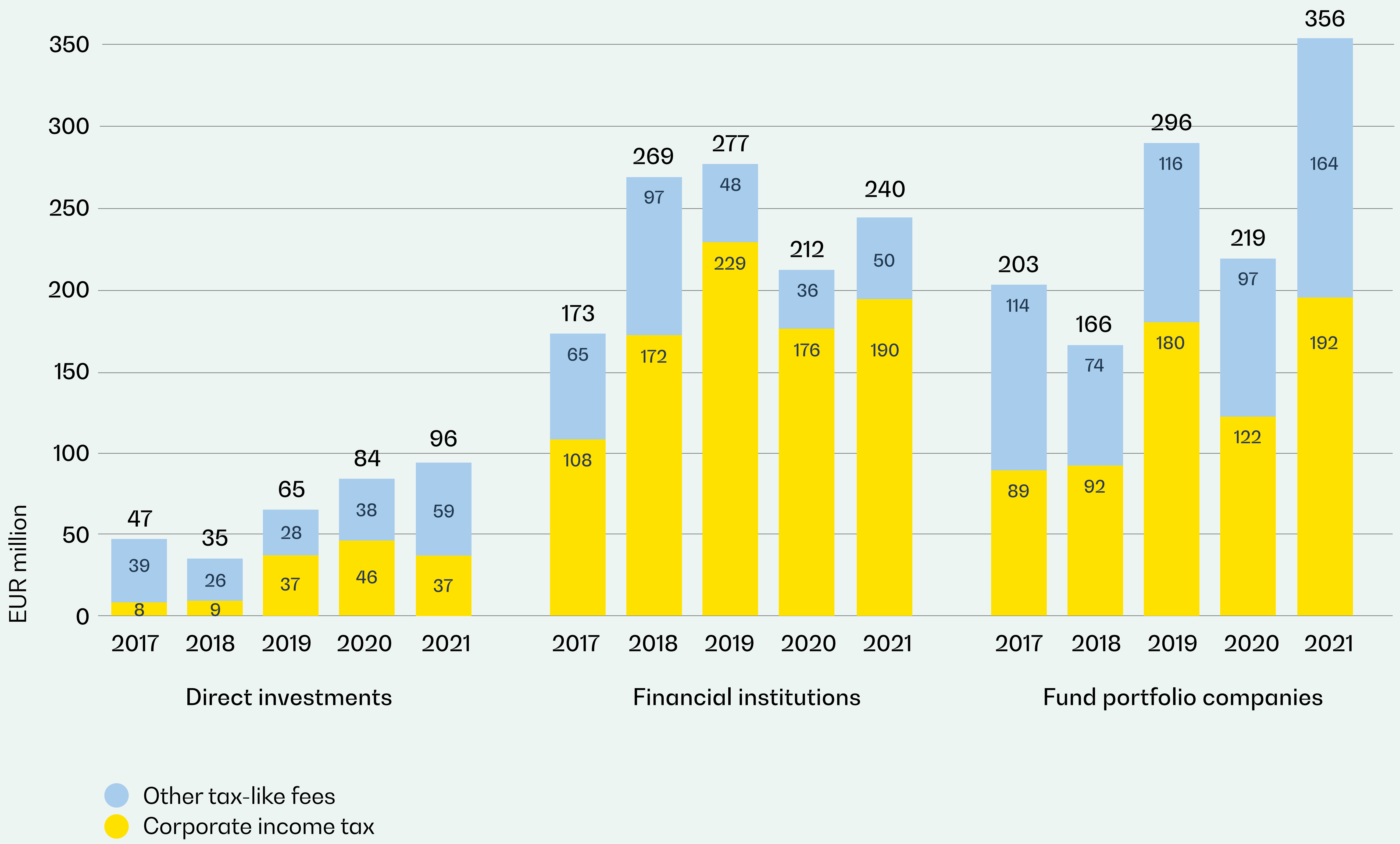
- **17% of board members** at our direct investees were women.
- **29% of senior management** among our direct investees were women.

Kasha, a Finnfund investee since 2020, is an e-commerce platform improving women's access to genuine health, hygiene and self-care products in East Africa. The company sells menstrual care products, contraceptives, pharmaceuticals and a range of beauty products via its own platform, accessible through basic phones and a website and delivered to customers confidentially.

Taxes

- Our investees paid a total of **EUR 692 million** in their respective countries in taxes and tax-like fees.
  - 35% by financial institutions.
  - 14% by other direct investments.
  - 51% by fund portfolio companies.
- **80%** of the taxes were paid in African countries.

Taxes and tax-like fees in 2021, EUR million



Taxes and tax-like fees by type of investment paid by Finnfund's investees in 2021.
The annual variation is caused by changes both within the investees and in Finnfund's portfolio.

Corporate taxes and other tax-related payments by countries in 2021

Country	Number of investees	Corporate income tax (EUR million)	Other taxes (EUR million)	Total (EUR million)
Total	**233**	**420**	**273**	**692**
AFRICA	**139**	**344**	**209**	**553**
South Africa	16	71	9	**81**
Kenya	14	36	28	**64**
Ghana	13	19	31	**50**
Nigeria	12	39	23	**62**
Tanzania	12	1	5	**6**
Ethiopia	7	11	2	**13**
Zambia	7	1	3	**3**
Egypt	6	11	30	**41**
Uganda	6	2	2	**4**
Africa LDC	25	13	53	**66**
Africa LMIC	16	140	18	**159**
Africa UMIC	5	-	4	**4**
ASIA	**43**	**36**	**36**	**72**
India	8	12	2	**14**
Nepal	7	0	2	**2**
Pakistan	5	11	1	**11**
Asia LDC	6	1	1	**1**
Asia LMIC	7	10	4	**14**
Asia UMIC	10	3	27	**29**

Country	Number of investees	Corporate income tax (EUR million)	Other taxes (EUR million)	Total (EUR million)
LATIN AMERICA	**31**	**38**	**22**	**61**
Mexico	5	1	2	**3**
Latin America LMIC	6	25	1	**26**
Latin America UMIC	20	12	19	**31**
Europe and Turkey	**11**	**0**	**5**	**6**
Europe and Turkey	11	0	5	**6**
Middle East	**9**	**0**	**0**	**2**
Middle East UMIC	1	0	0	**0**

The table compiles taxes and other tax-like fees paid by all of Finnfund's investee companies (including fund portfolio companies). Any government subsidies have been deducted from the figures. The average effective tax rate for companies with non-negative pre-tax profits in Finnfund's portfolio was 14%. If a country has fewer than five investments, data is classified by continent and OECD/DAC income level categories.

LDC = least developed countries
LIC = other low-income countries
LMIC = lower-middle-income countries and territories
UMIC = upper-middle-income countries and territories

Development impact 2019–2021

	Direct investments	Financial institutions	Funds	Total 2021	Total 2020	Total 2019
# of reporting companies	73	19	32	124	114	112
Reporting rate%	99%	100%	97%	98%	97%	97%
Jobs, total	23,000	58,000	1,000	83,000	83,000	82,000
Jobs, women %	31%	39%	41%	37%	34%	35%
Jobs in fund portfolio companies		10,000	134,000	144,000	129,000	118,000
Jobs in fund portfolio companies, women %		35%	38%	38%	36%	38%
Taxes, all (EUR)	96,388,000	239,512,000	356,347,000	692,247,000	514,884,000	637,739,000
Domestic purchases, EUR	635,087,000	216,224,000	721,677,000	1,572,988,000	901,535,000	833,338,000
Smallholders, total	5,211,000		424,000	5,635,000	3,385,000	4,457,000
Smallholders, women %	74%		56%	73%	86%	87%
Energy generated (GWh)	3,400		1,900	5,300	6,300	7,800
Microloans, number		3,921,000	537,000	4,458,000	5,453,000	4,775,000
Microloans (number), women %		77%	51%	74%	77%	68%
Microloans, rural %		55%		55%	38%	26%
Microloans, EUR		2,140,332,000	1,560,657,000	3,700,989,000	3,638,078,000	5,386,484,000
Microloans (EUR), women %		39%	45%	42%	52%	61%
Microloans, average size		500	2,900	800	600	1,100
SME loans, number	-	391,000	87,000	478,000	244,600	437,000
SME loans (number), women %		12%	9%	11%	36%	33%
SME loans (number), rural %		20%				10%

	Direct investments	Financial institutions	Funds	Total 2021	Total 2020	Total 2019
SME loans, EUR		6,271,332,000	479,137,000	6,750,469,000	4,010,090,000	4,442,310,000
SME loans (EUR), women %		9%	17%	10%	16%	16%
SME loans (EUR), average size		16,000	5,500	14,100	14,400	10,200
Agricultural loans, number		1,911,000	568,000	2,479,000	1,663,700	1,722,000
Agricultural loans (number), women %		76%		76%	76%	55%
Agricultural loans, EUR		2,143,165,000	210,069,000	2,353,234,000	2,103,702,000	2,256,468,000
Agricultural loans, average size		1,100	400	900	1,200	1,300
Housing loans, number		84,000	26,000	110,000	170,600	645,000
Housing loans (number), women %		35%	49%	39%	42%	38%
Housing loans, EUR		1,397,405,000	167,895,000	1,565,300,000	1,565,300,000	2,755,141,000
Housing loans (EUR), average size		16,600	6,400	14,200	3,100	4,300
Mobile loans, number		22,784,000		22,784,000	19,159,300	36,439,000
Mobile loans (number), women %		31%		31%	35%	31%
Mobile loans, EUR		996,238,000		996,238,000	659,969,000	1,307,306,000
Mobile loans (EUR), women %		31%		31%	35%	28%
Mobile loans (EUR), average size		44		44	34	36
Carbon footprint of investments (tCO2e)				116,328	135,693	106,000
Avoided emissions (tCO2e)				-100,974	-122,852	65,000
Carbon dioxide sequestration (tCO2e)				-250,523	-312,829	240,000

The numbers have been rounded off. As some of the indicators are sector-specific, the number of respondents varies.

CASE

Twiga connects merchants and food production

A heartily smiling **Naomi Wambui**, 74, sits on the steps of an apartment building, with a plastic box full of bananas next to her, on a street in Nairobi's Kahawa West area, which is full of traders with mobile stalls.

"I found Twiga in December 2022. My life and my business have improved significantly since then. Now Twiga delivers me a box of bananas every day. I get the products cheaper than buying elsewhere," says Wambui.

She used to run a small store on the same street. The corona pandemic took her customers and livelihood. Wambui tried to sell vegetables and fruits, but the result of a working day was often almost zero.

Twiga's online shopping platform connects food producers and retailers. The company both buys products from small farmers and runs its own farms. At the same time, the company strives to utilise and develop smart farming methods that help in adapting to, for example, the effects of climate change. A new 20,000 m2 logistics centre was completed in November outside Nairobi. By enhancing the value chains of food production, the aim is to improve people's living standards and strengthen food security.

"By making the distribution chain more efficient, food can be delivered from producers to sellers and consumers faster. Shortening the logistics chain helps keep food prices at a lower level, while food waste is reduced significantly, by up to 40 per cent," says **Peter Njonjo**, CEO and founder of Twiga.

Read more on our website.

Name: **OP Finnfund Global Impact Fund I / Twiga**
Country: **Sub-Saharan Africa**
Investment year: **2021**
Sector: **B2B e-commerce food distribution platform**

"My life and my business have improved significantly since I found Twiga," says Naomi Wambui. Kelvin Mwangi, Twiga's agent, is helping Wambui to make an order on her mobile phone.

CASE

KaiOS helps bring affordable mobile connections to Sub-Saharan Africa

"With this investment, KaiOS can expand into new markets in Sub-Saharan Africa", said **Sebastien Codeville**, CEO and co-Founder of KaiOS Technologies. "We are happy to partner with an investor like Finnfund who shares our vision of how important it is to boost digitalisation in Africa."

Finnfund has invested 3.4 million US dollars in KaiOS Technologies, maker of KaiOS, the leading mobile operating system for smart feature phones. It has been estimated that 3.4 billion people in emerging markets do no use internet despite living in areas with mobile broadband coverage. One of the greatest barriers to mobile internet adoption is the cost of a smartphone, often being more than 20% of monthly income. KaiOS brings mobile connectivity to millions of people in emerging markets by providing an operating system that allows manufacturers and operators to make KaiOS powered phones affordable.

Finnfund's investment in KaiOS is also classified as a 2X Challenge eligible gender investment as it supports women to close the digital divide that still exists, including across lower-middle income countries. KaiOS not only brings a more affordable device to the market but they also host applications and content specifically targeting women and girls. These are related to for example sexual and reproductive health.

In addition, women represent 28% of their total workforce, and KaiOS is committed to reaching 30% by 2023. The company has also put in place policies and programs to address barriers to women's quality employment, such as a policy to attract female job applicants and consider gender aspects in promotions.

Read more on our website.

Name: **KaiOS Technologies International**
Country: **Sub-Saharan Africa**
Investment year: **2022**
Sector: **Digital infrastructure and solutions**

KaiOS strives to bring mobile connectivity to millions of people in emerging markets.

Corporate responsibility at Finnfund

Sustainable, responsible business practices are the key not only in our investment operations but throughout our own operations, too. We are committed to complying with the highest standards concerning business operations and the ethics thereof in our operations. Finnfund's operating methods, decisions, and policies are based on the values of responsibility, respect, development, and effectiveness.

The Code of Conduct (2019), together with regulations, policies, and statements – such as the Sustainability Policy (2020), the Human Rights Statement (2019), and the Gender Statement (2019), as well as the procedures concerning our business operations – form the operating culture and values of Finnfund. In terms of impact and sustainability governance at Finnfund, responsibilities are explained on p. 42.

As explained on p. 81, in 2022, Finnfund also established a new Compliance unit, which is responsible, for instance, for compliance issues within Finnfund, including the know-your-customer (KYC) process as part of the investment process.

As mentioned above (p. 77), Finnfund also has a whistleblowing mechanism to report suspected wrongdoings in the operations of Finnfund or its investees. Finnfund's Board of Directors has appointed an internal Anti-Corruption and Grievance Committee to investigate corruption and misconduct and to deal with whistleblowing matters. The Committee consists of a chairperson and two members, one of whom shall be a lawyer. The Committee may give recommendations on the matters it deals with. Allegations concerning the Managing Director shall be dealt with by the Board of Directors. In 2023, Finnfund continued developing its current whistleblowing system and grievance mechanism to better meet the requirements of the UN Guiding Principles on Business and Human Rights (UNGP) and the new whistleblowing regulation. This work will be finished in 2023.

Finnfund has also an internal audit function. In order to ensure the independence of the internal auditors in Finnfund's fairly small organisation, Finnfund's Board of Directors has decided to contract a third-party internal auditor. BDO Plc has been appointed to the task.

Our economic sustainability and tax footprint

Profitability is one of three criteria for our investments, alongside impact and sustainability.

Finnfund gets its financing from the State of Finland, private capital markets, and return on its investments. Although the Finnfund Act states that the company's purpose is not to generate a profit for its shareholders, all Finnish state-owned companies must be self-sustaining in accordance with the state's ownership policy. This means that their operating income must be sufficient to cover the costs and risks of their activities.

In addition, annual targets set by the Ministry for Foreign Affairs include an indicator regarding the return on equity as a five-year moving average. In 2022, the return on equity was -3.0 and the target was 2% (p. 28).

Prerequisites for financially sustainable operations include identifying risks, pricing them correctly, and keeping risk levels under control. Finnfund's financing is not grant money or otherwise soft, but, in line with its strategy, Finnfund aims to make blended financing available for its projects in the future. To that end, Finnfund passed the EU Pillar Assessment in 2019, making it eligible to manage EU funds and guarantees.

In 2022, the European Commission opened the new European Fund for Sustainable Development Plus (EFSD+) for applications. Finnfund participated in the application round with its own digital sector guarantee application and several joint applications together with other European development financiers. The focus sectors are digitalisation, sustainable forestry, and agriculture. As of the beginning of 2023, the negotiations with the Commission are still in progress.

In 2022, Finnfund developed its risk assessment as part of the investment process and monitoring. This means, for example, better consideration of political and macroeconomic risks, as well as risks and opportunities caused by climate change as part of the investment process and risk classification. In addition, Finnfund began to analyse its operations in the light of the new EU regulation, such as the taxonomy and the Sustainable Finance Disclosure Regulation (SFDR). As part of the carbon footprint accounting of our investment portfolio, we also conducted scenario assessments, in which we looked at the development of the carbon footprint of the investment portfolio in different scenarios with time spans of five and ten years. You can read more about this work on p. 60.

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

In 2021, Finnfund made 28 new investment decisions in its target countries, with a total value of 241 million euros. These are covered in more detail on p. 13.

Due to the continuing COVID-19 crisis and political turmoil in Finnfund's countries of operations, such as Ethiopia, Myanmar, and Ukraine, Finnfund's profit for the financial year 2021 stayed on the negative side, being -20.0 million euros.

A detailed report on Finnfund's efficiency and profitability can be found in the Board of Directors' report on p. 114.

Finnfund strives to be a responsible employer that encourages its personnel to continuously learn new skills and develop professionally.

Key figures: economic sustainability

Key figures	2022	2021	2020
Financial income (EUR million)	71.3	52.5	73.3
Net profit (EUR million)	0.3	-20.0	-26.3
Return on equity (%)	0.1	-6.9	-8.7
Equity ratio (%)	39.0	36.7	41.7

Formulae

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

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

Finnfund's tax footprint and other payments

Generating tax revenue and other tax-like fees, paid by companies to the public sector in developing countries, constitute one of the development aims of Finnfund's work with the companies it finances. As explained on p. 80, Finnfund's tax policy consists of Finnfund's principles and practices to assess and promote the tax responsibility of the projects it finances.

The purpose of Finnfund is not to earn profits for its shareholders, and it does not distribute its assets in the form of dividends or other profit-sharing to its owners. By its nature, Finnfund makes only very small investments in its own operations, as only some minor investments are required in fixed assets.

In Finland, Finnfund is exempt from income tax under the Act on Income Tax (1535/1992), and it does not pay tax to the Finnish state. Finnfund's activities are essentially a VAT-free financial service. The table below shows the material taxes and other tax-like fees paid in Finland in 2022.

Taxes and tax-like fees paid in Finland in 2022

Taxes paid in Finland, EUR	2022
Income taxes	-
Employer's contributions	1,708,134
Non-deductible VAT on services and procurement	-35,621
Transfer taxes	-
Total	**1,672,513**
Taxes to be settled, EUR	
Withholding tax on salaries	2,595,320
Total	**2,595,320**
Total taxes to be paid and settled	**4,267,833**

In terms of taxes and other tax-like fees paid outside Finland, in 2022, Finnfund paid a total of 40,933.73 euros in taxes. The taxes are divided as shown below.

The division of taxes paid outside Finland

Country	Type of tax	EUR
Kenya	Stamp duty	978.34
Panama	Dividends	9,372.42
Kenya	Payrolls	30,582.97

In principle, Finnfund exercises restraint in issuing charitable grants and donations, and it does not engage in any activities that could be considered sponsorship. At Christmas time, Finnfund donated 6,000 euros through the Finnish Red Cross to support the victims of the crisis in Ukraine, and to the work of Save the Children in helping children who suffer from hunger in Eastern Africa and in the Sahel area. In addition, the Board donated its fees partially to the Finnish Red Cross Disaster Relief Fund to support victims of the crisis in Ukraine.

Reporting and accounting principles

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

The company's annual financial statements are published on its website as part of the annual report, after the Annual General Meeting has adopted the financial statements. At the same time, the company publishes the reporting and accounting principles used for the financial statements, along with any changes to those principles.

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

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

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

Our people and corporate culture

Finnfund strives to be a responsible employer that encourages its personnel to continuously learn new skills and develop professionally.

In our strategy, launched at the beginning of 2022, we also set a goal to become an internationally recognised employer that provides an attractive working environment for professionals striving to be best in class.

In 2022, we were glad to see the weakening of the COVID-19 pandemic and normalisation of the situation; business travel in terms of both project preparation and project monitoring returned to pre-pandemic levels, especially in the second half of the year. Finnfund operates with a hybrid work model, and remote work continued as part of normal work.

In 2022, Finnfund opened a regional office in Nairobi, Kenya. At the end of 2022, the Nairobi office had three employees working on secondment. In addition, we continued putting special focus on developing our processes in welcoming and integrating new staff members from abroad into Finnfund. We also continued developing our channels and methods of internal communication.

Human resources management

Finnfund's Management Team decides on the company's human resources policies, while the Chief Financial Officer, People and Culture Manager, and supervisors take operational responsibility for their implementation. General guidelines concerning remuneration, incentive schemes, and the remuneration for members of the Management Team are decided by the Board of Directors in compliance with the remuneration policies for state-owned companies.

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

Key figures: Our people

- At the end of 2022, Finnfund employed 96 people, of whom 3 worked at the Nairobi office and 9 worked for the Ministry for Foreign Affairs' Finnpartnership programme
- Average number of personnel: 90
- Outgoing turnover: 19.8%
- Share of women/men: 57.3%/42.7%
- Personnel expenses: 9.9 million euros (incl. pension and other personnel add-on costs and voluntary personnel costs)
- Payroll total: EUR 8.2 million
- Average age of employees: 43 years

The Pulse survey, conducted three times a year, reveals short-term changes in the personnel's impressions of the status of their work, the quality of supervisory work, and progress of Finnfund's strategy. The results are also reported to the Board of Directors.

Equality and diversity

The premise of Finnfund's Equality Plan is fair treatment of all individuals, as well as promoting equality in working life. Finnfund's task is to identify and remove structures that create and maintain inequality.

No factor related to a person's age, family relationships, ethnic background, gender, parenthood, religious conviction, personal attributes, or sexual orientation shall place the person in an unequal position when applying for a job, advancing in their career, or operating in the work community during the employment relationship, unless there is a weighty or acceptable reason due to the nature of the job or task. The employee may have personal characteristics, such as physical limitations or sense-related limitations, including

Once a month, our People and Culture team organises a trip to explore the wonders of Helsinki. The aim is particularly to familiarise new colleagues from abroad with their new hometown. This time, Justin Nthala, Kelvin Kiiru, Anita Huovio, Kyaw Latt, Marja Pentikäinen, Valentine Kipkoech, and Katja Koski – together with Jimbo and Diana – visited the Mustikkamaa and Kulosaari islands.

hearing, sight, and noise tolerance, which shall be considered on a task-by-task basis. For example, if a person's health prevents them from travelling, they cannot carry out such a task.

The purpose is to ensure that all employees have equal employment terms, working conditions, placements in different tasks, and training and career development possibilities, as well as equal justifications for their salaries.

Finnfund conducts an annual equality and non-discrimination survey among its personnel. This forms the basis for updating the company's equality and non-discrimination plan and helps identify practical measures for improvement. The key goal of the plan is to promote equality and non-discrimination, to identify and eliminate structures that generate and maintain inequalities, and to enable men and women of different ages to have equal terms of employment and working conditions, equal distribution between different positions, equal training and career development opportunities, and remuneration on equal principles.

In 2022, Finnfund conducted an assessment of diversity among its staff, and it is committed to monitoring the development of diversity in the future.

The share of women and men in 2020-2022 is presented in the table below.

Share of women and men in Finnfund's personnel in 2020–2022

	2022			2021			2020		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Personnel	96	55 (57%)	41 (43%)	83	51 (61%)	32 (39%)	83	53 (64%)	30 (36%)
Board of Directors	8	4	4	8	4 (50%)	4 (50%)	8	(50%)	(50%)
Management Team	6	3	3	6	2 (33%)	4 (67%)	6	2 (33%)	4 (67%)

The age structure of permanent personnel, divided into ten-year bands

	Men	Women	Total
20–29	4	6	10
30–39	19	12	31
40–49	8	19	27
50–59	10	13	23
60–	0	5	5
Average age			43

"We have really been glad to see the weakening of the COVID-19 pandemic and normalisation of the situation. Today, Finnfund operates with a hybrid work model, and remote work continues as part of normal operations."

Katja Koski
People & Culture Manager

Remuneration

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

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

The company has an incentive scheme that covers every member of personnel except the managing director. Employees can earn a bonus of either one-and-a-half or two months' salary, depending on their position, for reaching the targets set annually. In 2022, the incentive scheme was based partly on the company's performance and partly on the fulfilment of personal targets. The half of the incentive scheme based on the company's performance depends on the project quality, which, in turn, is defined by the profitability, impact, and sustainability of the investments.

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

In the 2022 financial statements, a provision was made for the cost of bonuses corresponding to approximately 13.28% of remuneration costs (p. 125).

Competence building and training

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

Every year, Finnfund prepares a work community development plan for the year ahead. Furthermore, development and planning days are set aside for company personnel, to review topical themes and promote interaction between company personnel and management.

All Finnfund's personnel are covered by the annual career and target discussions, covering, for instance, matters related to professional expertise, the need for training, the quality of work, professional development, and motivation. The discussion also covers the individual's commitment to the company's Code of Conduct (ethical guidelines), and it includes an assessment of how the goals for the previous year were met and setting new personal targets for the following year. The discussions also give everyone the opportunity to give feedback on supervisors.

All new employees are given orientation to the organisation and to their duties when they begin work at Finnfund (induction training). Finnfund strives to constantly develop and maintain its employees' competencies by offering topical, supplementary, and language training. The training requirements for individual employees are discussed by the employee and their supervisor annually during career and target discussions.

In 2022, Finnfund reported a total of 151 training days.

We also started the Finnfund Academy, which has a wide selection of different online courses in addition to orientation materials for different units. In particular, the course selection supports the development of supervisors' work and the strengthening of project management. In addition, we implemented a 270/360 feedback survey for the entire staff, with which we aim to improve teamwork and interaction throughout the organisation. We also renewed the HAY classifications of the job descriptions, as both the number of employees and our operations had grown strongly since the previous evaluation.

As an employer, Finnfund values equality and responsibility highly. With this in mind, we also modified our paid parental leave policy to be equal for both parents: both parents are entitled to three months' paid leave.

In 2022, Finnfund's IT environment focused especially on cyber security, aiming to improve data quality and to minimise the possibility of human errors. In personnel training, special attention has also been paid to developing the skills required for hybrid work and increasing cyber-security awareness.

Occupational wellbeing, health and safety

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

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

The management of occupational wellbeing, health, and safety is the responsibility of the Chief Finance Officer, together with the people and culture manager. Finnfund also has an occupational health and safety committee. During previous years, the most significant safety risks in the workplace have been assessed to be travel, health risks due to travel, and ergonomics.

The workplace risk assessment is updated periodically, and efforts are made to respond rapidly to any changes to the risk levels or any new risks that become apparent. Ergonomics assessments are also updated periodically in conjunction with personnel turnover and changes affecting workstations.

In 2022, Finnfund was not made aware of any work-related accidents.

The number of days taken as sick leave, the trend in absences, and the known causes of absences are continuously monitored in collaboration with the occupational health care provider. Overall, the number of absences due to illness is at an ordinary level (1.99%), and annual changes in the numbers have been moderate.

Finnfund encourages its personnel to take care of their health and wellbeing, and to this end, it offers more extensive occupational health care services than the statutory minimum and subsidises its personnel's sporting and cultural activities. The company has a model for providing early support when employees' working capacity is in jeopardy, and it has a substance abuse programme for preventing substance abuse and treating its effects.

Another day at the office? Kyaw Latt, Investment Associate, learns about the secrets of floorball on the Bring Your Kid to Work Day in November.

Our environmental sustainability and footprint

Our main environmental footprint originates from the investments that we finance, but in this chapter, we discuss the environmental impact of our own staff and office.

Due to the nature of our work, the most significant negative environmental impact of our own operations is our carbon footprint. In addition, we monitor and strive to reduce our water use, energy consumption, and waste. Finnfund's Helsinki office is WWF Green Office certified.

Carbon footprint

Finnfund calculates the carbon footprint of its own operations annually, as presented in the table below, covering the most essential emission sources. In principle, the most significant source of our emissions is business travel, which accounts for approximately 95% of our emissions. Finnfund's operations require its staff to thoroughly familiarise themselves with the investees and to actively participate in the management and monitoring of investments. This requires frequent visits to the target countries. Finnfund is continuously developing electronic tools and encouraging the personnel to use them.

In 2019, Finnfund set an internal target of reducing emissions per employee by 10% by 2025. The baseline emission year is 2019.

In principle, Finnfund also seeks to mitigate the greenhouse gas emissions arising from commuting by encouraging personnel to use public transport, by offering the possibility of an employer-subsidised commuter ticket or bicycle benefit, and by partial teleworking. For those who use an electronic vehicle, Finnfund's office parking plot has a charging system in place that can be used by employees at their own expense.

As explained on p. 72, in 2022, Finnfund, together with MLR Forestal, a Nicaraguan agroforestry company, launched an innovative pilot project to restore 554 hectares of degraded forest lands with significant biodiversity potential in Nicaragua. The funding will be provided through a carbon credit programme whereby emission reductions, equivalent approximately to the emissions generated by Finnfund's own operations over three years, will be sold to Finnfund and a biodiversity action plan for the restoration area will be implemented in tandem under the agreement.

Finnfund accounts for its office's scope 1, 2 and 3 category 1, 2 and 6 emissions. The scope 1 and 2 emissions are zero, as Finnfund does not have any direct emissions and all the electricity it buys is certified renewable. For scope 3 emissions, Finnfund has chosen to account for the emissions originating from purchased goods and services, mainly laptops and monitors, and business travel.

In 2022, emphasis was put, for instance, on energy conception: the temperature of the Helsinki office premises was reduced by 1 degree Celsius, hence by approximately 5%.

You can read more about our climate actions and the climate effects of our investment portfolio as part of our disclosure aligned with the Task Force on Climate-Related Financial Disclosures (TCFD) on p. 60 and on p. 89.

Finnfund's carbon footprint in 2019–2022

	2022	2021	2020	2019
Carbon footprint tCO_2e	546	379	387	1399
Carbon footprint tCO_2e/person	6.4	4.5	4.5	16.5

Water and waste

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

CASE

Impact flowers in Kenya

Did you know that pyrethrum, an organic insecticide made from flowers, was once one of the main exports from Kenya?

Kentegra, established in 2017, produces pale refined extract from the pyrethrum flower, sourced mainly from smallholder farmers. The extract is used as a 100% natural ingredient in manufacturing insecticides, pesticides, and other agricultural and household formulations. The company also operates nurseries in Kenya, where it grows seedlings, which are sold to approximately 10,000 farmers to grow pyrethrum flowers.

The company provides a positive impact on the livelihoods of local farmers and the environment; growing pyrethrum provides farmers with a steady income of over four times more than from alternative crops, as well as timely payments for their outgrowers throughout the year. Kentegra is also committed to fostering gender equality and to introducing climate-smart farming practices.

“I was getting 50 US dollars per month, which later increased to 100 US dollars, and then to 200 US dollars thereafter. I have a family of four kids, and through Kentegra, I am able to support them – by paying school fees, giving them a place to live, and supporting them with other projects at home,” says **Gladys Mbuthia**, a Kentegra contracted farmer partner.

“On an annual basis, over three million dollars goes back to the community. At the ground level, that means school fees, health insurance, permanent structures, additional commerce, and job opportunities. In essence, it is life,” says **Brian McKenzie**, CEO at Kentegra.

In 2022, Finnfund invested five million US dollars in equity to support building a new processing facility to expand production capacity – and to help Kentegra revitalise an industry that was once the third largest export product in Kenya.

“Kentegra is an investee company that ticks all three boxes we look at in our investments. Firstly, there is great commercial potential; the company operates in a very attractive market with lots of future growth potential. Secondly, it is very sustainably run, with a professional and committed team. And thirdly, there is a great development impact; farming of pyrethrum can again be a life-changing opportunity to the farmers in the region,” says **Johanna Raehalme**, head of the Nairobi office at Finnfund.

Watch a video.

Name: **Kentegra Biotechnology**
Country: **Kenya**
Investment year: **2022**
Sector: **Agriculture**

Many of our investee companies in the agriculture and forestry sectors work with smallholders. One of the latest examples is Kentegra in Kenya. Photo: Kentegra Biotechnology

Corporate governance

One of our goals, set as part of our new strategy, is to become an internationally recognised employer that provides an attractive working environment for professionals striving to be best in class. Read more about our strategy on pp. 26 and 115.

Corporate governance

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

The governance principles laid out here are based on the Articles of Association, which came into force on 1 January 2012 and were amended on 11 May 2020.

Governing bodies

Finnfund is governed by the General Meeting of Shareholders, the Supervisory Board, the Board of Directors, and the managing director. Their responsibilities are determined by the Finnish Limited Liability Companies Act and the Articles of Association of the company.

General Meeting

The highest decision-making body in Finnfund is the General Meeting of Shareholders, which convenes at least once a year. The Annual General Meeting shall be held each year at a date set by the Board of Directors that is within six months of the end of the financial period.

The Annual General Meeting takes decisions on all matters designated for it in the Limited Liability Companies Act and the Articles of Association. This includes the adoption of the financial statements; assignment of the balance sheet result; release from liability of the Supervisory Board members, directors, and managing director; election of Supervisory Board members, the directors, and the auditor; and determination of their remuneration. Furthermore, the Annual General Meeting handles the annual corporate responsibility targets set for the company by the Ministry for Foreign Affairs, including the report on tax responsibility and tax footprint, and the report on actual remuneration policies.

The 2022 Annual General Meeting was held on 5 May in Helsinki. The meeting handled the matters specified in Article 11 of the Articles of Association and decided to increase the company's share capital. All of the company's outstanding shares were represented at the meeting.

On 12 August 2022, the company's shareholders decided, in accordance with paragraph 5:1 of the Companies Act, unanimously and without convening a General Meeting, to appoint a new member to the Supervisory Board.

Supervisory Board

The Supervisory Board is composed of 13 members. The Annual General Meeting elects the members for three years at a time. The term of each member of the Supervisory Board ends at the close of the third Annual General Meeting following their election. Every three years, five members are up for re-election, and in other years, four members are up for re-election. The Supervisory Board elects a chair and vice chair from among its members for a period of one year.

The task of the Supervisory Board is to monitor the company's administration under the supervision of the Board of Directors and the managing director. The Supervisory Board also issues a statement to the Annual General Meeting regarding the financial statements and the audit. In addition to that, the Supervisory Board can advise the Board of Directors on matters of principle or otherwise broad importance.

See the members of the Supervisory Board on p. 111.

Board of Directors

The Board of Directors has at least six and at most eight members. The Board chair, a possible vice chair, and the Board's other members are chosen by the Annual General Meeting. The term of a Board member ends at the close of the next Annual General Meeting.

The tasks of the Board of Directors include, but are not limited to, making decisions regarding financing and investments when the decision-making is not delegated to the managing director; confirming the company's strategy and operating policy; deciding on authorisation to sign on behalf of the company; appointing the managing director and determining their salary and other compensation; and deciding on the calling of Annual General Meetings and preparing material on the matters they will address.

See the members of the Board of Directors on p. 111.

Audit Committee of the Board of Directors

The Board has an Audit Committee consisting of a chairperson and two to three members whom the Board appoints from among its members. The members shall be independent of the company, and at least one must be independent of a major shareholder. Members must have the competence required for the committee's duties, and at least one member shall be skilled particularly in accounting, bookkeeping, or auditing. The Audit Committee is chosen for the term of the Board of Directors.

The task of the Audit Committee is to assist the Board in ensuring that the bookkeeping and financial control of the company are appropriately organised, and that internal control and risk management, auditing, and internal auditing are conducted in accordance with the law, regulations, and the operating principles confirmed by the Board of Directors.

Human Resources (HR) Committee of the Board of Directors

The Board has a Human Resources Committee consisting of a chairperson and at least two members whom the Board appoints from among its members. The members shall be independent of the company, and at least one must be independent of a major shareholder. Members shall have the competence required for the committee's duties, and at least one member shall have expertise and experience in demanding leadership roles, remuneration issues, and talent management. The HR Committee is chosen for the term of the Board of Directors.

The task of the HR Committee is, among other things, to assist the Board in appointments and successor planning of top management, and in preparing key principles and practices relating to staff remuneration and measures to improve human resource management and corporate culture.

Managing director

The task of the managing director is to attend to the company's day-to-day administration in accordance with the instructions and regulations issued by the Board of Directors. In addition, the Board of Directors has delegated its decision-making capacity to the managing director so that they are entitled to make decisions regarding financing and investments up to EUR 5,000,000.

The Board of Directors determines the salaries and remuneration of the managing director, their deputy, and the management team members.

Management team

Finnfund's management constitutes the management team, which is an advisory body assisting the managing director.

Remuneration

Supervisory Board

Members of the Supervisory Board have received fees as follows. The chair of the Supervisory Board received EUR 800 per meeting, the vice chair EUR 600 per meeting, and other members EUR 500 per meeting.

Fees paid (EUR) and participation at the meetings Supervisory Board 2022

Member	Fee EUR	Present
Emma Kari (chair as of 12 August 2022)	1,600	2/2
Outi Alanko-Kahiluoto (chair until 12 August 2022)	2,400	3/3
Sakari Puisto (vice chair)	3,000	5/5
Eeva Biaudet	2,000	4/5
Jarkko Eloranta	2,000	4/5
Veronika Honkasalo	2,500	5/5
Marko Kilpi	2,000	4/5
Juha-Erkki Mäntyniemi	2,500	5/5
Jouni Ovaska	2,500	5/5
Juha Ruippo	2,500	5/5
Kristiina Salonen	1,500	4/5
Saara-Sofia Sirén	2,500	5/5
Erkki Tuomioja	2,000	4/5
Pertti Vuorio		

In 2022, the Supervisory Board met five times. The average attendance rate for members was 91.7%.

Board of Directors

Members of the Board of Directors have received monthly fees and fees per meeting as follows. The chairperson of the Board of Directors received a monthly fee of EUR 1,100, the vice chairperson a monthly fee of EUR 700, and the other members a monthly fee of EUR 600. In addition, all members received a fee of EUR 300 per attended meeting. The chairperson has also been paid a fee per meeting for attending the Supervisory Board and Audit and HR Committee meetings.

Fees paid (EUR) and participation at the meetings Board of Directors 2022

Member	Fee EUR	Present
Robert Wihtol (chair)	12,900	14/14
Helena Airaksinen (vice chair)	11,900	14/14
Nicholas Anderson	10,500	13/14
Jussi Haarasilta	10,500	13/14
Anu Hämäläinen	10,500	13/14
Hanna-Leena Loikkanen	10,500	13/14
Sari Nikka	11,400	14/14
Antero Toivainen	10,800	14/14

In 2022, the Board of Directors met 14 times. The average attendance rate for members was 96.4%.

The Board donated its fees partially to the Finnish Red Cross Disaster Relief Fund to support Ukraine in a situation in which Russia had invaded the country (EUR 8,800 in total).

Audit Committee

In 2022, members of the Audit Committee of the Board of Directors received a fee of EUR 300 per meeting attended.

Fees paid (EUR) and participation at the meetings Audit Committee 2022

Member	Fee EUR	Present
Jussi Haarasilta (chair)	2,100	7/7
Nicholas Anderson	900	3/3
Anu Hämäläinen	2,100	7/7
Sari Nikka	2,100	7/7

In 2022, the Audit Committee met seven times. The attendance rate for members was 100%.

Human Resources Committee

In 2022, members of the HR Committee of the Board of Directors received a fee of EUR 300 per meeting attended.

Fees paid (EUR) and participation at the meetings Human Resources Committee 2022

Member	Fee EUR	Present
Robert Wihtol (chair)	1,200	4/4
Helena Airaksinen	1,200	4/4
Hanna-Leena Loikkanen	1,200	4/4

In 2022, the HR Committee met four times. The attendance rate for members was 100%.

Managing director

In the financial year 2022, managing director Jaakko Kangasniemi received taxable income of EUR 279,070 from the company. The remuneration of the managing director consists of a fully fixed monthly salary. The managing director is not eligible for the company's incentive system and was not paid a bonus in the financial year 2022.

The managing director's executive contract, agreed upon in 2002, was revised in 2012 in relation to pension rights. The retirement age was raised from 60 to 63 years, and the pension type changed from defined-benefit to defined-contribution. The annual contribution level is 26.51% of gross annual earnings.

The pension liability is covered partly by the group pension insurance and partly by an annual reserve in the company's balance sheet. In the financial year ending 31 December 2022, a reserve of EUR 73,981 was made for the pension liability.

The company may terminate the managing director's employment at six months' notice. Upon termination by the company, in addition to the salary for the term of notice, the managing director will receive an amount equal to six months' salary.

Because of the pension benefit change in the executive contract, the managing director forewent net pension benefits of EUR 74,308 accrued in previous years. This loss of pension benefit has been counterbalanced by raising the gross monthly wage from 1 January 2013 by EUR 1,347, which will provide full compensation by the time he reaches the age of 63.

If the managing director's employment ends before the age of 63 years, he will be remitted by the company in the amount of pension benefit lost through early termination of the contract. This compensation will be remitted regardless of the reason for termination of the contract and in addition to other entitlements under the law or his executive contract.

Management team

In the financial year 2022, taxable income received from the company by the management team, including the managing director and his deputy, totalled EUR 1,134,220.

The members of the management team, except for the managing director, are included in the incentive system covering all the company's personnel, according to which employees can receive an incentive corresponding to, at most, one-and-a-half or two months' salary, depending on the area of responsibility, if the set targets are met.

The incentive structure consists of individual key targets and company-level incentive metrics, which include metrics on sustainability and impact. The Board of Directors decides on the incentive system and its key criteria annually.

In 2022, members of the management team were Jaakko Kangasniemi, managing director/CEO; Minnamari Marttila, deputy to the CEO and director of administration; Kaisa Alavuotunki, director of impact and sustainability; Unna Lehtipuu, director of communication; Markus Pietikäinen, chief investment officer; and Olli Sinnemaa, chief financial officer.

Supervisory Board, Board of Directors, Audit Committee and Human Resources Committee in 2022

Supervisory Board 2022

Emma Kari, chair as of 12 August 2022
Member of the Parliament

Outi Alanko-Kahiluoto,
chair until 12 August 2022
Member of Parliament

Sakari Puisto, vice chair
Member of Parliament

Eva Biaudet
Member of Parliament

Jarkko Eloranta
President, the Central Organisation of Finnish Trade Unions – SAK

Veronika Honkasalo
Member of Parliament

Marko Kilpi
Member of Parliament

Juha-Erkki Mäntyniemi
Executive director, Fingo

Jouni Ovaska
Member of Parliament

Juha Ruippo
Director, MTK

Kristiina Salonen
Member of Parliament

Saara-Sofia Sirén
Member of Parliament

Erkki Tuomioja
Member of Parliament

Petri Vuorio
Director, Confederation of Finnish Industries EK

Board of Directors 2022

Robert Wihtol, chair
Independent development banking specialist

Helena Airaksinen, vice chair
Deputy Director General, Ministry for Foreign Affairs

Nicholas Andersson,
Independent financial specialist

Jussi Haarasilta
Executive Vice President, Finnvera Plc

Anu Hämäläinen
Vice President, Kesko

Hanna-Leena Loikkanen
Board professional

Sari Nikka
Board professional

Antero Toivainen
Director for International Tax Affairs, Ministry of Finance

Audit Committee

Jussi Haarasilta (chair)

Nicholas Anderson

Anu Hämäläinen

Sari Nikka

Human Resources Committee

Robert Wihtol (chair)

Helena Airaksinen

Hanna-Leena Loikkanen

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

Sanergy, a Finnfund investee since 2017, is aiming to build healthy, prosperous communities by making hygienic sanitation affordable and accessible throughout Nairobi's informal settlements. Sanergy converts waste to useful end-products such as fertilizers and animal feed. Farmers see a 30% increase in their yield from using the high quality protein feed.
Photo: Sanergy

Financial statements

Miro Forestry's plywood factory in Ghana began operation in November 2021. The next one is already under construction in Sierra Leone.
Photo: Miro Forestry

Board of directors' report 2022

Mission

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

Finnfund is a development financier and impact investor whose mission is to build a more sustainable future and generate lasting impacts by investing in businesses that solve global development challenges. Finnfund works with private companies operating in developing countries, providing equity risk financing, long-term investment loans, mezzanine financing, as well as specialist expertise related to investments in developing countries. We require every project to be profitable, responsible in terms of the environment and society, and measurable in terms of development impact in the target country.

Strategy

The vision of Finnfund's strategy, which entered into force in 2022, is to include people and the planet in every investment decision. This means that we keep sustainable actions, human rights, biodiversity and the fight against climate change at the heart of our operations.

Our strategic goals are:

- We will double total the total impact by 2025,
- We will increase the share of private funding to half in our funding base by 2030, and
- We will maintain a carbon net negative portfolio.

Finnfund focuses on sectors of importance to sustainable development, such as renewable and lower-emission energy generation, sustainable forestry, sustainable agriculture, digital solutions and the financial sector. The company may also finance other sectors.

The company's strategy focuses on five growth enablers:

- We want to be an active enabler of positive impact.
- We want to continue to deliver and advocate excellence in sustainability.
- We want to enable private financing and be a valued partner for private capital.
- We want to increase our presence in the core markets.
- We want to be a great workplace that attracts the best possible people to work for us.

Finnfund's strategy 2022–2025

Vision

People and Planet in every investment decision.

Strategic intent

Finnfund increases its portfolio impact through prioritized impact themes.
Impact is enabled by growth in volume and sustained profitability.

Key strategic objectives

- Double total impact from 2020 to 2025
- 50% of investments with private capital by 2030
- Maintain carbon net negative portfolio

Growth enablers

1. We are an active enabler of positive impact
2. We continue to deliver and advocate excellence in sustainability
3. We are a valued partner for private capital
4. We increase our presence in core markets
5. We are an attractive employer for world-class talent

Mission

We build sustainable future and generate lasting impact by investing in businesses that solve global development challenges.

Over the past years, Finnfund's target markets have been severely ravaged by the coronavirus pandemic. In addition, the Russian invasion of Ukraine, rising energy and food prices, and political and economic instability in many of Finnfund's target markets have affected the operating environment. Despite this, Finnfund has acted in accordance with its mission and continued to make new investments. At the same time, many other development financiers have considered the risks to be too high and have put the brakes on new investment decisions.

As regards the expansion of the financing base, OP Finnfund Global Impact Fund I continued to invest alongside Finnfund, and slightly less than half of its investable capital has been invested after the second full year of operation. As a new initiative, Finnfund invites Finnish institutions to become direct co-investors. The first such investment was made in autumn 2021.

In 2022, the Finnish State increased Finnfund's share capital by EUR 10 million. In October, we issued Finnfund's first sustainable development bond, amounting to EUR 75 million. Ten different investors invested in it. About half of the capital came from abroad and the other half were domestic institutional investors.

Funding and investments

In 2022, project preparation returned almost to the pre-pandemic level and practices. The remote working practices of the two pandemic years with virtual due diligence processes were discontinued and we switched to normal practice and always travel to the site to inspect potential investments.

The project preparation targets for 2022 (EUR 230 million and 22 projects) were clearly exceeded. A total of 28 new projects totalling EUR 246 million were prepared fully in 2022.

As in the preceding year, the majority of Finnfund's new financing decisions were allocated to projects with excellent development impact in terms of reducing poverty, combating climate change and improving the position of women and girls.

The 28 new financing decisions made in 2022 (28 decisions in 2021), with a monetary value of EUR 246 million (EUR 241 million), targeted different income levels as follows:

Income level	Number of decisions	%	EUR milllion	%
Least developed countries	10	36	106	43
Low-income countries	0	0	0	0
Lower-middle-income countries	15	53	121	49
Upper-middle-income countries	3	11	19	8
TOTAL	**28**	**100**	**246**	**100**

Of the financing decisions, 10 (12) involved loans, accounting for about 37 per cent (48 per cent) of the monetary value of the decisions.

Sixteen (14) of the projects that were approved were equity investments or mezzanine financing. When calculated in euros, they accounted for 49 per cent (36 per cent) of all approved projects. Two investment decisions were made in private equity funds.

Africa was weighted in the new financing decisions according to plan and in line with the objective set by the owner.

Approximately 54 per cent of the decisions, 57 per cent in monetary value, were allocated to Africa. Slightly less than a quarter of the decisions, in terms of both numbers and monetary value, were allocated to Asia. The remaining share, about 20 per cent, was allocated to other continents or international projects.

Disbursements for investments totalled EUR 110 million (EUR 144 million).

Of the disbursements during the 2022 financial year, EUR 51 million (EUR 43 million) is considered official development assistance (ODA) by the Finnish State.

The amount of undisbursed commitments at the end of 2022 totalled EUR 234 million (EUR 201 million). In addition, EUR 170 million (EUR 146 million) was tied up in investment commitments that had not yet progressed to the agreement stage.

Development and priorities

Finnfund's new strategy for 2022–2025 entered into force at the beginning of the year. We created our own indicators for each of the five growth enablers, and we monitor their development during the strategy period on a rolling basis every year.

Finnfund's first local office was opened in June in Nairobi, the capital of Kenya. This is a branch of the Helsinki office and its main task is to promote project preparation in the East African region. Our office is in the same building as several European development financiers. Finnfund's presence locally has already significantly increased our visibility in the target market and cooperation with other financiers has strengthened. The branch currently has three seconded employees.

In October, Finnfund issued its first sustainability bond. Its sustainability framework was independently assessed by Sustainalytics, which concluded that Finnfund's operations and framework are in line with the principles published by the International Capital Markets Association (ICMA). The size of the bond was EUR 75 million and approximately 10 institutional investors from Finland and the Nordic countries invested in it.

The European Commission opened a new Fund for Sustainable Development (EFSD+) to applications in 2022. Finnfund participated in the Commission's application round with its own digital sector guarantee application and several joint applications from European development financiers. The focus sectors in the applications were digitalisation, the forestry sector and agriculture. In early 2023, the final negotiations with the Commission are still ongoing, but the Commission's preliminary decisions were positive from Finnfund's point of view.

In 2022, Finnfund continued to conduct studies focusing on the indirect impacts of investments. The studies were used not only to understand the impact of companies already in the investment portfolio on stakeholders (customers, employees, communities), but also to provide additional information on a company's impact even before the investment decision was made.

In 2022, Finnfund developed risk assessment as part of the investment process and monitoring. This means, for example, better consideration of political and macroeconomic risks and the risks and opportunities caused by climate change in investment decisions and risk classification.

In terms of climate change, 2022 also included an analysis of Finnfund's operations in light of the new EU regulation (e.g. taxonomy and the Sustainable Finance Disclosure Regulation SFDR). In the calculation of the carbon footprint of the investment portfolio, scenario calculation was developed, which examined the development of the investment portfolio's carbon footprint in different scenarios over a five- and ten-year time horizon.

Biodiversity remained an important theme. Finnfund continued to cooperate with a leading consultant in the field. The aim is to increase Finnfund's own expertise and that of the funded companies in identifying and managing biodiversity-related risks and to create positive impacts related to biodiversity. Towards the end of the year, Finnfund and the Nicaraguan company MLR Forestal launched a pilot project looking for new solutions, the aim of which is to restore forests with reduced natural value and to better connect valuable natural areas to each other. In the future, the experiences gained from the project are also intended to support other companies funded by Finnfund in identifying, protecting and strengthening biodiversity. In the autumn, Finnfund launched a series of trainings focusing on biodiversity for companies it finances, especially those operating in the forestry sector. Training on biodiversity was also arranged for Finnfund's own personnel.

At the beginning of the year, Finnfund published an interim assessment of the functioning of its human rights policy. According to the interim assessment, Finnfund's commitment and human rights policy are at an internationally high level. In accordance with the development recommendations, Finnfund launched a survey of sector-specific human rights risks. This survey will be completed in early 2023 and its results will feed into the development of the human rights review of the investment process. At the beginning of 2023, we also started to develop whistleblowing channels and the process for processing reports to better meet the requirements of the UN Guiding Principles on Business & Human Rights (UNGP) and the new whistleblowing regulation.

After the coronavirus pandemic subsided, face-to-face meetings were again made possible, and active, face-to-face dialogue was again allowed to take place with various stakeholders, such as civil society, the media and decision-makers. During the year, several events were organised, such as the Growth from Africa (Kasvua Afrikasta) seminar in cooperation with Kasvu Open and Technology Industries of Finland, as well as an event focusing on human rights in investment activities in cooperation with Finland's Sustainable Investment Forum Finsif. Meetings of the Impact Network, a network of Finnish actors interested in measuring and developing impact and responsibility, were again held face-to-face. With Finnfund's new strategy, the company's communications strategy was also updated. Active communication about Finnfund's work and results continued, and the company's visibility in both traditional media and social media grew both in Finland and abroad. In addition, Finnfund's experts actively participated in various events as speakers in Finland and internationally. In 2022, the Communications Academy training programme was also launched with the aim of strengthening the communication capabilities of the personnel, and we invested in the development of the internal communication culture and channels.

As the coronavirus pandemic weakened and the situation normalised, business travel in terms of both project preparation and project monitoring returned to the pre-pandemic level, especially in the second half of the year. Finnfund operates with a hybrid work model, and remote work continued as part of normal work.

Finnfund continued its personnel development and training measures. We launched Finnfund Academy, which, in addition to induction materials for different units, has a wide range of different online courses. In particular, the course selection supports the development of supervisors' work and the strengthening of project management. In addition, we conducted a 270/360 feedback survey for the entire personnel, which aims at improving cooperation and interaction throughout the organisation. We also revised the HAY classifications of job descriptions, as both the number of employees and the business had grown strongly from the previous assessment. It is important for Finnfund to be an equal and responsible employer. With this goal in mind, we also modified our paid parental leave policy to be equal for both genders.

The reform of information systems continued during the financial year, and a more significant single issue was the introduction of the new DIFS financing system. This is a significant improvement that we believe will lead to efficiency and closer monitoring. As another reform, we introduced a performance monitoring and budgeting system called Accuna. It allows us to monitor the financial performance of different parts of the investment portfolio also at project level, providing faster and better operational guidance to project managers in the portfolio when needed.

In Finnfund's IT environment, special attention was paid to cybersecurity by introducing password-free logging in various systems and developing AI-based log data processing. The log data of all Finnfund's systems and active devices is collected centrally for analysis with the help of artificial intelligence, so that it is possible to react proactively to cyber threats. Data flows between systems have been automated with an integration system, improving data quality and minimising the potential for human error. Personnel training has also focused especially on the skills required for hybrid work and increasing cybersecurity awareness.

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's goal is to promote sustainable development by creating long-term business cooperation that creates sustainable and decent jobs and other positive development impacts.

The year 2022 was the first year of Finnpartnership's new programming period (2022–2024). Finnfund implements the current programme in extensive subcontracting cooperation with Niras Finland Oy. The new programming period aims, among other things, to increase impact in the target countries through a broad international network and two locally recruited experts.

After the coronavirus pandemic subsided, the financial support granted through the programme doubled compared to the previous year. The total number of projects supported was 72, up by one third from the previous year. The new programming period systematises the monitoring of the development impacts of projects and offers new services that support the continuity of projects. All new services, processes and monitoring mechanisms were created and put into practice according to the schedule set by the Ministry for Foreign Affairs. As the renewed programme also aims to have greater development impacts, business partnership support was extended to more advanced projects.

Finnfund will continue to manage Finnpartnership on a contractual basis until the end of 2024 in cooperation with Niras Finland Oy.

Finnpartnership

Finnpartnership organises seminars that provide an easy way for Finnish companies to find and connect with business partners in developing markets. One of the recent examples is the Finland–Pakistan Business Summit, where Birgit Nevala, Programme Director, discussed and shared insights into Finnish expertise in the education sector (on the left).

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 2022.

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 deteriorates, the project's balance sheet value will be impaired and, conversely, if the risk classification improves, previous impairments will be reversed. The developments of projects identified as high-risk are monitored closely and measures to mitigate the risks to Finnfund are initiated if deemed necessary.

In 2022, Finnfund continued to develop risk assessment and consideration in investment decisions and risk classification, especially with regard to the impacts of climate change and political and macroeconomic risks.

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 at a total value of EUR 75 million. In 2020, the Finnish State further increased the value of the instrument to EUR 150 million. The instrument is available until the end of 2024 for the purpose of distributing investment risks between the Finnish State and Finnfund. The instrument covers a previous loss compensation commitment worth EUR 75 million, so the amount of the contingency increased by EUR 75 million in 2020.

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 2024. 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, or 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.

At the end of 2022, projects worth a total of EUR 271.1 million were covered by special risk financing. The Finnish State is liable for 49 per cent of the related risks, amounting to EUR 132.2 million. The loss compensation commitment covers a maximum of EUR 15 million in compensations per year.

The only compensation claim thus far was submitted to the State in 2019, concerning photovoltaic project Mobisol's dollar-denominated loan. The amount claimed in compensation was EUR 2,183,162.07. A corresponding amount will be deducted from the special risk financing limit of EUR 150 million. After the compensation, the credit limit will be EUR 147,816,837.93.

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 2022.

At the end of 2022, there were no commercial papers issued through the programme.

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 2.7 years if the convertible bond granted by the State is not included in calculations, and 19.2 years if the State loan is included.

The company's cash position at the end of 2022 was strong, largely due to the successful bond issuance. The cash funds will be invested in accordance with the company's current asset and risk management guidelines pending the progress of the investment decisions made to the payment phase.

The company maintains continuous procedures for identifying, managing and preventing cybersecurity risks. Key personnel risks are managed by maintaining replacement and succession plans for key members of personnel.

"The year 2022 was already a turning point after the difficult years of the coronavirus pandemic, and we believe that, going forward, we will see both stronger impacts and sustained profits."

Robert Wihtol
Chair of Finnfund's Board of Directors

Net profit and balance sheet

The profit for 2022 was EUR 324,426 (EUR -20 million). The operating income is shown in the table below.

Operating income (EUR thousand)	2022	2021	Change (EUR)	Change %
Financial income	29,652	27,530	2,122	8
Financial expenses	-13,467	-9,631	-3,836	40
Net financial income	**16,185**	**17,899**	**-1,714**	**-10**
Other operating income	1,800	1,467	333	23
Administrative expenses, depreciation and other expenses	-17,280	-14,008	-3,272	23
Profit before value adjustments, sales and taxes	**705**	**5,358**	**-4,653**	**-87**
Value adjustments and sales	-340	-25,307	24,967	-99
Income taxes	-41	-3	-38	1,267
Net profit	**324**	**-19,952**	**20,276**	**-102**

Summary

Net financial income decreased to EUR 16.2 million (EUR 17.9 million).

Financial income increased by 8 per cent to EUR 29.7 million (EUR 27.5 million). Financial expenses, on the other hand, increased significantly by 40 per cent to EUR 13.5 million (EUR 9.6 million).

Interest income was the largest source of income of EUR 24.2 million (EUR 21.5 million) and represented 82 per cent of total income. As in the previous year, dividends and income from funds remained modest, amounting to EUR 2.3 million (EUR 3.0 million).

Operating expenses (EUR 17.3 million) exceeded the previous year's level (EUR 14.0 million) but remained well under control and within budget (EUR 17.7 million).

Profit before valuation items, sales and taxes decreased to EUR 0.7 million (EUR 5,4 million).

Income

Dividend income amounted to EUR 0.7 million (EUR 0.9 million).

Interest income was EUR 24.2 million (EUR 21.5 million).

Other income from long-term investments amounted to EUR 1.5 million (EUR 2.2 million), consisting of gains from fund investments. Capital gains from investments amounted to EUR 900,000 (EUR 15,000).

Other financial income excluding foreign exchange gains, at EUR 1.3 million (EUR 1.7 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 29.7 million (EUR 27.5 million).

Other operating income amounted to EUR 1.8 million (EUR 1.5 million), and this comprised largely 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 13.8 million (EUR 31.8 million), representing about 2.0 per cent (4.8 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 33.3 million (EUR 12.9 million) in 2022.

The net effect of impairments, capital gains and sale losses on financial performance was approximately EUR 0.3 million negative (EUR 25.3 million negative).

Expenses

Interest expenses increased from the previous year's figure to EUR 8.4 million (EUR 4.3 million). Interest expenses were incurred through borrowing in both US dollars and euros.

Other financial expenses were EUR 5.0 million (EUR 5.3 million), including management fees of EUR 4.6 million (EUR 4.9 million) associated with fund investments.

The exchange rate differential due to currency trading and hedging was EUR 1.9 million positive (EUR 1.3 positive).

Sales losses were recognised to the amount of EUR 20.8 million (EUR 6.4 million).

Operating expenses totalled EUR 17.3 million (EUR 14.0 million).

The taxes entered in the profit and loss account, EUR 41,000 (EUR 3,000), consist of both capital gains taxes, stamp duty and withholding taxes on dividends paid to the target countries of the investments, as well as taxes on wages and salaries to Kenya. Finnfund usually pays substantial taxes only on capital gains that were not realised in the year under review. The taxes paid by the project companies are not reflected in Finnfund's profit and loss account, but they are reported as part of the development impacts.

Balance sheet

The balance sheet total stood at EUR 773 million (EUR 794 million) at the end of the year under review.

The balance sheet value of investment assets was EUR 698 million (EUR 657 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 385.4 million (EUR 373.6 million) or 55.2 per cent (57.3 per cent); equity investments EUR 193.8 million (EUR 170.1 million) or 27.8 per cent (25.6 per cent); and fund investments EUR 118.4 million (EUR 113.7 million) or 17.0 per cent (17.1 per cent).

Liquid assets stood at EUR 54 million (EUR 127 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 year, the company's equity (share capital and unrestricted equity) totalled EUR 301 million (EUR 291 million) or 39 per cent of the balance sheet total (37 per cent).

In 2022, the company completed one share issue. Under the share issue, a maximum of 61,447 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 5 May 2022 to 10 June 2022. 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 share issue and the year under review, the company's registered share capital stood at EUR 276,988,480, divided between 1,629,344 shares, with the Finnish State holding 1,564,774 shares (96.04 per cent), Finnvera Plc holding 63,349 shares (3.89 per cent), and the Confederation of Finnish Industries EK holding the remaining 1,221 shares (0.07 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 State of Finland 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.

The company has two long-term convertible bonds from the Finnish State.

At the end of 2016, Finnfund signed an agreement with State Treasury on a subordinated 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 State is entitled to adjust the interest rate if it so desires. The State is also entitled to convert the loan either entirely or partly as Finnfund's share capital.

The State 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 State can subscribe to at most 764,705 of the company's shares. The subscription price corresponds to the accountable par of a share, and it is recorded in the company's invested unrestricted equity fund.

At the end of 2019, Finnfund signed an agreement with State Treasury on a conditional subordinated convertible bond of a total of EUR 210 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 State is entitled to adjust the interest rate if it so desires.

The State 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 State can subscribe to at most 1,235,294 of the company's shares. The subscription price corresponds to the accountable par of a share, and it is recorded in the company's invested unrestricted equity fund.

In derogation from the foregoing, the loan agreed in 2019 will be automatically converted in full into share capital in the company if the company's equity ratio falls to 10 per cent.

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 452 million (EUR 385 million) and short-term interest-bearing debt at EUR 12 million (EUR 109 million), totalling EUR 464 million (EUR 494 million).

Long-term interest-bearing debt includes a EUR 130 million convertible bond granted by the State and withdrawn in 2017 and 2018, a EUR 210 million convertible bond granted by the State in 2019 and withdrawn in 2020 and 2021, and a EUR 75 million sustainability bond issued in 2022. Otherwise, the long-term interest-bearing debt is in US dollars, used to refinance Finnfund investment loans denominated in US dollars.

Short-term debt includes loan instalments and repayments in less than 12 months.

Long-term debt as a percentage of all financing liabilities totalled approximately 97 per cent (78 per cent) at the end of the year under review.

The company had no guarantee commitments at the end of 2022 (EUR 0.0 million).

Key figures

	2022	2021	2020
Financial income (EUR million)	71.3	52.5	73.3
Net profit (EUR million)	0.3	-20.0	-26.3
Return on equity (%)	0.1	-6.9	-8.7
Equity ratio (%)	39.0	36.7	41.7

Formulae

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

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

Administration and personnel

In 2022, the Supervisory Board convened five times, the Board of Directors convened 14 times, the Board of Directors' audit committee convened seven times, and the HR committee convened four times.

The Annual General Meeting, held on 5 May 2022, addressed the statutory matters listed in Article 11 of the Articles of Association and the proposal by the Board of Directors concerning an increase of the company's share capital.

Members of the Supervisory Board elected at the Annual General Meeting for the period 2022–2025: Jarkko Eloranta, Saara-Sofia Sirén, Sakari Puisto and Veronika Honkasalo.

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

Robert Wihtol, Chair
Helena Airaksinen, Deputy Chair
Nicholas Anderson
Jussi Haarasilta
Anu Hämäläinen
Hanna Loikkanen
Sari Nikka
Antero Toivainen

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 22 June 2022:

Jussi Haarasilta, Chair
Nicholas Anderson
Anu Hämäläinen
Sari Nikka

The Board of Directors has an HR committee, with the following members since 25 May 2022:

Robert Wihtol, Chair
Helena Airaksinen
Hanna Loikkanen

The company's auditor is Deloitte Oy, with Aleksi Martamo, Partner, Authorised Public Accountant, as the principal auditor.

The company CEO is Jaakko Kangasniemi (PhD and MBA).

During the year under review, the company employed an average of 90 employees (83 employees in 2021). At year-end, the number of employees in contractual employment was 96 (85), of whom 87 (81) were full-time. Of the employees, 56 were women and 40 were men.

The final accounts include a provision of EUR 1,184,614.04 for incentive bonuses earned in 2022, amounting to 14.35 per cent of payroll expenses (11.21 per cent). In 2022, 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.

The total salaries and bonuses paid to personnel in 2020–2022 were as follows:

	2022	2021	2020
Average number of personnel	90	83	83
Total salaries and bonuses, EUR thousand	8,254	7,827	7,387

Outlook and strategic direction for 2023

In 2022, Finnfund started implementing its new strategy. The new strategy underlines our philosophy and puts people and the planet at the heart of our investment decisions. We will double the positive development impacts of our operations from 2020 to 2025. We will increase the share of private money in our investments to 50 per cent by 2030 and keep our investment portfolio carbon net negative. We are building a sustainable future and creating long-term impact by investing in companies that solve global sustainability challenges.

Our project preparation policy prioritises projects that are expected to have very positive development impacts, including those that are known to be challenging. We emphasise three global impact themes: climate action, diversity and inclusion, and digitalisation. In addition to these, the geographical focus is strongly on Africa. Finnfund's focal areas are renewable energy, the financial sector, sustainable agriculture, sustainable forestry, and digital infrastructure and solutions.

The year 2023 has got off to a strong start. A record number of new projects have been discussed by the Investment Committee since the beginning of the year, and activity is high. In the current global situation, some investors are avoiding risks, and the role of development financiers is further emphasised. Finnfund's finances and liquidity are on a strong footing thanks to the successful bond issuance, and we believe that we will be able to meet the growing demand. We expect our liquidity situation to improve further in the spring when the long-prepared large exit from a share capital investment takes place.

In terms of impact, 2023 has also got off to a good start. Several high-impact projects are in preparation, which, if implemented, will support the realisation of Finnfund's strategy. The effects of climate change and biodiversity loss, as well as the effects of the coronavirus pandemic and Russia's military aggression on, for example, food security and healthcare, are visible strongly in many of Finnfund's target countries, which on the one hand creates opportunities for investments with an exceptionally significant impact, but at the same time also highlights the importance of assessing and managing financial and responsibility-related risks. Finnfund will further deepen the identification of, for example, biodiversity loss and the impacts and opportunities created by climate change from the perspective of both climate change mitigation and adaptation. The assessment and management of human rights risks will also be further strengthened in 2023.

From a risk management perspective, an important issue during 2023 will be the guarantee facilities decided by the European Commission last year, which Finnfund will be able to use thanks to the pillar assessment carried out earlier. We believe that the guarantees will, on the one hand, promote the risk-sharing of Finnfund's own investments, but on the other hand, they will also make it possible to attract more private capital to invest together with Finnfund. According to the rules, it is also possible to distribute guarantees to co-investors.

We are trying to get the most out of our office in Nairobi, which opened last year. We expect it to raise awareness of Finnfund and significantly benefit investment preparation. In line with the strategy, Finnfund aims to increase its visibility in the target market, and the Nairobi office plays a major strategic and operational role in achieving this goal.

The earnings prospects for 2023 are positive. The year 2022 was already a turning year after the difficult years of the coronavirus pandemic, and we believe that the positive profit development will strengthen during the current year. At the same time, however, it should be noted that the effects of Russia's military aggression and global inflation on food security, energy prices and interest rates cause uncertainty in our target market. Crises tend to create unrest in poor countries and have a significant impact on the ability of our project companies to succeed and meet their obligations. At the time of writing the Board of Directors' Report, the war started by Russia has been going on for more than a year, and there is no end in sight. Due to this uncertainty, we will write off an additional 25 per cent of our wind turbine investment in Ukraine in our next interim report. On a positive note, we have already completed one significant exit from share capital investments for 2023 and expect another to materialise during the spring.

In investment in developing countries, it is usually difficult to anticipate events and therefore there is normal uncertainty about financial performance. We nevertheless expect a clearly positive result in 2023.

"Issuing a Sustainability Bond was an important step for us. We strive to mobilise more funding for sustainable development and climate actions, as well as to provide other investors with an opportunity to join this work."

Olli Sinnemaa
Chief Financial Officer

Proposal of the Board of Directors on the treatment of distributable funds

The company recorded a profit of EUR 324,426 in 2022. The Board of Directors proposes that the profit be transferred to the retained earnings account for previous financial years.

Electric mobility development is a global trend. Fortum Charge and Drive India, a Finnfund investee since 2020, is developing a network of charging points in major cities in India. *Watch a video*.

Profit and loss account

EUR 1,000

	Note	1 Jan. - 31 Dec. 2022	1 Jan. - 31 Dec. 2021
Other operating income	1	1,800	1,468
Staff expenses	2		
Wages and salaries	3	-8,582	-7,827
Social security expenses			
Pension expenses		-1,510	-1,429
Other social security expenses		-503	-245
Social security expenses, total		-2,013	-1,673
Staff expenses		-10,594	-9,500
Depreciation according to plan	4	-485	-393
Other operating expenses	5 6	-6,200	-4,115
OPERATING LOSS		**-15,480**	**-12,541**

	Note	1 Jan. - 31 Dec. 2022	1 Jan. - 31 Dec. 2021
Financial income			
Income from participating interests		1,670	946
Income from other investments		1,491	2,095
Other interest and financial income		68,173	49,455
Financial income, total		71,334	52,496
Reduction in value of investments		19,548	-18,948
Financial expenses			
Interest and other financial expenses		-75,036	-40,957
Financial income and expenses	7	15,846	-7,409
PROFIT / LOSS BEFORE TAXES		**365**	**-19,949**
Income taxes	8	-41	-3
PROFIT / LOSS FOR THE FINANCIAL YEAR		**324**	**-19,952**

Balance sheet

EUR 1,000

	Note	31 Dec. 2022	31 Dec. 2021
ASSETS			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		1,125	1,050
Machinery and equipment		126	222
Intangible and tangible assets, total		1,251	1,273
Investments	10		
Participating interests		86,311	86,101
Receivables from participating interest	11	5,657	6,999
Other shares and similar rights of ownership		225,896	197,714
Other receivables	11	379,730	366,602
Investments, total		697,593	657,416
TOTAL NON-CURRENT ASSETS		**698,844**	**658,689**
CURRENT ASSETS			
Receivables			
Long-term	12		
Other long-term receivables		2,983	584
Short-term			
Amounts owned by participating interest undertakings	13	202	264
Other receivables	14	10,758	2,200
Prepayments and accrued income	15	6,581	4,641
Short-term, total		17,541	7,105
Receivables, total		20,524	7,689
Financial securities	16		
Marketable securities		47,545	44,866
Cash in hand and at banks		6,407	82,416
TOTAL CURRENT ASSETS		**74,477**	**134,971**
TOTAL ASSETS		**773,321**	**793,659**

	Note	31 Dec. 2022	31 Dec. 2021
LIABILITIES			
EQUITY	17		
Share capital		276,988	266,989
Retained earnings		24,112	44,064
Profit / loss for the financial year		324	-19,952
TOTAL EQUITY		**301,425**	**291,101**
PAYABLES			
Long-term	18 19		
Private placement		74,869	0
Convertible loans		340,000	340,000
Loans from credit institutions		37,502	44,735
Other long-term payables		536	886
Long-term, total		452,907	385,621
Short-term	20		
Loans from credit institutions		12,001	109,387
Advances received		0	1
Trade payables		479	225
Other payables		337	3,308
Accruals and deferred income	21	6,172	4,016
Short-term, total		18,988	116,938
TOTAL PAYABLES		**471,895**	**502,559**
TOTAL LIABILITIES		**773,321**	**793,659**

Cash flow statement

EUR 1,000

	2022	2021
CASH FLOW FROM OPERATIONS		
Payments received from operations	90,829	93,724
Disbursements to operations	-139,952	-148,175
Dividends received	719	815
Interest received	21,975	21,011
Interest paid	-6,796	-4,211
Payments received on other operating income	5,373	7,256
Payments of operating expenses	-21,751	-18,985
TOTAL CASH FLOW FROM OPERATIONS (A)	**-49,603**	**-48,565**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-463	-581
TOTAL CASH FLOW FROM INVESTMENTS (B)	**-463**	**-581**

	2022	2021
CASH FLOW FROM FINANCING		
Short-term loans drawn	2,000	0
Long-term loans drawn	74,869	80,000
Long-term loans repaid	-110,203	-4,466
New share issue	10,000	10,000
TOTAL CASH FLOW FROM FINANCING (C)	-23,334	85,534
CHANGE IN LIQUID ASSETS (A+B+C) increase (+) decrease (-)	-73,400	36,388
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	126,428	90,040
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	53,028	126,428
NONMONETARY CHANGES IN LIQUID ASSETS	924	854
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	53,952	127,282

Notes to financial statements

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.

The Islamic form of financing Murabaha has been treated according to the same principles as other loan receivables in both the balance sheet and the income statement. The value of loan receivables at the exchange rate on the balance sheet date is EUR 9,464,654.05. Income of EUR 604,484,82 has been entered in the income statement. The procedure is based on our request to the Accounting Board (KILA) for an opinion and the statement received from the board on 22 April 2020. The principle of Islamic finance is to tie capital and income to commodity transactions. In 2022, the sales transactions referred to in the Islamic financing agreement were EUR 8,913,120,26 and the purchase transactions EUR 8,913,120.26. Income from the purchase transaction was EUR 604,484.82 in 2022.

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

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

The fair value of investments reported by the fund manager has been compared with Finnfund's balance sheet value of the investment. When necessary, payments to investments made after the report have been added to the fair value reported by the fund manager, in order to ensure its comparability with the value of Finnfund's investment. The balance sheet value of investments may not exceed 100% of the valuation by the fund manager.

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 or decided on 17 December 2020 and in force until 31 December 2024, 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. The company's Board of Directors ensures that the maximum risk to the state of the entire special risk financing portfolio for projects approved for special risk financing does not exceed 50% of the total risk. 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 15 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 on the balance sheet at their acquisition cost less depreciation. The depreciation plan for the Helsinki premises has been prepared according to the rental period. The costs related to the renovation of the premises, machinery and furniture have been capitalised on other long-term expenses and machinery and equipment on the balance sheet. The development of the financial IT system project was launched in 2020 and continued in 2022. The costs of the IT system have been capitalised on the balance sheet under other long-term expenses with a five-year depreciation plan. The new financial IT system for the operational management of investments was introduced in 2022. The regional office was opened in Nairobi in 2022. The costs related to the renovation of the premises and designing have been capitalised on other long-term expenses on the balance sheet with a five-year depreciation plan.

Planned depreciations:

Other capitalised as long-term expenses:	
Premises (Helsinki)	7 years
Other capitalised as long-term expenses:	
Premises (Nairobi)	5 years
Other long-term expenses:	
IT system	5 years
Machinery and equipment	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 1,000

1. Other operating income

	2022	2021
Operating income from participating interests	384	4
Consultancy revenues	910	891
Other operating income	506	572
Total other operating income	**1,800**	**1,468**

2. Average number of staff employed

	2022	2021
Employees	90	83

3. Wages and salaries

	2022	2021
Managing Director and his alternate	459	436
The Board of Directors and the Supervisory Board	131	138
The Board of Directors		
Chair's monthly compensation	1,100 €	
Vice chair's monthly compensation	700 €	
Board members' monthly compensation	600 €	
Compensation per meeting of Board of Directors and Audit Committee	300 €	
Supervisory Board		
Chair's compensation per meeting	800 €	
Vice chair's compensation per meeting	600 €	
Board member's compensation 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

	2022	2021
Other capitalised long-term expenses	371	310
Machinery and equipment	114	83
Total depreciation	**485**	**393**

5. Other operating charges

	2022	2021
Voluntary staff expenses	818	479
Office	918	766
ICT	1,055	666
Travel and negotiation expenses	990	112
Entertainment and PR expenses	145	90
External services	1,914	1,564
Other expenses	361	438
Total other operating charges	**6,200**	**4,115**

6. Auditor's remuneration

	2022	2021
Audit fee	28	19
Non-audit fee	2	3
Total auditor's remunerations	**30**	**22**

7. Financial income and expenses

	2022	2021
Financial income		
Income from participating interests		
Dividends	0	593
Income from funds	767	353
Profit from sales of assets	903	0
Income from participating interests, total	1,670	946
Income from other investments		
Dividends	729	280
From funds	763	1,800
Profits from investments and sales assets	0	15
Income from other investments, total	1,491	2,095
Other interest and financial income		
Interest income	23,951	21,477
Interest income from participating interests	135	43
Financial income	1,399	1,709
Financial income from participating interests	0	9
Exchange rate gain	42,688	26,217
Other interest and financial income, total	**68,173**	**49,455**
Total financial income	**71,334**	**52,496**
Permanent write-offs of investments and their reversals		
Equity and funds	-13,513	-9,487
Loans and other receivables	-287	-22,322
Reversal of write-offs on shares and fund investments	32,909	9,637
Reversal of write-offs on loans	438	3,224
Total permanent write-offs of investments and their reversals	**19,548**	**-18,948**

	2022	2021
Interest and other financial expenses		
Interest expenses to others	-8,441	-4,314
Other financial expenses	-5,026	-5,317
Loss from investments, funds and sales of assets	-20,791	-6,374
Exchange rate loss	-40,779	-24,951
Interest and other financial expenses, total	**-75,036**	**-40,957**
Total financial income and expenses	**15,846**	**-7,409**
The item Financing income and expenses includes loss of exchange (net)	**1,909**	**1,266**

7. Income from financing operations by income level

(does not include income from liquidity and funding)

	2022	2021
Least developed countries (LDC)	17,004	15,426
Other low-income countries (LIC)	314	964
Lower-middle-income countries (LMIC)	27,228	27,952
Upper-middle-income countries (UMIC)	5,679	5,710
Russia	14	35
Total income from financing operations by income level	**50,239**	**50,087**

8. Income taxes

	2022	2021
Withholding taxes on payrolls	31	0
Withholding taxes on dividends	9	3
Stamp duty	1	0
Total income taxes	**41**	**3**

Notes to the balance sheet
EUR 1,000

9. Intangible and tangible assets

	Other long-term expenses	Machinery and equipment	Total
Acquisition cost 1 Jan. 2022	2,728	2,630	5,358
Increases	445	18	463
Acquisition cost 31 Dec. 2022	3,173	2,648	5,821
Accumulated depreciations 1 Jan. 2022	-1,678	-2,407	-4,085
Depreciation of the accounting period	-371	-114	-485
Accumulated depreciations 31 Dec. 2022	-2,049	-2,522	-4,570
Total book value 31 Dec. 2022	**1,125**	**126**	**1,251**
Total book value 31 Dec. 2021	1,050	222	1,273

10. Investments / Shares and funds

	Participating interests	Others	Total
Acquisition cost 1 Jan. 2022	138,381	221,373	359,754
Increases	10,501	55,552	66,053
Decreases	-38,087	-18,971	-57,058
Acquisition cost 31 Dec. 2022	110,795	257,954	368,749
Individual write-offs accumulated as of 1 Jan. 2022	-52,280	-23,659	-75,939
Reversal of write-offs	28,389	4,520	32,909
Write-offs during the financial year	-593	-12,920	-13,513
Individual write-offs accumulated as of 31 Dec. 2022	-24,484	-32,058	-56,542
Total book value 31 Dec. 2022	**86,311**	**225,896**	**312,207**

10. Investments / Loans

	Participating interests	Others	Total
Acquisition cost 1 Jan. 2022	8,554	409,507	418,061
Increases	859	77,429	78,288
Capitalised interest	233	495	728
Transfer between items	-1,384	1,384	0
Decreases	-1,049	-66,619	-67,667
Acquisition cost 31 Dec. 2022	7,213	422,197	429,410
Individual write-offs accumulated as of 1 Jan. 2022	-1,555	-42,905	-44,460
Reversal of write-offs	0	437	437
Write-offs during the financial year	0	0	0
Individual write-offs accumulated as of 31 Dec. 2022	-1,555	-42,468	-44,023
Total book value 31 Dec. 2022	**5,657**	**379,730**	**385,387**

11. Subordinated receivables

	2022	2021
Capital loans to participating interests	5,657	6,999
Capital loans to others	111,108	89,404
Total subordinated receivables	**116,765**	**96,403**

12. Other long-term receivables

	2022	2021
Derivative receivables	2,963	572
Rent security deposit	20	12
Total other long-term receivables	**2,983**	**584**

13. Receivables from participating interests

	2022	2021
Interests	0	43
Legal expenses	172	172
Other	30	49
Total receivables from participating interests	**202**	**264**

14. Other receivables

	2022	2021
Derivative receivables	10,715	2,200
Other	43	0
Total other receivables	**10,758**	**2,200**

15. Accrued income

	2022	2021
Interests	5,180	3,711
Other	1,401	930
Total accrued income	**6,581**	**4,641**

16. Marketable securities

	2022	2021
Fair value	47,545	45,142
Book value	47,545	44,866
Total, difference	**0**	**276**

17. 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.

	2022	2021
Restricted equity		
Share capital 1 Jan.	266,989	256,989
Increase of share capital	10,000	10,000
Share capital as of 31 Dec., total	276,988	266,989
Unrestrected equity		
Profit from previous financial years 1 Jan.	24,112	44,064
Retained earnings 31 Dec.	24,112	44,064
Profit/loss for the financial year	324	-19,952
Unrestricted equity, total	24,437	24,112
Total equity	**301,425**	**291,101**

17. Share capital

	2022	2021
Number of shares	1,629,344	1,570,521
Nominal value, EUR	170,00	170,00

18. Loans with maturity more than 5 years

	2022	2021
Loans from credit institutions	7,500	11,772
Loans from government	335,806	340,000
Total loans with maturity more than 5 years	**343,307**	**351,772**

19. Private placements

	2022	2021
Sustainability Bond 2022/2025 Bullet 6m Euribor + 125bps 0% floor	75,000	100,000

20. Other short-term debt

	2022	2021
Private placement	0	99,969
Loans from financial institutions	12,001	9,418
Derivative liabilities	29	2,968
Accounts payable	479	225
Other	308	342
Total other short-term debt	**12,817**	**112,922**

21. Accruals and prepaid income

	2022	2021
Deferral of personnel expensed	3,866	3,356
Interest	2,293	649
Taxes	0	1
Other	12	10
Total accruals and prepaid income	**6,172**	**4,016**

Other supplementary information
EUR 1,000

Other contingent liabilities

The company has a non-fixed-term lease on its office premises. The lease period and the tenure began on 1 March 2019 and may be terminated for the first time on 31 May 2025 with a 12 month notice period. Monthly rent excluding VAT is EUR 49,341.00, from 1 March 2021 EUR 50,775.20, from 1 March 2022 EUR 52,504.77. The obligation to pay rent began on 1 June 2019. The company has entered into a six-year fixed-term lease for the Nairobi office in Kenya as of 1 February 2022. The obligation to pay the rent begins on 1 April 2022. The monthly rent excluding VAT is approximately EUR 3,200, including the service charge and parking costs.

	2022	2021
Payable in the next financial period	668	636
Payable later	1,679	2,295

Other commitments

The company is a shareholder in a company whose exit involves the following liability: the company has acquired a debt from a third party. The second part of the debt price corresponds to 17.24% of the currently expected exit amount from the investment.

	2022	2021
Undisbursed commitments		
Contractual commitments	234,000	201,000
Special risk finance (cumulative)		
Decisions of the Board of Directors	271,099	247,517
Government's indemnity	132,212	118,611
Government's indemnity, %	49%	48%
Disbursements	183,152	129,142

Derivative contracts

Fair values of derivatives in financial assets and liabilities

	2022			2021		
Receivables	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	10,526	–	10,526	197	–	197
Interest rate swaps	189	2,963	3,152	–	572	572
Currency and interest rate swaps	–	–	–	2,003	–	2,003
Total	10,715	2,963	**13,678**	2,200	572	**2,772**

	2022			2021		
Liabilities	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	29	–	29	2,968	–	2,968
Interest rate swaps	–	–	–	–	416	416
Currency and interest rate swaps	–	–	–	–	–	–
Total	29		**29**	2,968	416	**3,384**

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.

	2022				2021			
Receivables	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements	–	10,526	–	10,526	–	197	–	197
Interest rate swaps	–	3,152	–	3,152	–	572	–	572
Currency and interest rate swaps	–	–	–	–	–	2,003	–	2,003
Total	0	13,678	0	**13,678**	0	2,772	0	**2,772**

	2022				2021			
Liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements	–	29	–	29	–	2,968	–	2,968
Interest rate swaps	–	–	–		–	416	–	416
Currency and interest rate swaps	–	–	–		–		–	
Total	0	29	0	**29**	0	3,384	0	**3,384**

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 Chief Financial Officer.

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 1,000	2022	2021
Change of +/- 1% in EURIBOR interest	0 / 0	0 / 0
Change of +/- 1% in LIBOR interest	-352 / -352	-192 / 192
Change of +/- 10% in EUR-USD exchange rate	284 / -284	9,876 / -9,876

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 2022.

Undiscounted cash flow resulting from derivatives

	2022				2021			
Receivables	Under 1 year	1 - 5 years	Over 5 years	**Total**	Under 1 year	1 - 5 years	Over 5 years	**Total**
Forward exchange agreements	384,094	–	–	384,094	167,123	–	–	167,123
Interest rate swaps	1,690	2,212	–	3,903	80	172	2	254
Currency and interest rate swaps	–	–	–	–	100,625	–	–	100,625
Total	385,784	2,212		**387,997**	267,829	172	2	**268,002**

	2021				2020			
Liabilities	Under 1 year	1 - 5 years	Over 5 years	**Total**	Under 1 year	1 - 5 years	Over 5 years	**Total**
Forward exchange agreements	376,069	–	–	376,069	170,347	–	–	170,347
Interest rate swaps	490	719	–	1,209	489	918	5	1,412
Currency and interest rate swaps	–	–	–	–	99,053	–	–	99,053
Total	376,559	719	–	**377,277**	269,889	918	5	**270,812**

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 2022	EUR/USD	1,0666

Did you know that by 2030, more than 300 million young people will enter the job market across sub-Saharan Africa? SPARK Schools, a Finnfund investee since 2021, is aiming to revolutionise K-12 education. Through a combination of teacher-led instruction and online learning, with a rotational classroom set-up and a strong emphasis on educators' professional development, SPARK Schools provides the best education standards in South Africa at a competitive price accessible to many. For example, SPARK uses the Itslearning learning environment by Sanoma Oyj. The company has become the third most extensive network of private K-12 schools in South Africa. Photo: SPARK Schools

Signatures of Board of Directors' report and financial statements

Helsinki, 30 March 2023

Robert Wihtol
Chairman

Nicholas Andersson
Member of the Board

Anu Hämäläinen
Member of the Board

Sari Nikka
Member of the Board

Helena Airaksinen
Member of the Board

Jussi Haarasilta
Member of the Board

Hanna-Leena Loikkanen
Member of the Board

Antero Toivainen
Member of the Board

Jaakko Kangasniemi
Managing Director, CEO

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 30 March 2023

Deloitte Oy
Audit Firm

Anu Servo
APA, CPFA

Auditor’s report

To the Annual General Meeting of The Finnish Fund for Industrial Cooperation (Finnfund). A translation of the Finnish Original.

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, 2022. 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 scepticism throughout the audit. We also:

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

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

Other reporting requirements

Other information

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

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

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

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

Helsinki, 5 April 2023

Deloitte Oy
Audit Firm

Aleksi Martamo
KHT (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 the Auditors' Report for 2022. 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, 12 April 2023

Emma Kari

Eva Biaudet	**Jarkko Eloranta**
Veronika Honkasalo	**Marko Kilpi**
Juha-Erkki Mäntyniemi	**Jouni Ovaska**
Sakari Puisto	**Juha Ruippo**
Kristiina Salonen	**Saara-Sofia Sirén**
Erkki Tuomioja	**Petri Vuorio**

finnfund

For more information,
please visit

www.finnfund.fi