finnfund

2019

Annual Review

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Content

Cover photo:
Annapurna Finance
Private Limited, India

finnfund

Year 2019

Finnfund in brief

Professional impact investing in developing countries

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

We provide companies operating in developing countries with long-term risk-financing and expertise required for sustainable investments. We expect our projects to be profitable, sustainable and generate positive development impacts in their target country.

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

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

The Finnfund strategy stresses:

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

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

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

Finnfund's shareholders are the State of Finland (94.1%), Finland's export credit agency Finnvera (5.8%) and the Confederation of Finnish Industries (0.1%). We currently have 81 employees, all based in Helsinki.

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

The company's share capital on 31 December 2019 was 196,988,860 euros.

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

Guiding principles: impact, sustainability, profitability and professionalism

EthioChicken improves food security and living standards in Ethiopia.

Chief Executive Officer's review

Jaakko Kangasniemi

The world is falling far behind its global climate and development targets. However, the year 2019 showed glimmers of hope.

The International Energy Agency reports that global energy-related CO_2 emissions flattened in 2019. Renewable energy sources are gaining momentum around the world.

Another encouraging trend is the rapid growth of impact investing and green finance. Global Impact Investing Network GIIN estimated the market to already be some 500 billion euros. Major asset managers and multinational corporations from Blackrock to Microsoft announced decisions to pivot from fossil investments to greener ones.

Finnfund is playing its part in this transformation. We had a record year in terms of investments, 49% of which targeted climate change mitigation and adaptation.

We were among the first adopters of IFC's Operating Principles for Impact Management and we are mobilising private financing for the Sustainable Development Goals. We are partnering with Finland's largest financial services group, OP, which is setting up Finland's first impact fund investing in developing markets.

Finnfund continued to implement its strategy of high impact investments in low income countries, with 78% of investments targeting the three lowest country categories (OECD/DAC). Although our investment assets grew by 13% and we kept investing in low-income countries, we were able to improve our profit margin and lower the portfolio's level of risk.

We passed the European Commission pillar assessment, which makes Finnfund eligible for managing EU guarantees. We are now working with the Commission and other European DFIs to make sure EU funds are deployed for maximum impact in developing countries around the globe.

What I am most proud of, though, is our recent work on gender investing. Finnfund adopted a gender statement to guide our investment decisions to better promote gender equality and women's economic em-

Finnfund's new gender statement guides future investment decisions

powerment. We joined the 2X Challenge, which aims to collectively mobilise USD 3 billion in commitments for women's economic empowerment in developing countries.

We have trained our staff on gender investing and made high-impact investments in companies like Annapurna, which is an Indian company that offers microloans and related financial literacy education primarily to economically disadvantaged women.

Looking ahead, I expect to see continued strong interest in Africa. The European Union has come out with a new Africa strategy and is working on an external investment plan to boost it. Other players from China to Russia and the United Arab Emirates have been holding their own investment summits with African nations.

That is no wonder. Six out of the 15 fastest-expanding economies are in Africa, with Ethiopia and Rwanda being at the top of the list. Africa's population is growing rapidly, which presents enormous challenges but also opportunities.

This high interest in Africa also generates opportunities for Finnfund. At present, almost half of our investment portfolio is comprised of business projects in Africa. We see growth potential, especially in the forestry, agribusiness, education and health sectors.

The biggest threats to this potential are presented by climate change. Cyclones in Mozambique, drought in Zimbabwe, prolonged rains in East Africa and locust invasions in Somalia, Kenya and elsewhere are worrying signs of things to come. That is why we urgently need more investments in developing countries.

In the short term, the coronavirus pandemic is likely to put a serious strain on developing countries. People, economies and businesses will be badly hit. As I am writing this, it is still unclear how severe the impact will be.

I would like to thank Finnfund's customers, staff and other stakeholders for their support in 2019.

Jaakko Kangasniemi
Chief Executive Officer

Summary of the year 2019

In 2019, Finnfund continued to expand its portfolio while maintaining a tight focus on high-impact investments in low-income countries. We made significant strides towards our strategic goal of tripling impact by 2025 without compromising the profitability or sustainability of our investments.

Our investment assets grew by 13% to 557 million euros. We made a record 29 investment decisions with a total value of 237 million euros.

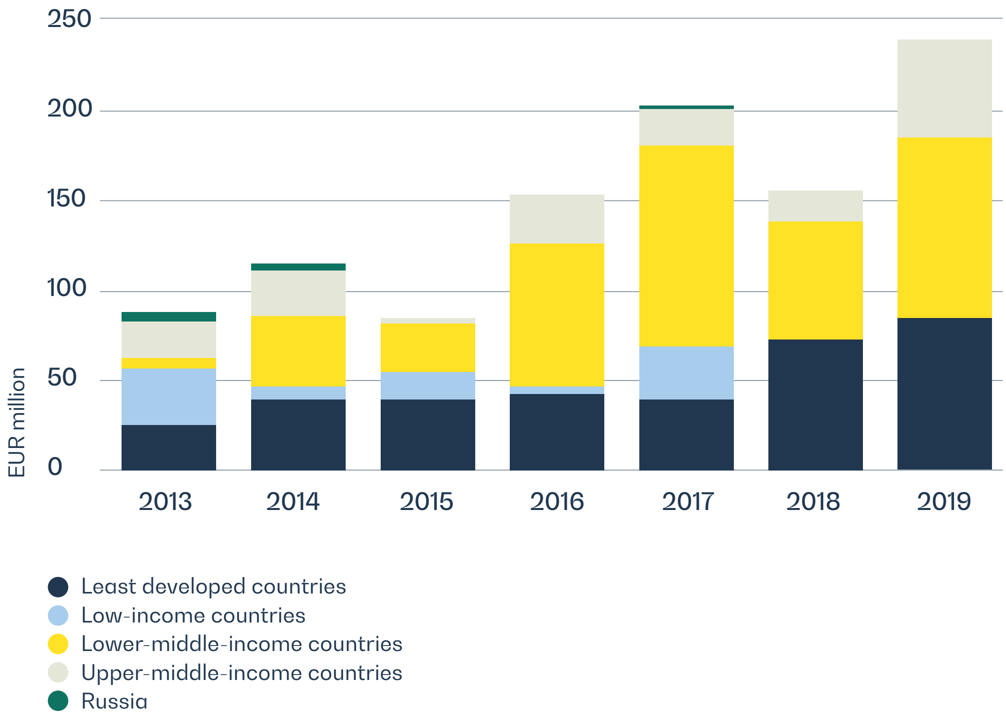
Net financial income grew 29% from the year before to 23.7 million euros and we were able to reduce the average risk level of our portfolio. Finnfund's operating costs as share of investment assets remained well under the two per cent goal.

29 new investment decisions, a total value of 237 million euros

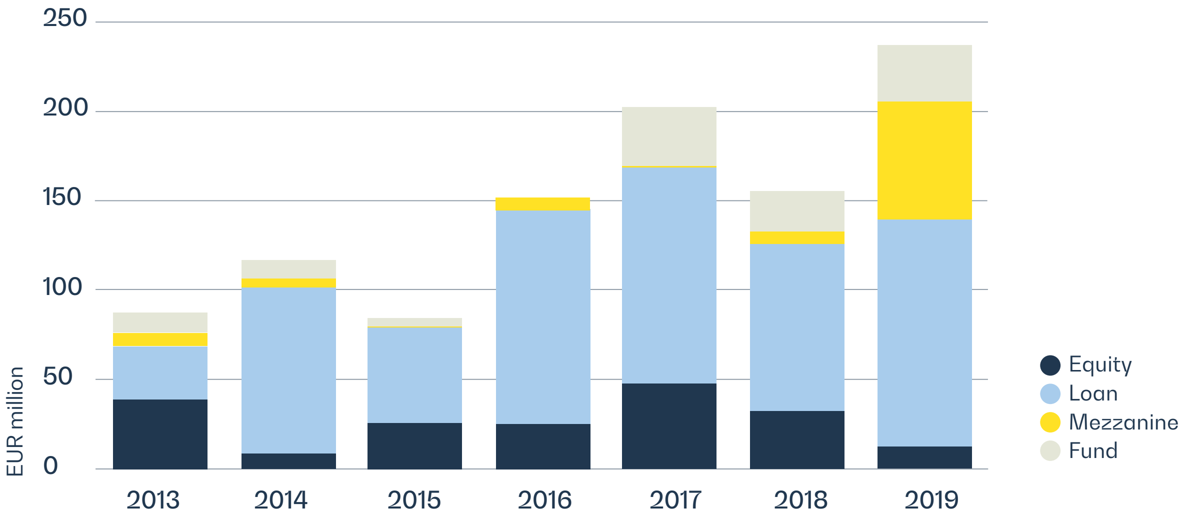
In spring 2019, the Finnish state provided Finnfund with a 40-year loan of 210 million euros. Finnfund pledged to invest one half of it in business projects which advance gender equality and the other half in climate change mitigation and adaptation projects. By the end of 2019, we already committed 57 million euros to seven gender investments and 49 million to seven climate investments.

Our funding base was further reinforced by a 10-million-euro capital injection from the Finnish state and a 40 million US dollar loan from the Nordic Investment Bank.

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



Annual investment decisions by instrument
EUR million



Finnfund partnered with the Finnish financial group OP to announce a new global impact fund. The fund will raise funding from institutional investors and invest it in high-impact business projects in developing markets with competitive expected returns.

Seventy-eight per cent of the new investment commitments made in 2019 target the least developed or lower-middle-income countries and 49% address climate change through mitigation or adaptation efforts. Africa continues to be our geographic priority. 52.8 million euros of Finnfund disbursements were calculated as Finland's official development aid (ODA).

Using our own development impact assessment tool, the DEAT, we rated 96% of new investments to be in the categories of good or excellent development impact. We kept monitoring the impact of our investment portfolio and commissioned separate impact studies on specific investments or sectors. One study looked at the socio-economic impact of power generation.

While staying focussed on our four priority sectors of forestry, energy, financial institutions and agriculture, we also entered new industries. Our first direct investment in the education sector was a loan to Maarifa Education, which operates affordable, quality higher education institutions in Sub-Saharan Africa.

In 2019, we made a special effort to spur investor interest in sustainable forestry businesses in Africa, Asia and Latin America. We held two events which brought together forestry companies, investors and experts to discuss the path forward.

We adopted a Finnfund gender statement to guide our investment decisions and started to apply international gender investing reporting requirements developed by the 2X Challenge initiative. The 2X Challenge calls for DFIs to collectively double gender investments to USD 3 billion by the end of 2020.

First direct investment in the education sector

Finnfund was one of 60 global investors to adopt the Operating Principles for Impact Management. The specified principles, developed with IFC's lead, bring welcome transparency, discipline and credibility to the impact investing market.

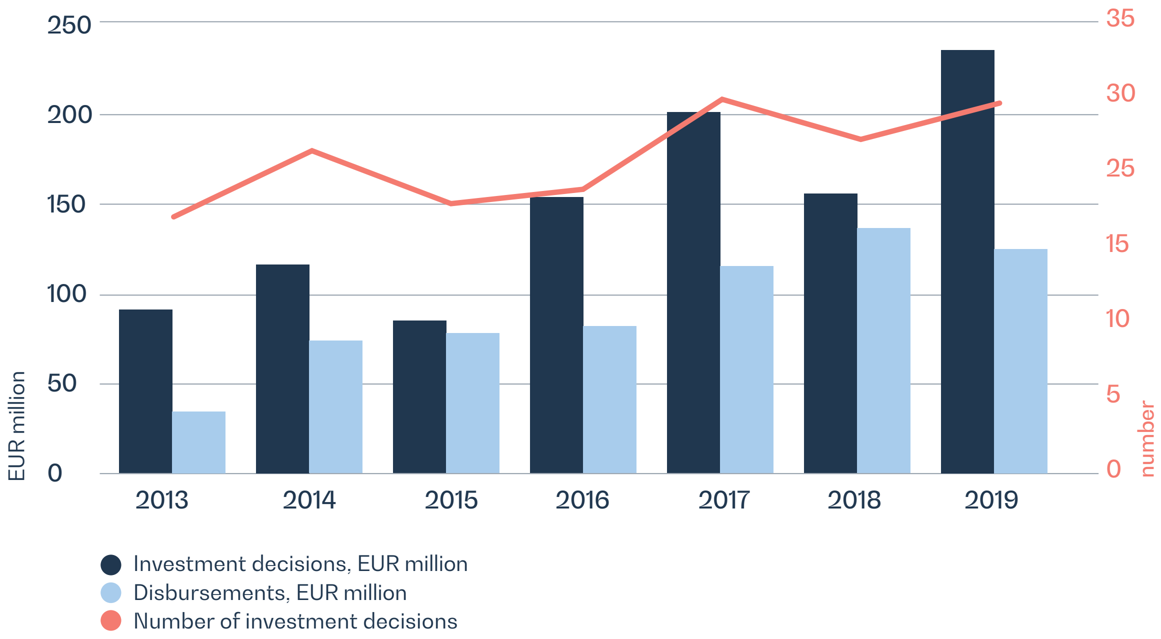
We also adopted a Finnfund statement on human rights to better integrate the UN Guiding Principles for Business and Human Rights (UNGP) into investment operations throughout the whole cycle.

Finnfund passed the pillar assessment of the European Commission

Another important milestone was reached when Finnfund passed the so-called pillar assessment of the European Commission. It means the commission can entrust Finnfund with the implementation of EU guarantees and other budget tasks.

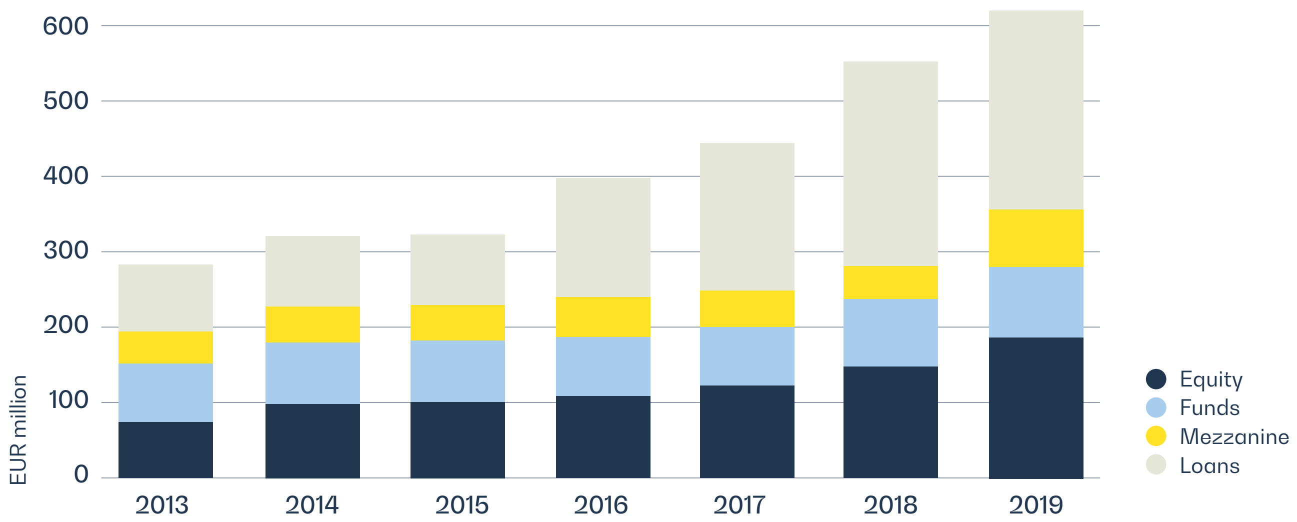
We moved to a new office space, which was awarded the WWF's Green Office certificate as a sign of its reduced ecological footprint.

Investment decisions and disbursements



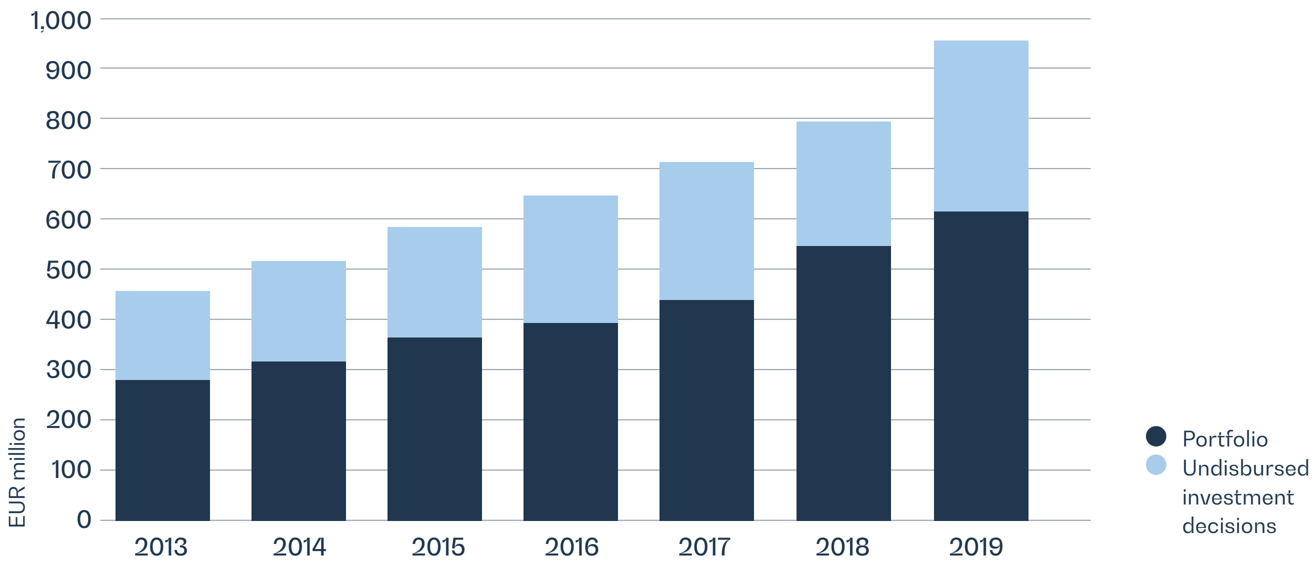
Key figures and highlights

Portfolio
EUR million



Portfolio including write-offs

Portfolio and undisbursed investments decisions
EUR million



Portfolio including write-offs

Key figures 2015–2019

Year	2015	2016	2017	2018	2019
Number of project countries	33	34	39	45	52
Number of investments	160	167	171	181	183
Investment decisions, EUR million	84	152	201	154	237
Number of investment decisions	21	22	29	26	29
Disbursements, EUR million	77	81	114	135	125
Undisbursed investment decisions and commitments, EUR million	235	255	276	249	340
Portfolio, EUR million	368	397	443	551	617
Shareholders' capital, EUR million	251	233	244	257	267
Total assets/liabilities, EUR million	377	406	464	554	616
Number of personnel on average	56	60	71	75	77

Lake Turkana Wind Power with a total capacity of 310 megawatts is the largest wind park on the Africa continent and the biggest single private sector investment in Kenya.

Five years in review 2015–2019

Operational analysis, EUR million	2015	2016	2017	2018	2019
Financial income	16.2	19.2	24.6	29.2	35.7
Financial expenses	-2.7	-5.1	-8.6	-10.8	-12.0
Net financial income	**13.5**	**14.1**	**16.0**	**18.4**	**23.7**
Other operating income	1.8	1.6	1.5	1.5	1.5
Administration, depreciation and amortisation and other operating expenses	-9.3	-10.6	-11.8	-13.4	-14.1
Profit before impairment, sales of assets and taxes	**6.0**	**5.1**	**5.7**	**6.5**	**11.1**
Impairment and sales of assets	-0.8	-4.8	-3.1	-4.4	-10.4
Taxes	-0.1	0	-0.6	0	0
Net profit	**5.1**	**0.3**	**2.0**	**2.1**	**0.7**

Balance sheet, EUR million	2015	2016	2017	2018	2019
Assets					
Tangible and intangible assets	0.2	0.2	0.1	0	1.0
Investments	329.6	356.3	393.3	494.2	556.7
Current assets	47.3	49.5	70.3	59.7	58.0
	377.1	**406.0**	**463.7**	**553.9**	**615.7**
Liabilities					
Equity	250.8	232.9	244.1	257.2	267.4
Liabilities	126.3	173.1	219.6	296.7	348.3
	377.1	**406.0**	**463.7**	**553.9**	**615.7**

Financial indicators	2015	2016	2017	2018	2019
Equity ratio, %	67	57	53	46.4	43.4
Return on equity p.a., %	2.1	0.1	0.8	0.8	0.9

Investments

In 2019, Finnfund made 29 investment decisions with a total worth of 237 million euros. Investment decisions target projects with higher impact, as stated in Finnfund's strategy. As many as 96% of new investment decisions made in 2019 dealt with projects with "good" or "excellent" impact, based on our ex ante assessment.

Seventy-eight per cent of new investment decisions target the least developed countries and countries of low or lower-middle income, in which the need for sustainable development investments is the highest.

Most (11) of our new investment decisions in 2019 targeted Africa. Africa was also the most important region in euro terms, garnering 35% of the year's allotted financing.

Finnfund's investment assets continued strong growth. At the end of 2019, Finnfund's investments were 617 million euros.

Undisbursed commitments totalled 177 million euros at the end of 2019. Additionally, we had made 121 million euros worth of new investment decisions which had not yet proceeded to contract. At the end of 2019, Finnfund's portfolio contained 183 investments. A portion of them were new investments in existing projects. In total, 82% (152 investments) of the invested funds, went to low or lower-middle-income countries.

In 2019, disbursements were 125 million euros.

How and where does Finnfund invest?

Finnfund invests in projects that advance sustainable development and are run by responsible businesses operating in developing countries.

We expect all our projects to be economically profitable, environmentally and socially responsible, and generate measurable development impact in the countries of operation.

Our financing is always on market terms. We tailor our financing to the needs of each investee. The financing can be in the form of equity, mezzanine financing or debt. We put special emphasis on sectors critical to sustainable development, namely clean energy, sustainable forestry and agriculture and financial institutions, but

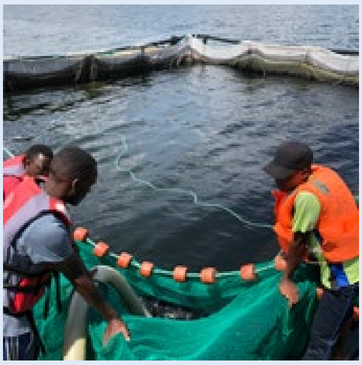
CASE

Yalelo Limited
Zambia

Yalelo improves food security and creates jobs in Zambia

● Yalelo is the largest aquaculture company in Africa, producing 12,000 tons of tilapia annually. With the investments from Finnfund and Dutch FMO, Yalelo intends to expand its annual production to 25,000 tons.

The rising population of Zambia, together with significant overfishing, has created a challenge for food security. Sustainable aquaculture provides a solution: tilapia is one of the most efficient sources of protein and has a much lower carbon footprint than, for example, beef or pork. In order to ensure sustainable resource use, Yalelo has implemented a continuous water quality monitoring and management system.



Besides increasing food security, Yalelo is an important employer with great ambitions. Currently, Yalelo employs 850 people. Over 30% of the management is female and the company is constantly working towards further gender balance within its workforce.

Yalelo operates an extensive internal training programme including aquaculture, business and leadership courses and runs literacy and numeracy classes for the community. Yalelo plans to become the first Aquaculture Stewardship Council certified tilapia fish farm in Sub-Saharan Africa.

we can also invest in other sectors when projects meet our requirements.

We are happy to invest in projects involving cooperation with Finnish companies, but it is not a precondition of investment.

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

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

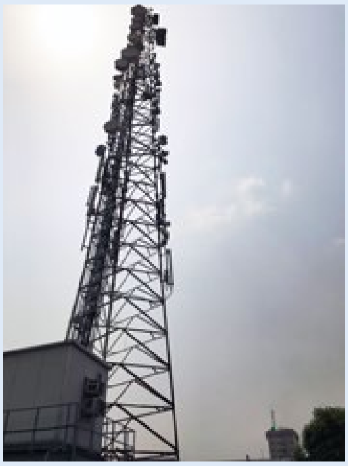
Prior to an investment decision, Finnfund examines the fund's investment policy and, if needed, seeks to improve it in line with Finnfund policies. Funds are asked to present exhaustive data on their investments and report, for instance, on their tax payments.

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

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

CASE

IPT PowerTech Group
Lebanon and Guinea



More reliable and energy-efficient telecommunications in Lebanon and Guinea

● IPT PowerTech Group is an energy solutions provider combining specialised energy-efficient solutions with innovative telecom infrastructure. With financing from Finnfund, DEG, Proparco and European Investment Bank, IPT will modernise the energy supply infrastructure in Lebanon and Guinea. The hybrid solution utilising solar panels and storage media will save up to 40% of energy and reduce diesel consumption significantly. The annual CO_2 emission reductions have been calculated at 115,000 tons per year.

In emerging economies, the lack of reliable power to cellular tower sites is the single biggest obstacle to reliable mobile phone services. Cellular towers located in areas without access to reliable electricity grids – or any electricity grid at all – have to be powered by diesel generators with high operating costs and environmental impacts.

IPT will make power generation more efficient and more sustainable using solar power and storage media. Batteries will store excess power so that green energy is available at any time of the day.

Currently, IPT already operates 4,500 telecommunication towers according to the Telecom Energy Service Company model. A further 1,000 towers will be added. Installing and maintaining the energy equipment at thousands of telecom towers is labour-intensive and requires mostly skilled workers, thus generating employment opportunities for local communities.

IPT currently employs 4,500 people, with 1,950 further direct and indirect jobs being created or secured as a result of the DFIs' investment.

CASE

Annapurna Finance
India

Microloans for poor women in rural India

In India, women have fewer opportunities to participate in economic and working life: for example, women own only 4% of Indian companies and represent approximately 17% of the country's national product. The proportion of women in the workforce is 26%, which is one of the lowest in the world.

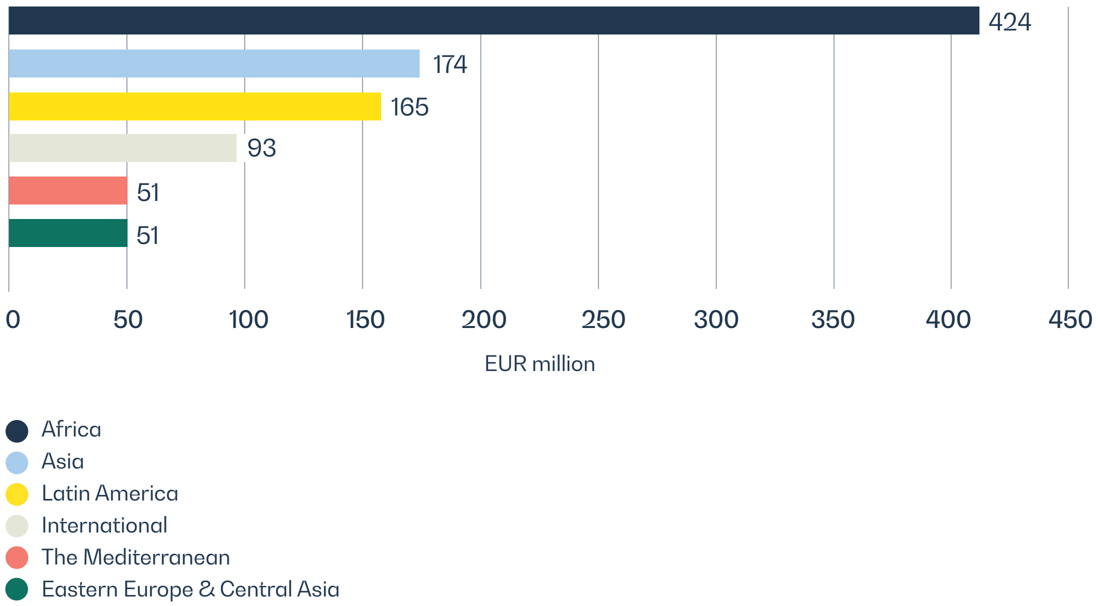
Annapurna Finance offers microloans and related financial literacy education, mainly to poor women in rural India. Annapurna is also an important employer. The company employs more than 5,000 people and provides training and advancement opportunities for all employees. The company has a plan to promote gender equality. One of the aims is to increase the number of female workers among employees and management.

Today, Annapurna has approximately 1.4 million active loan customers. The loans are mainly group loans that allow people to engage in a trade. The company also offers loan products designed specifically for the most vulnerable, such as transgender people, single parents, unmarried women and the casteless.

Women with microfinancing mostly work in their own village, from their own homes. With the loans, many of them have bought sewing machines or dairy cattle, among other things. Many small shops have also been opened.

Annapurna is Finnfund's first project eligible for the 2X Challenge, which is an initiative by the G7 countries aimed at mobilising USD 3 billion to finance businesses that promote the status of women. Finnfund was among the first development financiers to join the initiative in May 2019.

Portfolio and undisbursed investment decisions and commitments on 31 December 2019, geographical distribution



New investment decisions by country category (OECD, DAC)

Income level	Number of decisions	%	EUR million	%
Least developed countries	13	45	84	35
Low-income countries	0	0	0	0
Lower-middle-income countries	11	38	101	43
Upper-middle-income countries	5	17	52	22
TOTAL	29	100	237	100

List of investments in portfolio
as of 31 December 2019

Investment agreements signed in 2019 are marked in bold

* Finnfund's disclosure policy was updated in September 2016. Since then Finnfund has published for example its share of financing of new investments. More information at Finnfund's website.

Investment	Country	Sector	Finnfund's financing*	Agreement year
AFRICA				
3B Hotels	**Rwanda**	**Hotel**	**USD 3,000,000**	**2019**
Access Bank	Nigeria	Bank	USD 12,000,000	2017
Access Bank III	**Nigeria**	**Bank**	**USD 10,000,000**	**2019**
Africado Limited	Tanzania	Agriculture	EUR 2,500,000	2018
African Foundries Nigeria Limited I	Nigeria	Steel		2015
AfriCap Microfinance Investment Ltd	Africa	Microfinance		2007
AfricInvest Fund III	Africa	Private equity fund		2014
AfricInvest Fund Ltd. I	Africa	Private equity fund		2004
AfricInvest Fund Ltd. I B	Africa	Private equity fund		2007
AfricInvest Fund Ltd. II	Africa	Private equity fund		2008
Afrinord Hotel Investments A/S	Africa	Hotel		2005
Afrinord Hotel Investments A/S	Africa	Hotel		2005
Agri-Vie Fund II (Pty) Ltd	Africa	Food and agriculture fund	USD 10,000,000	2018
Aten Solar Energy S.A.E	Egypt	Solar power	USD 6,000,000	2017
Atlantic Coast Regional Fund	Africa	Private equity fund		2008
Aureos Africa Fund	Africa	Private equity fund		2009
CAL Bank	Ghana	Bank	USD 15,000,000	2018
Catalyst Fund I	Africa	Private equity fund		2011
Elgon Road Developments Co Ltd	Kenya	Hotel		2009
Elgon Road Developments Co Ltd II	Kenya	Hotel		2011
Elgon Road Developments Co Ltd III	Kenya	Hotel		2015
Elgon Road Developments Co Ltd IV	Kenya	Hotel		2015
Elgon Road Developments Co Ltd V	Kenya	Hotel		2016
Elgon Road Developments Co Ltd VI	Kenya	Hotel	USD 3,200,000	2018
Elgon Road Developments Co Ltd VII	Kenya	Hotel	EUR 2,775,940	2018
EthioChicken (AgFlow Poultry Limited)	Ethiopia	Poultry production	USD 10,000,000	2016
European Financing Partners	Africa	Development financing		2004
European Financing Partners III	Africa	Development financing		2009
European Financing Partners IV	Africa	Development financing		2010

Investment	Country	Sector	Finnfund's financing*	Agreement year
Evolution II (Mauritius) LP	Africa	Private equity fund	USD 15,000,000	2017
Evolution One LP	South Africa	Private equity fund		2008
Fanisi Venture Capital Fund S.C.A.	Africa	Private equity fund		2010
Fidelity Equity Fund II Limited	Africa	Private equity fund		2008
First City Monument Bank Limited	**Nigeria**	**Bank**	**USD 5,000,000**	**2019**
Fuzu	Africa	Information technology	EUR 999,690	2016
Africa Sustainable Forestry Fund L.P	Africa	Forestry fund		2011
Ghana Airport Cargo Centre Limited	Ghana	Logistics		2014
Ghana Airport Cargo Centre Limited II	Ghana	Logistics	USD 1,000,000	2016
Goldtree	Sierra Leone	Food production		2011
Goldtree	Sierra Leone	Food production		2016
Goldtree II	Sierra Leone	Food prodcution		2013
Goldtree II	Sierra Leone	Food prodcution		2014
Goldtree V	**Sierra Leone**	**Food production**	**USD 1,050,000**	**2019**
Green Resources AS	Africa	Forestry and wood products		2012
Green Resources AS	Africa	Forestry and wood products	USD 1,100,000	2018
Green Resources AS	Africa	Forestry and wood products	USD 2,450,000	2018
Green Resources AS	**Africa**	**Forestry and wood products**	**USD 9,750,000**	**2019**
GroFin East Africa Fund (GEAF)	Africa	Private equity fund		2007
Hakan-Quantum Biomass Fired Power Plant	Rwanda	Biomass fired power plant	USD 5,000,000	2016
Hakan-Quantum Biomass Fired Power Plant	Rwanda	Biomass fired power plant	USD 10,000,000	2016
Horizon Equity Fund III	South Africa	Private equity fund		2007
Horus Solar Energy S.A.E	Egypt	Solar power	USD 6,000,000	2017
Hospital Holdings Investment B.V.	Africa	Health care	USD 9,400,000	2018
Humania	**Africa**	**Health care**	**USD 18,750,000**	**2019**
Kilombero Valley Teak Company Ltd I	Tanzania	Forestry and wood products		2000
Kilombero Valley Teak Company Ltd I	Tanzania	Forestry and wood products		2011
Kilombero Valley Teak Company Ltd II	Tanzania	Forestry and wood products		2006
Kilombero Valley Teak Company Ltd III	Tanzania	Forestry and wood products		2009
Kilombero Valley Teak Company Ltd IV	Tanzania	Forestry and wood products		2010
Kilombero Valley Teak Company Ltd V	Tanzania	Forestry and wood products		2011
Kilombero Valley Teak Company Ltd VI	Tanzania	Forestry and wood products		2012
Lake Turkana Wind Power	Kenya	Wind power		2013
Letshego Uganda Limited	Uganda	Microfinance	USD 5,000,000	2018
M-Birr	Ethiopia	Fintech		2011
M-Birr II	Ethiopia	Fintech		2014
M-Birr IV	Ethiopia	Fintech		2016
M-Birr V	Ethiopia	Fintech	EUR 1,000,000	2017

Investment	Country	Sector	Finnfund's financing*	Agreement year
Maarifa Education Group (Africa Education Holdings)	**Africa**	**Education and research**	**USD 6,999,800**	**2019**
Miro Forestry Company, Ghana and Sierra Leone	**Africa**	**Forestry and wood products**	**USD 1,500,000**	**2019**
Miro Forestry Company, Ghana and Sierra Leone	Africa	Forestry and wood products		2014
Miro Forestry Company, Ghana and Sierra Leone	Africa	Forestry and wood products	USD 8,065,115	2018
Miro Forestry Company, Ghana and Sierra Leone II	Africa	Forestry and wood products		2015
New Forests Company (Tanzania) Limited	Tanzania	Forestry and wood products		2014
New Forests Company (Rwanda) Limited	Rwanda	Forestry and wood products	USD 7,500,000	2016
New Forests Company (Uganda) Limited	Uganda	Forestry and wood products		2015
Norsad Finance Limited	Africa	Development financing		2011
Penda Health	Kenya	Health care	USD 2,495,225	2018
Polykrome	Senegal	Packaging products	EUR 4,000,000	2018
Precision Air Services Ltd	Tanzania	Airline company		2008
Sanergy Inc.	Kenya	Waste management and recycling	USD 1,249,999	2017
Schulze Global Ethiopia Fund I	Ethiopia	Private equity fund		2014
SFC Finance Limited	Africa	Financial institution		2014
Silverlands Fund	Africa	Private equity fund		2011
Sini Furniture Interior Design PLC	Ethiopia	Furniture		2015
Societe JTF Madagascar SARL	**Madagascar**	**Agriculture**	**EUR 3,750,000**	**2019**
Sound and Fair Tanzania Limited	Tanzania	Forestry and wood products		2016
Starsight (SPUL SUB 2 Ltd)	**Nigeria**	**De-centralised energy production**	**USD 5,000,000**	**2019**
Synergy Private Equity Fund II LP	Africa	Private equity fund	USD 15,000,000	2018
Tanira Ltd.	Tanzania	Hand pumps		1991
TAQA Arabia for Solar Energy SAE	Egypt	Solar power	USD 7,804,000	2017
UpEnergy Uganda Ltd II	**Uganda**	**Energy efficiency**	**EUR 720,000**	**2019**
Yalelo Limited	**Zambia**	**Aquaculture**	**USD 6,000,000**	**2019**

ASIA				
A.T. Biopower Co. Ltd.	Thailand	Biopower plant		2003
A.T. Biopower Co. Ltd.	Thailand	Biopower plant		2003
Annapurna Finance Pvt Ltd	**India**	**Microfinance**	**EUR 15,000,000**	**2019**
Ashley Alteams India Limited	India	Aluminium components		2009
Australis Aquaculture Vietnam Limited	Vietnam	Aquaculture	USD 9,500,000	2017
BOPA	Asia	Microfinance	USD 3,000,000	2017
BOPA II	Asia	Microfinance	USD 1,500,000	2018
Burapha Agro-Forestry Co., Ltd	Laos	Forestry and wood products		2016
Burapha Agro-Forestry Co., Ltd II	Laos	Forestry and wood products	USD 10,000,000	2018
Cambodia-Laos Development Fund S.C.A.	Asia	Private equity fund		2009
Commercial Leasing and Finance PLC (CLC)	Sri Lanka	Microfinance		2015

Investment	Country	Sector	Finnfund's financing*	Agreement year
Dolma Impact Fund I B, Nepal	Nepal	Private equity fund	USD 3,100,000	2018
Dolma Impact Fund I, Nepal	Nepal	Private equity fund		2014
Everest Power Generation Company Limited	Bangladesh	Power plant		2013
Everest Power Generation Company Limited II	Bangladesh	Power plant		2015
Frontier Tower	Indonesia	Telecommunication infrastructure	USD 10,000,000	2017
Fun Factory Ltd	Bangladesh	Textiles	USD 1,200,000	2017
Gemco Kati Exploration Pvt. Ltd.	India	Mining support service activities		2016
GreenStream ESCO	China	Energy efficiency		2014
GreenStream ESCO II	China	Energy efficiency		2014
GreenStream ESCO III	China	Energy efficiency		2016
LVDU Lapland Food (Fushun) Co., Ltd	China	Dairy products		2012
mBank Philippines	Philippines	Microfinance		2011
Mekong Brahmaputra Clean Development Fund	Asia	Private equity fund		2010
MongoliaNord GmbH	Mongolia	Hotel		2010
Nam Sim Power Company Limited	Laos	Hydro power		2011
Norrhydro Hydraulic System (Changzhou) Co. Ltd	China	Manufacturing of hydraulic sylinders		2011
Norrhydro Hydraulic System (Changzhou) Co.Ltd II	China	Manufacturing of hydraulic sylinders		2014
Peikko Constr. Access. (Zhangjiagang) Co., Ltd.	China	Metal products		2014
PRASAC Microfinance Institution PLC	Cambodia	Microfinance	USD 15,000,000	2016
SaraRasa Biomass	Indonesia	Biofuels		2012
SaraRasa Biomass	Indonesia	Biofuels		2012
SaraRasa Biomass II	Indonesia	Biofuels		2013
SaraRasa Biomass III	Indonesia	Biofuels		2015
SaraRasa Biomass IV	Indonesia	Biofuels		2015
SaraRasa Biomass V	Indonesia	Biofuels		2016
SaraRasa Biomass VI	Indonesia	Biofuels	USD 500,000	2018
Sathapana Bank PLC	**Cambodia**	**Microfinance**	**USD 10,000,000**	**2019**
Spica Metfab Solutions India Private Limited	India	Metal products		2009
SREI Equipment Finance	India	Equipment financing	EUR 15,000,000	2017
Stera Engineering (India) Private II	India	Contract manufacturer of electromechanics		2014
Thai Biogas Energy Company Ltd	Thailand	Bio power	EUR 6,110,273	2018
Tropical Asia Forest Fund	Asia	Private equity fund		2012
VME Precast Pvt. Ltd.	India	Concrete elements		2009
XacBank	Mongolia	Bank		2016
XacBank II	**Mongolia**	**Bank**	**USD 5,000,000**	**2019**
XTC Company Oy	China	Electrical equipment		2010
XTC Company Oy II	China	Electrical equipment		2011

Investment	Country	Sector	Finnfund's financing*	Agreement year
EASTERN EUROPE AND CENTRAL ASIA				
Aqueduct	Ukraine	Metal products		2010
ArcelorMittal (Toplana Zenca d.o.o.Zenica)	Bosnia and Herzegovina	Power generation	EUR 1,800,000	2018
Bank of Georgia	**Georgia**	**Bank**	**USD 10,000,000**	**2019**
Cibuk Wind Farm (Tesla Wind d.o.o.)	Serbia	Wind power	EUR 10,740,971	2017
Oy Nordic Russian Management Co - NORUM	Russia	Fund management		1995
Peikko OOO	Russia	Metal products	EUR 2,000,000	2018
SEAF South Balkan Fund	Central and Eastern Europe	Private equity fund		2009
Syvash Wind Farm	**Ukraine**	**Wind power**	**EUR 15,000,000**	**2019**
LATIN AMERICA AND THE CARIBBEAN				
Bosforo PV Project	El Salvador	Solar power	USD 15,000,000	2017
Carec - Central American Renewable Energy and Cleaner Production	Central America	Private equity fund		2006
Caseif II	Central America	Private equity fund		2007
Central American Mezzanine Infra Fund II	Central America	Private equity fund		2014
Central American Mezzanine Infra Fund II	Central America	Private equity fund		2014
Central American Mezzanine Infrastructure Fund	Central America	Private equity fund		2009
CIFI-Corporatión Interamericana para el Financiamiento de Infraestructura, S.A	Latin America	Financial institution		2014
The Forest Company	Latin America	Forestry and wood products		2010
Forest First Colombia	Colombia	Forestry and wood products	USD 10,000,000	2017
Methax	Argentina	Electric power generation	USD 20,000,000	2017
Mezapa	Honduras	Small hydropower		2010
MLR Forestal de Nicaragua S.A.	**Nicaragua**	**Forestry and agriculture**	**USD 10,000,000**	**2019**
Pro Eucalipto Holding S.A.P.I. de C.V.	Mexico	Forestry and wood products		2014
Pro Eucalipto Holding S.A.P.I. de C.V. II	Mexico	Forestry and wood products		2015
San Francisco S.A.	Paraguay	Warehousing and transportation support	USD 8,000,000	2017
San Francisco S.A.	Paraguay	Warehousing and transportation support	USD 4,000,000	2017
SEAF Latam Growth Fund	Latin America	Private equity fund		2008
CENTRAL AMERICA				
Valle Solar Power Project	Honduras	Solar power		2015
Valle Solar Power Project	Honduras	Solar power		2015

Investment	Country	Sector	Finnfund's financing*	Agreement year
INTERNATIONAL				
Advans Group	**International**	**Microfinance**	**EUR 10,000,000**	**2019**
Althelia Climate Fund SICAV-SIF	International	Environment fund		2013
Arbaro Fund SCSp	International	Forestry fund	USD 10,000,000	2018
Dasos Timberland Fund I	International	Forestry fund		2010
GEEMF Global Environment Emerging Markets Fund III	International	Private equity fund		2007
Interact Climate Change Facility II	International	Development financing	EUR 20,000,000	2016
Interact Climate Change Facility S.A. I	International	Development financing		2011
Interact Climate Change Facility S.A. I B	International	Development financing		2013
IPT Powertech	**International**	**Telecom energy services and solutions**	**USD 10,000,000**	**2019**
Jumo	International	Fintech	USD 6,000,000	2017
Jumo II	International	Fintech	USD 5,996,500	2018
MBH BV	International	Microfinance		2011
Moringa S.C.A., SICAR	International	Agroforestry fund		2013
ShoreCap International Ltd. II	International	Microfinance		2009
WWB Capital Partners, LP	International	Microfinance / fund		2012
THE MIDDLE EAST				
Arabia One for Clean Energy Investments PSC	Jordan	Solar power		2014
Catalyst MENA Clean Energy Fund	The Middle East	Private equity fund		2016
Falcon M'an for Solar Energy LLC	Jordan	Solar power		2014
FRV Solar Jordan Holdings IX B.V. / Jordan PSC	Jordan	Solar power		2016
Jordan Solar One / Jordan PSC	Jordan	Solar power		2014
Zain Iraq (Atheer Telecom Iraq Limited)	Iraq	Information technology	USD 19,000,000	2018
THE MEDITERRANEAN				
Noksel A.S.	Turkey	Steel pipes		1992

Overview of Finnfund's impact in 2018

2019 figures available in autumn 2020

Green Resources is the biggest sustainable forestry company in Sub-Saharan Africa. It has almost 40,000 hectares of plantations and industrial operations in Tanzania, Uganda and Mozambique.

SECTORS

Energy

Investees generated 6,500 GWh energy

Equivalent to electricity consumption of 12.5 million people in operating countries

Agriculture

Investees worked with 2.2 million small-scale and livestock farmers, 88% of them women

Food production equivalent to daily calorie intake of 350,000 people.

Forestry

870,000 ha forest under sustainable management, of which 815,000 FSC certified

Financial institutions

2 million loans to MSME clients – of which 75% are women

6 million mobile loans – of which 32% to women

Sanergy produces fertilisers and feed from latrine waste in Kenya.

finnfund

Sustainability

Sustainability of Finnfund investments

All Finnfund investments must meet three criteria: they must be financially profitable, be sustainable and generate development impact. We assess each investment against these criteria before investment decisions and monitor them throughout Finnfund's involvement.

Sustainable business practices add value to investments and contribute to generating positive impact. Finnfund's strategy guides us to invest in business projects with positive environmental, social and other development impacts, which contribute to the Sustainable Development Goals (SDGs).

Finnfund actively works together with its investees to raise their awareness of and commitment to sustainability. We help our investees improve their environmental and social management and performance.

Sustainability is a joint effort of Finnfund, its investees and third parties, such as co-financiers. Finnfund works with like-minded investors to build leverage and maximise impact and sustainability in its investments. Finnfund is a member of the Association of European Development Finance Institutions (EDFI).

Finnfund E&S policy commitment

Finnfund's first environmental policy was adopted in 2005. The policy has been revised several times since, and in 2013 it evolved into an Environmental and Social Policy. In early 2019, we started a full revision process to update the policy into an overarching Sustainability Policy covering environmental, social and governance issues as well as impact created through sustainable business practices.

The new Sustainability Policy was developed in consultation with several important stakeholder groups, including Finnfund's investees, national and international NGOs and CSOs, peers in development finance, and various experts across sectors and geographies. In October 2019, the draft policy was made public and circulated for stakeholder input.

We discussed the feedback with stakeholders in a joint meeting in November 2019. Their feedback proved to be very valuable and enabled us to strengthen key aspects of the policy.

To complement the policy, we have developed several thematic statements on, for example, human rights, gender and taxation, as well as adopted internal guidelines and tools to support implementation.

Finnfund has endorsed the EDFI Principles for Responsible Financing of Sustainable Development (2019). We have aligned our own practices

Investment in Societe JTF Madagascar will impact the agricultural productivity in Madagascar, which is currently lacking significant modern agricultural technology. It increases the domestic production and improves the sustainability of the extraction processes of essential oils.

All investees are required to comply with host country laws, regulations and relevant international obligations.

and investee requirements with the jointly agreed harmonised minimum environmental and social requirements applicable in EDFI co-investments, including the Exclusion List.

International sustainability requirements

Finnfund requires its investees to comply with applicable host country laws and regulations as well as relevant international obligations.

In addition to the local legal requirements, all Finnfund investments associated with medium to high inherent environmental and social risks and adverse impacts are required, over a reasonable time period, to achieve compliance with international standards on environmental and social management and performance.

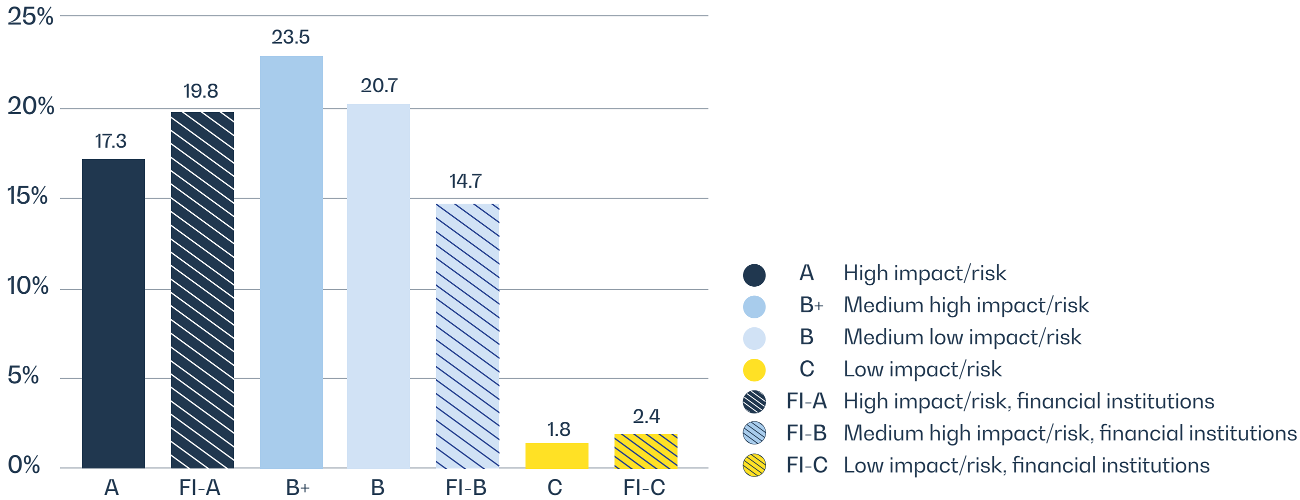
The nature of a project and its associated impacts and risks define which standards apply to it. The principal environmental and social risk management framework consists of the IFC Performance Standards on Environmental and Social Sustainability and the associated World Bank Group general and industry-specific Environmental, Health and Safety Guidelines.

The IFC Performance Standards ("PS") address eight topics: Assessment and Management of Environmental and Social Risks and Impacts (PS1), Labour and Working Conditions (PS2), Resource Efficiency and Pollution Prevention (PS3), Community Health, Safety, and Security (PS4), Land Acquisition and Involuntary Resettlement (PS5), Biodiversity Conservation and Sustainable Management of Living Natural Resources (PS6), Indigenous Peoples (PS7), Cultural Heritage (PS8).

Other relevant international standards and principles include, for example, the UN Guiding Principles on Human Rights (UNGPs), as well as various internationally recognised certification standards such as the ISO management system standards, FSC for sustainable forest management, GlobalGAP for good agricultural practises, and SA8000 for social accountability.

Any gaps identified in the investees' E&S management or performance against the applicable requirements are documented in an E&S Action Plan with a clear description of the necessary actions, expected outcomes and mutually agreed deadlines. The E&S Action Plan is usually annexed to the financing agreements and followed up on regularly.

Portfolio per E&S risk category



Finnfund E&S capacity

Finnfund has designated experts and teams working on environmental, social and governance matters as well as development impact. In 2019, the E&S team consisted of five full-time E&S specialists while the impact team had three specialists. Governance matters were integrated into the workstreams of various in-house teams.

Finnfund's experts continuously follow new developments in the sustainability agenda and develop their internal capacities, policies and tools. They actively participate in relevant training and networking sessions, including EDFI E&S and development impact working groups, IFC Community of Learning events for E&S specialists, external expert training workshops (in 2019, external training topics included, e.g., impact assessment, land tenure and resettlement, living wage) as well as focus group sessions, e.g., on human rights, gender and climate.

Sustainability in the investment process

Finnfund investee companies must commit to our sustainability requirements. Environmental sustainability, social responsibility and good governance are integrated in all phases of our investment process from identification of potential investments to monitoring and exit.

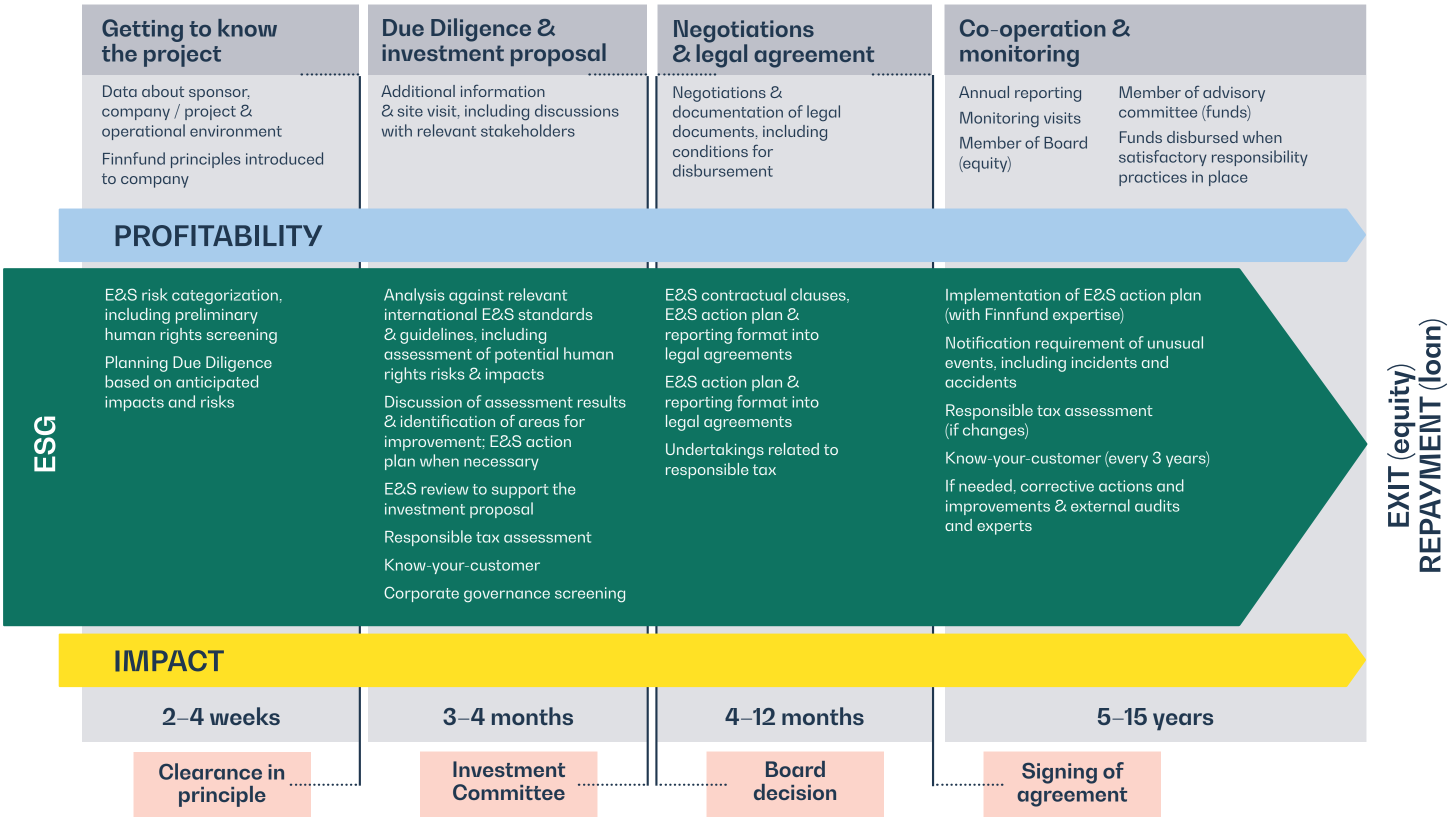
Finnfund focuses on the key ESG impacts, risks and opportunities relevant for each project. The higher the risks and anticipated impacts are, the more stringent the requirements become and the more closely Finnfund monitors each project.

We actively work with our investees and monitor them to ensure they take action if discrepancies are found between their commitments and the reality on the ground.

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 apply different procedures for direct and indirect investments, as well as for different financing instruments.

Burapha Agroforestry operates eucalyptus, teak, and acacia plantations in Lao PDR.

Finnfund investment process: Sustainability



Economic sustainability

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

As stated in Finnfund's tax policy, we require our investees to act responsibly and transparently in taxation matters. We encourage them to adopt a tax policy and disclose it to the public. Finnfund does not accept aggressive tax planning or allow its investees, including investment funds, to engage in such activities.

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

In 2019, the tax structures of all new investments were evaluated according to the policy: the tax structure of the project company and group, and its compliance with Finnfund's tax policy is assessed in a separate tax memorandum which is appended to the memoranda by the internal risk classification group and the Board of Directors. In the event of any ambiguity, Finnfund's internal expert group gives its advice and, if necessary, external experts are also consulted.

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

In line with its new tax policy, Finnfund also publishes the tax footprints of the projects it finances, with details for each country at the portfolio level. The data is collected at the same time as other development impacts, so the data for 2019 will be available in autumn 2020.

Social sustainability

Social aspects ranging from human rights, gender, labour rights, health and safety to land tenure and stakeholder engagement are fully integrated into Finnfund's E&S work in all phases of the investment process.

In 2019, we paid particular attention to further strengthening Finnfund's approaches and tools on human rights (please refer to the separate section on human rights). Together with our investee companies, we also intensified our proactive efforts on matters of gender. Furthermore, we launched a pilot project to gain better insight into the voices of individual stakeholders, including our investee companies' employees, supply chains and local communities.

Finnfund believes that stakeholder engagement is the basis for building strong, constructive and responsive relationships that are essential for the successful management of a project's E&S impacts and risks.

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 impacts, but compliance with host country obligations as well as applicable international standards is essential.

Finnfund requires its investees to establish and maintain operational-level grievance mechanisms which are accessible to affected communities and other stakeholders. Effective grievance mechanisms provide a channel for the communities and other stakeholders to voice their concerns. They enable investees to address and resolve disputes and grievances in a systematic manner.

In 2019, we paid particular attention to further strengthening Finnfund's approaches and tools on human rights.

Environmental sustainability

Under the environmental agenda, our priorities for 2019 included further strengthening Finnfund's carbon accounting at both the investee and the portfolio level. In consultation with peers and experts, we defined a clearer and more transparent approach to the use of fossil fuels in the energy sector and strengthened tools for inhouse screening and assessments of biodiversity impacts in our investments. We will further define Finnfund's position on fossil fuels in 2020 with a new energy statement.

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.

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 signed the Corporate Governance Development Framework (2015) to address the governance risks and opportunities in its operations. The framework is based on 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 investees' governance structures and systems. During the investment period, especially in equity investments, we put emphasis on developing these structures further.

CASE

EthioChicken
Ethiopia

EthioChicken improves food security and living standards in Ethiopia

● The Group operates six poultry farms in Ethiopia, which produce and supply chicken for low-income households in rural Ethiopia. EthioChicken produces day-old chicks, sells them to sales agents, which in turn grow them for 6-8 weeks.

The sales agents sell the young chicken primarily to rural households which grow the chicken further to produce meat and eggs. The operating model with the targeted rural market and the level of the Group's operations are almost unique in Africa.

The biosecurity, environmental and social management systems have been improved with the support of Finnfund and external consultants. The company was the first poultry company in Africa to become GLOBALG.A.P. certified. GLOBALG.A.P. is an internationally recognized set of farm standards dedicated to Good Agricultural Practices.

At the onset on Finnfund's investment in EthioChicken in 2016, a roadmap and timeline for obtaining third-party certification was jointly agreed upon and EthioChicken embarked on an ambitious journey towards safer and even more sustainable agricultural practices.

At the end of 2018 the Group employed directly about 1,155 employees (of which 433 are women) and indirectly 5,000 people through the sales agent network, of which 2,000 are primarily young female Ethiopians. It is estimated that the Group reaches currently about 2.1 million households in rural Ethiopia, generating income and improving the nutrition of about 5.5 million people.

Through the improved productivity of the hybrid breeds, the supplied chicken creates far more income and nutrition than the local breeds. The production of day-old chicks in Ethiopia substitute imports as poultry consumption is projected to increase significantly in the future.

Marjaana Palomäki
Environmental and Social Adviser Finnfund

"Several important improvements were necessary, including strengthening of biosecurity policies and procedures at our poultry farms and starting salmonella testing of our eggs, chicks, and parent stock", comments the National Environmental, Health, Safety and Social Director of EthioChicken ***Endriyas Alganeh****.*

"EthioChicken obtained GLOBALG.A.P certification in spring 2019 and was the first poultry company in Africa to do so. We are very proud of EthioChicken's achievements", adds ***Marjaana Palomäki*** *from Finnfund.*

CASE

Burapha Agroforestry
Lao PDR

Burapha is the only FSC-certified wood processing industry in Lao PDR

● Burapha Agroforestry operates eucalyptus, teak, and acacia plantations in Lao PDR utilising a unique silvicultural technique which intercrops trees mainly with upland rice but also other crops.

Burapha's business model is based on responsible environmental and social management demonstrated, for example, in their land selection criteria. Burapha uses only degraded forest land suited for industrial plantations and has prohibited clearing of forested land and large individual trees. The company requires significant stakeholder consultation and free, prior, and informed consent with local villages throughout the land identification and land lease processes.

Burapha takes a 'bottom-up' approach, meaning it approaches communities or individual landowners with a proposal to lease land for agro-forestry operations. In return, the company provides seasonal job opportunities, leasing fees, land prepared for intercropping between trees, and assistance for village infrastructure development.

Free, prior, and informed consent has been a benchmark of Burapha's legacy in the country and the company has maintained its social license to operate throughout its tenure in Lao PDR. Burapha's recent successes likely played a role in the Government of Lao ending the moratorium on eucalyptus plantation expansion in the country, with the prime minister now promoting the industry for establishment on degraded lands.

When Finnfund got involved with Burapha, only part of the plantations and a sawmill were FSC certified. Finnfund requested Burapha to work towards FSC certification for its entire landholding, which it achieved in 2018. Burapha was a front-runner in achieving FSC certification for plantations and is the only FSC-certified wood processing industry in Lao PDR.

Human rights report

Finnfund's Human Rights Statement entered into force in January 2019. We have continued to develop our human rights due diligence approach and strenghten our capacity to effectively implement our commitment to respect human rights.

Training and capacity

In March, the Finnfund staff had an internal human rights training session to discuss the new Human Rights Statement and its implications for Finnfund's operations and to look at the UN Guiding Principles on Business and Human Rights (UNGPs) in comparison with the IFC Performance Standards (IFC PS).

The session followed earlier training workshops organised with Shift, a leading centre of expertise on the UNGPs, and served as follow-up to discussions during the development of our Human Rights Statement. All members of our E&S team – including two new environmental and social advisers who joined us – were trained on key elements of human rights due diligence. Shift continued to support the development of our human rights due diligence approach. We also used specialised human rights consultants in some new investments.

Finnfund considered a potential investment in a company that uses recycled paper as a raw material. Due to the contextual risk of child labour and health and safety issues in that country's recycling sector, Finnfund requested that independent experts perform a supply chain human rights assessment. One of the screening's output was a supply chain human rights action plan, detailing management and mitigation measures, which the client committed to implement. Finnfund decided to invest in the company.

Human rights risk screening

All medium-to-high environmental and social risk investments are appraised against the IFC PS and the ILO Core Labour Standards.

These standards address rights to land, cultural rights, workers' rights, rights to health, safety and security, as well as indigenous peoples' rights. Still, some human rights or rights holders are not covered as comprehensively as others.

Therefore, human rights risk screening of each investment forms the backbone of our approach to human rights due diligence. Our own screening tool identifies contextual issues, such as conflict or post-conflict situations, limited political freedoms or high levels of corruption, which could exacerbate our investments' potential human rights impacts. We strive to identify contexts that can be particularly difficult for human rights defenders. We use the screening tool at the very beginning of the investment and later annually as long as the investment is in our portfolio.

With the tool, we identify higher-risk circumstances and the need for additional human rights assessments or management procedures on top of the regular appraisals. Such assessments may vary from detailed supply chain human rights impact assessment to additional questions, discussions and requirements for clients to address certain specific issues. Our screening tool uses public data and focuses on issues which are not fully covered, including potential impacts on workers' rights beyond primary suppliers, on the right to privacy, civil and political rights, and children's rights. We continue to develop, update and improve the screening tool, learning from our experience of using it.

"The development of Finnfund's new screening tool represents the most robust attempt to date to address the gaps in existing industry practices"

Shift report "Aligning Finland's State Financing for Private Sector Activity Abroad with the UN Guiding Principles on Business and Human Rights"
October 2019

Engagement and leverage

We discuss the findings of our human rights analysis with our investees. Where needed, we add specific human rights management requirements in legally binding environmental and social action plans, for example: adherence to client protection principles for microfinance institutions, supply chain labour rights compliance, development of adequate grievance mechanisms, or specific measures for data protection.

After making an investment, we continue to engage our investee companies on the management of potential human rights impacts and the implementation of agreed upon measures. In case adverse human rights impacts occur, we make sure we obtain information and can use our leverage. Since the loan or investment agreements are key leverage tools, we include in them specific human rights impact management clauses and covenants.

Giving rights holders a voice

Finnfund wants to give a voice to rights holders. To that end, we initiated a pilot with Work-Ahead Ltd., using anonymous surveys to gather information on labour, working and living conditions directly from employees and nearby communities of our investees, in the participants' respective languages. The results will be available later in 2020.

Rights holders can voice their concerns directly using our investees' grievance mechanisms or Finnfund's whistleblowing channel. In 2019, we did not receive any complaints or requests on human rights impacts through this channel.

Addressing human rights risks and impacts adequately requires timely information from the ground. This is why we keep ourselves informed of the situation in countries where we have investments. Investees are committed to notify Finnfund within days of any significant incidents which may have human rights impacts, and to inform us about the results of investigations and measures taken to remediate and prevent re-occurrence of such events.

Investing through financial institutions

We made progress in developing human rights due diligence tools to be applied when investing indirectly through financial institutions (e.g., banks and microfinance institutions) and private equity funds. We first determine whether the private equity fund or financial institution is likely to invest in regions or projects which can be challenging from a human rights point of view. We then assess whether their tools and procedures are adequate to address the potential human rights impacts.

Funds and financial institutions commit to requiring that their medium or high-risk investments achieve compliance with the IFC PS and the ILO core labour standards. These standards do not necessarily cover all human rights issues. Therefore, we increasingly encourage financial institutions and funds to better integrate a human rights lense into their investment processes.

During a routine environmental and social monitoring visit to a borrower company, a Finnfund co-lender identified gaps in labour and working conditions and a labour audit was commissioned. The audit confirmed gaps in compliance with our requirements. Finnfund and its co-lenders jointly required improvements to, among others, the sanitation facilities and the length of the working shifts. As the borrower was late in implementing the agreed upon improvements, the lenders jointly visited the site and, after discussions with the company management, unions and contractors, made clear that further delays would lead to an acceleration of the loan. The situation eventually improved.

Finnfund investee M-Birr is Ethiopia's first mobile banking service which offers low-income people access to the official money economy.

In microfinance, the financed activities are less likely to have adverse environmental and social impacts but may have human rights impacts. These may include discrimination in access to financing, challenges related to confidential information, connections to adverse impacts, or over-indebtedness. To address these risks, the Smart Campaign has developed the Client Protection Principles, with which Finnfund requires compliance.

Collaborating to improve human rights due diligence

Finnfund is active in human rights forums and working groups, where we share knowledge and contribute to the development of tools for our industry.

Although Finnfund is not a signatory of the Equator Principles for Financial Institutions, we welcomed the introduction of human rights requirements in the updated Principles in November 2019, because this could indirectly improve our leverage in addressing human rights issues in our investments.

In Finland, Finnfund is an active member of the Human Rights Focus Group organised by Finnish Business and Society, a not-for-profit promoter of sustainable business, and Enact, a sustainability and human rights consultancy.

Finnfund's CEO **Jaakko Kangasniemi** joined the CEOs' call to action on the respect of human rights and is among the signatories of the Finnish version of the CEO Guide to Human Rights, published by the World Business Council for Sustainable Development and FIBS, with contributions from Shift. Mr. Kangasniemi was one of the key speakers at the "Business and Human Rights, Towards a Common Agenda for Action" seminar organised in December 2019, during the Finnish Presidency of the European Union.

Engaging with civil society organisations

Finnfund engaged with Finnish NGOs on human rights issues during the development of our new sustainability policy and on specific matters of human rights, for example, on the rights of disabled persons, with the Abilis Foundation.

To better understand and monitor specific challenges in the countries or regions where our investments are located, we reached out to Finnish or regional institutions working on human rights. Most of the engagement with civil society organisations and right holders in our countries of investment, happened at the investee or borrower company level.

Challenges and next steps

Despite good progress with our human rights due diligence, we faced challenges. For example, building an approach for investments via financial institutions was not as straightforward as expected. Further, Finnfund increasingly invests in fragile states, conflict and post-conflict areas, often associated with heightened levels of risk. Although there aren't many competent human rights due diligence consultants in our target countries, we got support from our growing networks. With some 180 investments across numerous sectors in 45 countries, identifying salient human rights impacts is easier at the investee company level than at the portfolio level.

We will continue our work on human rights due diligence for investments via financial institutions, on our leverage and approach to remedies, and on addressing the challenges faced by human rights defenders. Finally, we will work – together with other stakeholders – on training materials to support the efforts of our investees to respect human rights.

"Finnfund is active in human rights forums and working groups, where we share knowledge and contribute to the development of tools for our industry."

Sylvie Fraboulet-Jussila
Senior E&S adviser,
lead adviser of human rights
Finnfund

Circular economy in Nairobi: Sanergy produces fertiliser and feed from latrine waste.

Human rights risk screening of each investment forms the backbone of our approach to human rights due diligence.

Sustainability of Finnfund's own operations

Economic responsibility and tax footprint

The key to economic responsibility is profitable business based on sustainable principles that ensure its continuity. In order to fulfil its mission over the long term and be able to carry the major financial risks of its business, Finnfund's development financing operations must be financially profitable and the company's capital structure must be strong. Finnfund does not distribute profits to its owners – instead, it rolls over its returns into new investments.

Efficiency and profitability of Finnfund's operations

Although the Finnfund Act states that the company's purpose is not to generate a profit for its shareholders, all 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.

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

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. To that end, Finnfund passed the EU Pillar Assessment in December 2019, making it eligible to manage EU funds and guarantees.

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 in a five-year period. The debt-equity ratio is also examined.

A detailed report on Finnfund's efficiency and profitability can be found in the Board of Directors' Report published in the 2019 Financial statements.

Key figures

	2019	2018	2017
Financial income (EUR million)	46.6	50.6	67.4
Net profit (EUR million)	0,7	2.1	2.0
Return on equity (%)	0.3	0.8	0.8
Equity ratio (%)	43.4	46.4	52.6

Formulae

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

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

Yalelo is the largest fully integrated aquaculture company in the Sub-Saharan Africa.
It employs 850 people and 30% of the management is female.

Financial cash flows to stakeholders

Finnfund is exempt from income tax under the Act on Income Tax (1535/1992) and it does not pay tax to the Finnish state.

In its financial statements for 2019, Finnfund reported that it paid a total of EUR 17,400.80 in taxes. These taxes consist of taxation paid at source on work compensation and taxation paid at source on dividends.

Finnfund adopted a new tax policy at the beginning of 2018. It combines the principles and operating methods Finnfund uses to assess and promote the tax responsibility of its own operations and those of its investees. In 2019 Finnfund continued to implement the tax policy in practice. This is explained in more detail in the section "Sustainability of Finnfund investments".

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

By its nature, Finnfund makes only very small investments in its own operations, with only some investment required in fixed assets.

In 2019, Finnfund made 29 new investment commitments in its target countries at a total value of EUR 237 million. They are covered in more detail in the "Investments" section of this report.

Finnfund exercises restraint in issuing charitable grants and donations, and it does not engage in any activities that could be considered sponsorship. At Christmas time, Finnfund donated EUR 3,000 to support UN Women Finland's work to promote the rights of women, girls and gender equality.

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

The taxes are divided up as follows:

Country	Type of tax	EUR
Panama	Tax at source on dividends	16,117.97
Turkey	Tax at source on work compensation	1,282.83
TOTAL		17,400.80

to in the Act on Credit Institutions (610/2014), nor does it use income statement and balance sheet models intended for credit institutions. Since 2013, the company has presented an illustrative calculation of its operating profit in its annual report.

The company's annual financial statements are published on 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.

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

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

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

People and corporate culture

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

Human resources management

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

We have made efforts to evaluate and improve Finnfund's managerial and supervisory work over several years. Finnfund conducts regular personnel surveys covering topics such as the quality of supervisory and managerial work. We strive to respond appropriately and rapidly to the feedback received from personnel.

Maarifa increases access to good quality tertiary education in several African countries.

Human resource targets

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

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

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

In 2019, Finnfund conducted a 270/360 evaluation of its entire staff, which included feedback discussions. The results of the evaluation showed a clear positive development compared to the previous evaluation in 2017.

Finnfund systematically monitors job satisfaction, 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.

Number and structure of personnel

At the end of 2019, Finnfund employed 81 people, seven of whom worked for the Ministry for Foreign Affairs' Finnpartnership programme managed by Finnfund. The average number of personnel for the year as a whole was 77. All company personnel work in Finland at the company's office in Helsinki.

In 2019, there were no reductions in the number of personnel, nor were any other rationalisation measures taken. During the year, the number of employees continued to develop steadily. Five permanent employees left the company and six new ones began working at Finnfund. The outgoing turnover was 6.2% and the incoming turnover was 7.4%.

The duration of permanent employment relationships is distributed as follows:

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

0–1	2–5	6–10	11–15	16–20	21–25	26–30	31–34	35–40
7	37	15	11	4	0	3	2	2

The average duration of permanent employment relationships is eight years.

The age structure of permanent personnel, divided into five-year bands, is as follows:

25–29	30–34	35–39	40–44	45–49	50–54	55–59	60+
4	13	15	12	7	13	10	7

The average age of employees is 44.

In 2019, personnel expenses amounted to EUR 8.8 million, including pension and other personnel add-on costs, as well as voluntary personnel costs. The payroll total in 2019 was EUR 7.0 million.

Equality

At the end of 2019, Finnfund employed 52 women (53 at the end of 2018), accounting for approximately 64.2% (66%) of all employees. 29 (27) employees were men, equating to approximately 35.8% (34%).

Four (5) of members of the Board of Directors were women, equating to 50% (62.5%). Four (3) were men, equating to 50% (37.5%).

Two (2) members of the Management Team were women, equating to 33.3% (40%). Four (3) members of the Management Team were men, equating to 66.7% (60%).

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

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

Remuneration

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

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

The company has an incentive scheme, which 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 2019, the incentive scheme was based partly on the company's performance and partly on the fulfilment of personal targets.

In addition, individual employees can earn a personal bonus worth a maximum of one-and-a-half months' salary for excellent performance that clearly surpasses the targets. The Board of Directors decides on the

At the end of 2019, Finnfund employed 52 women, accounting for approximately 64% of all employees. 29 employees were men.

Finnfund strives to constantly develop and maintain its employees' competences by offering topical, supplementary and language training.

incentive scheme and the key terms and conditions of the scheme annually in line with the applicable state ownership policy on remuneration.

In the 2019 financial statements, a provision was made for the cost of bonuses corresponding to approximately 12.7% of remuneration costs.

Competence development and training

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

All of Finnfund's personnel are covered by the annual career and target discussions. The discussions are held every spring, using a set of forms developed for this purpose. The set of forms was updated in 2019, and the updated discussion framework will be used in spring 2020.

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

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

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

In March 2019, Finnfund moved to an open-plan office in Ruoholahti, Helsinki.

satisfaction during career and target discussions and to give anonymous feedback via the company's intranet or Finnfund's website. It is also possible to discuss issues with external parties if necessary.

In 2019, the management of occupational wellbeing, health and safety was the responsibility of the Director of Administration together with the Human Resources Manager and the Chief Technology Officer, who acts as the occupational health and safety manager. Finnfund also has an occupational health and safety committee. The most significant safety risks in the workplace have been assessed to be travel, health risks due to travelling 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. Every employee has an electric height-adjustable desk to prevent the health hazards associated with too much sitting down.

In 2019, Finnfund was not made aware of any work-related accidents.

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

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

In March 2019, Finnfund moved to its new office in Ruoholahti, Helsinki. The entirety of personnel moved to an open-plan office environment, but all still have their own work stations. The employees were able to participate in the design of the new office, and their wishes were taken into consideration wherever possible.

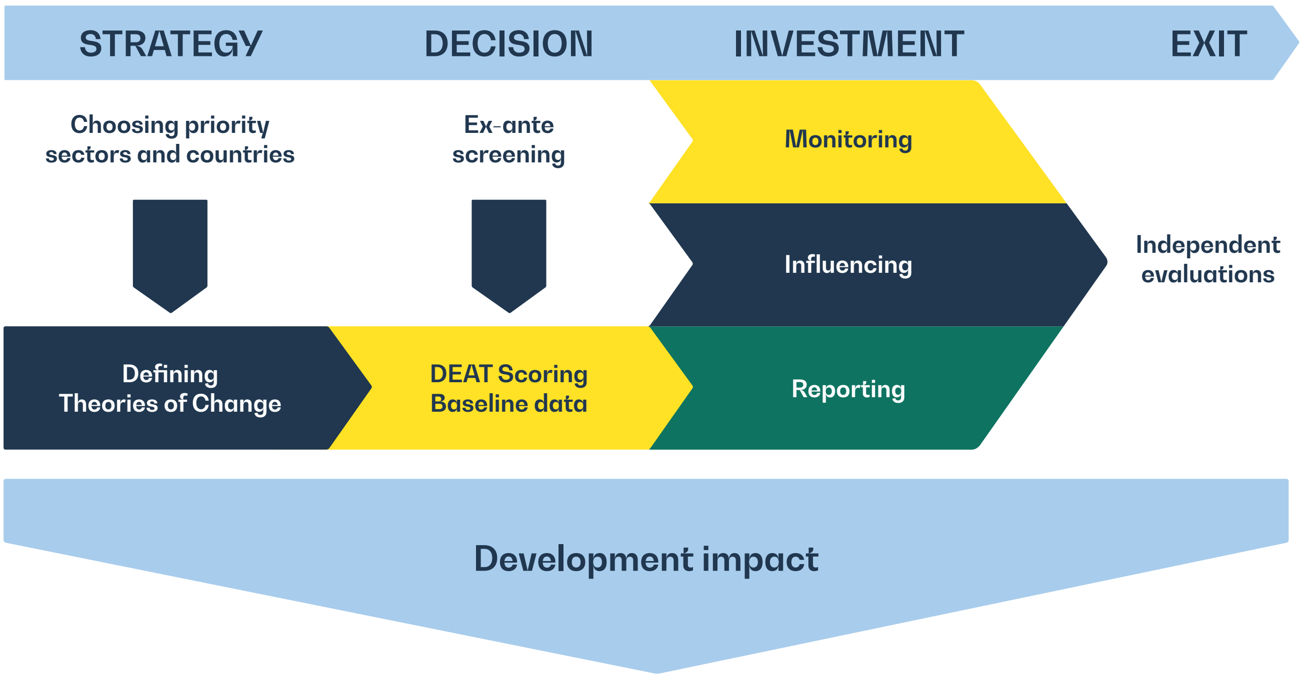
The aim of moving to open-plan premises was to promote openness, teamwork and interaction, which are key elements of the renewed corporate culture. Good washing and changing facilities have also been designed for the new office, along with bicycle storage spaces to enable employees to combine commuting with exercise.

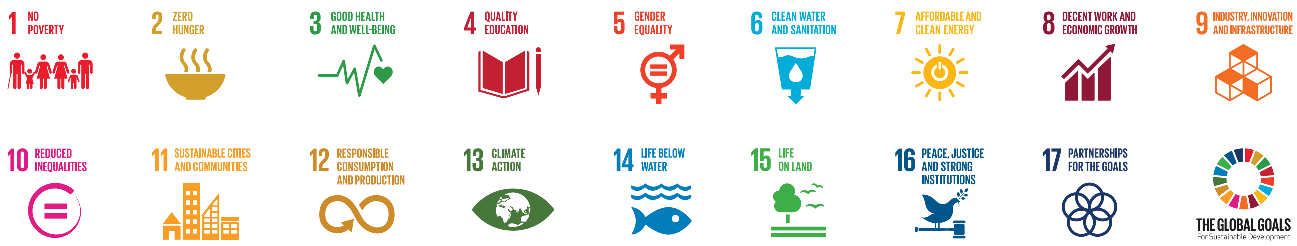
finnfund

Impact

This section presents impact data from 2018. Data for 2019 will be presented in 2020 Annual Review.

Driving impact throughout the investment cycle





Sustainable businesses generate positive environmental and social impact both directly and indirectly. Impact is a combination of what the company does – its products and services – and how it operates – its sustainability practices.

As an impact investor, Finnfund invests only in business projects that have an expected positive net impact on society. Going forward, this means we also take into account the inevitable negative impact of most businesses through, for instance, carbon emissions.

In addition to having positive environmental and social impact, we expect our investments to yield a financial return. When businesses are well run and successful, they are also better equipped to meet their sustainability commitments.

In 2019, Finnfund signed the IFC Operating Principles for Impact Management. The principles describe the essential features of managing for impact. They require a robust investment thesis of how the investment contributes to achieving impact.

Careful screening

Financiers' leverage is at its greatest when they select what to invest in. In Finnfund's case, only around 5% of investment leads screened by Finnfund's experts eventually receive our financing.

The starting point for Finnfund's impact assessments are theories of change, which we have developed for our four main sectors: renewable energy, sustainable forestry, sustainable agriculture and financial institutions.

These theories of change not only help us assess the direct and indirect impacts of the funded company's operations but also its broader social impacts and contribution to the SDGs.

Our key tool for preliminary screening of investments before making an investment decision is called the DEAT (Development Effect Assessment Tool). We have developed the tool on the basis of our theories of change and the joint work conducted by development finance institutions.

The DEAT focuses on the investment's strategic relevance, its contribution to the development of local markets and the additionality of Finnfund's financing.

Monitoring, reporting and evaluation

We set and collect baseline indicators for monitoring each investment. The investee companies report annually to Finnfund on their direct impact, using the agreed indicators. These results are presented in this Impact Report.

We strive to use indicators that have been collectively agreed upon by the international development finance institutions (HIPSO) and are compatible with the IRIS indicators developed by the Global Impact Investing Network (GIIN).

In addition, Finnfund conducts and commissions more extensive assessments of individual investments and specific industry sectors.

Diligent E&S work

Before investment, we assess the level of compliance of potential investments (companies and projects) against the applicable sustainability standards – in most cases the IFC Performance Standards and the ILO Core Labour Standards. Where gaps are identified, we agree with the investee company on an action plan to close the gaps and achieve compliance over time. This action plan is called an Environmental and Social Action Plan (ESAP).

In the course of the investment period, we monitor the progress of each investee company towards full compliance with these standards, as indicated by the degree of implementation of the agreed ESAP.

We also help our investees improve their own systems and practices so that they are better equipped to achieve compliance with the required international standards. This constitutes one key impact dimension of our investments.

Financiers' influence varies

The figures in this report have been provided by the investee companies and do not reflect the proportion of Finnfund's investment. Attributing impact to each investor only based on their stake in the investee company cannot capture all key factors that contribute to the achieved impact. Other key factors include the type of financing instrument (loan and equity, etc.), the project's risk level, and the level of investors' involvement, including their ability to catalyse external funding, reduce risks or improve the investee's sustainability practices.
www.finnfund.fi/en/impact

Renewable energy curbs climate change and creates prosperity

The Special Report on Global Warming of 1.5 °C, issued by the Intergovernmental Panel on Climate Change (IPCC), conveys a very clear message: All pathways that limit global warming to 1.5 °C will require rapid and far-reaching transitions in energy. Such transitions are only feasible through a significant upscaling of investments in the sector.

Besides the obvious effect on the climate, the reliable and affordable supply of cleaner energy has an important social and economic impact. This is why renewable energy is one of Finnfund's priority sectors.

Finnfund invests in companies that generate cleaner, cheaper and more reliable energy than existing alternatives. At the end of 2018, Finnfund's energy portfolio and commitments stood at EUR 188 million, three quarters of this in direct renewable energy investments. The energy portfolio represents 27% of the total Finnfund portfolio.

Electricity to meet need of 2.5 million people

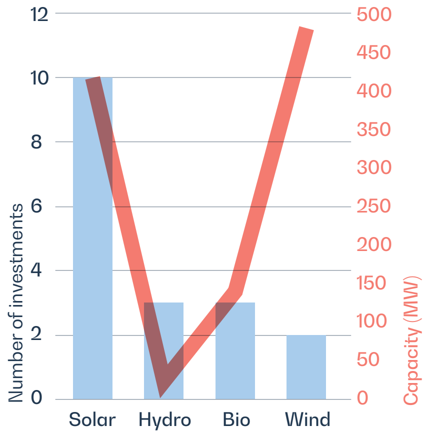
We did not sign any new direct renewable energy investments in 2018. Seven renewable energy power plants, in which Finnfund had previously invested, were still under construction in 2018.

Most (10) of our renewable energy investments are in solar power. The total capacity of the power plants was 1,048 megawatts, which is slightly higher than the electricity generation capacity of Nepal, for example,

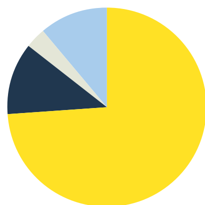
"We want to understand also the wider socio-economic impacts of our energy investments. We know access to electricity correlates with people's welfare, but we need to understand the causality better."

Juho Uusihakala
Senior Development Impact Adviser
Finnfund

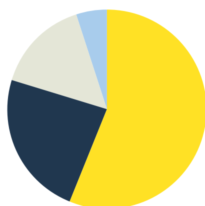
Number and capacity of renewable energy investments



Energy portfolio
(total EUR 188 million)



Renewable energy portfolio
(total EUR 139 million)



Lake Turkana Wind Power, Kenya

The 310-megawatt Lake Turkana Wind Power is Africa's largest wind farm. Connected to the grid in September 2018, it already generates 15% of Kenya's electricity. According to a study, it is expected to reduce outages by 13%. The price of electricity from Lake Turkana is cheaper than the average tariff that the Kenyan utility pays for electricity. At the inauguration ceremony, President Kenyatta stated that in the first eight months of operation, Lake Turkana Wind Power had saved the Kenyan government EUR 75 million as it could use wind power during the dry season instead of expensive diesel.

and over ten times the generation capacity of Somalia.

Half of the generation capacity of Finnfund's investee companies comes from two large wind power plants, Lake Turkana Wind Power (310 MW) and Cibuk Wind Farm (158 MW). The eleven operating power plants in our portfolio generated a total of 940 gigawatt hours (GWh), which equals the electricity consumption of nearly 2.5 million people in the countries in which the power plants are located.

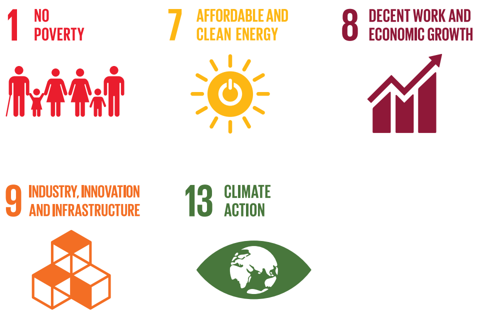
The amount of electricity generated by Finnfund investees almost doubled from 2017, mainly attributable to the wind farms of Lake Turkana and Cibuk being connected to the network.

Companies funded through four renewable energy funds in which Finnfund has invested produced 5,215 GWh hours of electricity. All Finnfund investments in energy generated a total of 6,500 GWh. This is equivalent to the electricity consumption of over 12 million people in the countries in which the investments are located.

KEY FIGURES

Investees generated 6,500 GWh energy

Equivalent to electricity consumption of 12.5 million people in operating countries



Sustainable forestry protects the climate and creates rural jobs

Forests are vital to global efforts to stop dangerous climate change. Today, forests sequester approximately one third of the carbon emissions stemming from the use of fossil fuels. However, rapid deforestation, particularly in parts of Africa and Latin America, is diminishing these indispensable vital carbon sinks.

Forests are, however, much more than carbon sinks. They hold back erosion, preserve biodiversity and help maintain clean water supplies. Sustainably managed forests also bring jobs, services and prosperity to remote rural communities.

Africa and Latin America in focus

Sustainable forestry has long been one of Finnfund's focus areas. At the end of 2018, our investments in forestry represented 18% of the total portfolio. This is higher than any other development finance institution, making Finnfund a leading global investor in forestry.

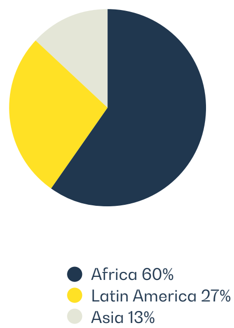
In 2018 we made additional investments in Green Resources in East Africa, Miro Forestry in West Africa, as well as in the Arbaro Fund, which specialises in sustainable forestry investments, particularly in Africa and Latin America.

Most of our ten forestry investees are located in Africa and Latin America, where deforestation rate is most alarming. 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.

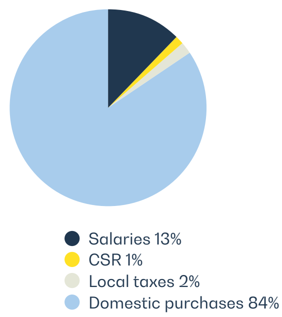
In total, our direct investees had nearly 400,000 hectares under sustainable management, of which 136,000 hectares were planted and growing.

In addition to mitigating climate change, forest plantations are important drivers of the local economy. In 2018, Finnfund's investee companies contributed EUR 125 million to local economies through salaries, corporate social responsibility programmes, local taxes and particularly through purchasing local goods and services. Local purchases have important employment and other benefits in rural economies.

Finnfund's direct investments in forestry (total EUR 101 million)



Contribution to local economies (total EUR 125 million)



KEY FIGURES

870,000 ha forest under sustainable management, of which 815,000 FSC certified

Kilombero Valley Teak Company, Tanzania

Sustainable forestry in Africa

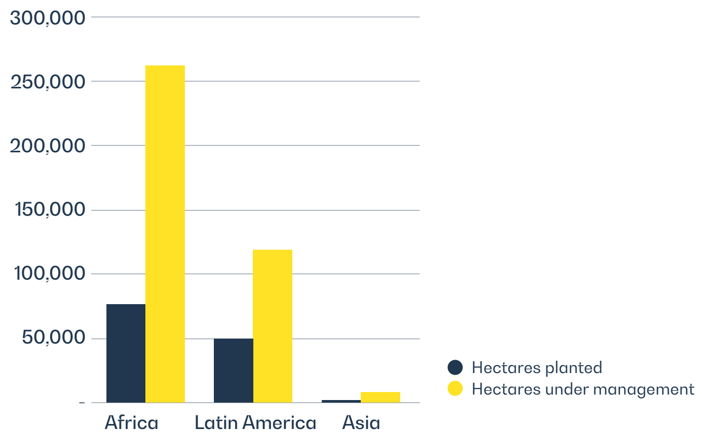
Finnfund is the leading investor in sustainable plantation forestry in Africa. We have financed Green Resources, the Kilombero Valley Teak Company and New Forests Company with over EUR 40 million, helping these companies become key players in promoting green growth in East Africa.

In a study of the role of these companies in developing the forestry industry in Tanzania, Uganda and Rwanda, Indufor found that responsible companies financed by Finnfund are important players in regulated utility pole production (35% market share) but have a smaller role (5–7%) in sawn wood markets, which are still dominated by small, unofficial and unregulated sawmills.

The three companies have the capacity to become even bigger players in the forestry industry when the market grows and becomes more formalised. Despite being the largest plantation companies in the region, their planted forest cover is still less than 1% of the total forest cover and 15% of the total planted forests.

In addition to their own plantations, Finnfund financed companies have distributed 24 million seedlings to other companies and smallholders and are contributing to a 3,000 hectare increase in forest cover annually.

Hectares under management and planted



At the end of 2018, Finnfund had invested **EUR 126 million** in 10 forestry companies and five forestry funds. This is **18%** of the total portfolio.

1 NO POVERTY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

13 CLIMATE ACTION

15 LIFE ON LAND

Agriculture continues to drive development

A vast majority of the world's poorest people are still dependent on small-scale farming. Many farmers, particularly in Africa, continue to grow economically unproductive plants such as corn and cassava, mainly for their own and local consumption.

Climate change is making small-scale farming ever harder, forcing people with no proper education or the skills necessary to find decent employment to migrate to cities.

Improving agricultural productivity is essential for feeding the world's growing population. Agricultural development could also be the fastest route to accelerating industrialisation.

Climate change adaptation

Growth in productivity and yield, enabled by modern agricultural methods, improves the food security and strengthens the balance of payments. It can also support the entire agricultural value chain, including local food production, and helps climate change adaptation by, for example, introducing more resilient crops.

Agribusinesses usually operate outside cities and towns and are often important and may even be 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.

Avocado producer and agribusiness fund

Finnfund's new strategy made sustainable agriculture one of its priority sectors. At the end of 2018, our agriculture portfolio was still relatively small, but we made two new investments in the course of the year:

KEY FIGURES

9,900 jobs in agriculture – **37%** for women
2,800 in direct investments
7,100 through funds

Working with **2.2 million** small-scale and livestock farmers, **88%** of them women

Produced **98,000** tons of food and **25 million** chickens equivalent to daily calorie intake of **350,000** people

1 million loans to small-scale agriculture, of which **92%** were granted to women

Africado, Tanzania

EthioChicken, Ethiopia

Our investee company EthioChicken has been working towards GLOBAL G.A.P. certification – the internationally recognized standard for farm production – since Finnfund's investment in 2016. The company was certified in the spring of 2019.

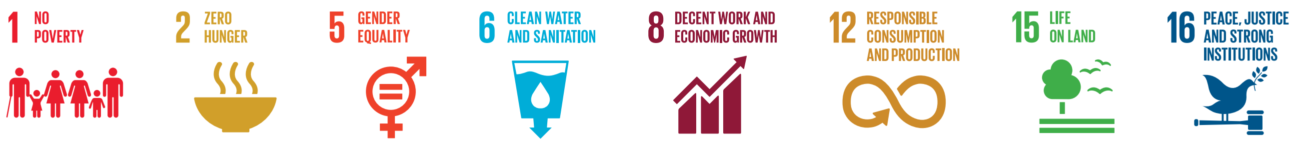
Africado and the Agri-Vie II Fund.

Africado is Tanzania's first commercial, international grade producer of avocados and an important local employer with an outgrower programme encompassing around 2,000 local farmers. Agri-Vie II is a food and agribusiness investment fund in Sub-Saharan Africa with a vision of building responsible businesses in Africa that deliver sustainable returns.

At the end of 2018, Finnfund had 4 direct investments in agriculture and 33 investments through agriculture-focused funds. We also have invested in financial institutions that increase access to finance in this capital-scarce sector.

For instance, in Nigeria, Finnfund invested in Access Bank, which supports the development of Nigeria's agricultural sector and helps reduce dependence on the import of agricultural food and products. Further, many of the microfinance institutions that we have funded directly or indirectly are increasingly focusing on smallholder loans.

Investments in agricultural and food production amounted to approximately **EUR 37 million**, which represents **5%** of total investments.



Financial services empower people to invest in their future

Globally, access to financial services has improved in recent years, but country-specific differences remain high. Although around 63% of the populations of developing countries already have bank accounts, in many of the countries in which Finnfund operates, the number is significantly less than this.

Our investee companies typically provide financial services to micro, small and medium-sized enterprises (MSMEs), as well as individuals who have few alternative sources of reliable and formal banking 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 to the poorest people and small and medium-sized enterprises helps to improve the livelihoods of people and businesses. Banking services also play an important role in empowering women.

Small companies create jobs

A significant proportion of formal jobs in developing countries are in small companies that struggle to access traditional financial services. Lack of finance is a major barrier to the growth of businesses. New digital solutions make banking services more accessible to groups of people in new geographic areas.

Reliable financial services, such as money transfers, payments, savings, loans and insurance, help people protect themselves against unexpected risks – such as those caused by climate change – and invest in their own futures.

Finnfund and other development financiers offer affordable, long-term financing for banks and other financial institutions in developing countries, helping them reach new and previously excluded people.

Access to finance empowers women

In 2018, Finnfund made four new investments in financial institutions. These include additional financing for three existing portfolio companies BOPA, EcoBank and Jumo, as well as one new investment in CAL Bank, which offers SME finance in Ghana.

Gender equality and, more specifically, women's improved access to financial services is an increasingly significant criterion we use to assess new investments before deciding to proceed.

Most microfinance customers in our

KEY FIGURES

2 million micro and SME loans
- total value EUR 3,600 million
- 76% paid to women

6 million mobile loans
– total value EUR 67 million
- 31% paid to women

185,000 mortgages, of which 68% to women

M-Birr, Ethiopia

portfolio companies are women. The proportion of female customers is clearly higher for the smallest microloans. MSME loans for women tend to be smaller than those for men. Women also account, on average, for 40% of the staff of financial institutions, although there is considerable variation between financial institutions across regions – from less than 7% in India to over 60% in many investees in Africa.

Investments in financial institutions amounted to **EUR 100 million**, which represents **14%** of total investments.

1 NO POVERTY

2 ZERO HUNGER

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

Climate impact of Finnfund's investment portfolio

Many Finnfund investments contribute to climate change adaptation. Microfinance institutions, for instance, strengthen the resilience of the poorest people, who are most vulnerable in the face of climate change. Reforestation projects not only store carbon but can also improve watershed management under 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.

Currently, we apply the ODA criteria, such as OECD DAC Rio Markers for Climate, to indicate a project's contribution to climate change adaptation.

Improved calculation

In 2018, we completed our first annual calculation of our portfolio's climate impact from 2016. In 2018, we were able to collect more emission data from our investees, further improving the accuracy of the calculations. We are continuing with the annual portfolio climate impact calculations and have the results for 2017.

Finnfund closely monitors international discussions on climate impact calculation methodologies. We follow the development of international climate strategy standards and alignment with the Paris Agreement.

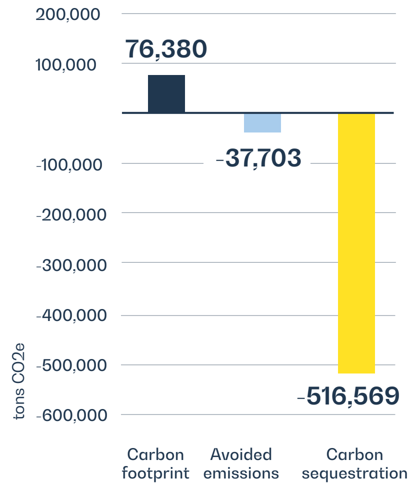
In 2018 we continued to improve the way we calculate the climate impact of our portfolio. We have been able to include more direct information on emissions. International energy agency updated their databases and we included the new data for our avoided emissions calculations. The carbon sequestration calculations were also updated, and we increased the error margin from 40% to 60% due to uncertainties in the tree growth models.

7 AFFORDABLE AND CLEAN ENERGY

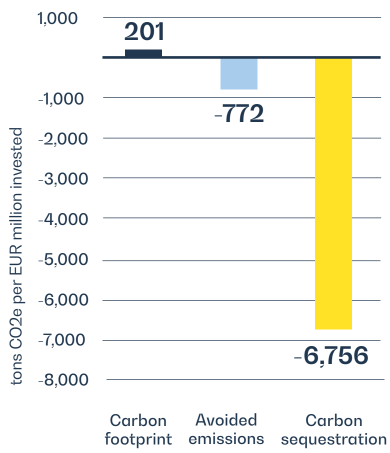
13 CLIMATE ACTION

Carbon footprint, avoided emissions & carbon sequestration performance indicators of Finnfund's portfolio 2017

Annual carbon footprint, avoided emissions & carbon sequestration



Annual carbon footprint, avoided emissions & carbon sequestration per million EUR invested



● Carbon footprint
● Avoided emissions
● Carbon sequestration

Bosforo, El Salvador

KEY FIGURES

Finnfund investees avoided 37,703 tons CO2 and sequestered 516,569 tons CO_2

Good jobs create a path out of poverty

Africa's population grows much faster than new jobs are created. The Africa Competitiveness Report 2017 indicates that by 2035, 450 million Africans will enter the labour force. According to the United Nations, 38% of the employed population of Sub-Saharan Africa lives in poverty in 2018.

Thus, decent work and productive employment are vital elements of sustainable poverty reduction. The OECD is of the view that there is no major trade-off between the quantity and the quality of jobs. OECD member states that offer good quality jobs also have higher employment rates.

However, the challenge of providing the world's expanding workforce with quality jobs is enormous. Creating and maintaining decent jobs, and helping companies achieve decent work standards, is one of Finnfund's key goals.

Commitment to ILO labour standards

The international definition of "job quality" and "decent jobs" is still being developed. Finnfund assesses the compliance of its potential investments against the ILO core labour standards and the IFC performance standard on labour and working conditions (as applicable). We also take into account the potential impacts on human rights before committing to finance.

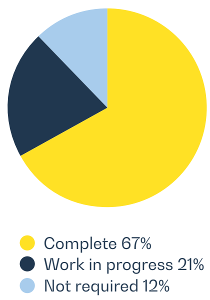
A prerequisite for our financing is that our investee commits to meeting the applicable standards over time. The standards include requirements on non-discrimination, freedom of association and collective bargaining, child labour, forced labour, human resource management, working conditions and terms of employment, occupational health and safety, grievance mechanisms and retrenchment, also extending to contracted workers.

After an investment has been made, Finnfund monitors and evaluates its investees' progress towards full compliance with the above-mentioned international standards, as a proxy for the realisation of job quality. In parallel with the qualitative assessment, we continue to develop indicators for measuring and showing the quality of jobs in our investment portfolio. With these indicators, Finnfund is able to improve its quantitative monitoring and reporting.

Freedom of association in practice

A company in the logistics sector was hiring most of its workers through a labour agent, which is common practice in the sector. The labour and working conditions of workers hired via the agent were not in line with IFC performance standards. Freedom of association was not guaranteed and workers belonging to unions were dismissed. Finnfund and another financier of the company required and ensured that the company guarantees the same labour and working conditions also to workers employed via the labour agent.

Internal grievance mechanism of direct investments



At company level, the three most compelling reasons to focus on job quality are:

- Improving access to export-oriented markets and international finance by meeting international standards referred to by buyers and financiers
- Improving productivity through better work conditions and
- Reducing skills shortages by retaining trained staff and increasing the attractiveness of the company to skilled workers

Ergon Associates, et al. (2019)

Socio-Economic Impact of Lake Turkana Wind Power

Creating and supporting decent jobs is Finnfund's key objective. A study by Niras Kenya on Socio-Economic Impact of Lake Turkana Wind Power in Marsabit highlights the transformative nature of jobs in one of the poorest counties in Kenya.

The study found that with a job at the company, employees' incomes more than doubled to nearly EUR 900 a month. Salaries and employees' savings cooperative have had a tremendous impact on people's wellbeing.

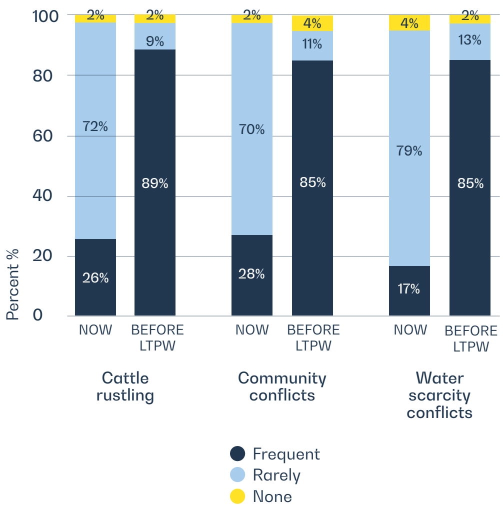
Before employment, over 70% of employees' households received relief aid. After employment, this dropped to 6%. Their houses now have concrete floors and roofs of iron sheets and 70% have solar panels. Over half of employees cook their food with gas instead of firewood as was the norm before. And their diet has changed from traditional milk and meat to also include vegetables, fruits, bread and rice. Much of the income is spent on children's education, notably also daughters' education.

In addition to provision of jobs, the company has improved infrastructure in the area and supported provision of basic services such as water, health and education. The company refurbished over 200 kilometres of road that has enabled and increased transportation of goods and allowed people to move at affordable cost. Businesses have begun to flourish. Boreholes have reduced water borne diseases by 30%, child mortality has gone down due to better availability and quality of health services and education outcomes have improved with better furnished schools.

Finally, security in the conflict-ridden territory has improved drastically, as shown in the graph below.

Lake Turkana Windpower, Kenya.

Perceptions on security improvement in the project area



KEY FIGURES

Direct investments supported 56,000 jobs, of which 32% for women

Fund portfolio companies supported 104,000 jobs, of which 33% for women

8 DECENT WORK AND ECONOMIC GROWTH

How sustainability creates impact

Finnfund continuously assesses the human rights as well as the environmental and social sustainability of its investees. There are two sides to corporate responsibility: risk management and contributing to positive development impacts. Positive impact arises from what a company does and how responsibly it operates. As an example, compliance with international labour standards ensures that our investee companies contribute to SDG 8 and decent work creation and compliance with environmental sustainability standards is a precondition for their contribution to SDG 11 of *Sustainable consumption and production patterns.*

We consider improvements to our investees' corporate responsibility to be part of our positive impact. We use a portfolio management system to gather data on the environmental and social status of our investee companies at the time of investment (baseline) and beyond. Selected indicators, such as implementation of the environmental and social management system and action plan, are good proxies for progress on sustainability matters.

Finnfund was one of the first signatories to the Operating Principles for Impact Management. So far Finnfund is the only Finnish company among the over 90 Signatories.

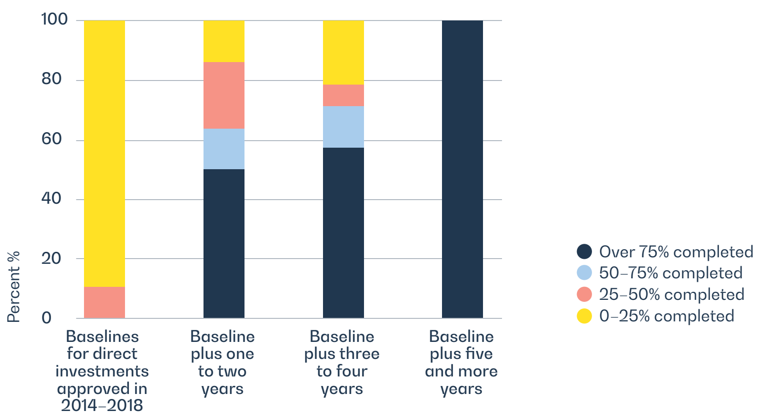
The principles create a framework and global standards for what constitutes impact investing. The nine principles help investors to ensure that their investments are made with an intent to contribute to measurable positive social and environmental impacts, alongside financial returns. Importantly, the Principles drive the shift from impact measurement to impact management, for using the impact data to make better investment decisions, and guarantee that impact is a central consideration in the investment process from the beginning to exit.

Principle 9 requires the signatories to publicly disclose their alignment with the principles. Finnfund has developed robust, theory-based system for impact measurement, but more work is needed to improve impact considerations upon exit and in developing the feedback loop to management decisions.

Finnfund's full statement is available here.

Finnfund's alignment with the Principles will be verified by our internal audit function in Spring 2021.

Portfolio E&S action plan progress



"FSC certification not only proves that a company's forestry operations are sustainable, it also can increase its profit."

Kenneth Söderling
Impact Analyst
Finnfund

FSC certification at Miro Forestry, Ghana and Sierra Leone

Finnfund requires FSC® certification from its forest investments. When Finnfund invested in Miro forestry, the company started the FSC certification process. In his Master's thesis, Finnfund's Impact Analyst Kenneth Söderling found that FSC certification improved the efficiency and profits of Miro Forestry. Thanks to the certification, Miro forestry was able to start selling its certified products to European markets.

5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
14 VEDENALAINEN ELÄMÄ
15 LIFE ON LAND

Tax revenue for building stronger societies

The governments of developing countries need revenue from taxes and other fees to build functioning and equitable societies that promote economic and social development. This revenue allows governments to structure and provide services such as education, health care and infrastructure to people.

Tax revenue and other tax-like fees paid by our investee companies to the public sector in developing countries are one of the indicators that Finnfund monitors.

New tax policy

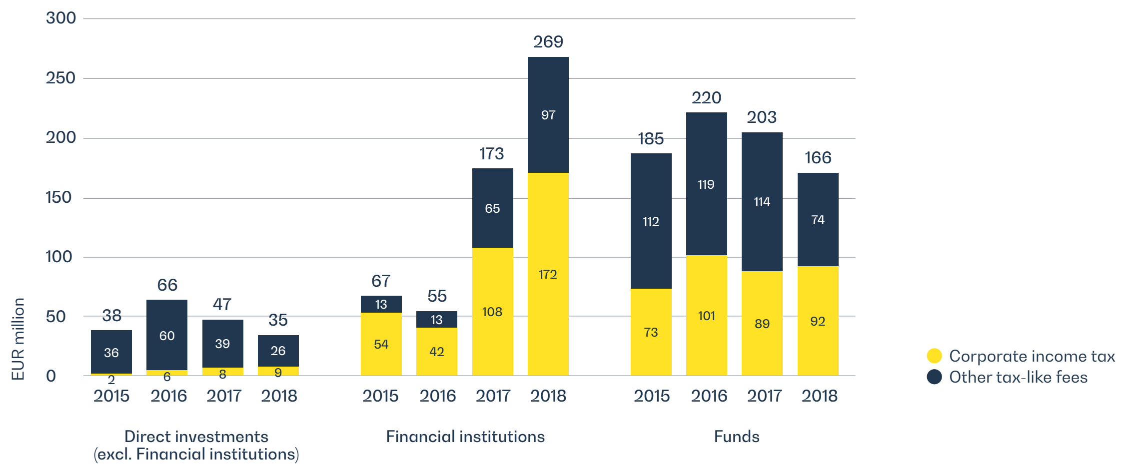
We require our investee companies to act responsibly with regards to tax and comply with local tax legislation. At the beginning of 2018, we introduced a new tax policy, which consists of the principles and practices we apply to assessing and promoting tax responsibility in our investee companies.

In our portfolio, the highest effective taxes are generally paid by companies in the finance sector and they also have the highest effective tax rates. In contrast, renewable energy projects typically pay relatively little in corporate taxes during our investment period, because the projects require large investments before they start to be profitable. They also typically benefit from state tax incentives for investment. For this reason, the corporate taxes that they pay are relatively low in the initial phase, which is the phase that is typically financed by Finnfund and similar development financiers.

In addition to corporate taxes, companies pay other taxes and tax-like fees, such as sales tax, business tax, value added tax, licensing fees and customs duty, 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.

Taxes and tax-like fees EUR million



KEY FIGURES

In 2018, our portfolio companies paid a total of **EUR 490 million** in their respective countries in taxes and tax-like fees.

53% of the taxes were paid in African countries.

- **55%** by financial institutions
- **7%** by other direct investments
- **38%** by fund investee companies

Corporate taxes and other tax-related payments by countries

	Number of investments	Corporate income tax (EUR million)	Other tax-like fees (EUR million)	Total (EUR million)
Total	**218**	**274**	**217**	**490**
AFRICA	**107**	**173**	**104**	**263**
Kenya	14	4	5	10
Ghana	11	10	14	24
Tanzania	11	16	7	24
Ethiopia	10	0	3	4
South Africa	10	1	18	19
Nigeria	7	20	6	25
Zambia	6	1	2	3
Rwanda	5	-	4	4
Africa LDC/LIC	17	104	27	132
Africa LMIC	13	8	8	16
Africa UMIC	3	8	10	4
ASIA	**50**	**65**	**79**	**144**
Cambodia	9	28	8	36
India	8	23	51	74
Nepal	6	-	1	1
Asia LDC	4	0,4	12	12
Asia LMIC	13	11	5	16
Asia UMIC	10	2	4	5
LATIN AMERICA	**32**	**40**	**32**	**72**
Mexico	6	5	7	12
Latin America LMIC	12	26	3	30
Latin America UMIC	14	9	21	30
EUROPE AND TURKEY	**13**	**1**	**9**	**10**
Europe and Turkey	13	1	9	10
MIDDLE EAST	**6**	**2**	**0,1**	**2**
Jordan	6	2	0,1	2

The table compiles taxes and other tax-like fees by all Finnfund's investee companies (including fund portfolio companies). Any subsidies from the government has been deducted from the figures. 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

Empowering women through investments

Promotion of the rights of women and girls is a long-term priority of Finnish development policy and one of the key objectives of the United Nation's Sustainable Development Goals. Finnfund contributes to these goals through its investments.

In 2018, we started developing our own gender equality statement, which was adopted and published in March 2019.

The gender statement was prepared in consultation with civil society organizations, other development finance institutes and gender experts from both the private and public sectors. It compiles the measures through which Finnfund guides its investment decisions to better promote gender equality, women's role in the markets and women's economic empowerment.

In 2018 we also joined the Gender Finance Collaborative (GFC), which is an international capacity-building network of development finance institutions. The GFC advances the standards and vision for the future of gender-smart investing.

2X Challenge

We also prepared to join another international gender lens investing initiative, the 2X Challenge – Financing for Women. The 2X Challenge aims to increase access to finance for women-owned, women-led and women-supporting enterprises in developing and emerging countries by mobilising USD 3 billion by the end of 2020. Finnfund joined the initiative in May 2019.

We have added 2X reporting requirements for all our new investments, starting from 2019. For 2018, we monitored our portfolio companies for 2X criteria for the first time – including ownership, leadership, employment and consumption. The investee companies were originally not required to report on these additional gender indicators for 2018 but 73% of them did so.

The share of women in the leadership positions is slightly higher in the most recent investments than in the investments done several years ago reflecting the increased focus on gender. Further, 13% of the companies that reported additional gender indicators were able to identify a product or service that specifically or disproportionally benefited women. These included finance products specifically designed for women, health products targeting women, clean cooking stoves and water pumps that specifically affected women's daily lives, as well as community programmes or profit-sharing models in which women are the main beneficiaries.

"24% of the companies that reported gender indicators said they had initiatives to increase women's participation in the workforce. These initiatives include extended maternity leave, flexible working hours after maternity leaves, additional child sick days, mentoring programmes, women welfare committees, gender balance targets from recruitment and promotion, as well as non-harassment policies – to mention but a few."

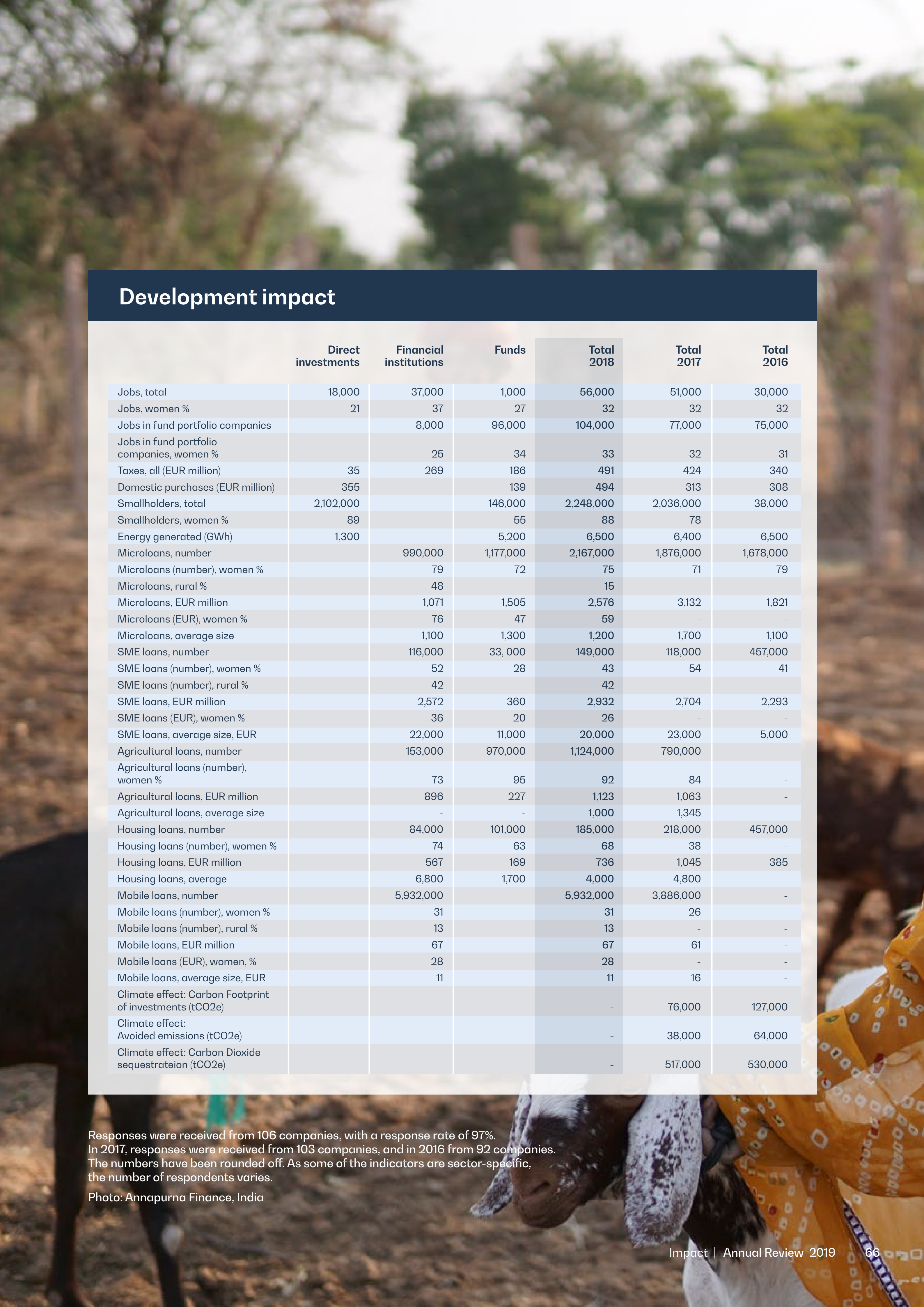
Kaisa Alavuotunki
Senior Development Impact Adviser Finnfund

KEY FIGURES

At the end of 2018, **15%** of board members were women. For new investments in 2018, the proportion was **17%**.

At the end of 2018, **32%** of senior management in our portfolio companies were women. For new investments in 2018, the proportion was slightly higher at **37%**.

Annapurna Finance, India



Development impact

	Direct investments	Financial institutions	Funds	Total 2018	Total 2017	Total 2016
Jobs, total	18,000	37,000	1,000	56,000	51,000	30,000
Jobs, women %	21	37	27	32	32	32
Jobs in fund portfolio companies		8,000	96,000	104,000	77,000	75,000
Jobs in fund portfolio companies, women %		25	34	33	32	31
Taxes, all (EUR million)	35	269	186	491	424	340
Domestic purchases (EUR million)	355		139	494	313	308
Smallholders, total	2,102,000		146,000	2,248,000	2,036,000	38,000
Smallholders, women %	89		55	88	78	-
Energy generated (GWh)	1,300		5,200	6,500	6,400	6,500
Microloans, number		990,000	1,177,000	2,167,000	1,876,000	1,678,000
Microloans (number), women %		79	72	75	71	79
Microloans, rural %		48	-	15	-	-
Microloans, EUR million		1,071	1,505	2,576	3,132	1,821
Microloans (EUR), women %		76	47	59	-	-
Microloans, average size		1,100	1,300	1,200	1,700	1,100
SME loans, number		116,000	33, 000	149,000	118,000	457,000
SME loans (number), women %		52	28	43	54	41
SME loans (number), rural %		42	-	42	-	-
SME loans, EUR million		2,572	360	2,932	2,704	2,293
SME loans (EUR), women %		36	20	26	-	-
SME loans, average size, EUR		22,000	11,000	20,000	23,000	5,000
Agricultural loans, number		153,000	970,000	1,124,000	790,000	-
Agricultural loans (number), women %		73	95	92	84	-
Agricultural loans, EUR million		896	227	1,123	1,063	-
Agricultural loans, average size		-	-	1,000	1,345	
Housing loans, number		84,000	101,000	185,000	218,000	457,000
Housing loans (number), women %		74	63	68	38	-
Housing loans, EUR million		567	169	736	1,045	385
Housing loans, average		6,800	1,700	4,000	4,800	
Mobile loans, number		5,932,000		5,932,000	3,886,000	-
Mobile loans (number), women %		31		31	26	-
Mobile loans (number), rural %		13		13	-	-
Mobile loans, EUR million		67		67	61	-
Mobile loans (EUR), women, %		28		28	-	-
Mobile loans, average size, EUR		11		11	16	-
Climate effect: Carbon Footprint of investments (tCO2e)				-	76,000	127,000
Climate effect: Avoided emissions (tCO2e)				-	38,000	64,000
Climate effect: Carbon Dioxide sequestrateion (tCO2e)				-	517,000	530,000

Responses were received from 106 companies, with a response rate of 97%. In 2017, responses were received from 103 companies, and in 2016 from 92 companies. The numbers have been rounded off. As some of the indicators are sector-specific, the number of respondents varies.

Photo: Annapurna Finance, India

Annexes

How does renewable energy promote sustainable development?

Why is it important?

First time in history, the number of people living without electricity has decreased below 1 billion. However, it is estimated that in 2040 there will be 700 million people living without electricity, and most of them are in Sub-Saharan Africa (IEA World Energy Outlook 2018).

Electricity generation and consumption correlate with economic growth. In the poorest and lower middle income countries, 55% of companies say that their biggest problem is unstable or too expensive electricity (IEG 2016).

Electricity demand is expected to quadruple in Sub-Saharan Africa by 2040. Fresh investments are needed up to USD 490 billion (McKinsey 2015).

finnfund

- financing
- expertise and responsible practices
- mobilization of funding

Financing for

Power plants, off-grid solutions such as small solar panels, and solutions to improve energy efficiency

Direct impacts

Company
- Increased electricity generation

People
- Jobs at construction and operation stages
- Improved infrastructure
- Tax revenue

Environment
- Increased renewable energy generation

Indirect impacts

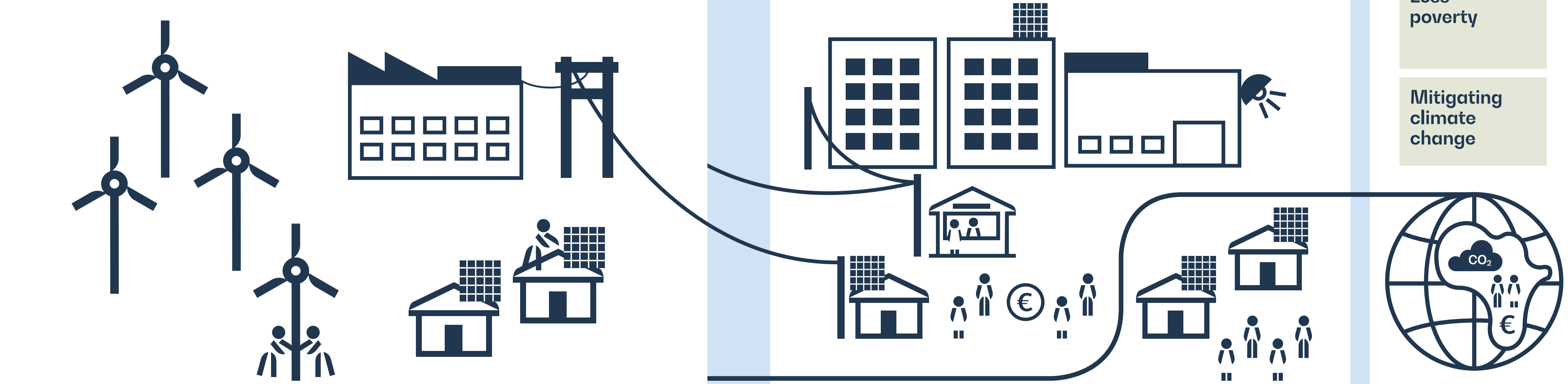
- Cheaper and more reliable electricity for electric utilities
- Cheaper and more reliable electricity for customers
- More customers and electricity connections
- Improved economic activity in the region
- Replaced fossil fuels
- Less CO2 emissions

Wider impacts

- Increased production and improved productivity
- Strengthened balance of payments
- Improved public service delivery
- Economic growth, more jobs
- Less poverty
- Mitigating climate change

Sustainable Development Goals

- 1 NO POVERTY
- 7 AFFORDABLE AND CLEAN ENERGY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 13 CLIMATE ACTION



How sustainable forestry promotes sustainable development?

Why is it important?

Forests are the most important carbon sinks. Deforestation has slowed down, but 3.3 million hectares of forests are still lost annually, particularly in Africa and Latin America (FAO Global Forest Assessment 2015). The global forest area must be increased significantly (IPCC 2018).

According to the United Nations, 1.6 billion people get their livelihood from forests. Forests are home to 70 million indigenous people and 80% of the world's animal, plant and insect species. Simultaneously, demand for wood is expected to double by 2030 to 7.2 billion cubic meters annually (WWF 2012).

finnfund

- financing
- expertise and responsible practices
- mobilization of funding

Financing for

Sustainable forestry and other wood industry, such as saw mills

Direct impacts

Company

- Increased production
- More efficient production
- Better product quality
- Higher sales price

People

- Co-operation with local communities
- Improved infrastructure
- Jobs and salary income
- Local purchases

Environment

- Forest area grows in size
- Forest biomass increases
- More protected forest area

Indirect impacts

- Improved productivity and profitability
- Improved forestry expertize
- Improved availability of certified timber
- Replaces imports
- Development of remote areas
- Benefits to out-grower farmers
- Forestry seen as source of income
- Less local conflicts
- Increase in jobs & incomes
- CO_2 sequestration increases
- Less illegal logging

Wider impacts

- Forest industry strengthens
- Economic growth
- More tax revenue for the society
- Strengthened balance of payments
- Less poverty
- Enhancing inclusive growth
- Mitigating climate change and promoting adaptation

€

CO_2

Sustainable Development Goals

- 1 NO POVERTY
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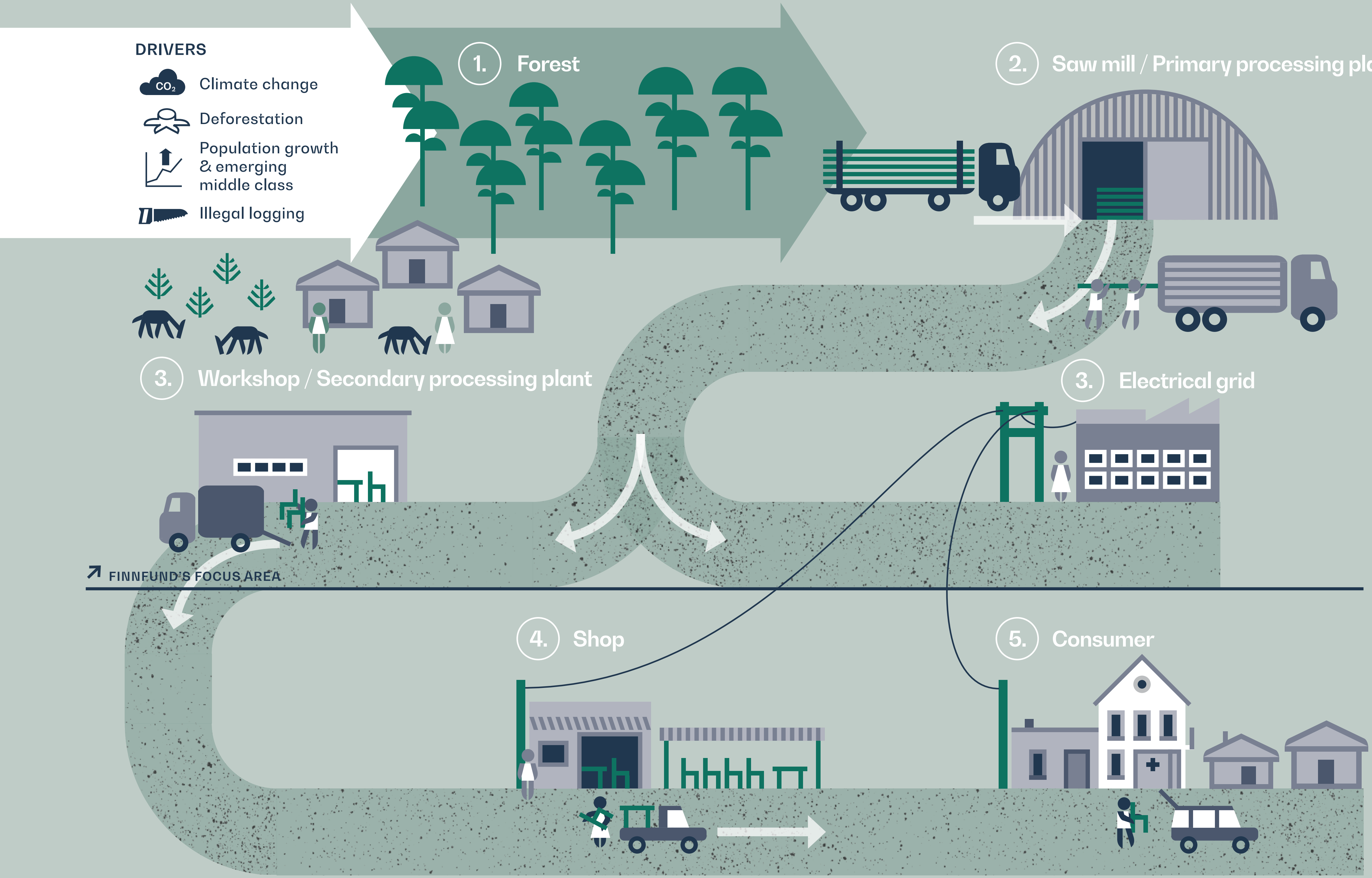
- 15 LIFE ON LAND

SUSTAINABLE FORESTRY Value chain



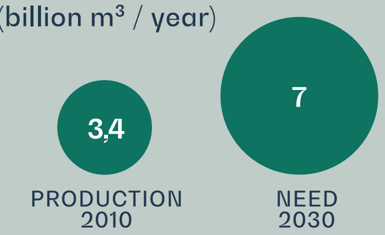
SUSTAINABLE FORESTRY

- Fights against climate change and deforestation
- Enhances product quality
- Increases domestic production and employment – enhances balance of payments
- Increases legal trade of wood
- Develops rural areas
- Increases public revenue

CHALLENGES

- Need for skilled labour
- Worker health&safety and fair wage
- Land acquisition and community collaboration
- Fire risk
- Biodiversity protection
- Long investment period – changing operational environment
- Developing markets and rudimentary infrastructure
- Weak governance and legal system

GROWING NEED FOR SUSTAINABLE ROUNDWOOD
(billion m^3 / year)



▶ **More pressure to cut natural forests. Forest loss is already a major problem particularly in Africa and South America.**

SOURCE: WWF 2012

How does sustainable agriculture promote sustainable development?

Why is it important?

World's growing population needs sustainably produced food – population is expected to reach 9.5 billion by 2050. In Sub-Saharan Africa, population is expected to double by 2050. Africa has most of the world's uncultivated arable land, but agriculture productivity is low and the continent is not able to feed itself.

In 2016, the number of undernourished people was over 815 million globally, of which 28% lived in Sub-Saharan Africa (FAO 2016). Development of modern agriculture enhances adaptation to climate change. It also plays a vital role in rural development, as a source of income, in strengthening food security and in job creation.

finnfund

- financing
- expertise and responsible practices
- mobilization of funding

Financing for

Agriculture and other primary production, food processing, storage and distribution

Direct impacts

Company

- Increased production
- Improved income opportunities
- Improved product quality
- Adoption of new innovations
- More efficient production
- Increased payments to government

People

- Jobs and salaries (also to women)
- Improved income opportunities through local purchases
- Improved social standards
- Improved food security
- Improved roads and other infrastructure
- Increased access to improved seed and techniques

Environment

- More sustainable production
- Improved animal wellfare

Indirect impacts

- Modernization of agriculture sector
- Increased exports or reduced imports
- Local value chains develop and diversify
- Increasing self-sufficiency, moving up the value chain
- Improved farming productivity and techniques
- Decreasing food price volatility
- Development to rural areas
- Increasing economic empowerment of women
- Promoting climate change adaptation
- Reducing erosion and environmental stress
- Increased CO2 sequestration

Wider impacts

- Enhancing inclusive growth
- Less poverty
- Strengthening food security and reducing vulnerability
- Strengthening competitiveness of the economy
- Strengthened balance of payments
- More tax revenue for the society

Sustainable Development Goals

- 1 NO POVERTY
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- 15 LIFE ON LAND

How do financial institutions promote sustainable development?

Why is it important?

Up to 1.7 billion adults and about 40% of the poorest households, and particularly women, do not have an official bank account (World Bank 2017).

About 40% of all formal micro, small and medium enterprises in the developing countries are credit constrained. Up to USD 5,200 billion is needed to fill this finance gap (IFC 2017).

finnfund

- financing
- expertise and responsible practices
- mobilization of funding

Financing for

Banks, microfinance institutions, fintech

Services include

Savings, money transfers, credits, insurances, digital fintech services such as mobile money

Direct impacts

Financial institution

- Increased lending to MSME clients
- Increased efficiency and credit risk maangemetns through digital solutions
- Increased payments to government
- New clients from unbanked groups
- Enhanced customer protection principles
- Increased availablity of non-financial services

Micro, small and medium-sized enterprises

- New companies gain access to financial services
- Larger variety of financial services
- Better loan terms such as longer tenors and larger loan sizes
- Flexible credit processes through digital services

People

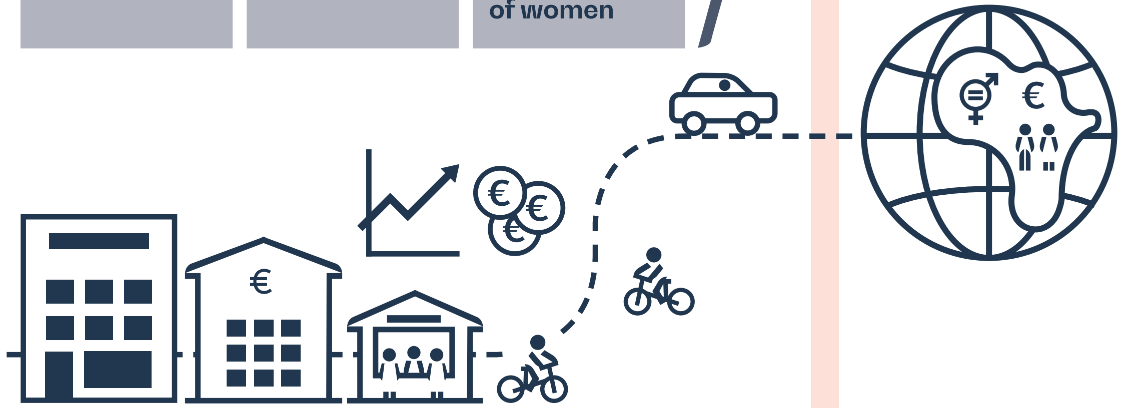
- More jobs in financial institutions and compa-nies
- Larger variety of financial services
- Increased access to financial services for unbanked (incl. women)
- Digital services enable financial identity
- Increased financial literacy

Indirect impacts

- Improved and more diversified credit market
- Improved viability in financial sector
- Informal companies become formalized
- New companies emerge and create jobs
- Existing companies invest more and grow
- Increased capacities to invest in future and mitigate risks
- Enhancing equal access to financial services
- Enhancing economic empower-ment and independence of women

Wider impacts

- Enhancing inclusive growth
- Less poverty
- Enhanc-ing gender equality
- More tax revenue for the society



Sustainable Development Goals

- 1 NO POVERTY
- 5 GENDER EQUALITY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 10 REDUCED INEQUALITIES

finnfund

Corporate governance

Corporate governance

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

The governance principles laid out here are based on the Articles of Association that came into force on 1 January 2012.

GOVERNING BODIES

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

General meeting

The highest decision-making body in Finnfund is the General Meeting of Shareholders, which convenes at least once a year. The Annual General Meeting shall be held each year at a date set by the Board of Directors 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 adoption of the financial statements; assignment of the balance sheet result; release from liability of the Supervisory Board members, directors and managing director; election of Supervisory Board members, the directors and the auditor; and determination of their remuneration.

The 2019 Annual General Meeting was held in Helsinki on 17 April. The meeting handled the matters specified in Article 11 of the Articles of Association and decided to increase the company's share capital.

The Annual General Meeting also authorised the Board of Directors to approve the granting of special rights to shares, within the meaning of Companies Act 10:1, in connection with the convertible loan between the company and the State of Finland.

All of the company's outstanding shares were represented at the meeting.

On 2 December 2019, the company's shareholders decided, in accordance with Companies Act 5:1, unanimously and without convening a General Meeting, to appoint a reformed Supervisory Board to the company.

Supervisory Board

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

The Supervisory Board elects a chair and vice chair from among its members, for one year at a time.

[Members of the Finnfund Supervisory Board in 2019 and from 2 December 2019 onwards]

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

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

Board of Directors

The Board of Directors has at least six and at most eight members. The board chair, a possible vice chair and its other members are chosen by the Annual General Meeting.

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

[Members of the Board of Directors in 2019]

The tasks of the Board of Directors include but are not limited to making decisions regarding financing and investments when the decision-making is not delegated to the managing director; confirming the company's strategy and operating policy; deciding on authorisation to sign on behalf of the company; appointing the managing director and determining his or her salary and other compensation; and deciding on the calling of Annual General

Meetings and preparing material on the matters they will address.

Audit Committee of the Board of Directors

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

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

Human Resources (HR) Committee of the Board of Directors

The Board established the Human Resources Committee at its meeting on April 25, 2019. The Committee consists of the chairperson and at least two members the Board appoints from its own members. The members shall be independent of the company and at least one must be independent of a major shareholder. Members 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, 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 to the above, the Board of Directors has delegated its decision-making capacity to the Managing Director so that he is 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, his deputy, and the members of the management team.

Management team

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

REMUNERATION

Supervisory Board

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

The Supervisory Board until 2 December 2019
Fees paid (EUR) and participation at the meetings

Member	Fee	Present
Erkki Tuomioja, chair	3,200	4/4
Pertti Salolainen, vice chair	1,800	3/4
Jarkko Eloranta (as of 17 April 2019)	1,000	2/2
Tiina Elovaara	-	0/4
Eija Hietanen (until 17 April 2019)	500	1/2
Seppo Kallio	2,000	4/4
Toimi Kankaanniemi (as of 17 April 2019)	1,000	2/2
Johanna Karimäki	2,000	4/4
Johanna Kotaviita (until 17 April 2019)	-	0/2
Riitta Myller	2,000	4/4
Aila Paloniemi	500	1/4
Lenita Toivakka	2,000	4/4
Tapani Tölli	1,500	3/4
Petri Vuorio	2,000	4/4

In 2019, the Supervisory Board met four times. The average attendance rate for members was 73.2%.

The Supervisory Board as of 2 December 2019

Emma Kari, chair
Sakari Puisto, vice chair
Eva Biaudet
Jarkko Eloranta
Veronika Honkasalo
Marko Kilpi
Jouni Ovaska
Juha Ruippo
Kristiina Salonen
Saara-Sofia Sirén
Erkki Tuomioja
Petri Vuorio

The reformed Supervisory Board did not meet in 2019.

Board of Directors

Members of the Board of Directors have received monthly fees and fees per meetings 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 chair has also been paid a fee per meeting for attending the Supervisory Board and Audit and HR Committee meetings.

Audit Committee

In 2019, members of the Audit Committee of the Board of Directors received a fee of EUR 300 per meeting attended.

Human Resources Committee

In 2019, members of the HR Committee of the Board of Directors received a fee of EUR 300 per meeting attended.

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

Member	Fee	Present
Ritva Laukkanen, chair	17,100	13/13
Robert Wihtol (as of 17 April 2019), vice chair	8,050	7/9
Tuukka Andersén (until 17 April 2019)	2,700	4/4
Sinikka Antila (until 17 April 2019), vice chair	2,700	3/4
Jussi Haarasilta (as of 17 April 2019)	7,500	9/9
Anu Hämäläinen (as of 17 April 2019)	7,200	8/9
Kristiina Kuvaja-Xanthopoulos	11,100	13/13
Pirita Mikkanen	10,500	12/13
Lars-Erik Schöring	10,500	12/13
Antero Toivainen	11,100	13/13
Tuula Ylhäinen (until 17 April 2019)	3,300	4/4

In 2019, the Board met 13 times. The average attendance rate for members was 93%.

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

Member	Fee	Present
Tuukka Andersén (until 17 April 2019) chair	300	1/1
Jussi Haarasilta (as of 25 April 2019) chair	1,200	4/4
Anu Hämäläinen (as of 25 April 2019)	1,200	4/4
Pirita Mikkanen	1,500	5/5
Tuula Ylhäinen (until 17 April 2019)	300	1/1

In 2019, the Audit Committee met four times. The attendance rate for members was 100%.

Human Resources Committee

Member	Fee	Present
Ritva Laukkanen (as of 25 April 2019) chair	900	3/3
Kristiina Kuvaja-Xanthopoulos (as of 25 April 2019)	900	3/3
Robert Wihtol (as of 25 April 2019)	600	2/3

In 2019, the HR Committee met three times. The attendance rate for members was 89%.

Managing Director

In the financial year 2019, managing director Jaakko Kangasniemi received taxable income of EUR 244,790.62 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 2019.

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 2019, a reserve of EUR 56,393.99 was made for the pension liability.

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

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

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

Management team

In the 2019 financial year, taxable income received from the company by the management team, including the managing director and his deputy, totalled EUR 1,089,731.

The members of the management team, with the exception of the managing director, are included in the incentive system covering all the company's personnel, according to which employees can receive an incentive corresponding to, at most, one-and-a-half or two months' salary depending on the area of responsibility if the targets set are met. The incentive system is based on the company's performance and personal performance. The Board of Directors decides on the incentive system and its key criteria on an annual basis.

In 2019, members of the management team were Jaakko Kangasniemi, managing director, CEO; Helena Arlander, deputy CEO; Minnamari Marttila, director of administration; Markus Pietikäinen, chief investment officer; Pasi Rajala, director of communications, and Olli Sinnemaa, chief financial officer.

SUPERVISORY BOARD, BOARD OF DIRECTORS, AUDIT COMMITTEE AND HUMAN RESOURCES COMMITTEE IN 2019

Supervisory Board until 2 December 2019

Erkki Tuomioja
Member of Parliament,
Chair

Pertti Salolainen
Member of Parliament,
Vice chair

Jarkko Eloranta
President, The Central
Organisation of
Trade Unions – SAK
as of 17 April 2019

Eija Hietanen
Director of Administration,
The Central Organization
of Finnish Trade Unions SAK
until 17 April 2019

Tiina Elovaara
Member of Parliament

Seppo Kallio
Director
The Central Union of
Agricultural Producers
and Forest Owners (MTK)

Toimi Kankaanniemi
Member of Parliament
as of 17 April 2019

Johanna Kotaviita
Practical Nurse
until 17 April 2019

Johanna Karimäki
Member of Parliament

Riitta Myller
Member of Parliament

Aila Paloniemi
Member of Parliament

Lenita Toivakka
Member of Parliament

Tapani Tölli
Member of Parliament

Petri Vuorio
Director, Confederation
of Finnish Industries EK

Supervisory Board as of 2 December 2019

Emma Kari
Member of Parliament,
Chair

Sakari Puisto
Member of Parliament,
Vice chair

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

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 2019

Ritva Laukkanen
Board Professional
Chair

Robert Wihtol
Independent development
banking specialist
Vice chair
as of 17 April 2019

Tuukka Andersén
Director of Finance
Finnvera Plc
until 17 April 2019

Sinikka Antila
Ambassador,
Senior Advisor on
Trade and Development
Ministry for Foreign Affairs
Vice chair
until 17 April 2019

Jussi Haarasilta
Executive Vice President,
Finnvera Plc
as of 17 April 2019

Kristiina Kuvaja-Xanthopoulos
Deputy Director General
Ministry for Foreign
Affairs

Lars-Erik Schöring
CEO
Leinolat Group

Tuula Ylhäinen
CFO
Oras Invest Ltd
until 17 April 2019

Anu Hämäläinen
Vice President, Wärtsilä
as of 17 April 2019

Pirita Mikkanen
Partner
TM Systems Finland Oy

Antero Toivainen
Director for International Tax
Affairs
Ministry of Finance

Audit Committee

Tuukka Andersén
(until 17 April 2019) chair

Jussi Haarasilta
(as of 25 April 2019) chair

Anu Hämäläinen
(as of 25 April 2019)

Pirita Mikkanen

Tuula Ylhäinen
(until 17 April 2019)

Human Resources Committee

Ritva Laukkanen
(as of 25 April 2019) chair

Kristiina Kuvaja-Xantho-poulos
(as of 25 April 2019)

Robert Wihtol
(as of 25 April 2019)

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

Financial statements

Board of Director's report 2019

Mission and strategy extending to 2025

Finnfund is a development financier, which builds a more sustainable world by investing in responsible, profitable businesses involving a Finnish interest in developing countries. Finnfund, formally Finnish Fund for Industrial Cooperation Ltd., is a development finance company in which the Finnish State has a majority holding; with its special development policy mission, Finnfund falls under the administration of the Ministry for Foreign Affairs.

Finnfund works with private companies operating in developing countries, offering equity financing and debt capital, 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.

In line with its strategy extending to 2025, Finnfund's vision is to be a valued partner and impact pioneer in European development financing.

The strategy emphasises sectors of importance to sustainable development, including renewable and lower-emission energy generation, sustainable forestry, sustainable agriculture and the financial sector. Finnfund may also finance other sectors.

The company's strategy emphasises the following:

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

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

In 2019, Finnfund made wide-ranging progress in terms of its strategy. In order to expand our financing base, we publicised our intention to launch Finland's first global impact fund in collaboration with OP Financial Group. The impact fund will be targeted towards professional institutional investors. In relation to this, Finnfund has made several improvements to its investor communications, including the introduction of a portfolio profitability calculation. Work on *OP Finnfund Global Impact Fund I* progressed as planned at the end of the year, and we expect it to come to fruition in 2020.

The Finnish State increased Finnfund's share capital by EUR 10 million in 2019. The State also granted a long-term loan to Finnfund in the amount of EUR 210 million from the financial investment grants for development cooperation. Finnfund will allocate the borrowed money in its balance sheet to two virtual funds, one which invests in projects related to combating climate change and one which invests in projects seeking to improve the position of women and girls.

Finnfund began allocating projects to virtual funds in 2019, as soon as the loan was confirmed. In the first phase, we will use short-term commercial paper to cover the disbursements to investments allocated to the funds. Finnfund will withdraw at least EUR 130 million of the State loan in 2020, and the remainder in 2021.

Finnfund invests EUR 210 million government loan in gender and climate projects

Finnfund's strategy 2018–2025

Vision 2025

Valued partner and frontrunner in impact among European development finance institutions

Breakthroughs

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

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

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

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

Strategy

Becoming frontrunner in impact

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

Principles

Impact, sustainability, profitability and professionalism

Mission

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

Funding and investments

The project preparation targets for 2019 (EUR 200 million and 25 projects) were surpassed comfortably. The preparation of a total of 29 new projects, worth EUR 237 million, progressed all the way to the investment decision.

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

The 29 new financing decisions made in 2019 (26 decisions in 2018), with a monetary value of EUR 237 million (EUR 154 million), targeted different income levels as follows:

Income level	Number of decisions	%	EUR million	%
Least developed countries	13	45	84	35
Low-income countries	0	0	0	0
Lower-middle-income countries	11	38	101	43
Upper-middle-income countries	5	17	52	22
TOTAL	29	100	237	100

Slightly more than half – 17 (14) – of the financing decisions involved investment loans, accounting for about 53 per cent (60 per cent) of the monetary value of the decisions.

Nine (9) of the projects that were approved were equity investments or mezzanine financing. When calculated in euros, they accounted for 28 per cent (25 per cent) of all approved projects. Two new fund investment decisions were made. In deviation from the preceding years, a decision was also made on a guarantee, which will later be split into two guarantees.

The financing decisions were divided fairly evenly among the continents. Approximately 35 per cent of the decisions, in terms of numbers and monetary value, were allocated to Africa. Approximately 20 per cent were allocated to Asia and Latin America.

Disbursements for investments totalled EUR 125 million (EUR 135 million).

Of the disbursements during the 2019 financial year, EUR 52.8 million (EUR 43.6 million) is considered official development assistance (ODA) by the Finnish State. According to the OECD/DAC classification, investment loans cannot be counted as official development aid, even if they give rise to significant development effects.

The amount of undisbursed commitments at the end of 2019 totalled EUR 177 million (EUR 154 million). In addition, EUR 162 million (EUR 95 million) was tied up in investment commitments that had not yet progressed to the agreement stage.

Development and priorities

In 2019, the execution of Finnfund's strategy featured strongly in all areas of the company's operations. The company's management, personnel targets and operational planning and control were more strongly tied to the strategy than before. The company's operations are monitored and reported on internally and externally in line with the four areas defined in the strategy as breakthroughs (multiplying our impact threefold, ensuring responsibility, extending our financing base and revamping our company culture).

In 2019, Finnfund updated its corporate responsibility policy, replacing the earlier environmental and social policy, which was published in 2014. The corporate responsibility policy covers various aspects of corporate responsibility and the means of realising these aspects within the investment process and Finnfund's own operations, linking them to the international corporate responsibility framework. The update process involved extensive collaboration with non-governmental organisations and other stakeholders. We made use of the comments we received when we finalised the policy. We will publish the corporate responsibility policy in March 2020.

In early 2019, we published the human rights and equality policies that we completed in 2018. The tools and working methods required for the practical implementation of these policies were developed in the preceding year. We also continued working on the practical implementation of the tax policy and, for each financing decision, tax compliance has been verified.

Finnfund committed itself to the common principles of impact investment prepared under the leadership of the International Finance Corporation. The international principles increase the transparency, credibility and discipline of impact investing.

Finnfund joined the G7 nations' 2X initiative, which aims to mobilise investment resources of USD 3 billion by the end of 2020 to finance businesses promoting the status of women.

In 2019, Finnfund continued its impact assessments related to the projects and sectors it finances. An impact assessment on forest projects in East Africa was published, along with an extensive literature review concerning the impacts of energy investments on wellbeing. In addition, we initiated a study into the effect of the Lake Turkana project on reducing poverty in the project area, as well as on the usefulness of collaboration between small-scale farmers and the project companies. We also began conducting a survey among employees of two of the project companies to discover their experiences related to the meaningfulness of their work.

In the autumn, we published our annual report on the development impacts of our project portfolio. For the first time, we collected all of the data we needed for the report from the project companies online. At the publication event for the impact report, we agreed to establish an impact network with our stakeholders. The network will consist of non-governmental organisations and other entities, and it will regularly convene to discuss means of impact measurement and reporting.

In the spring, we held two significant seminars on sustainable forestry, bringing together the key players in the industry. The external event focused on the role of investment in combating deforestation in Africa. At the internal seminar, development financiers and representatives from forestry companies discussed the industry's financial outlook.

In the spring, we conducted a stakeholder survey that involved interviewing about 100 people representing the entities Finnfund has invested in, co-investors, non-governmental organisations, political influences and researchers. The questions covered matters such as people's awareness and impressions of Finnfund, the company's duties and successes, and the quality of collaboration. Eighty-one per cent of the respondents said that the visibility of Finnfund's mission was either quite good or very good. All of the groups of respondents expected Finnfund to invest in climate change mitigation and adaptation.

Our communications focused on openness, corporate responsibility and impact. We made special investments in digital communications online and on social media. Our communications also placed a greater emphasis on supporting the origination of high-quality projects.

In early 2019, the Ministry of Foreign Affairs' internal audit unit commissioned an audit of private instruments from KPMG, which also examined the operations of Finnfund and Finnpartnership. We implemented the development measures proposed by the audit in the autumn. The most significant measure was to set up an internal audit function within Finnfund. This was implemented in the form of an outsourced service, which will begin operating in 2020.

In 2019, Finnfund continued the work that it began in the previous year with the European Commission towards obtaining a pillar assessment. Finnfund took the development measures required to obtain a pillar assessment in 2019, and it passed all eight of the pillars for which it sought assessment in December 2019. Now that Finnfund has passed the pillar assessment, it is able to manage and channel EU financing and guarantees to its projects.

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

We also invested in the environmental and climate impact of our new premises. Finnfund received Green Office certification from the WWF, demonstrating the organisation's commitment to taking tangible action to reduce its carbon footprint.

Supervisors and senior managers receive continuous training with the aim of permanently developing the quality of management while reinforcing the implementation of the strategy with consistent operating methods. In the autumn of 2019, Finnfund carried out a 270/360 evaluation of its entire personnel. The results of the evaluation showed that clear progress had occurred across the board since the previous evaluation in 2017, particularly in the areas of management and supervisory work. Similar results were obtained in the annual equality and non-discrimination survey and the Pulssi survey, which is conducted three times per year.

During the year under review, Finnfund continued to enhance its IT infrastructure and system environment. During the year under review, a substantial public tendering process was conducted for the procurement of a new financing system. The deployment of the new financing system is likely to take place in the second half of 2020. In addition, the content development for the new reporting environment and system integration continued in 2019 with the aim of harmonising reporting practices and raising the quality of reporting across the board.

In March 2019, Finnfund moved to renovated offices in Ruoholahti, Helsinki.

The Finnpartnership programme

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

For Finnpartnership, 2019 was a successful year in many ways. Finnpartnership solidified a strong position within the Team Finland network as an expert in business in developing countries and matters related to the Sustainable Development Goals (SDG). Finnpartnership garnered significant positive feedback from its stakeholders for its productive activities.

During the year under review, Finnpartnership arranged a total of 14 (12) Doing Business with Finland (DBF) seminars, which were held in Kenya, Ghana, Benin, Egypt, Tunisia, Rwanda, Mauritius, Bolivia, Peru, Côte d'Ivoire, Senegal, Bangladesh, Bhutan and Nepal. The seminars were highly popular, and they enabled several potential business partnerships to be formed between Finland and developing countries. In addition, the Somalia Business Summit was held in Mogadishu in January, and 31 people from Finland attended.

In 2019, a total of 94 (145) business partnership grant applications were received. The year-on-year reduction in the number of new applications is partly due to the removal of pilot projects from the category of projects eligible for ordinary grants (pilot projects returned to the list of grant-eligible phases on 1 January 2020). From 1 November 2018 to 31 October 2019, a total of 114 applications were received for processing, and 70 (82) were accepted. Grants were issued in a total amount of EUR 4.2 million (EUR 5.0 million). Business partnership grants were paid out to 88 (95) projects in a total amount of EUR 2.6 million (EUR 2.4 million).

A total of 425 (396) companies were either registered on the public database or proposed to Finnish companies via the matchmaking service in 2019. In 2019, a total of 261 (185) new business partnership connections were opened between Finnish companies and companies based in developing countries.

Finnfund will continue to manage Finnpartnership on the basis of its contract, which runs until the end of 2021.

In 2019, a total of 94 business partnership grant applications were received.

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 2019.

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 company carries out a comprehensive due diligence process with each financing decision that effectively identifies the investment risks.

The risk classification system developed by Finnfund, which has been in use since 2005, is a key instrument in the assessment and monitoring of project risks. A risk assessment is conducted on all projects in the Finnfund investment portfolio at least once a year, and more often if necessary, that is, if it is estimated that the risk level has changed. If the risk classification becomes weaker, the project's balance sheet value will be impaired and, conversely, if the risk classification becomes stronger, previous impairments will be reversed. Balance sheet value can not be higher than acquisition cost. The trends affecting projects identified as high-risk are monitored closely and measures to mitigate the risks to Finnfund are initiated if deemed necessary.

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

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

At the end of 2019, projects worth a total of EUR 112.9 million were covered by special risk financing. The Finnish State is liable for 49.7 per cent of the related risks, amounting to EUR 56.1 million. The loss compensation commitment covers a maximum of EUR 7.5 million in compensation per year.

The first compensation claim was submitted to the State in 2019. The claim concerned Mobisol's dollar-denominated loan. The amount claimed in ERR compensation was EUR 2,183,162.07. A corresponding amount will be deducted from the credit limit of EUR 75 million. After compensation, the credit limit will be EUR 72,816,837.93.

In 2019, suspicions arose that one of the equity investment targets was misusing the funds it had been granted, and we commissioned PwC to conduct a special audit of the company. The audit had not yet been completed when this annual report was written. The value of the investment was less than EUR 9 million. As such, the financial statements for 2019 contain a risk of this magnitude.

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 2019.

At the end of 2019, the value of the commercial paper issued through the programme amounted to EUR 44 million.

The refinancing risk associated with borrowing is managed by trying to maintain a sufficiently extensive group of financiers and a versatile range of instruments. An additional aim is that at least half of the borrowing should be long-term financing. At the end of the year under review, the average time to maturity of interest-bearing debt was 2.7 years if the convertible bond granted by the State is not included in calculations, and 10.9 years if the State loan is included.

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

We strengthened Finnfund's capacity to manage the reputational risks related to its operations by providing key personnel with crisis communication training. Finnfund's crisis communications are based on the crisis communication guidelines approved by the Board of Directors at the end of 2018.

MLR Forestal de Nicaragua, a sustainable teak and cocoa plantation in Nicaragua, has clear and measurable positive impact on people, climate and the environment.

Net profit and balance sheet

In 2019, Finnfund made a profit of approximately EUR 0.7 million (approximately EUR 2.1 million). This profit was lower than in the previous year due to the unusually large amounts recognised in write-downs and investment and sale losses.

The operating income is shown in the table below.

Summary

Net financial income increased by 29 per cent year-on-year to EUR 23.7 million (EUR 18.4 million).

Financial income increased by 22 per cent to EUR 35.7 million (EUR 29.2 million), while financial expenses increased by only 11 per cent to EUR 12 million (EUR 10.9 million).

The growth was driven by interest income, which accounted for 76 per cent (EUR 27.0 million) of income. Dividend and fund income was EUR 5.4 million in 2019, slightly below the amount in 2018 (EUR 6.3 million).

Operating expenses (EUR 14.1 million) increased moderately year-on-year but remained below the budgeted amount (EUR 14.5 million).

Net profit before value adjustment items, sales and taxes increased by 71 per cent year-on-year to EUR 11.2 million (EUR 6.5 million).

Income

Dividend income amounted to EUR 0.5 million (EUR 0.8 million), and dividends were received from two companies.

Interest income was EUR 27.0 million (EUR 21.2 million).

Other income from long-term investments amounted to EUR 4.8 million (EUR 5.6 million), consisting of gains from fund investments. Capital gains from investments of EUR 1.4 million (EUR 3.6 million) were recognised as income.

Other financial income excluding foreign exchange gains, at EUR 2.1 million (EUR 1.7 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 37.1 million (EUR 32.8 million).

The exchange rate differential due to currency trading and hedging was EUR 1.2 million positive (EUR 0.1 negative)

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

Operating income (EUR thousand)	2019	2018	Change (EUR)	Change %
Financial income	35,711	29,236	6,475	22
Financial expenses	-12,037	-10,851	-1,186	11
Net financial income	**23,674**	**18,385**	**5,289**	**29**
Other operating income	1,527	1,471	56	4
Administrative expenses, depreciation and other expenses	-14,051	-13,350	-701	5
Profit before value adjustments, sales and taxes	**11,150**	**6,506**	**4,644**	**71**
Value adjustments and sales	-10,433	-4,373	-6,060	139
Income taxes	-17	-15	-2	13
NET PROFIT	700	2,118	-1,418	-67

Impairment losses

Newly recognised individual impairment losses amounted to EUR 16.1 million (EUR 13.1 million), representing about 2.9 per cent (2.6 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 11.7 million (EUR 6.0 million) in 2019. Of this sum, EUR 8.8 million was recognised as final losses in the financial statements, where the sum had previously been recognised as impairment losses.

The net effect of impairments on financial performance was approximately EUR 10.4 million negative (EUR 4.4 million negative).

Expenses

Interest expenses increased from the previous year's figure to EUR 8.7 million (EUR 6.8 million). Derivatives accounted for EUR 5.5 million (EUR 4.5 million) of the realised interest expenses. The increase was due to the interest rates differential between the US dollar and the euro, as well as an increase in liabilities. Interest expenses were incurred through borrowing in both US dollars and euros.

Other financial expenses were EUR 3.3 million (EUR 4.0 million), including management fees of EUR 2.8 million (EUR 3.7 million) associated with fund investments.

Investment and sale losses amounted to EUR 7.5 million (EUR 0.9 million), which is attributable to previously recognised individual impairment losses. Sale losses were reduced by the EUR 2.18 million claimed in compensation from Mobisol under special risk funding.

Administrative expenses totalled EUR 14.1 million (EUR 13.4 million). The increase in expenses consists of several items that are related to the increase in the volume of operations and were, therefore, pre-planned.

The taxes recognised on the income statement, totalling EUR 17 thousand (EUR 15 thousand), consist of both sales gains taxes paid to the target countries and taxes on remuneration for work and on dividends.

Balance sheet

The balance sheet total stood at EUR 615.7 million (EUR 553.9 million) at the end of the year under review.

The balance sheet value of investment assets was EUR 556.7 million (EUR 494.2 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 330.5 million (EUR 295.9 million) or 59.4 per cent (59.9 per cent); equity investments EUR 146.7 million (EUR 120.0 million) or 26.4 per cent (24.3 per cent); and fund investments EUR 79.5 million (EUR 78.3 million) or 14.3 per cent (15.8 per cent).

Liquid assets stood at EUR 45.0 million (EUR 46.2 million) at the end of the year under review. The liquid assets are invested in domestic bank deposits and money-market instruments in accordance with the asset and risk management guidelines.

At the end of the financial period, the company's equity (share capital and unrestricted equity) totalled EUR 267.4 million (EUR 257.2 million) or 43 per cent of the balance-sheet total (46 per cent).

In 2019, the company executed one share issue. Under the share issue, a maximum of 62,961 new shares were offered to existing shareholders in proportion to their existing holdings at the issue price of EUR 170 per share. The subscription period was from 17 April 2018 to 31 May 2019. As a result of the share issue, the share capital was increased by EUR 9,999,910, corresponding to the proportion subscribed by the Finnish State. Pursuant to the issue decision, 58,823 new shares were issued. Finnvera Plc and the Confederation of Finnish Industries EK did not subscribe to any of the new shares they were offered.

At the end of the year under review, the company's registered share capital stood at EUR 196,988,860, divided between 1,158,758 shares, with the Finnish State holding 1,094,188 shares (94.4 per cent), Finnvera Plc holding 63,349 shares (5.5 per cent), and the Confederation of Finnish Industries EK holding the remaining 1,221 shares (0.1 per cent).

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

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 government may collect receivables from the company either completely or partly by subscribing to the company's new shares in one or several allotments in such a way that EUR 170.00 of debt equity entitles it to one share. The government can subscribe to at most 764,705 of the company's shares. The subscription corresponds to the equivalent value of a share in bookkeeping, and it is recorded in the company's invested unrestricted equity fund.

At the end of 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 corresponds to the equivalent value of a share in bookkeeping, 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 290 million (EUR 263 million) and short-term interest-bearing debt at EUR 58 million (EUR 34 million), totalling EUR 348 million (EUR 297 million).

Long-term interest-bearing debt includes the EUR 100 million bond issued in summer 2017, as well as the long-term convertible bond of EUR 130 million granted by the State and withdrawn in 2017 and 2018. Otherwise, the long-term interest-bearing debt is in US dollars, used to refinance Finnfund investment loans denominated in US dollars.

Long-term debt as a percentage of all financing liabilities totalled approximately 83 per cent (90 per cent) at the end of the period.

The company had no guarantee commitments at the end of 2019 (EUR 0.0 million).

Key figures	2019	2018	2017
Financial income (EUR million)	46.6	50.6	67.4
Net profit (EUR million)	0.7	2.1	2
Return on equity (%)	0.3	0.8	0.8
Equity ratio (%)	43.4	46.4	52.6

Formulae

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

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

Administration and personnel

In 2019, the Supervisory Board convened four times, the Board of Directors convened 13 times, the Board of Directors' audit committee convened five times, and the HR committee, which was established by the Board of Directors in spring 2019, convened three times.

The Annual General Meeting, held on 17 April 2019, addressed the 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.

In addition, the Annual General Meeting authorised the Board of Directors to decide on an issue of special rights carrying an entitlement to shares included the convertible bond between Finnish Fund for Industrial Cooperation Ltd and the Finnish State.

The following were elected at the Annual General Meeting as **members of the Supervisory Board** for the period 2019–2022: Jarkko Eloranta, Chair, Tiina Elovaara, Member of Parliament, Pertti Salolainen, Member of Parliament, and Tapani Tölli, Member of Parliament. In addition, Johanna Kotaviita, Member of Parliament, was replaced by Toimi Kankaanniemi, Member of Parliament, for the remainder of Kotaviita's term, which runs until the Annual General Meeting to be held in spring 2021.

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

Ritva Laukkanen
(Board Professional), Chair
Robert Wihtol (independent development banking specialist), Deputy Chair
Jussi Haarasilta
(Business Director)
Kristiina Kuvaja-Xanthopoulos
(Deputy Director General)
Pirita Mikkanen (Director)
Lars-Erik Schöring (CEO)
Antero Toivainen (Justice of the Supreme Administrative Court)
Anu Hämäläinen
(Finance Director)

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

The Board of Directors has an audit committee, with the following members since 25 April 2019:

Jussi Haarasilta
(Business Director), Chair
Anu Hämäläinen
(Finance Director) and
Pirita Mikkanen (Director)

At its meeting on 25 April 2019, the Board of Directors established an HR committee, and the following were elected as members of the new committee:

Ritva Laukkanen
(Board Professional), Chair
Robert Wihtol (independent development banking specialist)
Kristiina Kuvaja-Xanthopoulos
(Deputy Director General)

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

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

During the year under review, the company employed an average of 77 personnel (75 personnel in 2018). At year-end, the number of employees in contractual employment was 81 (80), of whom 77 (77) were full-time. Of the employees, 52 were women and 29 were men.

The final accounts include a provision for incentive bonuses earned in 2019, amounting to 12.7 per cent of payroll expenses (10.2 per cent). In 2019, 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 2017–2019 were as follows:

	2019	2018	2017
Average number of personnel	77	75	71
Total salaries and bonuses (EUR thousand)	6,981	6,865	6,131

Outlook and strategic direction for 2020

In 2020, Finnfund will continue implementing its strategy for 2018-2025. In line with the strategy, Finnfund will double its volumes and triple its development impact by 2025. Early in the year, before the outbreak of the corona pandemic, we have been on a strong growth path in line with our strategy and goals, but at the time of writing this report, it is unclear whether this growth will continue in 2020.

The project preparation policy will continue to favour projects that are expected to have very positive development impacts, including those that are known to be laborious. The focal themes are combating climate change, improving the position of women and girls, and Africa. Finnfund's focal sectors will remain unchanged: we are focusing on renewable energy, the financial sector, sustainable agriculture and the plantation forestry sector.

From the perspective of expanding the financing base and mobilising private capital, the establishment of the OP-Finnfund Impact fund is a major event that we are looking forward to in 2020.

Finnfund's finances and liquidity are strong, thanks to the convertible loan issued by the Finnish State in 2019 in the amount of EUR 210 million. We will withdraw at least EUR 130 million of the State loan in 2020.

The earnings prospects for 2020 are challenging and uncertain, although the value of loans issued by the company has increased, the impact of the coronavirus on target companies will also negatively impact Finnfund's earnings. The company's financial performance will be crucially affected by how the measurement of its investment assets changes during the financial period and whether any profitable exits from projects occur. In development financing, these aspects are usually difficult to forecast, and the the coronavirus epidemic is expected to further increase uncertainty.

Proposal of the Board of Directors for the distribution of profit

The company recorded a profit of EUR 700,318.47 in 2019. The Board of Directors proposes that the profit be transferred to the retained earnings account and set aside for disbursement in accordance with Article 2 of the Articles of Association.

Profit and loss account
EUR 1,000

	Note	1 Jan. - 31 Dec. 2019	1 Jan. - 31 Dec. 2018
Other operating income	1	1,527	1,471
Staff expenses	2		
Wages and salaries	3	-6,981	-6,865
Social security expenses			
Pension expenses		-1,207	-1,161
Other social security expenses		-627	-110
Social security expenses		-1,835	-1,270
Staff expenses		-8,816	-8,135
Depreciation according to plan	4	-202	-96
Other operating expenses	5, 6	-5,033	-5,120
OPERATING LOSS		**-12,523**	**-11,880**
Financial income			
Income from participating interests		3,171	4,423
Income from other investments		3,735	5,736
Other interest and financial income		39,682	40,404
Financial income total		46,588	50,562
Reduction in value of investments		-4,358	-7,105
Financial expenses			
Interest and other financial expenses		-28,989	-29,445
Financial income and expenses	7	13,241	14,013
PROFIT BEFORE TAXES		**718**	**2,133**
Income taxes	8	-17	-14
PROFIT FOR THE FINANCIAL YEAR		**700**	**2,118**

Balance sheet
EUR 1,000

	Note	31 Dec. 2019	31 Dec. 2018
ASSETS			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		534	35
Machinery and equipment		441	10
Total		976	45
Investments	10		
Participating interests		54,223	63,557
Receivables from participating interest	11	21,768	16,263
Other shares and similar rights of ownership		172,009	134,704
Other receivables	11	308,719	279,669
Total		556,719	494,194
NON-CURRENT ASSETS		557,694	494,238
CURRENT ASSETS			
Debtors			
Long-term	12		
Other long-term debtors		2,304	3,293
Short-term			
Amounts owned by participating interest undertakings	13	77	23
Other receivables	14	3,338	412
Prepayments and accrued income	15	7,296	9,717
Total		10,710	10,152
Debtors total		13,014	13,445
Financial securities	16		
Marketable securities		11,779	11,423
Cash in hand and at banks		33,178	34,824
CURRENT ASSETS		57,972	59,691
ASSETS		615,666	553,930

LIABILITIES EQUITY	Note 17	31 Dec. 2019	31 Dec. 2018
Share capital		196,989	186,989
Retained earnings		69,675	68,127
Profit for the financial year		700	2,118
EQUITY		**267,364**	**257,234**
CREDITORS			
Long-term	18, 19		
Private placement		99,844	99,781
Convertible loans		130,000	130,000
Loans from credit institutions		59,344	32,606
Other long-term creditors		700	307
Total		289,888	262,694
Short-term	20		
Loans from credit institutions		53,493	29,315
Advances received		9	
Trade creditors		319	269
Other creditors		252	751
Accruals and deferred income	21	4,341	3,666
Total		58,414	34,002
CREDITORS		**348,302**	**296,696**
LIABILITIES		**615,666**	**553,930**

Cash flow statement
EUR 1,000

	2019	2018
CASH FLOW FROM OPERATIONS		
Payments received from operations	61,007	58,614
Disbursements to operations	-124,744	-134,607
Dividends received	531	1,101
Interest received	20,854	13,074
Interest paid	-8,944	-6,294
Payments received on other operating income	9,023	3,565
Payments of operating expenses	-16,173	-17,370
CASH FLOW FROM OPERATIONS (A)	**-58,446**	**-81,917**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-1,133	-42
CASH FLOW FROM INVESTMENTS (B)	**-1,133**	**-42**
CASH FLOW FROM FINANCING		
Short-term loans drawn	43,998	20,000
Short-term loans repaid	-20,000	-6,999
Long-term loans drawn	35,358	120,000
Long-term loans repaid	-9,316	-56,671
New share issue	10,000	10,000
CASH FLOW FROM FINANCING (C)	**60,040**	**86,330**
CHANGES IN EXCHANGE RATES (D)	**-2,106**	**-3,909**
CHANGE IN LIQUID ASSETS (A+B+C+D) increase (+) decrease (-)	**-1,645**	**462**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**45,822**	**45,360**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**44,177**	**45,822**
NONMONETARY CHANGES IN LIQUID ASSETS	**780**	**424**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**44 957**	**46 246**

Accounting policy

Portfolio

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

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

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

The fair value of investments reported by the fund manager has been compared with Finnfund's balance sheet value of the investment. When necessary, payments to investments made after the report have been added to the fair value reported by the fund manager, in order to ensure its comparability with the value of Finnfund's investment. The balance sheet value of investments may not exceed 100% of the valuation by the fund manager. Errors in the previous financial year have been adjusted to increase free equity and, respectively, fixed assets by EUR 773,663.84.

Special risk finance

Special risk finance is the term used to describe the class of projects in which Finnfund has been indemnified, by a decision of the Finnish government on 20 September 2012 and in force until 31 December 2015 or decided on 20 September 2018 and in force until 31 December 2023, against investment losses or write-offs. Projects that were indemnified before the deadline remain within this class afterwards. The indemnified investments and loans were separately approved by the Board of Directors.

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

The deferred value of claims on the government for its share of net losses from special risk finance projects is stated separately in the company's accounts. Separate application must be presented to the government for payment of the indemnity, which cannot exceed EUR 7.5 million annually.

Other investments in current assets

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

Derivatives

Derivatives are presented in the financial statements in accordance with the fair value principle according to the IFRS standards. The IFRS treatment of derivatives is based on chapter 5, section 2 of the Finnish Accounting Act (1336/1997) and a statement issued by the Accounting Board in December 2016 (KILA 1963/2016). Forward exchange agreements, interest rate swaps and currency and interest rate swaps were initially recorded at fair value on the date of agreement and valued to their fair value in the financial statement. In the valuation to fair value, valuation reports issued by banks have been used to perform a recalculation using accepted valuation methodologies. Positive and negative changes to fair value have been recorded as financial income and expenses in the profit and loss account. In the balance sheet, derivatives are listed under other receivables and other creditors. Although its derivatives are acquired for the purpose of hedging, Finnfund does not practice hedge accounting under IFRS.

Items denominated in foreign currencies

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

Intangible and tangible assets

Intangible and tangible assets are entered in the balance sheet at their aquisition cost less depreciation. The depreciation period has been extended compared to the previous year when the company moved to new premises in March 2019. The depreciation plan is drawn up according to the rental period. The costs of renovating the new premises, machinery and furniture have been capitalised on other long-term expenditure and machinery and equipment in the balance sheet.

Planned depreciations:

Other capitalised long-term expenses	7 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

	2019	2018
1 Other operating income		
Operating income from participating interests	5	7
Remunerations	779	377
Other operating income	743	1,087
	1,527	**1,471**
2 Average number of staff employed		
Employees	77	75
3 Wages and salaries		
Managing Director and his alternate	420	396
The Board of Directors and the Supervisory Board	124	121
The Board of Directors		
Chair's monthly emoluments	1,100 €	
Vice chair's monthly emoluments	700 €	
Board members' monthly emoluments	600 €	
Emolument per meeting of Board of Directors and Audit Committee	300 €	
Supervisory Board		
Chair's emolument per meeting	800 €	
Vice chair's emolument per meeting	600 €	
Board member's emolument per meeting	500 €	

Managing Director has the right to retire at the age of 63.
Retirement age is based on the contract renewed in 2012.

	2019	2018
4 Depreciation		
Other capitalised long-term expenses	92	18
Machinery and equipment	110	77
	202	**96**
5 Other operating charges		
Voluntary staff expenses	736	631
Office	751	649
ICT	777	653
Travel and negotiation expenses	1,181	1,019
Entertainment and PR expenses Including support in 2018 and a partial refund in 2019 of community projects in Honduras	44	383

External services	1,335	1,408
Other expenses	208	378
	5,033	**5,120**
6 Auditor's remunerations		
Audit fee	15	14
Assignments	6	1
Tax services	3	0
Other services	46	9
	71	**24**
7 Financial income and expenses		
Financial income		
Income from participating interests		
Dividends	335	279
Income from funds	1,312	762
Profit from sales of assets	1,378	3,208
From others	145	174
Income from participating interests	3,171	4,423
Income from other investments		
Dividends	213	479
From funds	3,522	4,817
Profits from investments and sales assets	0	439
Income from other investments	3,735	5,736
Other interest and financial income		
Interest income	23,018	18,518
Interest income from participating interests	3,938	2,710
Financial income	2,008	1,439
Financial income from participating interests	10	57
Exchange rate gain	10,708	17,679
Other interest and financial income	**39,682**	**40,404**
Financial income total	**46,588**	**50,562**
Permanent write-offs of investments and their reversals		
Equity and funds	-9,757	-9,351
Loans and other receivables	-6,318	-3,743
Reversal of write-offs on shares and fund investments	1,452	4,972
Reversal of write-offs on loans	10,265	1,017
Write-offs of investments and their reversals	**-4,358**	**-7,105**

Interest and other financial expenses		
Interest expenses to others	-3,208	-6,751
Other financial expenses	-8,830	-4,004
Loss from investments, funds and sales of assets including loss compensation from the State	-7,453	-915
Exchange rate loss	-9,499	-17,775
Interest and other financial expenses total	**-28,989**	**-29,445**
Financial income and expenses total	**13,241**	**14,013**
The item Financing income and expenses includes loss of exchange (net)	**1,210**	**-96**
7 Income from financing operations by income level		
(**does not include income from EU territory, liquidity and funding**)		
Least developed countries (LDC)	16,368	18,307
Other low-income countries (LIC)	3,849	5,983
Lower-middle-income countries (LMIC)	18,128	15,744
Upper-middle-income countries (UMIC)	6,492	6,033
Russia	104	3,354
	44,940	**49,420**
8 Income taxes		
Tax on capital gains outside Finland	0	1
Withholding taxes on emoluments	1	1
Withholding taxes on dividends	16	12
	17	**14**

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. 2019	1,173	2,085	3,258
Increases	592	542	1,133
Acquisition cost 31 Dec. 2019	1,765	2,627	4,392
Accumulated depreciations 1 Jan. 2019	-1,138	-2,075	-3,214
Depreciation of the accounting period	-92	-110	-202
Accumulated depreciations 31 Dec. 2019	-1,230	-2,185	-3,416
Book value 31 Dec. 2019	**534**	**441**	**976**
Book value 31 Dec. 2018	35	10	45
10 Investments / Shares and funds	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2019	76,903	149,615	226,519
Adjustments to transfers to funds recorded during the previous year	0	774	774
Increases	12,046	33,706	45,751
Transfer between items	-11,728	11,728	0
Decreases	-3,330	-6,920	-10,250
Acquisition cost 31 Dec. 2019	73,891	188,903	262,794
Individual write-offs accumulated as of 1 Jan. 2019	-13,346	-14,911	-28,257
Reversal of write-offs	0	1,452	1,452
Write-offs during the financial year	-6,322	-3,436	-9,757
Individual write-offs accumulated as of 31 Dec. 2019	-19,668	-16,894	-36,562
Book value 31 Dec. 2019	**54,223**	**172,009**	**226,232**
10 Investments / Loans	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2019	19,713	303,262	322,975
Adjustment to the acquisition cost recorded in the previous year	0	-289	289
Increases	1,347	107,582	108,929
Capitalised interest	3,253	1,714	4,966
Transfer between items	8,655	-8,655	0
Decreases	-9,965	-73,068	-83,032
Acquisition cost 31 Dec. 2019	23,003	330,545	353,549

Individual write-offs accumulated as of 1 Jan. 2019	-3,450	-23,593	-27,043
Reversal of write-offs	2,214	8,085	10,299
Write-offs during the financial year	0	-6,318	-6,318
Individual write-offs accumulated as of 31 Dec. 2019	-1,235	-21,826	-23,062
Book value 31 Dec. 2019	**21,768**	**308,719**	**330,487**

	2019	2018
11 Subordinated receivables		
Capital loans to participating interests	21,768	16,263
Capital loans to others	54,232	23,010
	76,000	**39,273**
12 Other long-term receivables		
Acquisition cost 1 January	1,339	1,340
Deductions	0	-1
Acquisition cost 31 December	1,339	1,339
Impairment losses	-670	-670
Book value 31 December	669	669
Derivative receivables	1,635	2,625
	2,304	**3,293**
13 Receivables from participating interests		
Interests	0	2
Other	77	21
	77	**23**
14 Other receivables		
Loss compensation from the State according to the special risk financing commitment	2,183	0
Derivative receivables	1,057	412
Other	97	0
	3,338	**412**
15 Prepayments and accrued income		
Prepayment for account of a company to be established	0	900
Interests	6,364	7,734
Other	932	1,083
	7,296	**9,717**
16 Marketable securities		
Fair value	11,780	11,685
Book value	11,779	11,423
DIFFERENCE	**1**	**263**

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.		
Restricted equity		
Share capital 1 Jan.	186,989	176,989
Increase of share capital	10,000	10,000
Share capital as of 31 Dec.	196,989	186,989
Unrestricted equity		
Profit from previous financial years 1 Jan.	70,245	67,105
Adjustments to interest and fund entries made in the previous year, refund of sales tax on capital gains from India in 2011-2012	-570	1,022
Retained earnings 31 Dec.	69,675	68,127
Profit/loss for the financial year	700	2,118
Total unrestricted equity	70,376	70,245
Total equity	**267,364**	**257,234**
17 Share capital		
Number of shares	1,158,758	1,099,935
Nominal value, EUR	170,00	170,00
18 Loans with maturity more than 5 years		
Loans from credit institutions	24,000	5,333
Loans from government	130,000	130,000
	154,000	**135,333**
19 Private placements		
Private placement 2017/2022 Bullet Fixed 0.625%	100,000	100,000
20 Other short-term debt		
Loans from financial institutions	53,493	29,315
Derivative liabilities	9	386
Accounts payable	319	269
Other	251	365
	54,073	**30,335**
21 Accruals and prepaid income		
Deferral of personnel expensed	3,487	2,611
Interest	850	988
Taxes	0	57
Other	4	10
	4,341	**3,666**

Other supplementary information
EUR 1,000

Other contingent liabilities

The company terminated the leases of its current premises and lease payment obligation expired on 31 March 2019. The company entered into a non-fiexed-term contract for its new premises. The lease period and the tenure begun 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 2020 EUR 49,977,61. The obligation to pay rent begun on 1 June 2019.

	2019	2018
Payable in the next financial period	598	475
Payable later	3,249	3,799
Other commitments		
Undisbursed commitments		
Contractual commitments	177,000	153,600
Special risk finance (**cumulative**)		
Decisions of the Board of Directors	112,920	122,074
Government's indemnity	56,065	61,189
Government's indemnity, %	50 %	50 %
Disbursements	58,263	76,417

Derivative contracts EUR 1,000

Fair values of derivatives in financial assets and liabilities

	2019			2018		
Receivables	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	1,051		1,051	390		390
Interest rate swaps	6	207	213	22	86	108
Currency and interest rate swaps		1,429	1,429		2,539	2,539
Total	1,057	1,635	**2,693**	412	2,625	**3,037**
Liabilities	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	9		9	386		386
Interest rate swaps		348	348		12	12
Currency and interest rate swaps			0			0
Total	9	348	**357**	386	12	**398**

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.

	2019				2018			
Receivables	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		1,051		1,051		390		390
Interest rate swaps		213		213		108		108
Currency and interest rate swaps		1,429		1,429		2,539		2,539
Total	0	2,693	0	**2,693**	0	3,037	0	**3,037**
Liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		9		9		386		386
Interest rate swaps		348		348		12		12
Currency and interest rate swaps				0				0
Total	0	357	0	**357**	0	398	0	**398**

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	2019	2018
Change of +/- 1% in EURIBOR interest	0 / 0	0 / 0
Change of +/- 1% in LIBOR interest	-807 / 807	-921 / 921
Change of +/- 10% in EUR-USD exchange rate	10,167 / -10,167	10,049 / -10,049

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 2019.

Undiscounted cash flow resulting from derivatives

	2019			2018		
Receivables	Under 1 year	1–5 years	**Total**	Under 1 year	1–5 years	**Total**
Forward exchange agreements	94,323	0	94,323	109,335	0	109,335
Interest rate swaps	629	1,322	1,951	495	570	1,065
Currency and interest rate swaps	625	101,250	101,875	625	101,875	102,500
Total	**95,577**	**102,572**	**198,149**	**110,455**	**102,445**	**212,900**
Liabilities	Under 1 year	1–5 years	**Total**	Under 1 year	1–5 years	**Total**
Forward exchange agreements	94,001	0	94,001	110,147	0	110,147
Interest rate swaps	662	1,379	2,042	421	525	946
Currency and interest rate swaps	2,829	103,484	106,313	3,756	106,704	110,460
Total	**97,492**	**104,863**	**202,355**	**114,325**	**107,229**	**221,553**

Receivables, liabilities and transactions with related parties

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

Off-balance sheet assets

There were EUR 2,322,726.80 of other contractual funds in the company's possession.

Exchange rate

31 December 2019 EUR/USD 1.1234

Signatures of Board of Directors' report and financial statements

Helsinki, 26 March 2020

Ritva Laukkanen
Chairman

Jussi Haarasilta
Member of the Board

Anu Hämäläinen
Member of the Board

Kristiina Kuvaja-Xanthopoulos
Member of the Board

Pirita Mikkanen
Member of the Board

Lars-Erik Schöring
Member of the Board

Antero Toivainen
Member of the Board

Robert Wihtol
Member of the Board

Jaakko Kangasniemi
Managing Director, CEO

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 1. April 2020

Deloitte Oy
Audit Firm

Anu Servo
APA, CPFA

Auditor's report (Translation of the Finnish Original)

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Finnish Fund for Industrial Cooperation (business identity code 0356880-6) for the year ended 31 December, 2019. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

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

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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

Other Reporting Requirements

Other Information

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

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

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations. If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki, April 3, 2020

Deloitte Oy
Audit Firm

Anu Servo
KHT (APA), JHT (CPFA)

Statement of the Supervisory Board

At the meeting held today, the Supervisory Board of the Finnish Fund for Industrial Cooperation Ltd. examined the report of the Board of Directors and the corporation's financial statements prepared by the Board of Directors and the Managing Director, and the Auditors' Report for 2019. 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, 3 April 2020

Emma Kari

Tiina Elovaara

Jarkko Eloranta

Veronika Honkasalo

Marko Kilpi

Jouni Ovaska

Sakari Puisto

Juha Ruippo

Kristiina Salonen

Saara-Sofia Sirén

Erkki Tuomioja

Petri Vuorio

www.finnfund.fi