finnfund

2020

Annual Review

2020

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Content

Cover photo:
Finnfund's investee Penda Health, a chain of affordable medical centres, has been on the frontline of fighting COVID-19 in Nairobi, Kenya.

finnfund

Year 2020

Finnfund in brief

Professional impact investing in developing countries

Finnfund is a development financier and professional impact investor. We build a sustainable world by investing in responsible and profitable businesses in developing countries.

Each year we invest 200–250 million euros in 20-30 projects, emphasising renewable energy, sustainable forestry, sustainable agriculture, and financial institutions. Today Finnfund's investments and commitments total about 937 million euros, half of them in Africa.

Besides our four focus sectors, we invest in other sectors as well when projects meet our requirements and are aligned with our strategy.

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

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 directs us to:

- generate, analyse and communicate development impact;
- double operational volume and focus funds on sustainable and commercially viable projects with potential for high impact;
- co-invest with private investors in impact investing;
- improve internal operational procedures to adapt to changes in the market environment and respect the work of our staff and external partners.

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

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

Finnfund's shareholders are the State of Finland (95.7%), Finland's export credit agency Finnvera (4.2%) and the Confederation of Finnish Industries (0.1%). We currently have about 85 employees, all based in Helsinki.

Finnfund's owners set annual targets for the company. The targets address financial results, 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 2020 was 206,988,770 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.

Our guiding principles are impact, sustainability, profitability and professionalism.

Chief Executive Officer's review

Jaakko Kangasniemi

The strength and reach of the COVID-19 pandemic took most of us by surprise. People and entire nations have suffered greatly, not least in the poorest parts of the world where governments have limited financial resources to respond.

But the adversity has also brought to surface the best in people. We have witnessed remarkable resilience across the world, particularly in developing countries. Many African nations, some with precious experience of prior epidemics, responded swiftly to stop the virus from spreading. People and nations have endured.

One of the pandemic's many negative consequences was capital flight from developing countries. Private investors quickly withdrew their assets to safer havens, leaving even fully viable businesses cash-strapped. Businesses which employ and serve women have been hit particularly hard, tourism being a prime example.

Even in the face of considerable market turmoil and almost zero visibility into the near future, Finnfund held its course and kept investing in healthy companies and helped them weather the storm.

We took 31 investment decisions totalling 206 million euros, practically keeping pace with the previous year. Our disbursements were record-high at 149 million euros.

Our counter-cyclical approach was what the developing markets sorely needed. By moving ahead, we took considerable, but by no means excessive risk. We kept the focus on our priority sectors but took action also in sectors with direct linkages to the COVID-19 pandemic, such as healthcare and education.

Our strategy got strong backing from our main shareholder, the State of Finland. The support materialised in a record-high recapitalisation of 60 million euros and expansion of the government's risk-sharing facility.

Looking back, for Finnfund as a company, year 2020 presents a mixed picture: In financial terms, the year turned out to be the worst and the best in recent history.

A couple of our investee companies fell victim to the lockdown measures, and we ended up with considerable write-downs. At the same time, planned exits were postponed. Consequently, our net loss was 26 million euros.

On the upside, our net interest income increased to 22 million euros and

"We kept making high-impact investments in those parts of the world where financing is needed the most: least developed and lower-middle-income countries. More than half of our investments targeted Africa."

profit before write downs and sales gains and losses was 10 million. That shows that once we reach more stable times, Finnfund is poised to make significant profit it can use for new sustainable investments.

Most importantly, we kept making high-impact investments in those parts of the world where financing is needed the most: least developed and lower-middle-income countries. More than half of our investments targeted Africa.

Our long-term track record has convinced private institutional investors, too. The OP Finnfund Global Impact Fund I, managed by OP Financial Group, one of the largest banking groups in Finland, raised 135 million euros. The fund is not structured nor blended and provides no loss guarantee for investors. I take this as a remarkable vote of confidence in our type of professional impact investing.

With all its ups and downs, the year was very taxing for our own staff as well. We have mostly been working remotely since the end of March. We have put all business travel on hold and found ways to source, vet and manage investments from a distance.

All this has required extraordinary effort, perseverance, and creativity from our people. For that I am ever so grateful. I am also thankful for our Board of Directors and Supervisory Board for their guidance and support.

As I write this, things are beginning to look brighter across the world. Vaccinations are within reach to many (although by no means to all), which helps restart the global economy. We are already seeing increased economic activity in developing countries, which helps people and nations bounce back.

The recovery will take time and will not always be straight-forward. Last year was a setback for global development, which means we have catching up to do.

Our investees, shareholders and all stakeholders can rest assured that Finnfund will continue to be in the frontlines of the global effort to build back better.

I would like to thank Finnfund's customers, staff and other stakeholders for their support in 2020.

Jaakko Kangasniemi
Chief Executive Officer

Summary of the year 2020

The COVID-19 pandemic significantly slowed investment projects in our countries of operation, and travel restrictions complicated our investment process. Finnfund shifted to remote work in March 2020.

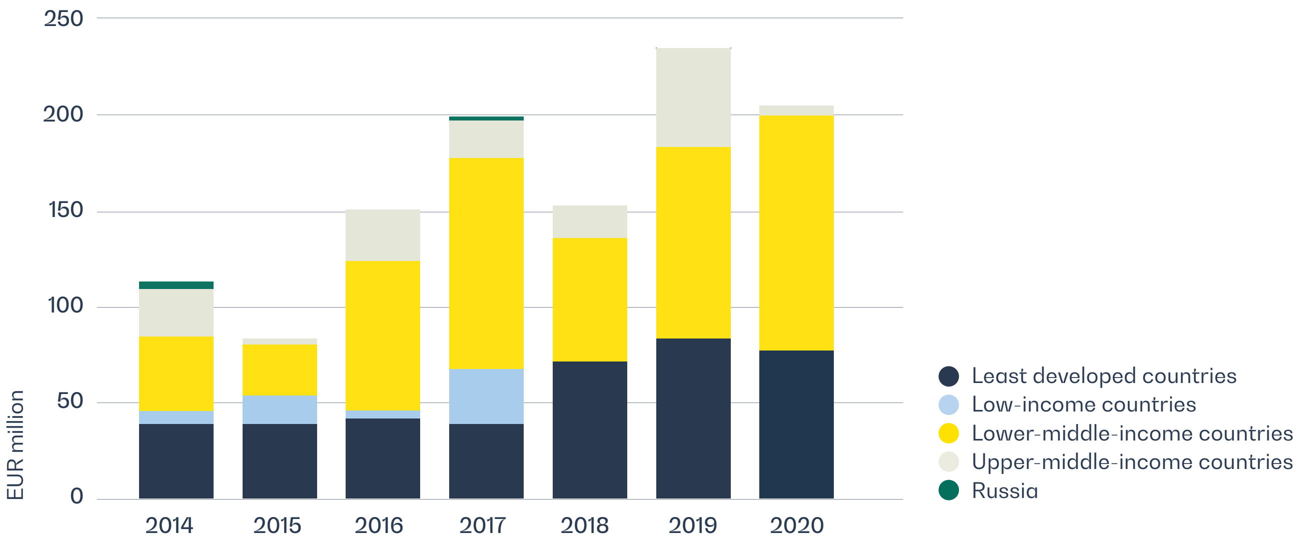
However, with a concerted effort across teams, Finnfund was able to maintain its investment activity at a high level. We met our target in terms of investment decisions (31), although not in volume (206 million euros). Our investment assets grew from 557 to 608 million euros.

We met our target in terms of investment decisions, although not in volume. Our investment assets grew from 557 to 608 million euros.

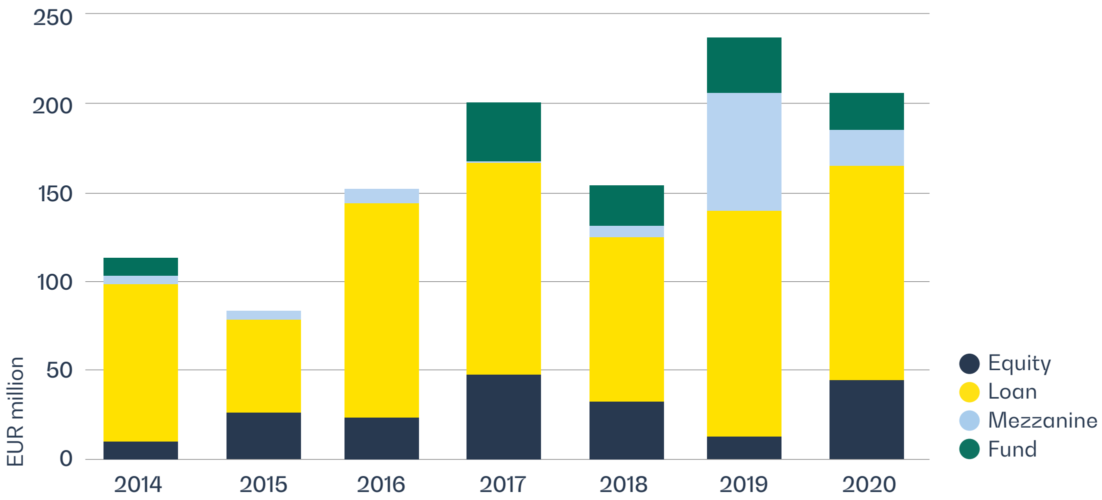
Finnfund kept focussed on its four priority sectors of sustainable forestry, renewable energy, financial institutions, and sustainable agriculture, but we invested also in other industries when the projects were in line with our strategy. Finnfund made its first investment in the insurance sector with a loan to Softlogic Life Insurance PLC in Sri Lanka.

We stayed focussed on Africa (58% of investment decisions) and countries in the least developed and lower-middle-income categories (97% of investments decisions). 78 million euros of Finnfund disbursements were calculated as Finland's official development aid (ODA).

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



Annual investment decisions by instrument EUR million



In 2020, all our new investments were rated to be in the categories of "good" or "excellent" development impact by using our own development impact assessment tool, the DEAT. 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 Lake Turkana Wind Power (p. 53).

Overall, we are well on track to meet our strategic goal of tripling impact by 2025 without compromising the profitability or sustainability of our investments.

Finnfund's funding base remains strong. The State of Finland recapitalised Finnfund with a record instalment of 60 million euros, and we raised 130 million euros of the long-term loan issued by the State in 2019. The State also raised the limit of Finnfund's risk guarantee instrument from 75 million to 150 million euros.

Moreover, we made significant strides in mobilising private financing for sustainable investments. OP Finnfund Global Impact Fund I, managed by OP Financial Group, one of Finland's largest banking groups, raised 135 million euros even in the middle of a global pandemic.

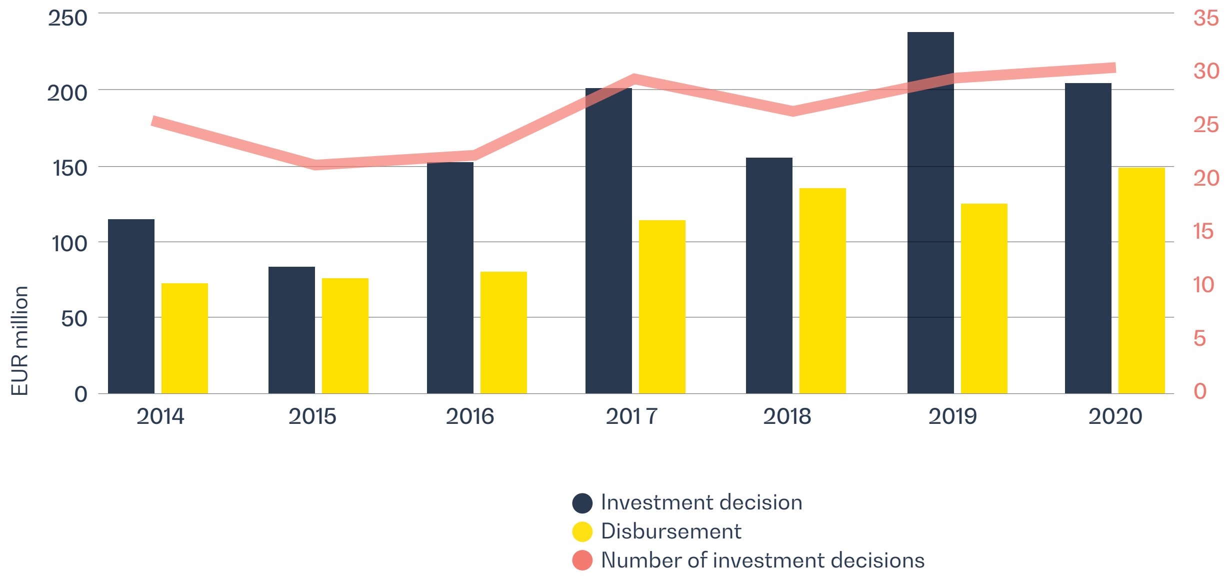
In July, we released a Finnfund Insights report providing visibility to how the COVID-19 pandemic effects businesses in emerging and developing markets. The paper, which was based on information collected from our investee companies, was one of the first such analyses overall.

Finnfund developed and published a new Sustainability Policy in March 2020. The new policy takes a more comprehensive approach to various aspects of sustainability and ties Finnfund's activities more closely to international standards.

In April 2020, Robert Wihtol started as the new Chair of Finnfund's Board of Directors, taking over from Ritva Laukkanen who had served two full terms. Mr Wihtol brings with him a wealth of experience in development finance and sustainable development, including two decades at the Asian Development Bank.

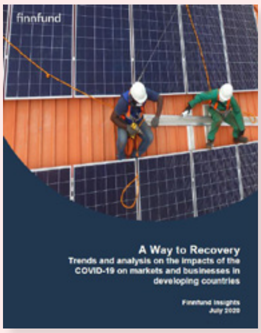
Finnfund was quick to start remote work, travel restrictions, and other measures to protect its staff members and slow the spreading of COVID-19. Although remote work presented its obvious challenges to teamwork, the transition was remarkably smooth, not least thanks to Finnfund's quality IT facilities and services.

Investment decisions and disbursements EUR million



“In 2020, all our new investments were rated to be in the categories of ‘good’ or ‘excellent’ development impact by using our own development impact assessment tool, the DEAT.”

The COVID-19 pandemic marked the year



In 2020, the COVID-19 pandemic created an unprecedented shock to the world economy. Businesses worldwide faced disruptions in supply chains, in staff availability and in access to finance. In developing markets, however, the businesses' capacity to respond to shocks was often weaker as their operating environment is more challenging to begin with, and as their respective governments often have insufficient resources to support them.

The impact on Finnfund's investments was not even across the portfolio. For example, some forestry companies were almost immediately affected by the global restrictions on movement. Similarly, tourism was hit hard as global travel came into a sudden stop. In the energy sector, some cash-strapped governments suspended tariff payments or postponed auctions, while energy demand also temporarily fell. As a result, some energy producers faced lower cashflows and slowdown in project implementation.

The impacts were less pronounced in the financial sector, which in many places benefited from the forbearance of national central banks and regulators. Importantly, agricultural and ICT sectors were the rare winners of the pandemic, as both industries witnessed a significant increase in local demand.

Launching the first Finnfund Insights report

To discuss the new situation, in July, Finnfund published a report on the impacts of COVID-19 on markets and businesses. A Way to Recovery: Trends and analysis on the impacts of the COVID-19 on markets and businesses in developing countries discussed some of the main channels through which businesses in the developing world feel the impact of the pandemic.

In particular, the report gave an overview on how the pandemic has affected businesses in Finnfund's key industries thus far: sustainable forestry, sustainable agriculture, renewable energy and financial institutions. Simultaneously, the report marked the start of a new report series, *Finnfund Insights*.

"As opposed to some initial claims, the pandemic has not been the great equaliser. Rather, it has disproportionately hit the most vulnerable people and societies. But one should not ignore the positive aspects. For example, the health shock in many parts of Africa has thus far been less severe than feared, and many people and businesses have shown great strength, resilience and innovation in the new situation."

Minna Kuusisto
Economist

CASE

OP Finnfund Global Impact Fund I
Global

The first emerging markets impact fund in Finland

● OP Finnfund Global Impact Fund I is the first global emerging markets impact fund in Finland. Launched in 2019, the fund targets significant positive impacts on, for instance, climate change, food security, gender equality and the availability of financing.

The fund promotes the achievement of the UN Sustainable Development Goals (SDGs) in a measurable way while providing an attractive return for investors. The fund seeks an internal rate of return (IRR) of approximately 8–12 per cent.

OP Finnfund Global Impact Fund I focuses on three main industries in developing countries: renewable energy, financial institutions, and sustainable agriculture.

The fund stands at EUR 135 million

The year 2020 made clear that the proposition appeals to investors: In June 2020, the fund finalised the first round of funding, which raised 76 million euros. At the beginning of January 2021, the fund announced that the second round of funding raised a further 58 million euros in capital – hence the total fund size now stands at 135 million euros.

Finnfund acts as an advisor and anchor investor to the fund. The fund sources its investments solely through Finnfund. The fund is managed by OP Asset Management Ltd, part of the OP Financial Group, one of the largest banking groups in Finland.

First investment in building internet connections in rural Indonesia

In November 2020, OP Finnfund Global Impact Fund I made its first investment: the fund contributed USD 12.5 million towards a loan package to a company called Net1 Indonesia. Net1 Indonesia is building internet connections in the world's fourth most populous country, focusing on areas where there are either no or limited internet access alternatives available.

Its goal is to provide access to fixed broadband connectivity to over 300,000 households. The importance of reliable internet access has grown especially during the coronavirus pandemic.

The fund promotes the achievement of the UN Sustainable Development Goals (SDGs) in a measurable way while providing an attractive return for investors.

"Finnfund has more than 40 years of experience investing in emerging markets, and our role is that of an advisor. The fund benefits from our expertise in identifying suitable investments born out of our long experience and extensive international networks."

Markus Pietikäinen
Chief Investment Officer

CASE

European Financing Partners
Global

Finnfund participated in a European financing package to support COVID-19-impacted businesses

● In order to reduce negative impacts of the COVID-19 pandemic on the economies and employment in developing countries, Finnfund invested 10 million euros in a financing scheme of eleven members of European Development Finance Institutions (EDFI) and the European Investment Bank (EIB).

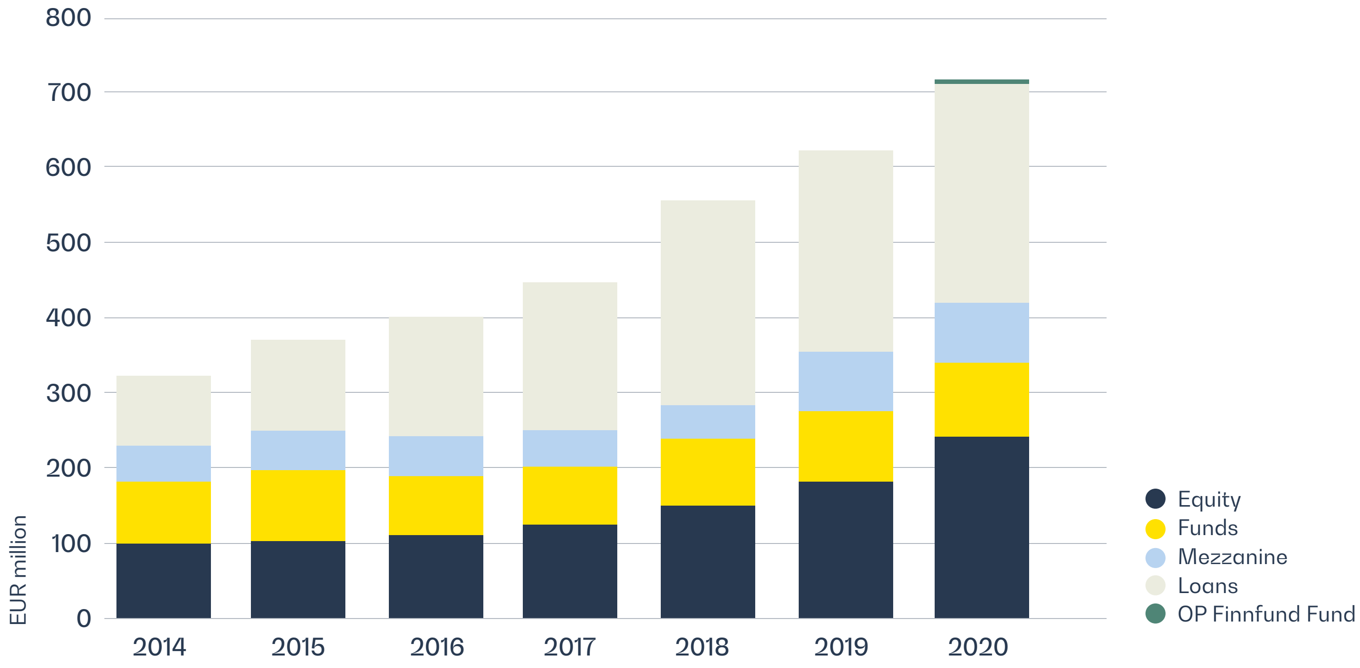
In developing countries, the jobs and services provided by private companies play a significant role in building resilience. Through this European cooperation, Finnfund aims to pool resources and channel funding in an efficient way both via financial institutions and directly to companies.

The financing package of the 280 million euro initiative in total will be channelled through the existing European Financing Partners (EFP) scheme. The funding is aimed to support financial institutions and businesses in developing countries and ensure continued business investment.

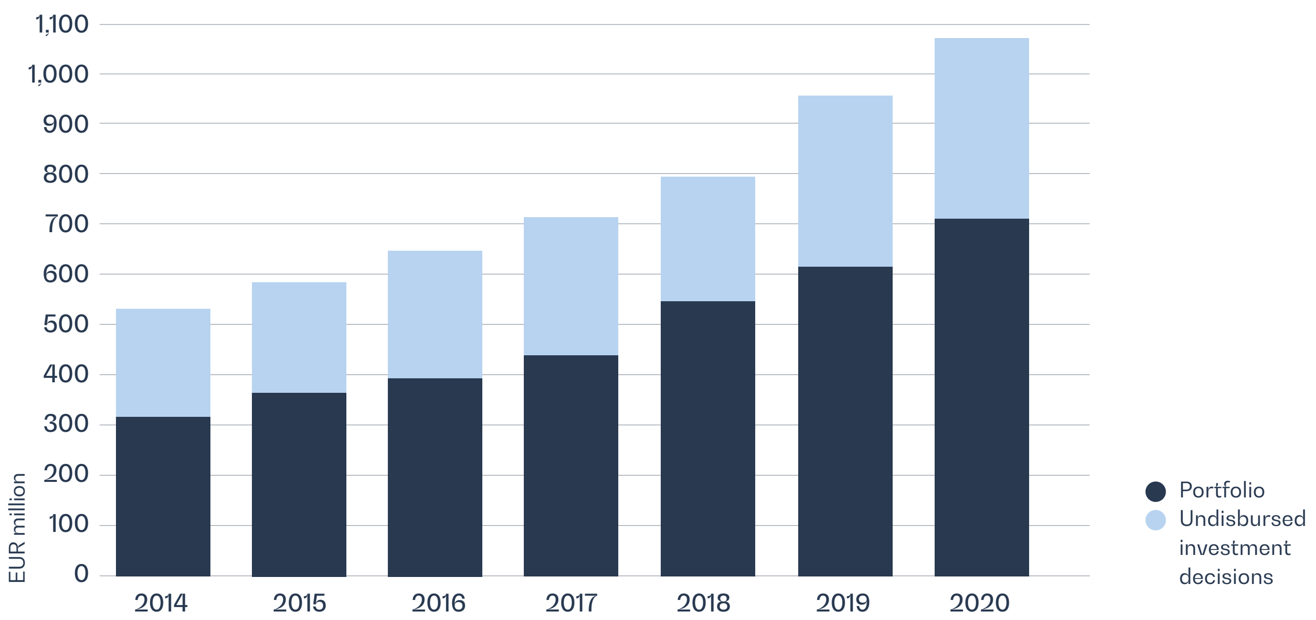
Finnfund has participated in the European Financing Partners scheme since its launch in 2003. The partnership has supported sustainable private sector investment in 43 projects, with a total value of 590 million euros. So far, 40% of this financing has been allocated to financial intermediaries, and infrastructure and agribusiness represent other key sectors.

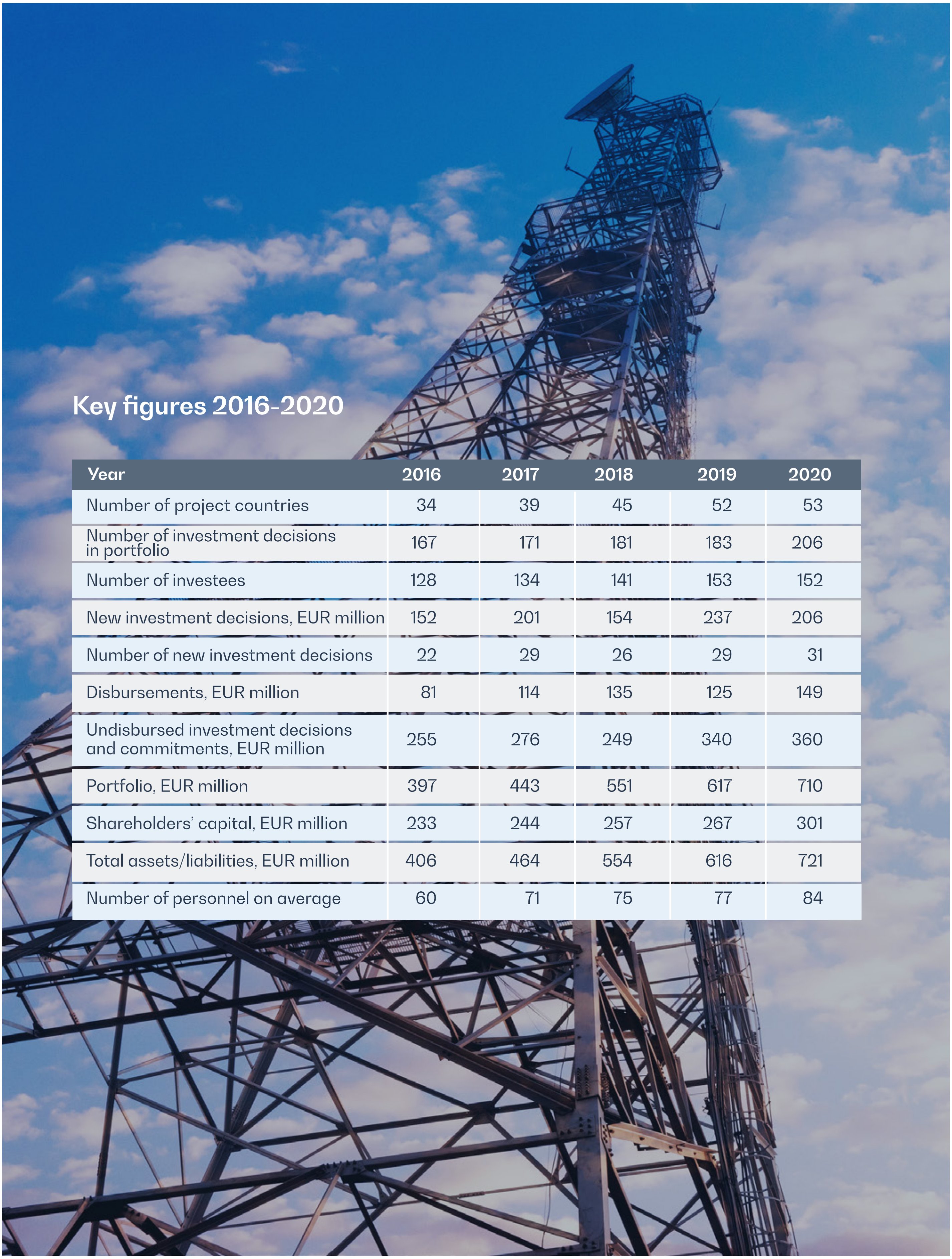
Key figures and highlights

Portfolio EUR million



Portfolio and undisbursed investments decisions EUR million





Key figures 2016-2020

Year	2016	2017	2018	2019	2020
Number of project countries	34	39	45	52	53
Number of investment decisions in portfolio	167	171	181	183	206
Number of investees	128	134	141	153	152
New investment decisions, EUR million	152	201	154	237	206
Number of new investment decisions	22	29	26	29	31
Disbursements, EUR million	81	114	135	125	149
Undisbursed investment decisions and commitments, EUR million	255	276	249	340	360
Portfolio, EUR million	397	443	551	617	710
Shareholders' capital, EUR million	233	244	257	267	301
Total assets/liabilities, EUR million	406	464	554	616	721
Number of personnel on average	60	71	75	77	84

Five years in review 2016–2020

Operational analysis, EUR million	2016	2017	2018	2019	2020
Financial income	19.2	24.6	29.2	35.7	31.4
Financial expenses	-5.1	-8.6	-10.8	-12.0	-9.2
Net financial income	**14.1**	**16.0**	**18.4**	**23.7**	**22.2**
Other operating income	1.6	1.5	1.5	1.5	1.3
Administration, depreciation and amortisation and other operating expenses	-10.6	-11.8	-13.4	-14.1	-13.5
Profit before impairment, sales of assets and taxes	**5.1**	**5.7**	**6.5**	**11.1**	**10.0**
Impairment and sales of assets	-4.8	-3.1	-4.4	-10.4	-36.3
Taxes	0	-0.6	0	0	0
Net profit	**0.3**	**2.0**	**2.1**	**0.7**	**-26.3**

Balance sheet, EUR million	2016	2017	2018	2019	2020
Assets					
Tangible and intangible assets	0.2	0.1	0	1.0	1.1
Investments	356.3	393.3	494.2	556.7	607.6
Current assets	49.5	70.3	59.7	58.0	112.7
	406.0	**463.7**	**553.9**	**615.7**	**721.4**
Liabilities					
Equity	232.9	244.1	257.2	267.4	301.0
Liabilities	173.1	219.6	296.	348.3	420.4
	406.0	**463.7**	**553.9**	**615.7**	**721.4**

Financial indicators	2016	2017	2018	2019	2020
Equity ratio, %	57	53	46.4	43.4	41.7
Return on equity p.a., %	0.1	0.8	0.8	0.3	-8.7

Investments

The COVID-19 pandemic put many investment projects on hold and slowed others. Travel restrictions laid an extra burden on our due diligence process.

Still, Finnfund was able to take 31 investment decisions with a total worth of 206 million euros. We met our target in the number of investment decisions, although not in volume.

Africa continues to be Finnfund's primary investment destination with 56% of volume and 58% of decisions. Asia comes in second with a third of investments.

In line with our strategy to triple impact, we kept investing in low-income countries: 38% of our financing went to least developed countries and 60% to lower-middle-income countries. Just 2% targeted upper-middle-income countries.

The bulk of our financing targeted high-impact investment projects, with a special emphasis on climate action, women's empowerment, and quality jobs.

In 2019, the State of Finland issued Finnfund a long-term loan of 210 million euros, which Finnfund pledged to allocate entirely in climate and gender investments by the end of 2021. We will meet both targets ahead of schedule.

In terms of financing instruments, we issued 14 investment loans and made 15 equity investments. In addition, we made two investments in funds.

Finnfund's investment assets continued strong growth. At the end of 2020, Finnfund's investments were 710 million euros.

In 2020, we disbursed 149 million euros, of which 78 million is counted as Finland's official development assistance (ODA).

Undisbursed commitments totalled 226,8 million euros at the end of 2020. Additionally, we had made 151.4 million euros worth of investment decisions which had not yet proceeded to contract.

At the end of 2020, Finnfund's portfolio comprised 206 investment decisions. Some of them were new investments in existing projects.

How and where does Finnfund invest?

Finnfund invests in sustainable businesses which generate measurable development impacts in developing countries.

We require that all our investment projects are economically viable, environmentally and socially sustainable, and generate measurable development impact in their countries of operation.

Renewable energy is one of Finnfund's priority sectors. One of the investments is Valle Solar in Honduras. It produces clean electricity for nearly half a million families.

We vet each investment at the outset against Finnfund's sustainability criteria.

Our financing is always on market terms. We tailor our financing to the needs of each investee. It can be equity, mezzanine financing or debt.

We put special emphasis on sectors critical to sustainable development, namely clean energy, sustainable forestry and agriculture, and financial institutions. We can also invest in other sectors when projects meet our requirements and are aligned with our strategy.

The majority of Finnfund's investments are made directly in companies operating in developing countries. Besides such direct investments, we can make indirect investments through funds. Additionally, Finnfund finances banks and financial institutions.

Funds and financial institutions complement direct investments by mobilising risk financing for smaller businesses and projects in fragile countries, which often have no access to financial services.

The financial institutions funded by Finnfund are often focused on serving small and medium-sized enterprises, small-scale infrastructure projects, family businesses, or households. Well-managed funds can also provide companies with other types of support, such as expertise related to the industrial sector or environmental sustainability.

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

More information on Finnfund's investment process can be found on our website.

CASE

Fortum Charge and Drive India Private Limited
India

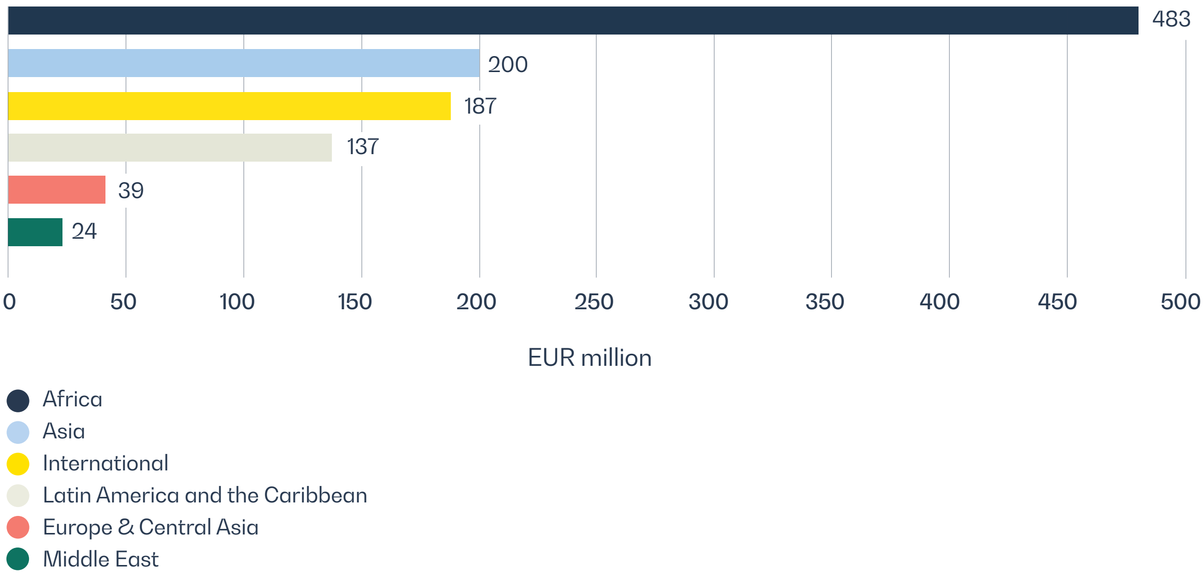
Speeding up charging infrastructure development and growth

● The World Health Organization reported in 2019 that 11 of the 12 most polluted cities in the world were in India. Much of the pollution is caused by vehicles. But there is hope: India is among the fastest growing electric vehicle markets globally. Consequently, there is a significant growth in demand for public fast charging infrastructure in the country.

Finnfund invested in a minority share of Fortum's public charging point operator, Fortum Charge and Drive India Private Limited. The company is a fast-growing e-mobility infrastructure provider, owning more than 70 public charging points at close to 40 locations in India, and partnerships with marquee business groups across the country.

The investment was Finnfund's first step into the e-mobility market.

Portfolio and undisbursed investment decisions and commitments
on 31 December 2020, geographical distribution



New investment decisions by country category (OECD, DAC)

Income level	Number of decisions	%	EUR million	%
Least developed countries	13	42	78	38
Low-income countries	0	0	0	0
Lower-middle-income countries	17	55	124	60
Upper-middle-income countries	1	3	4	2
TOTAL	31	100	206	100

List of investments in portfolio
as of 31 December 2020

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 on Finnfund's website. The list includes investments which agreements were signed by the end of the year.

Country	Investment	Sector	Finnfund's financing	Agreement year
AFRICA				
Africa	Africa Sustainable Forestry Fund L.P	Forestry		2011
Africa	African Edu Holdings (Maarifa Education Group)	Education	USD 4,133,093	2019
Africa	AfriCap Microfinance Investment Ltd	Financial institutions		2007
Africa	AfricInvest Fund Ltd. III	Other funds		2014
Africa	AfricInvest Fund Ltd. II	Other funds		2008
Africa	**AfricInvest Fund Ltd. IV**	**Other funds**	**USD 20,000,000**	**2020**
Africa	Afrinord Hotel Investments A/S	Tourism		2005
Africa	Agri-Vie Fund II (Pty) Ltd	Agribusiness	USD 10,000,000	2018
Africa	Atlantic Coast Regional Fund LLC	Other funds		2008
Africa	Catalyst Fund I	Other funds		2011
Africa	**ETC Group (Mauritius)**	**Agribusiness**	**USD 15,000,000**	**2020**
Africa	European Financing Partners	Financial institutions		2004
Africa	European Financing Partners IV	Financial institutions		2010
Africa	**European Financing Partners VI**	**Financial institutions**	**EUR 10,000,000**	**2020**
Africa	Evolution II (Mauritius) LP	Energy	USD 15,000,000	2017
Africa	Fanisi Venture Capital Fund S.C.A.	Other funds		2010
Africa	Fidelity Equity Fund II Limited	Other funds		2008
Africa	Fuzu	Telecommunications	EUR 999,690	2016
Africa	Green Resources AS (GRAS)	Forestry	USD 13,300,000*	2012, 2018, 2019
Africa	Hospital Holdings Investment B.V.	Health	USD 9,400,000	2018
Africa	Humania North Africa Holding Company	Health	USD 18,750,000	2019
Africa	**Kasha Global Inc.**	**Health**	**USD 1,000,000**	**2020**
Africa	**Miro Forestry Company, Ghana and Sierra Leone**	**Forestry**	**USD 15,921,221***	**2014, 2015, 2018, 2019, 2020**
Africa	Neoma Africa Fund L.L.C.	Other funds		2009
Africa	**New Forests Company Holdings I Limited**	**Forestry**	**USD 10,680,552**	**2019, 2020**
Africa	Norsad Finance Limited	Financial institutions		2011
Africa	SFC Finance Limited	Financial institutions		2014
Africa	Silverlands Fund	Agribusiness		2011
Africa	**Starsight (SPUL SUB 2 Ltd)**	**Energy**	**USD 12,100,000**	**2019, 2020**

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

Country	Investment	Sector	Finnfund's financing	Agreement year
Africa	Synergy Private Equity Fund II LP	Other funds	USD 15,000,000	2018
Egypt	Aten Solar Energy SAE	Energy	USD 6,000,000	2017
Egypt	Horus Solar Energy S.A.E.	Energy	USD 6,000,000	2017
Egypt	TAQA Arabia for Solar Energy SAE	Energy	USD 7,804,000	2017
Ethiopia	EthioChicken (AgFlow Poulty Limited)	Agribusiness	USD 10,000,000	2016
Ethiopia	M-Birr Etiopia	Financial institutions	EUR 1,000,000*	2011, 2014, 2016, 2017
Ethiopia	Schulze Global Ethiopia Fund I	Other funds		2014
Ethiopia	Sini Furniture Interior Design	Manufacturing		2015
Ghana	CAL Bank Limited	Financial institutions	USD 15,000,000	2018
Ghana	**First National Bank Ghana Limited**	**Financial institutions**	**USD 10,000,000**	**2020**
Ghana	Ghana Airport Cargo Centre Limited	Transport and storage	USD 1,000,000*	2014, 2016
Kenya	Elgon Road Developments Co Ltd	Tourism	USD 3,727,735* EUR 2,775,940	2009, 2011, 2015, 2016, 2018
Kenya	Lake Turkana Wind Power	Energy		2013
Kenya	Penda Health	Health	USD 2,495,225	2018
Kenya	Sanergy Inc.	Environmental technology	USD 1,249,999	2017
Madagascar	Societe JTF Madagascar SARL	Agribusiness	EUR 3,750,000	2019
Nigeria	**Access Bank PLC**	**Financial institutions**	**USD 32,000,000**	**2017, 2019, 2020**
Nigeria	First City Monument Bank Limited	Financial institutions	USD 5,000,000	2019
Rwanda	Hakan-Quantum Biomass Fired Power (Yumn Ltd)	Energy	USD 15,000,000	2016
Rwanda	New Forests Company (Rwanda) Limited	Forestry	USD 7,500,000	2016
Senegal	Polykrome	Manufacturing	EUR 4,000,000	2018
Sierra Leone	Goldtree	Agribusiness	USD 1,250,000*	2011, 2013, 2014, 2016, 2019
South Africa	Evolution One LP	Energy		2008
South Africa	**SPARK Schools (eAdvance Proprietary Limited)**	**Education**	**USD 5,200,000**	**2020**
Tanzania	Africado Limited	Agribusiness	EUR 2,500,000	2018
Tanzania	Kilombero Valley Teak Company Ltd	Forestry		2000, 2006,2009, 2010, 2011, 2012
Tanzania	New Forests Company (Tanzania) Limited	Forestry		2014
Tanzania	Precision Air Services	Transport and storage		2008
Tanzania	Sound and Fair Tanzania Limited	Forestry		2016
Togo	**Ecobank Transnational Incorporated**	**Financial institutions**	**USD 20,000,000**	**2020**
Uganda	New Forests Company (Uganda) Limited	Forestry		2015
Uganda	UpEnergy Uganda (UpEnergy Group)	Energy		2013
Zambia	Yalelo Limited	Agribusiness	USD 6,000,000	2019

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

Country	Investment	Sector	Finnfund's financing	Agreement year
ASIA				
Asia	**BOPA PTE. LTD.**	**Financial institutions**	**USD 9,500,000**	**2017, 2018, 2020**
Asia	Cambodia Laos Development Fund S.C.A.	Other funds		2009
Asia	Mekong Brahmaputra Clean Development Fund	Energy		2010
Asia	Tropical Asia Forest Fund	Forestry		2012
Bangladesh	Everest Power Generation Company Limited	Energy		2015
Bangladesh	Fun Factory Ltd	Manufacturing	USD 1,200,000	2017
Cambodia	Sathapana Bank PLC	Financial institutions	USD 10,000,000	2019
China	GreenStream ESCO	Energy		2014, 2016
China	LVDU Lapland Food (Fushun)	Agribusiness		2012
China	Norrhydro Hydraulic System (Changzhou) Co. Ltd	Manufacturing		2011, 2014
China	Peikko Constr. Access. (Zhangjiagang) Co., Ltd.	Manufacturing		2014
China	XTC Company Oy	Manufacturing		2010, 2011
India	Annapurna Finance Private Limited	Financial institutions	EUR 15,000,000	2019
India	Ashley Alteams India Limited	Manufacturing		2009
India	**Fortum Charge & Drive India Private Limited (e-Mobility)**	**Energy**	**EUR 4,000,000**	**2020**
India	Gemco Kati Exploration Pvt. Ltd.	Manufacturing		2016
India	Spica Metfab Solutions India Private Limited	Manufacturing		2009
India	SREI Equipment Finance	Financial institutions	EUR 15,000,000	2017
India	Stera Engineering (India) Private II	Manufacturing		2014
India	VME Precast Pvt. Ltd.	Manufacturing		2009
Indonesia	Frontier Tower	Telecommunications	USD 10,000,000	2017
Indonesia	SaraRasa Biomass	Manufacturing	USD 500,000*	2012, 2013, 2015, 2016, 2018
Laos	Burapha Agro-Forestry Co. Ltd.	Forestry	USD 10,000,000	2016, 2018
Laos	**Nam Sim Power Company Limited**	**Energy**	**USD 200,000**	**2011, 2020**
Mongolia	XacBank II LLC	Financial institutions	USD 5,000,000	2019
Myanmar	**Early Dawn Microfinance Company Limited**	**Financial institutions**	**USD 11,000,000**	**2020**
Myanmar	**Proximity Holding Company Pte.Ltd**	**Financial institutions**	**USD 4,666,371**	**2020**
Nepal	Dolma Impact Fund I	Other funds	USD 3,100,000*	2014, 2018
Pakistan	**Kashf Foundation**	**Financial institutions**	**USD 10,000,000**	**2020**
Philippines	mBank Philippines	Financial institutions		2011
Sri Lanka	Commercial Leasing and Finance PLC	Financial institutions		2015
Sri Lanka	**Softlogic Life Insurance Plc**	**Financial institutions**	**USD 7,500,000**	**2020**
Thailand	A.T. Biopower Co. Ltd.	Energy		2003
Thailand	Salo Tech Thailand Ltd.	Energy	**USD 2,756,250**	**2020**
Thailand	Thai Biogas Energy Company (TBEC Singapore PTE Ltd)	Energy		2009
Vietnam	Australis Aquaculture Vietnam Limited	Agribusiness	USD 9,500,000	2017
Vietnam	**Nafoods Group Joint Stock Company**	**Agribusiness**	**USD 5,000,000**	**2020**

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

Country	Investment	Sector	Finnfund's financing*	Agreement year
EASTERN EUROPE AND CENTRAL ASIA				
Bosnia and Herzegovina	ArcelorMittal (Toplana Zenica d.o.o.)	Energy	EUR 1,800,000	2018
Europe and Central Asia	SEAF South Balkan Fund	Other funds		2009
Georgia	Bank of Georgia	Financial institutions	USD 10,000,000	2019
International	Interact Climate Change Facility S.A. I	Financial institutions		2011
Russia	Peikko OOO	Manufacturing	EUR 2,000,000	2018
Serbia	Cibuk Wind Farm (Taaleri Tesla Ky)	Energy	EUR 10,740,971	2017, 2018
Ukraine	Aqueduct	Manufacturing		2010
Ukraine	Syvash Wind Farm (SyvashEnergoProm LLC)	Energy	EUR 15,000,000	2019
INTERNATIONAL				
International	Advans Group	Financial institutions	EUR 10,000,000	2019
International	Althelia Climate Fund SICAV-SIF	Other funds		2013
International	Arbaro Fund SCSp	Forestry	EUR 10,000,000	2018
International	Catalyst MENA Clean Energy Fund LP	Energy		2016
International	Dasos Timberland Fund I	Forestry		2010
International	GEEMF Global Environment Emerging Markets Fund III	Other funds		2007
International	Interact Climate Change Facility II	Financial institutions	EUR 20,000,000	2016
International	**Interact Climate Change Facility II B**	**Financial institutions**	**EUR 15,000,000**	**2020**
International	Interact Climate Change Facility S.A. I B	Financial institutions		2013
International	IPT Powertech	Telecommunications	USD 10,000,000	2019
International	**Jumo World Limited**	**Financial institutions**	**USD 11,996,500**	**2018, 2020**
International	Moringa S.C.A., SICAR	Forestry		2013
International	**OP Finnfund Global Impact Fund I**	**OP Finnfund fund**	**EUR 67,350,000**	**2020**
International	ShoreCap International Ltd. II	Financial institutions		2009
International	WWB Capital Partners, LP	Financial institutions		2012

Country	Investment	Sector	Finnfund's financing*	Agreement year
LATIN AMERICA AND THE CARRIBBEAN				
Argentina	Methax	Energy	USD 20,000,000	2017
Colombia	Forest First Colombia	Forestry	USD 10,000,000	2017
Ecuador	**Productora Cartonera S.A., Surpapelcorp S.A.**	**Forestry**	**USD 9,000,000**	**2020**
El Salvador	Bósforo Ltda. de C.V.	Energy	USD 15,000,000	2017
Honduras	Mezapa	Energy		2010
Honduras	Valle Solar Power Project	Energy		2015
Latin America and the Caribbean	Caseif II, Caseif Corporation II Ltd	Other funds		2007
Latin America and the Caribbean	Central American Mezzanine Infrastructure Fund	Other infrastructure		2009
Latin America and the Caribbean	Central American Mezzanine Infrastructure Fund II	Other infrastructure		2014
Latin America and the Caribbean	CIFI (Corporación Interamericana para el Financiamiento de Infraestructura, S.A)	Financial institutions		2004
Latin America and the Caribbean	SEAF Latam Growth Fund	Other funds		2008
Latin America and the Caribbean	The Forest Company	Forestry		2010
Mexico	Pro Eucalipto Holding S.A.P.I. de C.V.	Forestry		2014, 2015
Nicaragua	MLR Forestal de Nicaragua S.A.	Forestry	USD 10,000,000	2019
Paraguay	San Francisco S.A.	Transport and storage	USD 12,000,000	2017
THE MIDDLE EAST				
Iraq	Zain Iraq (Atheer Telecom Iraq Limited)	Telecommunications	USD 19,000,000	2018
Jordan	Arabia One for Clean Energy Investments PSC	Energy		2014
Jordan	Falcon M'an for Solar Energy LLC	Energy		2014
Jordan	FRV Solar Jordan Holdings IX B.V.	Energy		2016
Jordan	Jordan Solar One / Jordan PSC	Energy		2014
Turkey	Noksel A.S.	Manufacturing		1992

finnfund

Impact

Sustainability creates impact

Finnfund's mission as a development financier and impact investor is to build a more sustainable world by investing in sustainable and profitable companies in developing countries. Responsible companies play an important role in solving major global challenges such as poverty, inequality climate change and biodiversity - and in meeting the Sustainable Development Goals (SDGs) by 2030.

When financing private companies, financial profitability is key to creating impact. If the company fails 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.

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

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

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

From "do no harm" to positive impact

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

We believe that *what* the company does and *how* it works can generate positive development impacts. Sustainable, responsible business practices add value to investments and contribute to generating positive impact. They play a key role in the risk management of each project and in ensuring that the "do no harm" principle is respected in our investments. Responsibility is also a key value guiding our own operations, as explained on p. 39.

Finnfund's approach to development. Returns are recycled into new investments.

> **"Many projects that have a significant development impact would never take off without long-term financing provided by Finnfund."**
>
> *Helena Arlander*
> *Deputy CEO*

How does Finnfund promote Sustainable Development Goals?

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

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

IMPACT

1 NO POVERTY
- Eradicating poverty from the world by 2030

RESULTS

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

13 CLIMATE ACTION
- Financing for climate change mitigation and adaptation

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

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

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

ACTIVITIES

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

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

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

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

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

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

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

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

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

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- Responsible production methods

TOOLS

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

This picture shows examples of how Finnfund's investments promote the achievement of the 17 Sustainable Development Goals.

SUSTAINABILITY

Sustainability of Finnfund's investments

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

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

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

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

Quick adaptation to the COVID-19 restrictions

In 2020, the COVID-19 pandemic introduced new challenges also to our sustainability work, as the travel restrictions reduced our ability to carry out field visits and meet in person with our investees and stakeholders. Also, our investee companies around the world were faced with unforeseen challenges in their operational environments, and in keeping their employees and stakeholders safe and sound.

In May 2020, during the early stages of the pandemic, Finnfund issued internal guidance on how to carry on responsible investment during the pandemic. The goal was to ensure adequate environmental and social risk management, and continuity and sustainability of Finnfund and investee companies' operations during the crisis.

Finnfund also worked actively in preparation of sector-wide guidance on COVID-19. In August, also European Development Finance Institutions (EDFI) issued a guidance note regarding Environmental and Social Due Diligence and monitoring during the COVID-19 pandemic. In practice, all Due Diligence processes have been conducted remotely, relying on former processes or on assistance provided by external consultants and other experts. This has guaranteed our ability to maintain our high standards despite the pandemic.

"On the project level, the COVID-19 pandemic created new risks and, in many cases, aggravated the existing ones, such as work security. Finnfund, amongst the other development financiers, adapted new processes to the COVID-19 crisis and post-crisis periods to be able to identify and measure these risks. Realistic, doable actions were planned and implemented together with our investees. Internally, due to travel restrictions and work from home, virtual options to communicate and gather information were taken into use with the investees and amongst colleagues."

Riikka Thomson
Manager, Environmental and Social

Strong focus on climate

The year 2020 was also characterised by the preparation of significant further steps to tackle climate change. Finnfund started the preparation of its Climate and Energy Statement. The statement is being prepared in consultation with various stakeholders and will be published during the first half of 2021. Simultaneously, Finnfund participated in developing the EDFI Statement on Climate and Energy Finance, which was published in November 2020.

These statements point to clear road signs for the path forward for the coming years by setting ambitious climate and carbon neutrality targets for the Finnfund investment portfolio. They also introduce concrete targets, tools and processes including systematic climate risk assessments, enhanced focus on biodiversity, and increased transparency in reporting through adopting the Task Force on Climate-related Financial Disclosures framework (TCFD).

In 2020, Finnfund continued to develop the tools and processes for carbon accounting at both the investee and the portfolio level. We improved the way in which we perform the carbon footprint and portfolio calculations. Finnfund's goal is to account the net-emissions of our portfolio, i.e. to account the aggregated emissions and deduct the aggregated carbon sinks from the emissions. International standards are constantly under development, and Finnfund closely follows the development of, e.g. Science-Based Targets Net-Zero and Guidance for Financial institutions, and Greenhouse Gas Protocol Guidance on Carbon Removals and Land Use.

We believe that responsible business is both smart and good business.

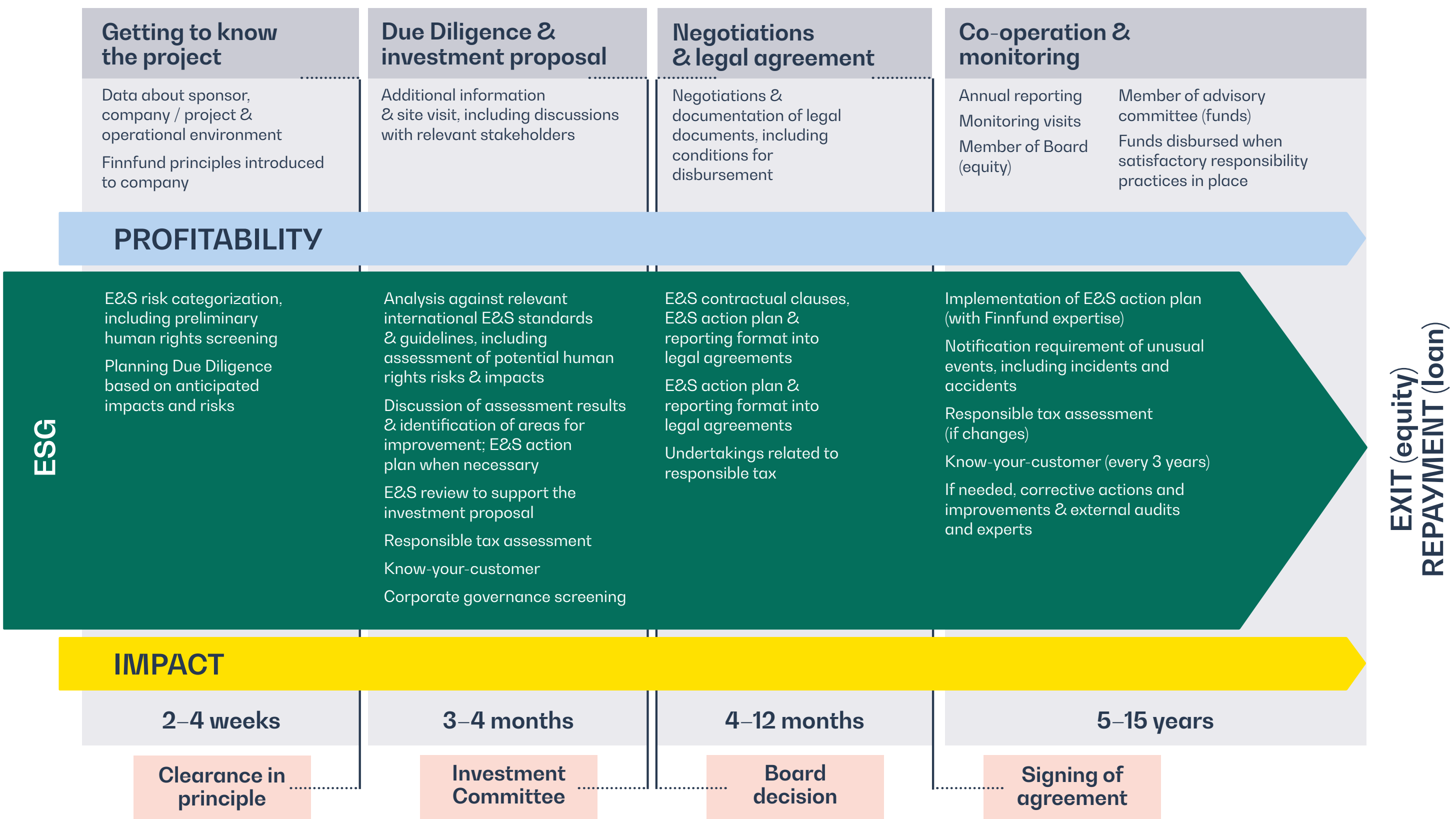
As part of this, we have focused particularly on our forestry and agroforestry investments and developed further the methodologies to account the absolute annual changes in carbon stocks of our forestry and agroforestry investments to capture the carbon sink, as our previous methodology only accounted the carbon sequestration. The carbon sink accounting is based on Intergovernmental Panel on Climate Change (IPCC) instructions of land use, land use change, and forestry, and the methodology and tool are developed together with some other EDFIs and will be published for public use in 2021. More information about our climate impacts can be found on p. 65.

Finnfund sustainability capacity

Finnfund has designated experts and teams working on environmental, social and governance matters as well as development impact. In 2020, the team for environmental and social responsibility consisted of five full-time specialists while the development impact team grew from three to four specialists. Governance matters were integrated into the workstreams of various in-house teams, namely investment operations and legal affairs. Responsible tax and Know-your-customer (KYC) processes are mainly taken care of by the legal team.

Finnfund's experts continuously follow the latest developments on sustainability and impact, and develop their capacities, as well as Finnfund's processes and tools. They actively participate in relevant training and networking sessions, including regular EDFI expert and working group meetings, and other training sessions and workshops. In 2020, our experts participated in training sessions, for instance, on impact assessment, fintech investments, living wage, COVID-19 response, as well as focus group sessions, for instance, on human rights, gender, and climate, and remote Due Diligence and monitoring practices. Due to the travel restrictions the sessions were organised virtually, which enabled Finnfund experts to participate in an increased number of sessions covering a wider geographical scope.

> **"To become a Finnfund investee, a company does not need to be perfect but ready to commit and keen on establishing clear sustainability goals and continuously improving its environmental and social management and performance."**
>
> *Seela Sinisalo*
> *Environmental and Social Advisor*



Finnfund investment process: Sustainability

Sustainability in Finnfund's investment process

Finnfund investee companies must commit to our sustainability requirements. Environmental sustainability, social responsibility and corporate governance (ESG) are integrated in all phases of our investment process from identification of potential investments to monitoring as shown in figure on p. 29.

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.

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.

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

Due to the COVID-19 pandemic, in 2020 Finnfund adapted an investment process to accommodate remote working methods, virtual site visits, sharing responsibilities with co-investors and engaging with the approved, international and local consultants.

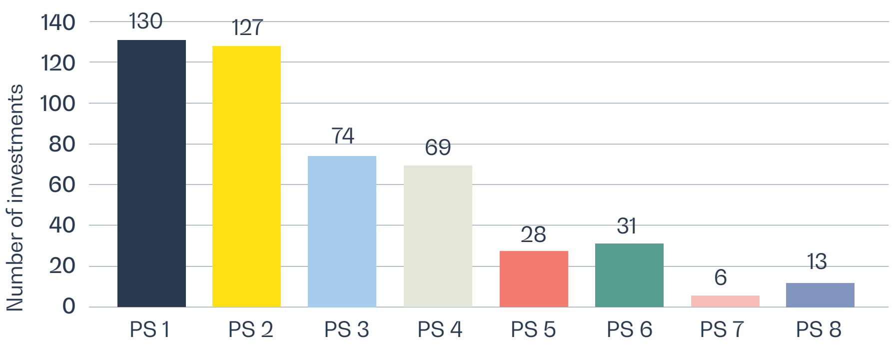
IFC Performance Standards as a basis for environmental & social assessment

Finnfund requires its investees to comply with Finnfund's Exclusion list, applicable host country laws and regulations as well as relevant international obligations. In addition, 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 to define Finnfund clients' responsibilities for managing their environmental and social risks is the IFC Performance Standards on Environmental and Social Sustainability (IFC PS) and the associated World Bank Group general and industry-specific Environmental, Health and Safety Guidelines.

The IFC Performance Standards address eight topics: Assessment and Management of Environmental and Social Risks and Impacts (PS1),

The IFC PS triggered by the Finnfund portfolio in 2020



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). Compliance with PS1 and PS2 is relevant to all medium- to high-risk investments, and compliance with PS3-PS8 is required when risks related to the specific themes are triggered by the project.

Other relevant international standards and principles include, for example, the UN Guiding Principles on Business and Human Rights – which also creates a basis for our Human Rights approach (p. 34) – as well as various internationally recognised certification standards such as the ISO management system standards, and the sector-specific certifications, such as FSC® (Forest Stewardship Council) for sustainable forest management, GlobalGAP for good agricultural practises, and SA8000 for social accountability. Finnfund is also a signatory to Investor Guidelines for Responsible Digital Financial Inclusion of the Responsible Finance Forum and requires adherence to responsible digital finance and client protection principles form its investees.

> **"We actively assist our investees to develop their policies and processes in regard to sustainability."**
>
> *Harold Gordillo*
> *Environmental and Social Advisor*

CASE

MLR Forestal
Nicaragua

Performance Standard 6 in practice – enhancing biodiversity

Finnfund pays close attention to biodiversity in its investments. We actively seek investments that enhance biodiversity and require our investees to adequately manage their biodiversity impacts.

The more sensitive the environment, the more stringent requirements are set for biodiversity protection and enhancement of critical biodiversity values.

We use digital tools, such as the Integrated Biodiversity Assessment Tool (IBAT) and consult local and international experts to carry out biodiversity-related assessments and monitoring. In addition to monitoring visits, in some of our projects we use remote sensing for monitoring of key habitats and good management practices.

MLR Forestal is an agroforestry company dedicated to the sustainable production of teak and cocoa in Nicaragua. It operates in the buffer zone of the Bosawas biodiversity reserve, home to endangered species such as Mono Araña (Ateles geoffroyi) and Loro Nuquiamarillo (Amazona auropalliata), among others.

MLR Forestal has set ambitious goals for protecting endangered species and sensitive habitats such as riparian forest, and to enrich the biodiversity by enhancing, connecting and protecting biological corridors to the protected areas, creating important links to the core reserve area and surrounding environment. To achieve this, the company has developed a Biodiversity Management Plan which includes a comprehensive baseline for dry and wet seasons as well as periodic monitoring of the specific biodiversity values.

The monitoring activities set in the plan include macroinvertebrates to monitor water quality in the main watercourses. The plan also aims to enhance the management and monitoring of key habitats such as riparian forests.

The plan was developed by a seasoned biologist, hired for the recently created department for sustainable development, with contribution and guidance from national and international experts, aiming to effectively conserve and enhance the critical biodiversity values in this unique area.

Enhancing dialogue and stakeholder engagement

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 and are important from a human rights perspective (p. 36). They enable investees to address and resolve disputes and grievances in a systematic manner.

In 2020, Finnfund launched a pilot project to gain better insight into the voices of individual stakeholders, including our investee companies' employees and local communities. Two of our investees began to prepare surveys by using technology provided by the Finnish company WorkAhead to ask anonymously their employees and local communities about their workplace, equality issues, living standards and so forth (p. 70).

Corporate governance is a precondition for sustainability

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 has just signed the Corporate Governance Development Framework 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.

Sanergy converts waste to useful end-products such as fertilizers, animal feed and biogas in Kenya.

Knowing our customer – prevention of money laundering and terrorist financing

The prevention of money laundering and terrorist financing is based on international standards. The aim of regulation is to have uniform procedures regarding customer Due Diligence that is observed in global financial markets.

The FATF (Financial Action Task Force on Money Laundering), an intergovernmental task force for combating money laundering and terrorist financing, which operates under the auspices of the OECD, plays an important role, as well as the European Commission, which for their part identifies countries at high risk of money laundering and terrorist financing. The prevention and detection of money laundering and terrorist financing is regulated in Finland by the Act on Detecting and Preventing Money Laundering and Terrorist Financing (444/2017 Money Laundering Act). In addition to the law and government regulations, Finnfund aims to follow the best industry practices in procedures against money laundering and the financing of terrorism.

The starting point for customer identification is Finnfund's risk assessment. In a separate risk assessment, Finnfund assesses the risks associated with Finnfund's operations from the point of view of preventing money laundering and terrorist financing. Based on the risk assessment and the requirements of the Money Laundering Act, Finnfund sets out the level at which the customer identification is conducted.

To be able to establish a customer relationship, Finnfund needs to carry out the Know-Your-Customer (KYC) Due Diligence process. In addition, the projects are monitored during the customer relationship to keep the identification information up to date. Some of Finnfund's projects require conducting enhanced customer Due Diligence which contains specific actions and checks prior to commencing the customer relationship as well as enhanced continuous monitoring. If Finnfund is unable to carry out the customer Due Diligence process, it may not establish a customer relationship, hence invest in the company.

Finnfund has two employers dedicated to conducting customer Due Diligence and monitoring work. They are assisted by a legal counsel and an investment officer from each project team. The Chief Legal Counsel serves as the person in charge of KYC and the contact person for money laundering affairs.

In addition to customer Due Diligence and monitoring, Finnfund ensures that each financing agreement contains clauses (satisfactory to Finnfund) related to preventing money laundering and combating the financing of terrorism. When necessary, Finnfund's staff are provided with instructions and training on matters related to the prevention of money laundering and terrorist financing.

Enhancing responsible tax practices

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

As stated in Finnfund's tax policy (2018), we require our investees to act responsibly and transparently in taxation matters. We encourage them to adopt their own internal tax policy. Finnfund does not accept aggressive tax planning or allow its investees, including investment funds, to engage in such activities.

The tax structures of all new investments are evaluated according to the policy, and such assessment is attached to the memoranda presented to the internal risk classification group and the Board of Directors. In the event of any ambiguity, our internal expert group gives its advice and, if necessary, external experts are also consulted.

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

We publish the tax footprints of the projects we finance, with details for each country at the portfolio level (see p. 71).

In autumn 2020, Finnfund launched an interim assessment of its tax policy to analyse the implementation, impact and potential development needs of the tax policy, including the tax footprint. In addition, the questionnaire used in the assessment of tax liability and the tax liability clauses, which are included in investment agreements, were updated.

More details about the implementation of Finnfund's tax policy can be found on our website.

"Through implementation of our tax policy, we have strengthened the role of tax responsibility in our sustainability work and enhanced the tax expertise of our own personnel. It has also helped us to systematise the analysis of tax effects of our investments."

Veera Mäenpää
Legal Counsel

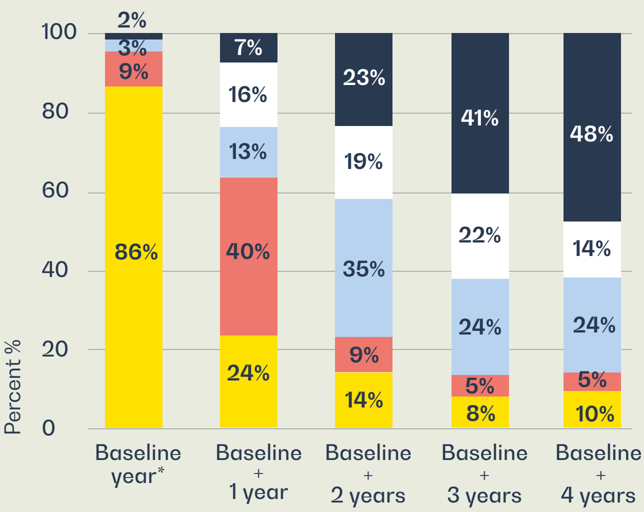
Supporting our investees to become more sustainable

When assessing potential investments, any gaps identified in the investees' management and performance against the applicable requirements is documented in an Environmental & Social Action Plan (E&S Action Plan) with a clear description of the necessary actions, expected outcomes and mutually agreed deadlines. The E&S Action Plan is annexed to the financing agreements and followed-up regularly.

To become a Finnfund investee, a company does not need to be perfect. Finnfund aims at investing in companies that are ready to commit and keen on establishing clear sustainability goals and continuously improving their environmental and social management and performance.

Typically, after Finnfund's investment decision, it takes the investee company 1–3 years to close the E&S Action plan and achieve the required level of performance as shown in figure below. The E&S Action Plan is developed together with the investee to ensure the realistic deliverables and timeline. A Finnfund E&S advisor offers advice and support during the process.

Progress of E&S Action Plan of Finnfund's investments as of December 2020



*The first year of investment, i.e. investments made in 2020.

Human rights

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

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

In 2020, despite the new challenges brought by the COVID-19 pandemic, we continued developing and implementing the HRDD approach and tools, albeit slower than anticipated. Shift, one of the leading centres of expertise in the UNGP, continued to support us but the intensity of our cooperation was affected by the pandemic.

Human rights risk screening

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

Still, impacts on some human rights, or rights holders, are not covered as comprehensively as others, including potential impacts on workers' rights beyond primary suppliers, on the right to privacy, civil and political rights, and children's rights. Therefore, to adequately manage the potential human rights impacts of our investments, we will sometimes need to go beyond our regular – IFC PS- and ILO CLS-based – environmental and social appraisal and perform additional human rights assessments.

Thus, we must identify the corresponding investments and contexts. For that purpose, we are using our screening tool, using public data and focusing on issues which are not fully covered by the IFC PS and ILO CLS. The criteria and sources of information of our screening tool are presented in the box below. We continue to develop, update and improve that tool, learning from our experience of using it.

The human rights impacts of COVID-19

Because of the COVID-19 pandemic, Finnfund and the European Development Financing Institutions (EDFIs) collaborated to define new environmental and social management processes, involving virtual site visits and meetings and an enhanced use of local consultants. Simultaneously, we tried to support our investees and share knowledge.

The pandemic itself and the measures taken to tackle it have potential impacts on many human rights, including on the right to life, the right to health, the right to a decent standard of living, workers' rights or the rights to assembly and movement. They can lead to retrenchments as well as weakening of workers' rights. To assess the impact on people, we used specific questionnaires and regular calls with our investees and discussed with other financiers and civil society.

Different countries and economic sectors – and their workers – are affected differently. Our investees took measures to protect their workers and ensure the continuity of their business, in countries where workers seldom benefit from social safety nets such as unemployment benefits, social security or public healthcare. Measures have included asking workers to take their paid holidays earlier than scheduled, working from home and providing the necessary technical means to do so, provision of protection equipment, strengthening of occupational health and safety teams and procedures, changes to working shift arrangements, testing of workers and communities, etc.

Unfortunately, some of our investees have had to negotiate reductions in salaries or even to stop their activities, leading to retrenchment of workers. Others have had no choice than to stop the hiring of casual or daily workers. Finnfund stressed the importance of identifying any possible alternative to retrenchment together with the representatives of workers and managing inevitable reductions in staff number in a responsible way, according to good international practices, in consultation with the workers and in a non-discriminatory manner.

We stressed to our investees that the pandemic should not result in non-respect of the existing labour rights-related commitments, and introduced new requirements in our investment agreements, such as development of COVID-19 emergency prevention and response plans, job protection plans, responsible retrenchment (if retrenchment is not avoidable), and enhanced reporting.

Criteria and sources of information of our human rights screening tool

The human rights screening tool helps identifying contexts which could exacerbate or increase the probability of potential human rights impacts, for example conflict or post-conflict situations, limited political freedom, risks to human rights defenders or high levels of corruption. The tool includes also criteria related to the project, the investee company, the business relationships or the products; grouped in 3 categories.

- contextual factors
- business relationships
- the project/investee

The tool includes questions such as:

- Is the project located in fragile/post-conflict/dictatorship or authoritarian/high corruption countries?
- Are there heightened risks for human rights defenders in the country/region?
- Do the sponsors (founders of the project) have negative human rights track records?
- Does the project/company have close relationships with businesses/operations operated by third parties that have high human rights risks/impacts?

To answer these questions, we use various public sources of information, such as the CIVICUS Monitor Index and Watch List, the Freedom House Democracy Index, and Human Rights Watch. Detailed information on our screening list can be found on our website.

Giving rights holders a voice

Addressing human rights risks and impacts requires timely information from the ground. Investees are committed to notifying 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. Rights holders can voice their concerns directly using our investees' grievance mechanisms or Finnfund's whistleblowing channel.

In 2020, we identified and corrected a technical problem in our whistleblowing channel that had resulted in some complaints being "hidden" in the system and caused some delays in processing but no loss of information or harm. Following the correction, all complaints were recovered and immediately addressed.

During the year, we received four human rights-related complaints regarding three investee companies and one potential investment. All complaints were about labour rights, such as gaps in protection of workers during the COVID-19 pandemic, salary arrears to managerial-level staff, excessive working hours and inappropriate treatment of workers.

Each complaint has been assessed by our complaints team and solutions sought with the investees. Complainants have also been informed of the process. In the case of the potential investment, Finnfund analysed the situation and decided to interrupt the investment process because of the issues raised.

In some cases, the complainant had first contacted the investee directly and only later escalated the issue to Finnfund. Some remedies may take longer to implement, for example due to difficult financial situations at the investee level, but Finnfund is actively following-up. For one investment, the analysis process is still on-going. In one other case, Finnfund hired an external adviser who investigated the matter in more detail and concluded that the complaint was not justified. Finnfund is planning to further develop the whistleblower process in 2021.

In 2020, Finnfund launched a pilot project with WorkAhead to gain better insight into the voices of individual stakeholders, including our investee companies' employees and local communities. More about the project on p. 70.

New Forests Company, a Tanzanian forestry company, piloted a new survey tool to collect feedback and data from their neighbouring communities. More about the project on p. 70.

"As a development financier, our duty is to go there where we are needed the most and where our financing can generate positive impacts. The nature and complexity of the financed activities in challenging geographies imply that while there is great potential for positive impact, there is also a potential for adverse human rights risks and impacts that can be severe. This is what we need to work with."

Sylvie Fraboulet-Jussila
Senior Environmental and Social Adviser

Training and capacity building

In addition to on-the-job training and learning, Finnfund's environmental and social advisors maintained their internal capacity through internal and external trainings on human rights, including on gender-based violence and harassment and living wage. An internal training session on Finnfund's human rights processes was also offered to all staff members.

In addition, our internal webinar series FF Talks also featured human rights themes such as workers' rights and the impact of the COVID-19 pandemic with SASK, the Finnish Trade Union Solidarity Centre, and discrimination against disabled persons in developing countries with the Abilis Foundation.

Collaboration and engagement

The human rights working group of the EDFI, in which we are actively involved, started harmonising human rights procedures in 2020. The working group has defined the scope and content of a guidance document on human rights, with associated tools and hired the Danish Institute of Human Rights to support the drafting effort.

Finnfund engaged with Finnish NGOs on human rights issues during the development of our sustainability policy, approved in February 2020, and on specific matters of human rights, such as the impacts of the COVID-19 pandemic on workers and labour rights. We also participated in an initiative organised by FIBS to assess our human rights report for 2019. The feedback we received, given by experts from Fairtrade Finland and Plan International Finland, included positive remarks as well as constructive critique on issues to be developed – all extremely useful for us.

We also provided inputs to a survey by the UN Special Rapporteur on the situation of human rights defenders, for a report that is expected to be published in spring 2021.

Challenges and next steps

The COVID-19 pandemic resulted in a significant slowing down of our human rights Due Diligence development activities, and a reorientation toward new methods of work and assessment of the impacts of the pandemic on the labour force of our investee companies. Many activities that were planned for 2020 – such as finalising our approach for investments via financial institutions, developing training materials, or identifying portfolio or sector-level salient human rights issues – have had to be rescheduled to 2021.

Example 1

Developing human rights management and capacity building

Several labour accidents – some resulting in fatalities – occurred at the construction site of a company which Finnfund indirectly finances via a private equity fund. All were immediately notified to Finnfund by the fund manager, in line with the accident reporting requirements included in our financing agreement.

Poor occupational health and safety is an endemic challenge in the region. Following the accidents, Finnfund worked with co-investors and with the fund manager within the already established Environmental and Social Advisory Committee, to discuss corrective actions.

The fund manager hired additional resources and required the company to hire services of international and local consultants, e.g. to organise health and safety trainings, develop a management system, and to implement practical measures.

While all challenges are not solved, the company is now a forerunner in the country and showing a good example in the industry. The work also contributes to building the capacity of the company, of the fund manager and, last but not least, of local occupational health and safety consultants. Such capacity building may contribute to improvements in the country's health and safety culture.

Example 2

Cybersecurity and potential impacts on the right to privacy and data confidentiality

Finnfund invests in companies that handle confidential client data. If these companies do not have adequate systems in place, the right to privacy and confidentiality may be impacted.

Such rights are not addressed by the IFC PS and ILO CLS. While banks and the confidentiality of their clients' information are strictly regulated, and the microfinance institutions are required to apply Client Protection Principles, hospitals and schools may not have robust information management systems.

Finnfund's environmental and social team, together with our IT experts have therefore developed a specific cybersecurity screening list, with the objective of pointing out the need to perform specialised cybersecurity assessments.

Example 3

Client Protection Principles

In microfinance, adverse environmental and social effects are seldom major concerns. However, the financed activities may have human rights impacts, such as discrimination in access to financing, weak protection of confidential information, or over-indebtedness.

Finnfund investees have been required to work towards the SMART Campaign certification to ensure their commitment to the Client Protection Principles (CPP). The SMART Campaign auditing and certification will be retired in April 2021 but the tools and the CPP resources remain fully integrated in the widely known Universal Standards for Social Performance Management (USSPM).

The commitment to CPP will continue to be key to Finnfund's approach to managing the potential human rights impacts of microfinance. In autumn 2020, Finnfund invited other EDFIs to work together to ensure that the compliance with the CPPs will be annually verified by social performance indicator (SPI) self-assessments, and regular licenced certification audits. Finnfund is also a signatory to Investor Guidelines for Responsible Digital Financial Inclusion of the Responsible Finance Forum and requires adherence to the associated principles, including responsible digital finance and client protection principles from its investees.

M-Birr is Ethiopia's first mobile banking service which offers low-income people access to the official money economy. Many of them live in rural area.

Sustainability of Finnfund's own operations

Sustainable, responsible business practices are the key not only in our investment operations but throughout our own operations, too.

We are committed to complying with the highest standards concerning business operations and the ethics thereof in our operations. Finnfund's operating methods, decisions and policies are based on four guiding principles: integrity, transparency, responsibility, and professionalism. The Code of Conduct (2019), together with the regulations, policies and statements – such as Sustainability Policy (2020), Human Rights Statement (2019), and Gender Statement (2019) as well as procedures concerning our business operations, form the operating culture and values of Finnfund.

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 in the future. 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.

The efficiency and profitability of operations are reported in detail in the Board of Directors' review of 2020, which is available in the annual report section of the financial statements (p. 91).

Due to the COVID-19 pandemic in 2020, Finnfund's profit for financial year 2020 plunged deep into the negative side being -26.4 million euros.

A detailed report on Finnfund's efficiency and profitability can be found in the Board of Directors' Report (p. 91) published in the 2020 Annual Review.

Key figures

	2020	2019	2018
Financial income (EUR million)	73.3	46.6	50.6
Net profit (EUR million)	-26.3	0.7	2.1
Return on equity (%)	-8.7	0.3	0.8
Equity ratio (%)	41.7	43.4	46.4

Formulae

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

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

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 2020, Finnfund reported that it paid a total of 17,400.80 euros in taxes. These taxes consist of taxation paid at source on work compensation and taxation paid at source on dividends. The taxes are divided as shown below.

The division of taxes:

Country	Type of tax	EUR
Panama	Dividends	843.44
Tanzania	Stamp duty	1,361.95
TOTAL		2,205.39

In autumn 2020, Finnfund launched an interim assessment of its tax policy to analyse the implementation, impact and potential development needs of the tax policy, including the tax footprint.

Tax revenue and other tax-like fees paid by companies to the public sector in developing countries constitute one of the development aims of Finnfund's work with the companies it finances. Finnfund's tax policy, introduced at the beginning of 2018, consists of Finnfund's principles and practices to assess and promote tax responsibility of the projects it finances. In autumn 2020, Finnfund launched an interim assessment of its tax policy to analyse the implementation, impact and potential development needs of the tax policy, including the tax footprint. More about the tax policy on p. 33.

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

In 2020, Finnfund made 32 new investment commitments in its target countries at a total value of 212 million euros. 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 6,000 euros to support Abilis Foundation's work for persons with disabilities and Plan International which builds a better future for children and young people in developing countries.

Reporting and accounting principles

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

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

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.

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 March 2020, the outbreak of the COVID-19 pandemic forced the organisation to move quickly to remote working, which has now continued over a year, and will obviously continue at least until autumn 2021. Continuous remote working has challenged corporate culture, leadership, management and staff resilience in an unprecedented way.

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 2020, Finnfund employed 84 people, six 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 83. All company personnel work in Finland at the company's office in Helsinki.

In 2020, 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. Six permanent employees left the company, and seven new ones began working at Finnfund. The outgoing turnover was 7.2% and the incoming turnover was 8.4%.

See table below for the duration of permanent employment relationships. The average duration of permanent employment relationships is eight years.

See table below for the age structure of permanent personnel.

The average age of employees is 44.

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+
6	11	14	15	9	12	10	7

The duration of permanent employment relationships is distributed as follows:

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

In 2020, personnel expenses amounted to 8.7 million euros, including pension and other personnel add-on costs, as well as voluntary personnel costs. The payroll total in 2020 was 7.4 million euros.

Equality

At the end of 2020, Finnfund employed 51 women (52 at the end of 2019), accounting for approximately 60.7% (64.2%) of all employees. 33 (29) employees were men, equating to approximately 39.3% (35.8%).

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

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

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

"2020 was a challenging year in many ways. Due to the COVID-19 pandemic, most of our staff worked from home, and as a company and an employer, we worked hard to support our staff through the pandemic, for instance, by strengthening our internal communication and organising new ways to meet and share information, as well as by providing protection equipment and training on ergonomics for everyone working at home, and so forth. I strongly believe that many of these new habits and innovations will stay with us also after the pandemic."

Minnamari Marttila
Director, Administration

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

Advans Group serves over 1 million clients with a staff of close to 7,500 employees in nine African and Asian countries.

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 2020, 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 incentive scheme and the key terms and conditions of the scheme annually in line with the applicable state ownership policy on remuneration.

In the 2020 financial statements, a provision was made for the cost of bonuses corresponding to approximately 14.25% of remuneration costs.

Competence building and training

Training is one way for Finnfund to achieve its targets. Finnfund takes a positive approach to personnel training and continuous competence development: employees require a diverse range of 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.

In 2020, when the whole organisation was working remotely due to the COVID-19 pandemic, special attention was paid to ICT and communication skills and training was provided comprehensively to all employees.

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 was used for the first time 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 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 2020, 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. During previous years, the most significant safety risks in the workplace have been assessed to be travel, health risks due to travelling and ergonomics.

In 2020, the situation changed rapidly due to the global travel restrictions and remote working and the most significant health risks have been assessed to be psychological stress and ergonomics.

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

In 2020, 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.

All new employees are given orientation to the organisation and their duties as they begin work at Finnfund.

Our environmental footprint

Finnfund monitors the carbon footprint of its own operations annually, covering the most essential emission sources. In principle, the most significant source of our emissions is business travel that accounts for approximately 90% of our emissions. Finnfund's operations require its staff to thoroughly familiarise themselves with investees and actively participate in management and monitoring of investments. This requires frequent visits to target countries. Finnfund is continuously developing electronic tools and encouraging personnel to use them.

However, in 2020, due to the travel restrictions caused by the COVID-19 pandemic, travelling of our staff was cut to a minimum, and most of the meetings and events were organised online. Though business travelling is an essential part of our work, we believe that the COVID-19 pandemic will increase opportunities for virtual meetings and decrease our flight emissions also in the longer term.

In addition, commuting decreased significantly due to the fact that the staff was teleworking most of the year. In principle, Finnfund seeks to mitigate the greenhouse gas emissions arising from commuting by encouraging personnel to use public transport by offering the possibility of an employer-subsidised commuter ticket and partial teleworking. For those who are using an electronic vehicle, Finnfund office's parking plot has a charging system in place that can be used by employees at their expense.

Since 2019, Finnfund's premises have been WWF Green Office certified. The company's operations consume small quantities of water and generate little waste. However, the company strives to improve the material efficiency of its operations by means such as reducing the consumption of office paper, promoting electronic document management and sorting waste, as well as by making use of energy-saving office equipment and lighting solutions.

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

Transparency and stakeholder engagement

Transparency is a key guiding principle in Finnfund's operations. Transparent information on Finnfund's operations is important to fulfilling its development mandate.

Finnfund publishes information on the principles, practices and results guiding its activities as widely as possible. Finnfund also encourages the companies it finances and its partners to be transparent and to adhere to good corporate responsibility practices.

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

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

In 2019, we conducted a stakeholder survey to ask for feedback about Finnfund's visibility and image, its mission and success with it, as well as the

Though business travelling is an essential part of our work, we believe that the COVID-19 pandemic will increase opportunities for virtual meetings and decrease our flight emissions also in the longer term.

quality of cooperation with stakeholders. All respondent groups emphasised Finnfund's climate work: they expect Finnfund to work on climate change mitigation and adaptation. At the same time, climate change was seen as the area of impact that already features strongly in Finnfund's work. Other themes of particular interest were financial profitability and continuity of business, and human rights and gender equality. The respondents expected Finnfund to be even more transparent and open, especially regarding measuring and reporting the development impact. Finnfund is planning to conduct the next survey in 2021.

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

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

In 2020, due to the restrictions caused by the COVID-19 pandemic, most of the meetings were organised as online events. During the year, Finnfund organised three thematic meetings of Impact Network, an open network of mainly Finnish experts interested in impact measurement and development issues, as well as a number of smaller meetings and roundtables, for instance, on the impacts of COVID-19, and climate issues as part of the preparation of Finnfund's Climate and Energy Policy.

In addition, Finnfund's internal debate series "FF Talks" gave the floor to both internal and external experts and civil society representatives on a monthly basis – the topics included e.g. the EU taxonomy for sustainable activities, impacts of COVID-19 on workers' rights, sustainability in coffee production, and the current situation of people with disabilities living in developing countries.

Governance, whistleblowing and internal audit

Finnfund's Code of Conduct (2019) applies equally to all Finnfund employees, supervisors and directors. Finnfund expects the entire personnel to comply with the Code of Conduct, act as an example to others and notify the company if the principles are violated.

Practical tools developed to support the implementation of the Code of Conduct include internal procurement policies and internal audit mechanisms.

In late 2019, Finnfund established an internal audit function which became functional in early 2020. In order to ensure the independence of the internal auditors in Finnfund's fairly small organisation, Finnfund's Board of Directors decided to contract a third-party internal auditor. BDO Plc. was appointed to the duty.

As mentioned above, Finnfund also has an online whistleblowing mechanism to report suspected wrongdoings in the operations of Finnfund or its investees. Finnfund's Board of Directors has appointed an internal Anti-Corruption and Grievance Committee to investigate corruption and misconduct and to deal with whistleblowing matters. The Anti-Corruption and Grievance Committee consists of a Chairman and two members, one of whom shall be a lawyer.

The Anti-Corruption and Grievance Committee may give recommendations on the matters it deals with. Allegations concerning the Managing Director shall be dealt with by the Board of Directors.

Development impacts of Finnfund's investments

As a development financier and impact investor, generation of positive development impacts is the raison d'être for Finnfund. As stated earlier (p. 25), responsible, innovative companies are needed to meet the Sustainable Development Goals (SDGs) by 2030.

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

Finnfund invests only in private companies that are expected to generate a positive net impact on society. Going forward, this means that we also take into account the inevitable negative impact of most businesses through, for instance, carbon emissions (p. 65).

You may read more about our approach on sustainability on p. 27.

In 2020, the COVID-19 pandemic introduced new challenges, as the travel restrictions reduced our ability to carry out field visits, and our development impact experts – as all our staff – were forced to telework most of the year (p. 27 and 41).

Impact management in Finnfund's investment process

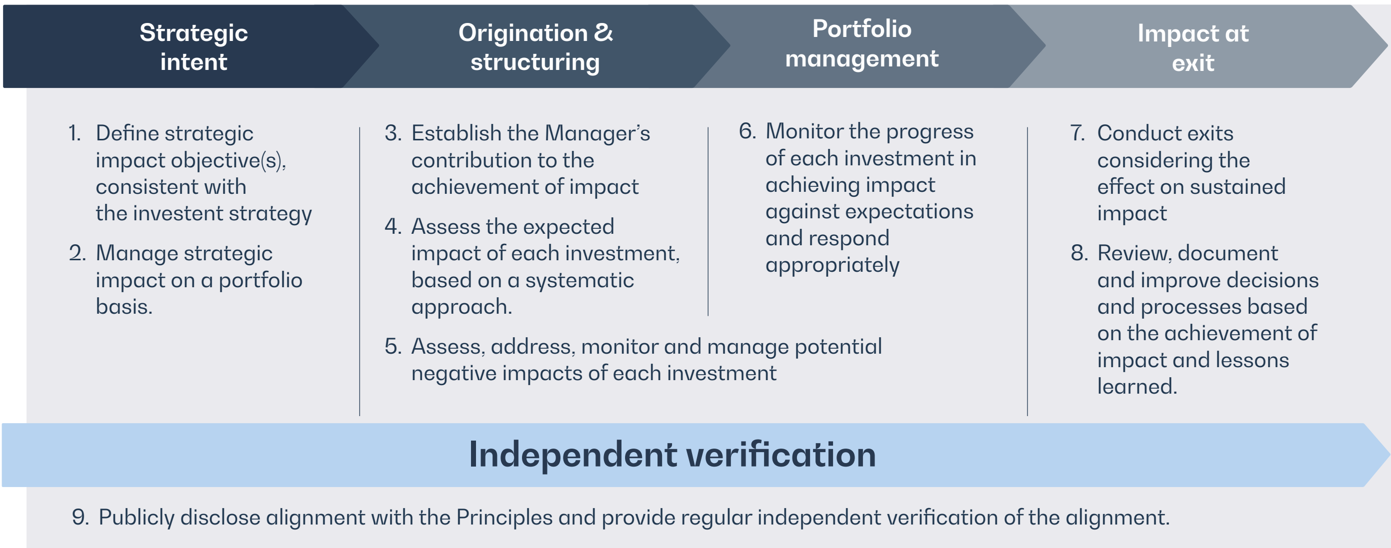
Finnfund assesses, measures and manages development impacts throughout the life cycle of every investment.

Finnfund was one of the first signatories to the Operating Principles for Impact Management (OPIM) in 2019. The nine principles of OPIM provide an internationally recognised framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle and require a robust investment thesis of how the investment contributes to achieving impact. Finnfund was and still is the only Finnish company among its over 110 signatories.

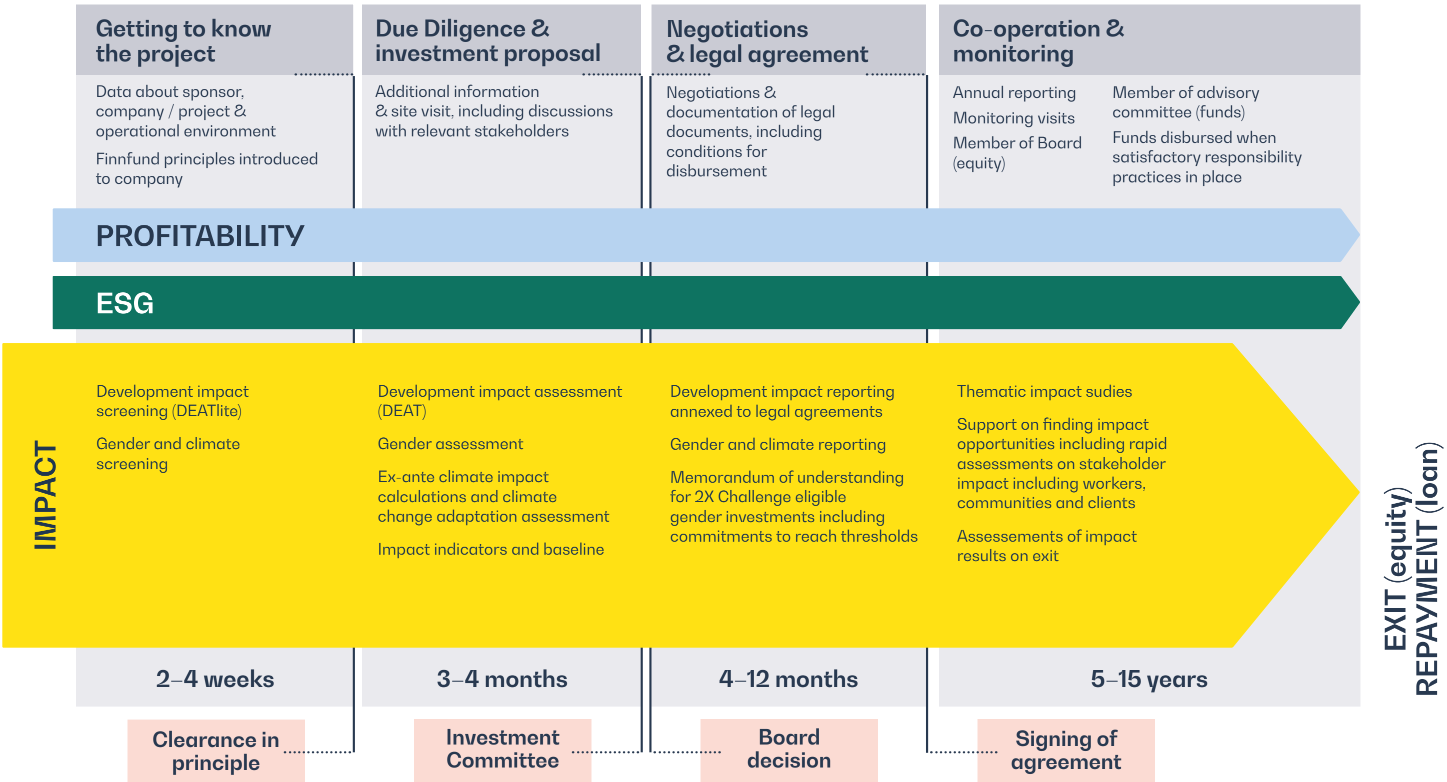
Our impact management framework embeds impact in our investment cycle, making impact considerations an integral part of decision-making in the organisation.

As required by Principle 9, Finnfund disclosed its first statement on its alignment with the principles in 2020 for public scrutiny, and the statement and processes will be externally verified in 2021.

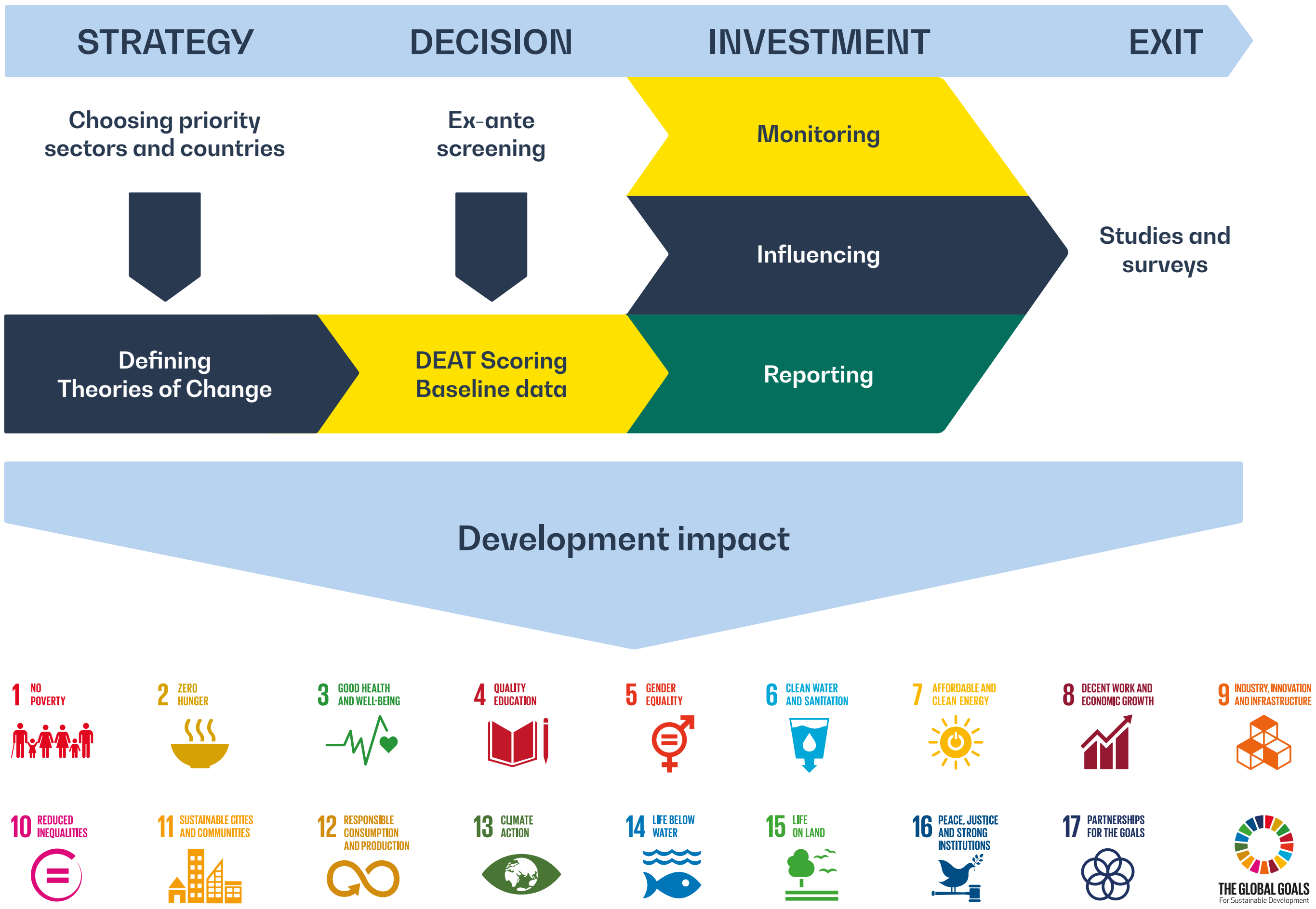
Impact is a combination of what the company does – its products and services – and how it operates – its sustainability practices.



Operating Principles for Impact Management (OPIM) provide a framework to ensure that impact considerations are purposefully integrated throughout the investment life cycle.
SOURCE: impactprinciples.org/principles



Development impact as part of Finnfund's investment process.



Driving impact throughout the life cycle of every investment.

Theories of change guide our impact theses

Finnfund's mandate is to enhance socio-economic development in developing countries. We have identified four key sectors that we believe are especially conducive for private sector operations and important for furthering the Sustainable Development Goals, namely renewable energy (p. 52), sustainable forestry (p. 55), sustainable agriculture (p. 58), and financial institutions (p. 62).

For each of these sectors we have created Theories of Change (p. 78-81). They guide our impact thinking when we assess investments before financing decisions, monitor projects annually, and commission specific impact studies and surveys. The Theories of Change, or impact pathways, describe how our financing and other inputs lead to changes in a company's performance, generating direct, indirect and wider economic, social and environmental impacts.

Theories of change lay the foundation for all impact assessments not only by helping us better identify potential direct and indirect impacts of investments, but also by defining their broader social impacts and contribution to the SDGs. Further, they help us identify indicators needed for monitoring assumed impact during our investment period.

Careful screening and impact scoring inform decision-making

We think financiers' leverage is at its greatest when they select what to invest in. Finnfund aims to invest in financially viable and economically, socially and environmentally sustainable projects that have the greatest possible impact. Only around 5% of investment leads screened by Finnfund's experts eventually receive our financing.

Our key tool for preliminary impact screening of investments before making an investment decision is Development Effect Assessment Tool (DEAT) The tool builds on our Theories of Change (p. 78-81) and the joint work conducted by development finance institutions. Each potential investment gets an impact score which consists of strategic relevance (e.g. its climate and gender impacts), contribution to markets and local economic development, and the additionality of Finnfund's financing.

Monitoring direct impacts capture changes in scale and reach

At the beginning of the investment period, Finnfund sets and collects baseline indicators for monitoring the direct impacts for each investment. During the entire investment period, our investee companies report annually on the agreed indicators which inform us if the investments are on track with their predicted impact performance.

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

Capturing indirect impacts through studies and surveys

With direct impacts being only a fraction of the total outcomes, identifying indirect impacts is a key aspect of understanding outcomes of our investments.

For example, our interest is not primarily in the number of jobs, but in the impact these jobs create. We are interested in jobs because we believe that access to formal jobs can lift people from poverty, like in the case of Lake Turkana Wind Power (p. 53), where our investment has created jobs that have transformed peoples' lives.

We monitor our energy investments through the gigawatt hours they generate. But it is not really the gigawatt hours we are interested in. We want to know what the impact of the additional energy is on the economy. And we have learned that in order for our energy investments to make an impact, the electricity they generate needs to be cheaper, more reliable and/or cleaner than the existing generation alternatives.

We care about the quality and the wider impact of the jobs we create. In 2020, we started a pilot together with Work Ahead, and with one of our investees we launched surveys to ask their employees directly about the decency of their work, the quality of their workplace and the impact the work has had on their lives. Simultaneously, another investee, New Forests Company, conducted a survey within their neighbouring communities. The work continues and the surveys will be extended to cover our investees' value chain as well. You may read about the results on p. 70.

The products offerings of our investees are often unique in the markets where they operate. We want to know how these products and services provided by our investees impact the lives of their clients using them. In 2020, we launched another pilot to better understand customer insights and how the lives of people are affected. The first results will be available in 2021.

Modelling wider impacts when measurement gets too complex

Understanding and measuring indirect impacts can be highly complex. This is where modelling can help. Finnfund uses modelling in estimating investment impact on indirect and induced jobs, value added across the economy, and in calculating the CO_2 emissions of our portfolio.

In 2020, we started piloting the new Joint Impact Model (JIM) (developed by development finance institutions and Steward Redqueen) which can be used to estimate the gross direct and indirect economic and environmental impacts of a portfolio of investments in developing markets. After the pilot period the tool will become publicly available for all impact investors and other interested parties.

In measuring our climate impacts (p. 65), we use modelling to calculate the aggregate emissions of our investments as well as the sequestrated CO_2 of our forestry investments (p. 28).

Financiers' influence varies

The figures in this report are the direct impact indicators which 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 or equity, etc.), the project's risk level, and the level of investors' involvement, including their ability to catalyse external funding, reduce risks or improve investee's sustainability practices.

However, an exception is made in the measurement of climate effects, where the international standards steer toward present results directly attributed according to Finnfund's share of the funding.

Finnfund rates additionality for each investment both in terms of its financial and non-financial additionality.

Impact data from investments covers year 2019

Due to the timeframe of collecting the data from Finnfund's investees, the figures representing the direct impact indicators on the following pages are mostly from 2019. Data for 2020 will be presented in the 2021 Annual Review.

As Finnfund's investment portfolio kept growing in 2019, so did the aggregate impact of our investments. The content of our investment portfolio is constantly changing, which is good to keep in mind if comparing figures across years (see summary table page on p. 76).

We make 20–30 new investments each year while we also exit old investments. Portfolio-level data gives a good overview of the type of investments in the portfolio even if it does not tell about the impact of an individual investment over time.

"Identifying indirect impacts is a key aspect of understanding outcomes of our investments. For example, our interest is not primarily in the number of jobs, but in the impact these jobs create."

Kaisa Alavuotunki
Head of impact

Fighting climate change and creating prosperity through energy investments

Renewable energy is one of Finnfund's priority sectors, and the reasoning behind this is clear. According to the Intergovernmental Panel on Climate Change (IPCC), 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.

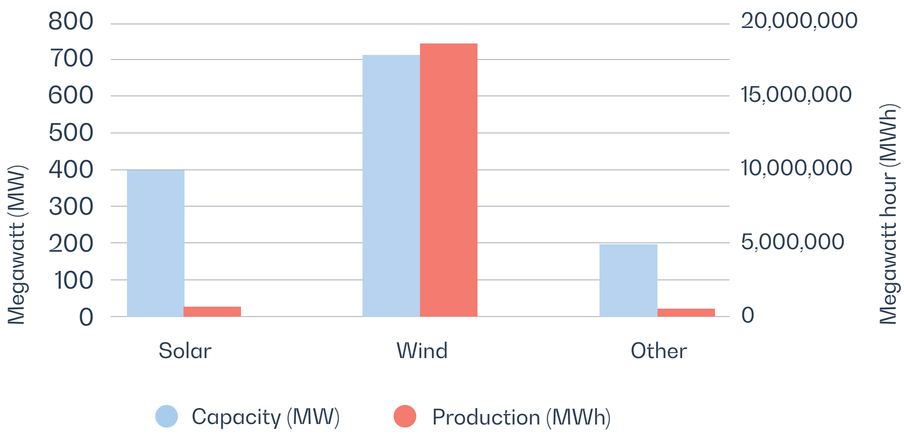
In addition, besides the obvious effect on climate, reliable and affordable supply of cleaner energy can generate significant social and economic impacts on all levels of society.

Finnfund invests in companies that generate cleaner, cheaper and more reliable energy than existing alternatives. At the end of 2020, Finnfund's energy portfolio and commitments stood at 182 million euros, (72%) three quarters of this in direct renewable energy investments. The energy portfolio represents 19% of the total Finnfund portfolio and commitments.

In 2020, Finnfund made two new investments in the energy sector – Areva Solar and e-Mobility – and one investment in our existing portfolio company, Starsight, a commercial and industrial solar power provider in Nigeria and Ghana.

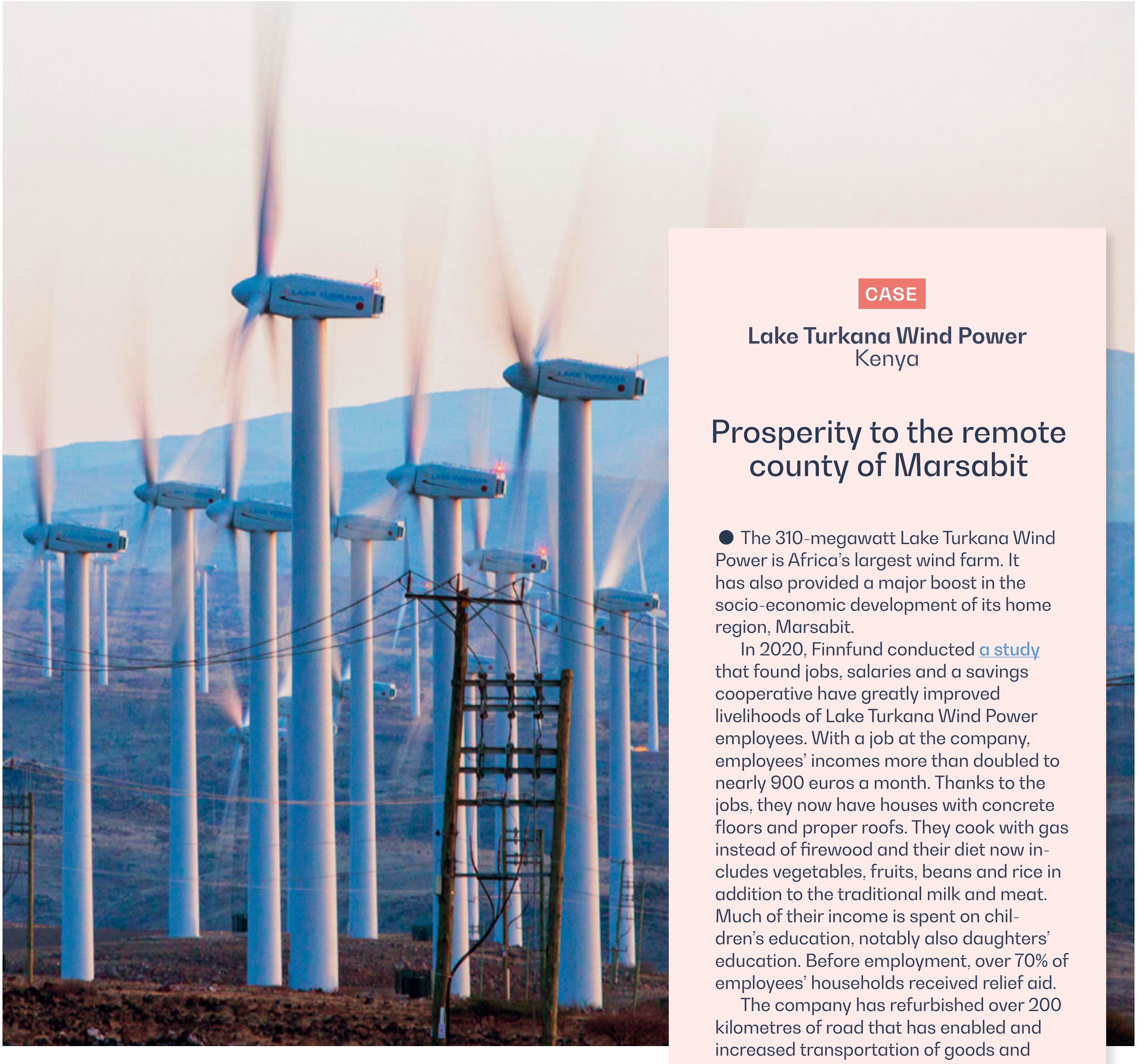
Areva Solar constructs a solar panel factory in Thailand which in turn will increase the availability of high-quality solar panels on the local market and improve reliability of the panels through a guarantee. E-Mobility (p. 17) expands charging network for electric vehicles in some of the biggest cities in India. Electric vehicles help decrease of the emissions in traffic preventing health problems and even reducing the number of premature deaths.

Production capacity and production in 2019, direct investments



"We want to understand also the wider socio-economic impacts of our energy investments. We are now using Joint Impact Model, developed by a group of development finance institutions, to better assess the indirect and induced employment and economic impacts of our energy investments"

Juho Uusihakala
Senior Impact Advisor



CASE

Lake Turkana Wind Power
Kenya

Prosperity to the remote county of Marsabit

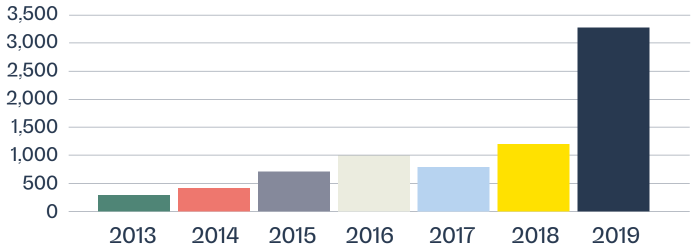
The 310-megawatt Lake Turkana Wind Power is Africa's largest wind farm. It has also provided a major boost in the socio-economic development of its home region, Marsabit.

In 2020, Finnfund conducted a study that found jobs, salaries and a savings cooperative have greatly improved livelihoods of Lake Turkana Wind Power employees. With a job at the company, employees' incomes more than doubled to nearly 900 euros a month. Thanks to the jobs, they now have houses with concrete floors and proper roofs. They cook with gas instead of firewood and their diet now includes vegetables, fruits, beans and rice in addition to the traditional milk and meat. Much of their income is spent on children's education, notably also daughters' education. Before employment, over 70% of employees' households received relief aid.

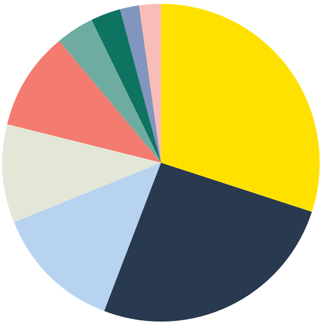
The company has refurbished over 200 kilometres of road that has enabled and increased transportation of goods and allowed people to move at affordable cost. Businesses have begun to flourish.

In addition, the company has built and refurbished educational, health and water facilities that have improved educational outcomes and reduced water-borne diseases and child mortality.

Energy produced (GWh), direct investments



Energy portfolio and commitments as of 31 December 2020
(total EUR 182 million)



- Solar power
- Wind power
- Bio power
- Funds, Renewable energy
- Electric power generation
- Off-grid power generation
- Hydro power
- Energy efficiency
- Electricity, gas and steam supply

KEY FIGURES 2019

Energy

- Our direct investees generated 3,300 GWh energy – equivalent to electricity consumption of 11.8 million people in operating countries.
- Nearly half of this is from Lake Turkana Wind Power that produced 1,500 GWh, which amounts to the annual electricity consumption of over 10 million Kenyans.
- At the end of 2019, our energy portfolio comprised 22 direct investments of which 4 were still under construction.
- In 2019, 5 new power plants started operations.
- 3 of them – each a 50 MW unit – generated 230 GWh which is equivalent to the annual energy consumption 150,000 Egyptians. These plants are a part of Benban, the largest solar complex in Africa, consisting of 32 plots, covering 37 km² – and generating approximately 3.800 GW of energy to 2.5 million people annually.

Energy to

11.8

million people by direct investments

1 NO POVERTY

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

13 CLIMATE ACTION

Sustainable forestry protects the climate and creates rural jobs

Forests play a key role in the fight against climate change and biodiversity loss. Forests sequester approximately one third of the carbon emissions stemming from the use of fossil fuels.

In addition, forests prevent erosion, help maintain clean water supplies and provide many sources of wellbeing for local communities. Sustainably managed forests also bring jobs, services and prosperity to people living in remote rural areas.

However, rapid deforestation, particularly in many parts of Africa and Latin America, is diminishing global forest cover at an alarming rate.

Finnfund is the leading DFI in sustainable forestry

Sustainable forestry has long been one of Finnfund's key sectors. At the end of 2020, our investments in forestry (portfolio and commitments) were worth 172 million euros, which represented 18% of the total portfolio and commitments. This is higher than any other development finance institution (DFI), making Finnfund a leading DFI investing in forestry.

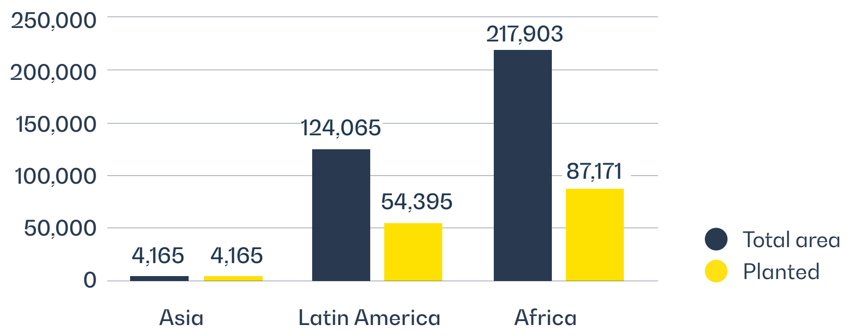
In 2020, Finnfund made additional investments in Green Resources in East Africa and Miro Forestry Company in West Africa. There were no new direct forestry investments.

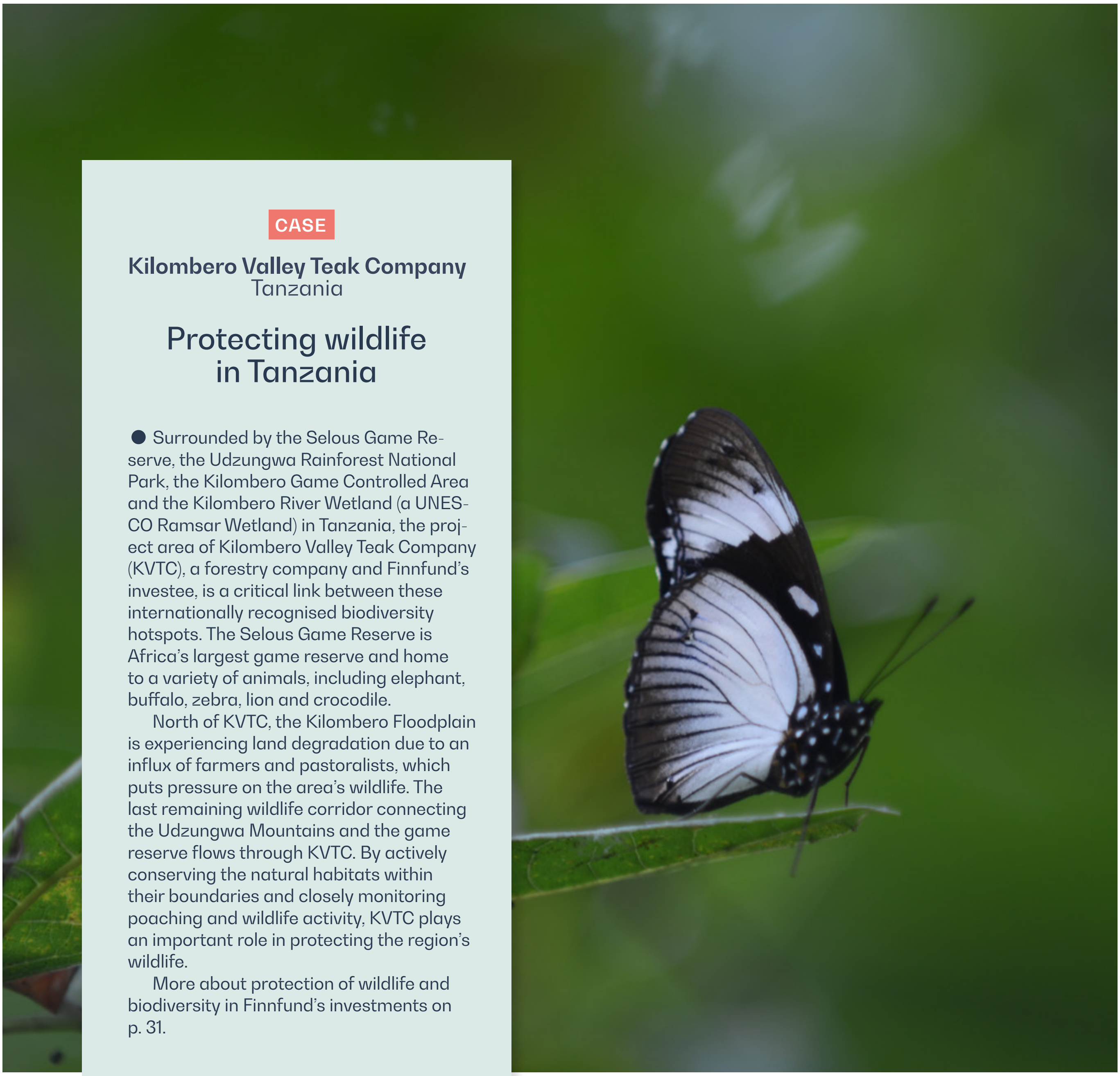
Most of the forests are FSC certified

Most of Finnfund's ten direct forestry investees are located in Sub-Saharan Africa and Latin America, where the 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.

As part of our sustainability work, we pay close attention to bio diversity. We seek investments that enhance biodiversity and require all our investees to adequately manage their biodiversity impacts. One example is MLR Forestal, as explained further on p. 31.

Hectares under management and planted in 2019





CASE

Kilombero Valley Teak Company
Tanzania

Protecting wildlife in Tanzania

Surrounded by the Selous Game Reserve, the Udzungwa Rainforest National Park, the Kilombero Game Controlled Area and the Kilombero River Wetland (a UNESCO Ramsar Wetland) in Tanzania, the project area of Kilombero Valley Teak Company (KVTC), a forestry company and Finnfund's investee, is a critical link between these internationally recognised biodiversity hotspots. The Selous Game Reserve is Africa's largest game reserve and home to a variety of animals, including elephant, buffalo, zebra, lion and crocodile.

North of KVTC, the Kilombero Floodplain is experiencing land degradation due to an influx of farmers and pastoralists, which puts pressure on the area's wildlife. The last remaining wildlife corridor connecting the Udzungwa Mountains and the game reserve flows through KVTC. By actively conserving the natural habitats within their boundaries and closely monitoring poaching and wildlife activity, KVTC plays an important role in protecting the region's wildlife.

More about protection of wildlife and biodiversity in Finnfund's investments on p. 31.

Rapid deforestation, particularly in many parts of Africa and Latin America, is diminishing global forest cover at an alarming rate.

KEY FIGURES 2019

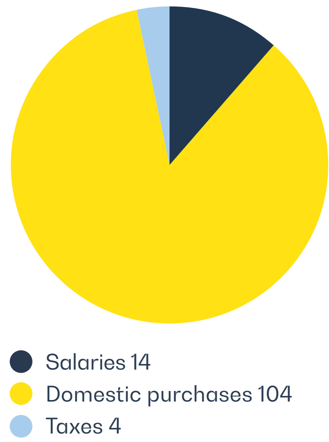
Forestry

- Finnfund's direct investees had approximately 350,000 hectares under sustainable management, of which 145,000 hectares were planted and growing, and approximately 100,000 hectares (29%) were protected areas.
- In addition, through funds Finnfund financed over 800,000 hectares of forest under sustainable management. A majority of this area is FSC-certified natural forest.
- Our direct forestry investees had 6,900 employees, of whom 1,200 (17%) were women.
- Our direct forestry investees contributed EUR 122.4 million to local economies through salaries, local taxes and through purchasing local goods and services.

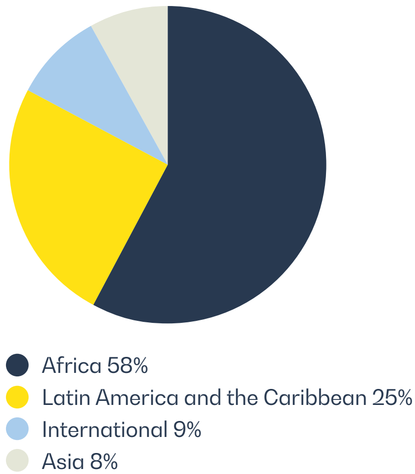
1.15

million ha of forest under sustainable management

Contribution to local economies in 2019
(total EUR 132 million)



Finnfund's forestry portfolio and commitments as of 31 December 2020
(total EUR 172 million)



Sustainable agriculture strengthens food security and rural development

Improving agricultural productivity is essential for feeding the world's growing population.

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.

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 poorly producing plants and plant varieties such as corn and cassava, mainly for their own and local consumption.

Another challenge faced by the farmers is crop and food waste. In developing countries, food waste occurs mainly at the early stages of the food value chain as farmers' capacity to process and store their crops is limited and inefficient logistical chains restrain the smallholder farmers' access to markets. For example, according to the World Bank, in Africa this leads to an estimated average loss of 25% of the agricultural production in Africa and the continent is a net-importer of food.

Formal jobs and training for women

At the end of 2020, Finnfund had 10 direct investments in agriculture and 16 indirect investments through funds. We also have invested in financial institutions that increase access to finance in this capital-scarce sector.

Agribusinesses usually operate outside cities and towns. They are often important and sometimes even the sole local employers. In many cases agribusinesses are strongly associated with the local economy, working directly with local small-scale farmers, providing a marketplace for local produce and helping farmers improve their productivity.

The jobs that agribusinesses create are also important from a gender equality perspective: the agribusinesses often generate jobs and provide training for women, strengthening their role in economies and helping them in supporting their families.

"The first step on the adaptation path is climate risk assessment that is increasingly applied in companies and among investors."

Anne Arvola
Development Impact Advisor

CASE

Silverlands
Africa

Mutually beneficial cooperation with smallholders in Zambia

Cooperation with smallholders is an important part of many of Finnfund's portfolio companies' businesses. For this cooperation to be sustainable, it has to be mutually beneficial.

In 2020, Finnfund commissioned an independent evaluation on the relationship between Silverlands Ranch, a Finnfund investee through Silverlands Fund, and their smallholders in Zambia.

The study found the cooperation to be mutually beneficial. Smallholders received access to veterinary services and dipping, training on animal husbandry and improved seeds for growing sorghum. The most important benefit was the reliable access to market with more transparent and better prices and immediate payments. This led to improved and more stable income. According to the smallholders, the greatest impact from improved livelihoods was the ability to pay school fees for their children.

Silverlands Ranch received a supply of healthy animals at a lower price compared to other sources, leading to higher revenues.

The study confirmed the findings from previous research: access to inputs, training and market are critical for smallholders. But the study highlighted also the importance of the quality of the cooperation. There was a strong relationship and trust between the parties that was nurtured by the long-term presence on the ground and kept promises.

Equally important for sustainable cooperation was the cost sharing agreements whereby the smallholders need to pay small amounts for the services to foster a sense of ownership.

Cooperation with smallholders

In 2020, Finnfund's investments continued to improve the capacities of smallholder farmers via outgrower programs. For example, Africado, a Tanzanian avocado producer works closely with local smallholders and EthioChicken, an Ethiopian poultry company, also continued to reach an increasing number of Ethiopians by providing better food security and an affordable protein source in their diet. EthioChicken is also a good example of a business promoting women's role in the economy, as the great majority of the farmers the company is working with are women.

In 2020, Finnfund invested in ETC Group (p. 60) and Twiga Foods, both aiming to contribute to improving the processing and logistical challenges smallholder farmers in Africa face by creating channels for their products to access markets.

In addition, in 2020, Finnfund invested in Proximity Finance, a microfinance company in Myanmar, which supports the development of the agricultural sector and reduction of rural poverty. Further, many of the microfinance institutions that we have funded directly or indirectly are increasingly focusing on smallholder loans.

CASE

ETC Group
Africa

ETC Group strengthens the agricultural supply chain in Africa

● Finnfund's investment in ETC Group supports a major agricultural supply chain of numerous African and Asian countries, which have particularly been affected by the pandemic. This contributes to food security for populations in need. The investment will allow the company to enhance collaboration with small-holder farmers to buy the staple food crops and increase farmers' linkages to international markets.

ETC Group has developed into a global player with a diverse portfolio of expertise across multiple industries, encompassing agricultural inputs, logistics, merchandising and processing, and supply chain optimization, with most of its footprint in Africa. ETC Group operates in 26 African countries and manages more than 400 warehouses and over 90 processing plants worldwide. It is important to support the agricultural commodity trade and the supply of key agri-inputs such as fertilizers to local farmers.

Climate change adaptation – a key element in sustainable agriculture

The unfair result of climate change is that people who are already the most vulnerable and marginalised will experience the greatest impacts. The poor and particularly women, primarily working in natural resource sectors such as agriculture in developing countries, are expected to be disproportionately affected by climate variability and change. 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.

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

Climate change adaptation is also a potential business and a precondition for any business to survive. The pressure to adapt comes from the physical changes that climate change will have in companies' and farmers' operational environment and also from the likely, but yet often unforeseen regulatory changes.

In 2020, we started work to elaborate a comprehensive climate change adaptation framework to support Finnfund's investment operations. This includes developing tailored tools for risk assessment and identification of climate change adaptation potential, which will be launched in 2021.

KEY FIGURES 2019

Agriculture

- 18,400 jobs in agriculture – 39% for women. This includes 7,200 jobs in direct investments and 11,200 in fund portfolio companies.
- Our investees worked with 4.4 million small-scale and livestock farmers, 87% of them women.
- Our investees produced 159,000 tons of food and 30 million chickens equivalent to the daily calorie intake of 520,000 people.
- 1.7 million loans to small-scale agriculture, of which 90% were granted to women.

18,400
jobs in agriculture

1 NO POVERTY | 2 ZERO HUNGER | 5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION | 15 LIFE ON LAND

Financial services empower people and create security

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 help to improve the livelihoods of people and businesses.

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.

Finnfund's investees 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.

Digital solutions enhance accessibility

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. Banking services also play an important role in empowering women and the poorest people.

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.

New digital solutions and agency banking models make banking services more accessible to groups of people in new geographic areas. 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.

COVID-19 crisis underlined the role of access to savings and loans

In 2020, the COVID-19 crisis also challenged the financial security of people and businesses, especially in low-income countries where publicly funded safety nets do not exist. Financial institutions have played a vital role in supporting financial services ecosystems as part of the response to the pandemic.

The crisis has underlined the role of access to savings and loans to mitigate negative coping mechanisms such as reducing food consumption, inability to buy medicine, or children no longer attending school. The COVID-19 crisis has also been facilitating the use of digital financial services, as people have looked for new ways to access financial services during lockdowns and physical distancing.

Fostering women's financial empowerment

Gender equality and, more specifically, women's improved access to financial services is an increasingly significant criterion for us in selecting new investments. All the investments are assessed through 2X Challenge criteria, which looks both at the investee's ability to reach women and lower barriers for access but also at a financial institute's own organisation and how it supports women at the workplace (p. 74).

CASE

Early Dawn Microfinance Company
Myanmar

Financial inclusion in Myanmar

● Myanmar is one of the poorest countries of Southeast Asia where almost 70% of the population lack access to formal financial service.

Finnfund invested in Early Dawn Microfinance Company (DAWN), the third largest microfinance company in Myanmar in terms of client outreach. The financing will support the company's expansion in underserved townships and peri-urban areas.

During the pandemic DAWN acted quickly in mobilizing a COVID-19 response team and rolling out a business continuity plan. They have for example created a new product called "Emergency Top-Up Loan" to support clients' businesses that have been impacted negatively by coronavirus. The company has also rescheduled repayments, provided prepaid loans and set up helpdesks in response to the pandemic.

DAWN has a strong gender focus: Almost all of their clients are women, and 70% of the staff are women. DAWN offers a clear career path from loan officers to trainers and from middle management to senior management. 66% of senior management and 60% of board members are female.

Most microfinance customers in our portfolio companies are women. The proportion of female customers is clearly higher for the smallest microloans as 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 10% in India to a well-balanced 50% in many investees in Africa.

New investments in Nigeria, India, and Myanmar

In 2020, Finnfund made eight new investments in financial institutions. These include additional investments in the existing portfolio companies such as Access Bank, BOPA, and Jumo. New investments were made in Early Dawn Microfinance, Proximity Finance, Kashf Foundation, Softlogic Life Insurance, and First National Bank of Ghana (FNBG).

Early Dawn (p. 63) and Proximity Finance are microfinance institutions in Myanmar. Early Dawn was originally founded by Save the Children Myanmar and is serving the low-income segments and small businesses in underserved townships and peri-urban areas. Proximity Finance is Myanmar's first farmer-focused finance institution and Finnfund's first equity investment in Myanmar.

Kashf Foundation is one of the leading microfinance institutions in Pakistan with a strong focus on women empowerment and has so far enabled more than a million low-income families across the country to improve their standard of living. Softlogic Life is the only low-cost life and health insurance provider in Sri Lanka, that is, together with telecoms and post services, aiming to reach the most vulnerable people. Investment in FNBG helps Ghana's nascent mortgage market by improving a bank's ability to increase its housing loan offering also for low-income customers in the future.

KEY FIGURES 2019

Financial institutions

- 5.2 million micro and SME loans – total value EUR 9.8 billion.
- 3.4 million mobile loans – total value EUR 101 million.
- 645,000 mortgages, of which 38% to women.
- 65% of micro and SME loans were paid to women – 30% of mobile loans paid to women.

Micro and SME loans to

5.2

million people

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

Climate impact of Finnfund's investments

Mitigation of climate change and support for adaptation to it are among Finnfund's key objectives and development achievements. This is reflected in Finnfund's key sectors as described earlier, as well as in our investment process and the development impact assessment of our investments.

As part of this, Finnfund is committed to investing 105 million euros in 2019–2021 in businesses which mitigate climate change and help people in developing countries adapt to it. The amount is one half of the 210 million euro loan issued to Finnfund by the Finnish Government in 2019, the other half is ear-marked to investments to promote gender equality.

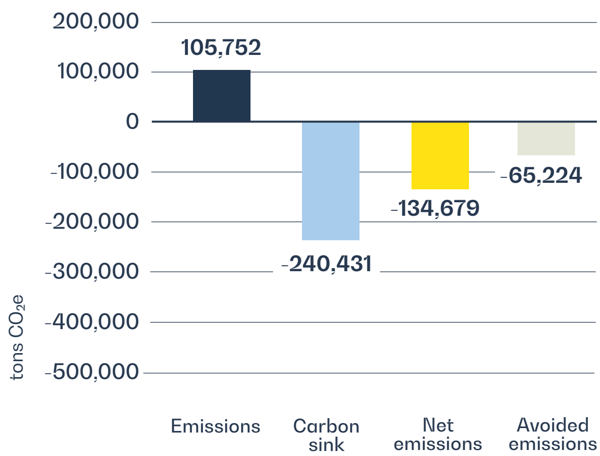
Finnfund's investments are also a key part of Finland's official climate-related financing. In 2019, Finnfund contributed 21.9 million euros to Finland's official climate financing.

We assess the climate effects of every investment. As part of due diligence, Finnfund assesses the scope 1, 2 and 3 upstream climate effects of every potential investment. The assessment is based on the GHG protocol principles and focuses on investments with high climate effects, hence the accounting is based on primary data collected from the companies. Finnfund also assesses annually the scope 1, 2 and 3 upstream climate effects of every investment during the investment lifecycle. The climate effects are assessed with input/output models that have country- and sector-specific emissions factors.

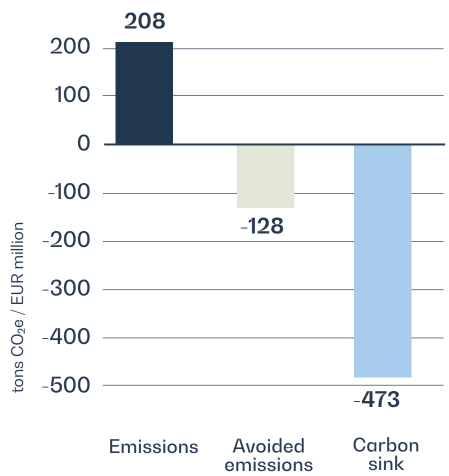
As mentioned above (p. 28), the year 2020 was characterised by the preparation of significant further steps to tackle climate change. Finnfund started the preparation of its Climate and Energy Statement and continued to develop the tools and processes both in terms of mitigation and adaptation.

In 2020, Finnfund also started to collect the carbon credits data associated with its investments. Some of our investments sell carbon credits, and we follow the development of GHG protocol instructions on how carbon credits should be taken into account in our reporting. So far, this data has not been included in the results.

Annual climate effects of Finnfund's investments in 2019: emissions, carbon sink, net emissions, and avoided emissions



Annual emissions, avoided emissions, and carbon sink per EUR million invested in 2019



KEY FIGURES 2019

Climate impact

- Finnfund's attributed annual portfolio net emissions are negative: -134,679 tCO2e. On absolute terms, our investments remove more carbon from the atmosphere than they emit.
- Portfolio emissions were 105,752 tCO_2e which is equivalent to 208 tCO_2e per invested million. These were 23% higher than in the previous year. The amount of emissions increased because the portfolio grew, and the emission intensity stayed the same as in 2018.

Annual net emissions

–134,679

tCO_2e

- Carbon sink was -240,431 tCO_2e which is equivalent to -473 tCO_2e per invested million. Most of the forests in Finnfund's portfolio are still relatively young, which means that the average annual growth of the forests is larger than what is harvested. This leads to a significant carbon sink. Finnfund also calculates the carbon stored in harvested wood products.
- Finnfund's renewable energy investments avoided 65,224 tCO_2e. These investments provided much needed clean energy and avoided the usage of fossil fuels. For example, in Kenya the usage of fossil power plants has been lower since the start of Lake Turkana Wind Power in 2018.

Adaptation to and resilience in a changing climate

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. Adaptation plays also a key role in many of our investments in sustainable agriculture (p. 58).

Currently, we apply the ODA criteria, such as OECD DAC Rio Markers for Climate, to indicate a project's contribution to climate change adaptation. However, in 2020, we started work to elaborate a comprehensive climate change adaptation framework to support Finnfund's investing operations. The framework will be launched in 2021.

Climate change mitigation

In 2020, Finnfund continued to develop the tools and processes for carbon accounting at both the investee and the portfolio level (p. 28). Finnfund's goal is to calculate the net-emissions of our portfolio, i.e. to calculate the aggregated emissions and deduct the aggregated carbon sinks from the emissions.

We have focused particularly on our forestry and agroforestry investments and developed further the methodologies to calculate their absolute annual changes in carbon stocks to capture the carbon sink, as our previous methodology only calculated carbon sequestration. Carbon sink accounting is based on Intergovernmental Panel on Climate Change (IPCC) instructions for land use, land use change, and forestry, and the methodology and the FRESCOS tool are developed together with some other EDFIs and will be published for public use in 2021.

Information about the environmental footprint of Finnfund's own operations on p. 45.

"We are excited about the new FRESCOS tool that will enable better calculation and understanding of the carbon removals within our portfolio. The tool and the methodology will also be publicly available for everyone"

Kenneth Söderling
Impact Analyst

Sustainable forestry and agriculture play an important role in climate change mitigation and adaptation.

Good jobs urgently needed

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 are among Finnfund's key goals.

Particularly in Africa, the population grows much faster than new jobs can be created. The International Labour Organisation (ILO) has estimated that the number of productive jobs in the continent would have to increase by over 300 million – or some 26 million per year – until 2030, more than doubling the number of existing jobs by 2030. The United Nations estimates that 38% of the employed population of Sub-Saharan Africa lives in poverty.

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.

The COVID-19 crisis has highlighted the importance of good jobs and responsible employment policies. In many developing countries where the government is not able to provide basic services such as healthcare and the social security system is weak, companies have in many cases played an important role in supporting people to stay safe and provide food and other basic goods for their families (p. 35).

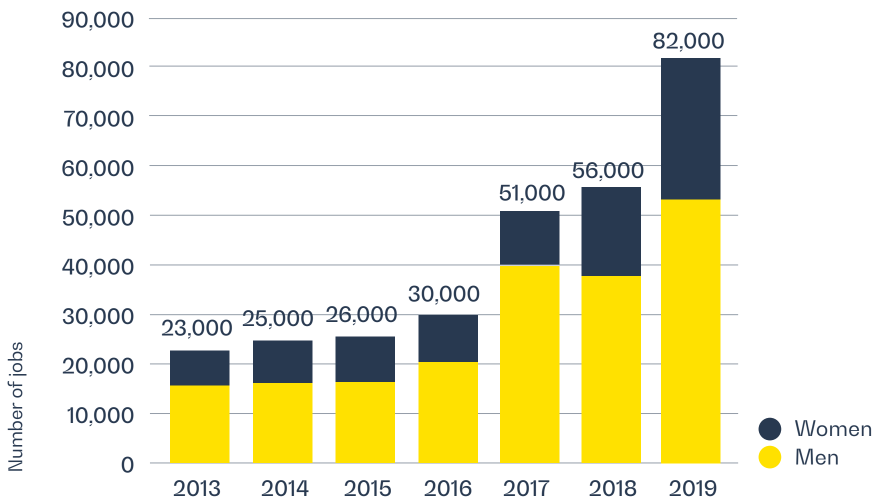
Commitment to ILO labour standards

The international definition of "job quality" and "decent jobs" is still being developed. As explained on p. 30, Finnfund assesses the compliance of its potential investments against the ILO Core Labour Standards and the IFC Performance Standard 2 on labour and working conditions (as applicable). We also take into account the potential impacts on human rights before committing to financial support (p. 34).

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

In 2020, Finnfund started piloting a novel way of accessing job quality information in two of our existing investees – collecting perspectives directly from the employees and other stakeholders, such as local communities and smallholder farmers in the supply chain. We utilised an online survey tool developed by Work Ahead (p. 70), a Finnish tech company that enables data collection anonymously from people in their own language focusing on decent working conditions and information on poverty. Going forward, the conducted pilots help us design a more diverse set of data collection methods and the approach proved useful, especially in circumstances where our visibility to the different stakeholder groups is limited.

Jobs in direct investments in 2019



KEY FIGURES 2019

Jobs

- Our direct investments supported 82,000 jobs, of which 35% for women.
- Fund portfolio companies supported 118,000 jobs, of which 38% for women.

200,000
supported jobs in total

Export Trading Group (ETG) is a large and diversified agricultural commodity trader and processor in Africa.

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

- Improved access to export-oriented markets, and to international finance by meeting international standards referred to by buyers and financiers
- Improved productivity and innovation through better work conditions
- Improved compliance and reputation management
- Reduced skills shortages, turnover and absenteeism.

SOURCE: Ergon Associates, et al. (2019): Decent Work and Development Finance

CASE

New Forests Company
Tanzania

Surveys can strengthen the relationship with neighbouring communities

● Is the company's impact on your community more positive or negative? What is your family's main source of income? Where do you plan to invest the money from the tree sale first?

These are some examples of questions that New Forests Company (NFC), a Tanzanian forestry company, asked their neighbouring communities. The survey was part of a pilot project initiated by Finnfund in 2020, aiming to support its investees to better collect and analyse feedback and impact data from their stakeholders, that can, at the end of the day, provide valuable information for the development of their operations, policies and processes. In addition, the survey can strengthen the relationship with important stakeholders such as workers, neighbouring communities, and suppliers.

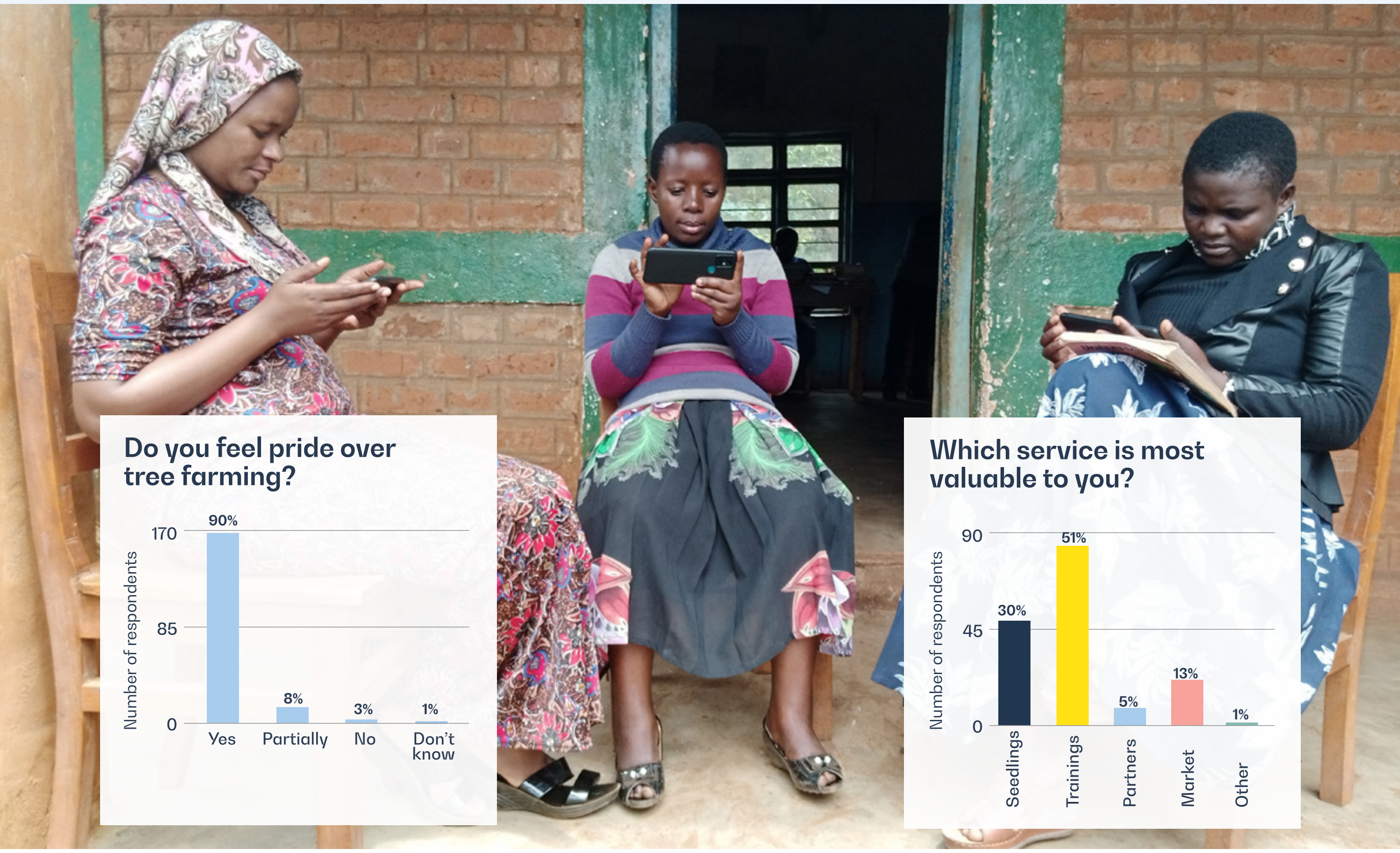
The survey was carried out with video survey technology developed by Work Ahead, a Finnish tech company, and it allows people to hear the question over video in their own local language – and answer 100% anonymously by pressing a visual icon on a device screen.

NFC works closely with their neighbouring communities: in addition to providing much-needed jobs, the company buys trees from smallholders, and as part of their livelihood programmes, provides seedlings and training on tree planting as well as support to beekeeping, and establishing village loan and savings schemes.

The survey provided valuable information both for NFC and Finnfund. A clear majority of respondents, 187 in total, said the company has positively impacted both the life of their family (69%) and their community (67%). The most valued positive effects were education (36%), improved health (26%), and improved housing (16%). Some people also highlighted effects on environment (12%), respect for women (6%), and more money (4%). An impressive 90% of them said they feel pride over the tree planting.

A clear majority of them (88%) feel that they get support from the company. The most valued services provided by NFC were trainings (51%) and seedlings (30%). Almost a half of all respondents (49%) gave a five-star-rating, the maximum, for the support the company provides for tree farming. An impressive 97% of the respondents saw at least partial progress in women's empowerment.

For most of the respondents (55%) the main target for the money received from the trees was their children's education. Read more about the survey and approach on our website.



Tax revenue for making societies stronger

Tax revenue and other tax-like fees paid by companies to the public sector in developing countries constitute one of the development aims of Finnfund's work with the companies it finances. Such revenue allows a country's government to structure and provide services such as education, health care and infrastructure for its people. Finnfund's approach on responsible tax is based on our tax policy (p. 33).

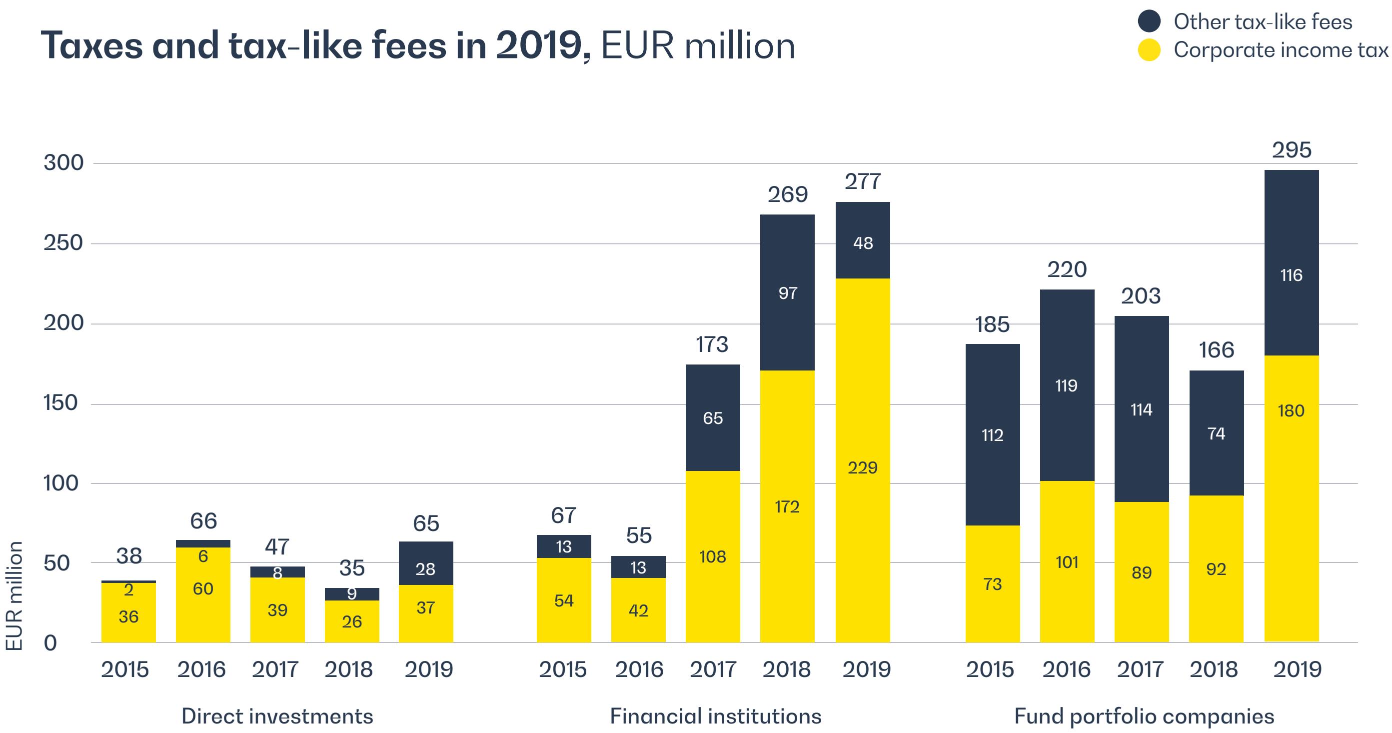
As part of this approach, we collect data from our investees and publish the tax footprints of the projects we finance, with details for each country at the portfolio level.

Companies mobilise many types of revenue streams

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

This highlights that the private sector and its income/value creation processes are often an underestimated source for government revenue creation and play an important role in achieving the Sustainable Development Goal 17 which targets strengthening domestic resource mobilisation to improve domestic capacity for tax and other revenue collection.

Taxes and tax-like fees in 2019, EUR million

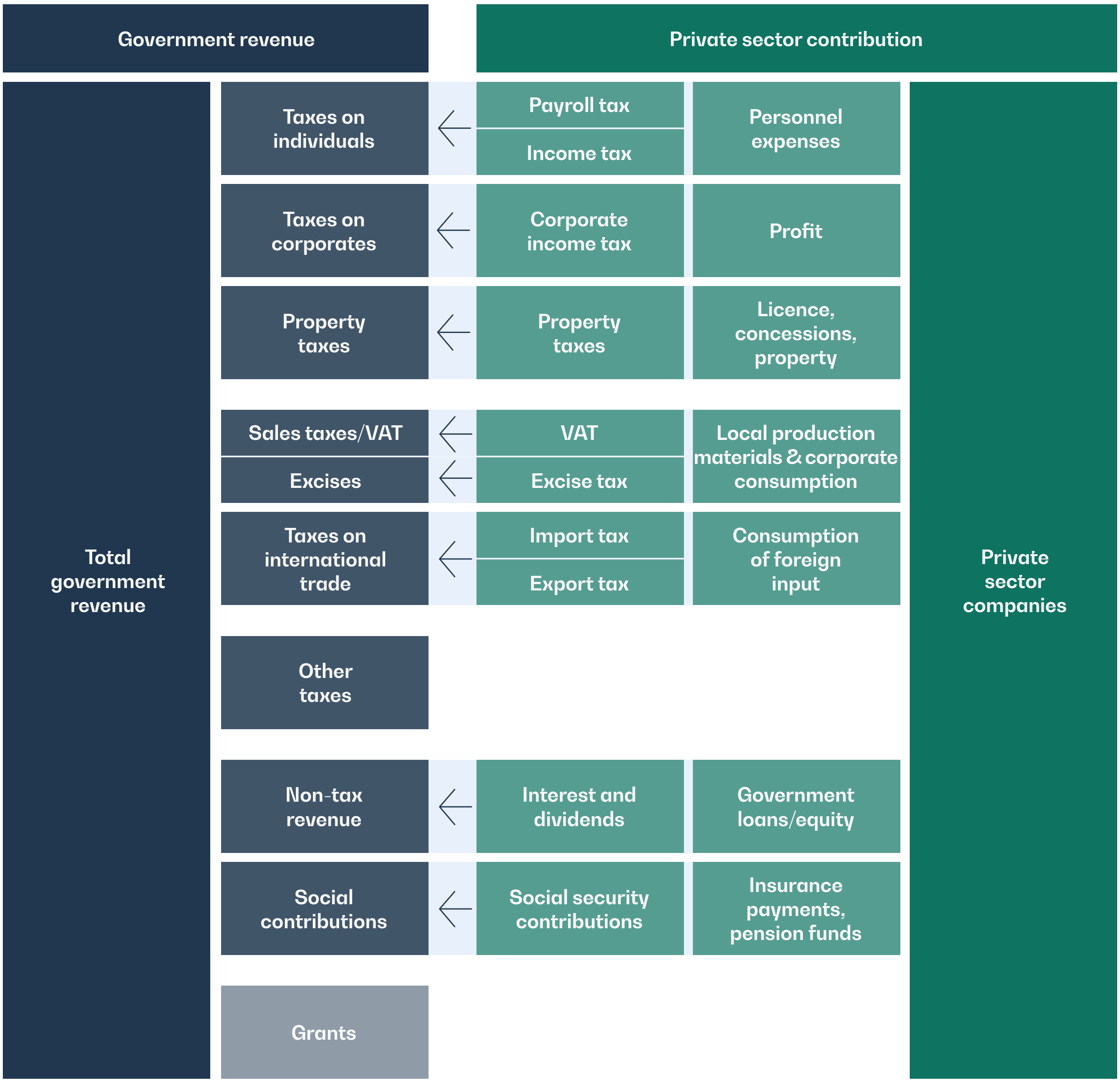


Taxes and tax-like fees by type of investment paid by Finnfund's investees in 2019.
The annual variation is caused by changes both within the investees and in Finnfund's portfolio.

To capture also these other government revenue mobilisation effects, Finnfund monitors both CIT paid by the companies and "other taxes and tax-like fees" that includes other relevant contributions by the company, including for example sales tax, business tax, value added tax, licensing fees, customs duties, 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.

Total contribution of Finnfund's investee companies is, in fact, 40% larger than CIT payments when taking into account some of the additional revenue sources.

Another way to look at companies' tax footprints is to calculate an effective tax rate which states the amount of CIT paid relative to pre-tax profits. The highest relative amount of taxes (including CIT) is generally paid by the big established companies in the finance sector and they also have the highest effective tax rates. In contrast, companies directly financed by Finnfund (excluding financial institutions) are still typically early in their growth paths (or even just in the beginning as is the case often with renewable energy project financing). These early-stage companies typically pay relatively little corporate income taxes during Finnfund's investment period, because they require large investments and it takes a lengthy period of time before they can make a profit.



Private sector contribution to government revenue mobilisation. SOURCE: DEG, 2020.

Corporate taxes and other tax-related payments by countries in 2019

	Number of investments	Corporate income tax (EUR million)	Other taxes (EUR million)	Total (EUR million)
Total	**265**	**437**	**201**	**638**
AFRICA	**153**	**290**	**102**	**392**
Kenya	17	23	21	**43**
Ghana	15	14	8	**21**
Tanzania	15	25	10	**35**
South Africa	12	7	11	**18**
Nigeria	12	32	10	**42**
Zambia	11	2	3	**5**
Ethiopia	10	11	13	**23**
Uganda	6	1	3	**4**
Zimbabwe	6	28	1	**29**
Africa LDC	30	126	10	**136**
Africa LMIC	8	8	3	**11**
Africa UMIC	11	14	10	**24**
ASIA	**51**	**84**	**57**	**141**
India	9	21	1	**22**
Cambodia	8	41	9	**50**
Nepal	7	0	0	**0**
Asia LDC	8	2	12	**13**
Asia LMIC	10	18	25	**43**
Asia UMIC	9	2	10	**12**
LATIN AMERICA	**37**	**53**	**32**	**85**
Mexico	6	4	11	**15**
Guatemala	5	1	2	**3**
Honduras	5	-	1	**1**
Latin America LMIC	4	39	2	**41**
Latin America UMIC	17	8	17	**25**
EUROPE AND TURKEY	**14**	**1**	**9**	**10**
Europe and Turkey	14	1	9	**10**
MIDDLE EAST	10	**9**	**0**	**10**
Jordan	8	2	0	**2**
Middle East UMIC	2	7	0	**8**

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

KEY FIGURES 2019

Taxes & tax-like fees

- Our investees paid a total of EUR 638 million in their respective countries in taxes and tax-like fees.
  - 44% by financial institutions
  - 10% by other direct investments
  - 46% by fund portfolio companies
- 61% of the taxes and tax-like fees were paid in African countries.

EUR
638
million of taxes and tax-like fees

Gender lens investing

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 (SDGs). Finnfund contributes to these goals through its investments.

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

Finnfund is also a member of 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. In 2020, Finnfund became one of the signatories of the Paris Development Banks Statement on Gender Equality and Women's Empowerment announced during the Finance in Common Summit in November 2020.

Finnfund is committed to investing 105 million euros in 2019–2021 in businesses that advance gender equality. The amount is one half of the 210 million euro loan issued to Finnfund by the Finnish Government in 2019, the other half is ear-marked for climate investments.

2X Challenge

Finnfund is also a member of another international gender lens investing initiative, the 2X Challenge. The 2X Challenge aims to increase access to finance for women-owned, women-led and women-supporting enterprises in developing and emerging countries. Its first target to mobilise USD 3 billion globally by the end of 2020 was exceeded by 1.5 billion, and a new target of 15 billion was set at the end of 2020.

We actively screen all our investments through 2X Challenge criteria, including indicators on ownership, leadership, employment and consumption. The 2X Challenge has defined specific thresholds for each criterion to determine if the investment is eligible. Each new investment is required to report annually on the 2X indicators, and the data is collected also from the companies.

2X CHALLENGE
FINANCING FOR WOMEN

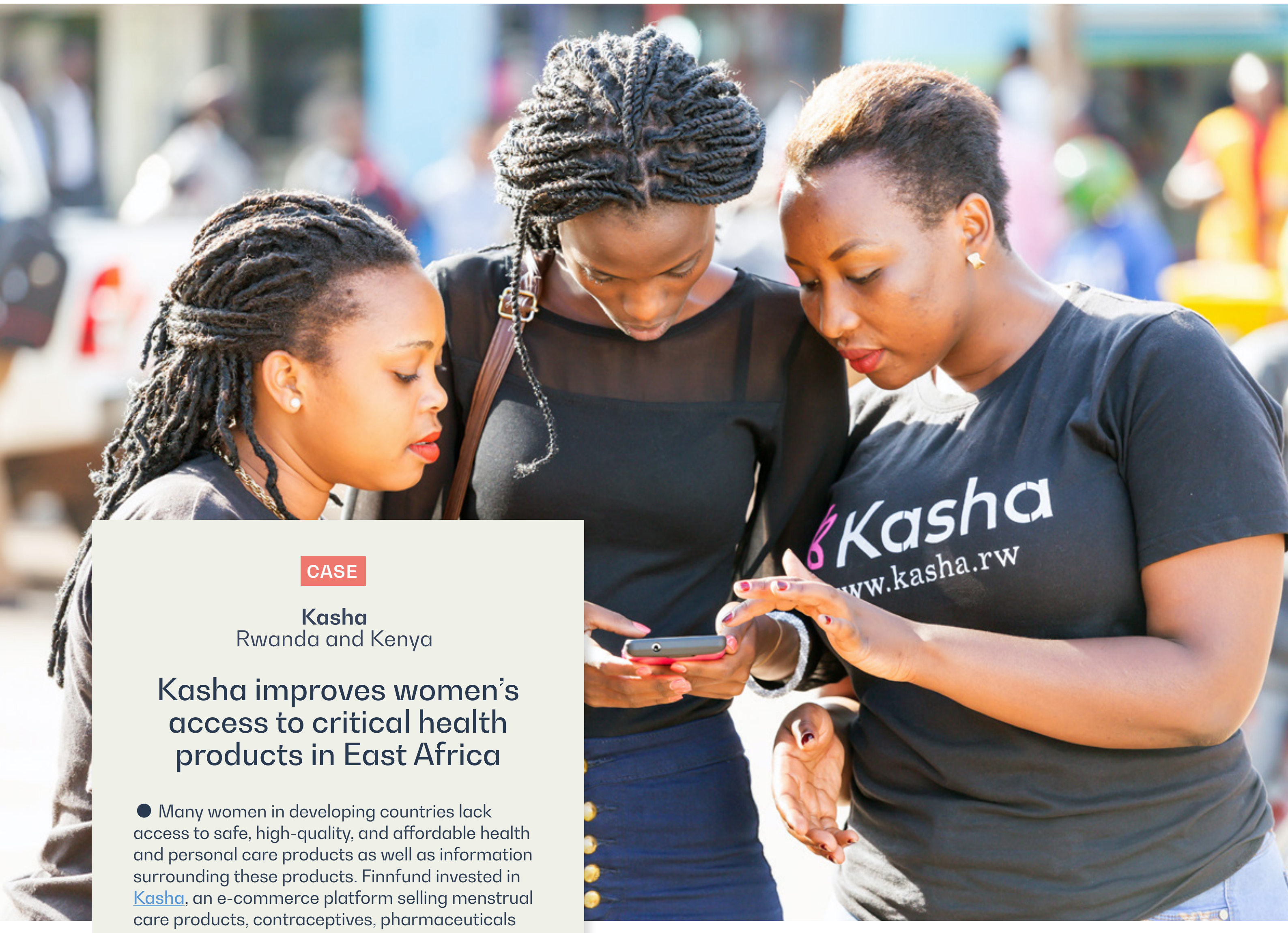
KEY FIGURES 2019

Gender equality

- At the end of 2019, 15% of board members were women. For new investments in 2019, the proportion was 22%.
- At the end of 2019, 25% of senior management among our investees were women. For new investments in 2019, the proportion was 31%.

25 %

of senior management were women



CASE

Kasha
Rwanda and Kenya

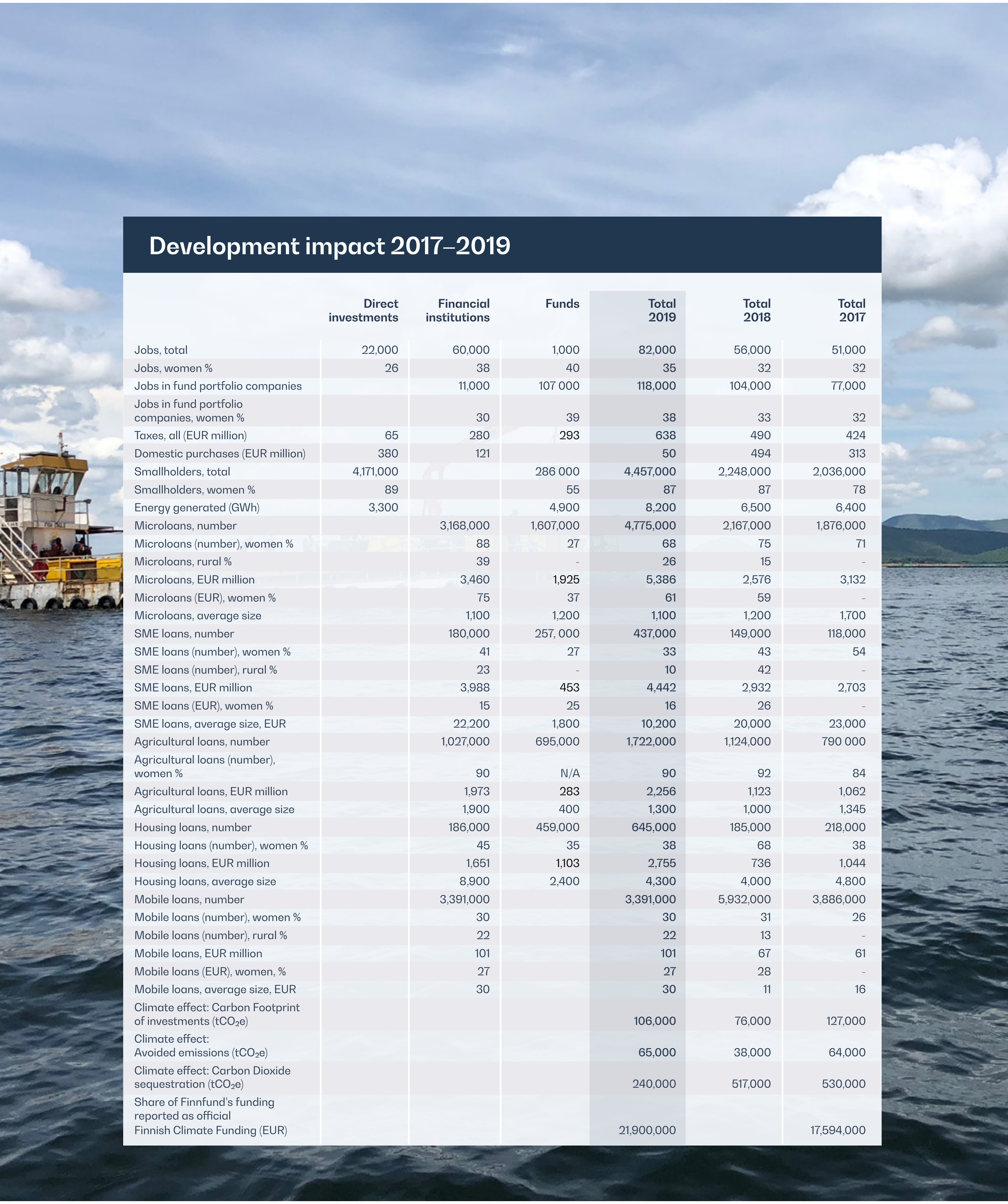
Kasha improves women's access to critical health products in East Africa

● Many women in developing countries lack access to safe, high-quality, and affordable health and personal care products as well as information surrounding these products. Finnfund invested in Kasha, an e-commerce platform selling menstrual care products, contraceptives, pharmaceuticals and a range of beauty products via its own platform, accessible through basic phones and a website and delivered to customers confidentially. Kasha aims to be a trusted source of information especially around stigmatised products and operates in close cooperation with selected health partners.

Kasha was first founded in 2016 in Rwanda and has since expanded to Kenya. The company has served over 55,000 clients, of which 75% are low-income, and delivered close to 600,000 products out of which 275,000+ are health products.

During the COVID-19 pandemic, Kasha has served as a safe way to get hand sanitizers, antibacterial soaps, masks and gloves. The company's content channels have also provided access to information on how to protect yourself from the virus.

This investment fills all the 2X Challenge criteria: Kasha was co-founded by two women, 50% of Kasha's senior leadership team are women, 75% of board members are women, 64% of Kasha's employees are women, and the company's products center around care for women and girls.



Development impact 2017–2019

	Direct investments	Financial institutions	Funds	Total 2019	Total 2018	Total 2017
Jobs, total	22,000	60,000	1,000	82,000	56,000	51,000
Jobs, women %	26	38	40	35	32	32
Jobs in fund portfolio companies		11,000	107 000	118,000	104,000	77,000
Jobs in fund portfolio companies, women %		30	39	38	33	32
Taxes, all (EUR million)	65	280	293	638	490	424
Domestic purchases (EUR million)	380	121		50	494	313
Smallholders, total	4,171,000		286 000	4,457,000	2,248,000	2,036,000
Smallholders, women %	89		55	87	87	78
Energy generated (GWh)	3,300		4,900	8,200	6,500	6,400
Microloans, number		3,168,000	1,607,000	4,775,000	2,167,000	1,876,000
Microloans (number), women %		88	27	68	75	71
Microloans, rural %		39	-	26	15	-
Microloans, EUR million		3,460	1,925	5,386	2,576	3,132
Microloans (EUR), women %		75	37	61	59	-
Microloans, average size		1,100	1,200	1,100	1,200	1,700
SME loans, number		180,000	257, 000	437,000	149,000	118,000
SME loans (number), women %		41	27	33	43	54
SME loans (number), rural %		23	-	10	42	-
SME loans, EUR million		3,988	453	4,442	2,932	2,703
SME loans (EUR), women %		15	25	16	26	-
SME loans, average size, EUR		22,200	1,800	10,200	20,000	23,000
Agricultural loans, number		1,027,000	695,000	1,722,000	1,124,000	790 000
Agricultural loans (number), women %		90	N/A	90	92	84
Agricultural loans, EUR million		1,973	283	2,256	1,123	1,062
Agricultural loans, average size		1,900	400	1,300	1,000	1,345
Housing loans, number		186,000	459,000	645,000	185,000	218,000
Housing loans (number), women %		45	35	38	68	38
Housing loans, EUR million		1,651	1,103	2,755	736	1,044
Housing loans, average size		8,900	2,400	4,300	4,000	4,800
Mobile loans, number		3,391,000		3,391,000	5,932,000	3,886,000
Mobile loans (number), women %		30		30	31	26
Mobile loans (number), rural %		22		22	13	-
Mobile loans, EUR million		101		101	67	61
Mobile loans (EUR), women, %		27		27	28	-
Mobile loans, average size, EUR		30		30	11	16
Climate effect: Carbon Footprint of investments (tCO_2e)				106,000	76,000	127,000
Climate effect: Avoided emissions (tCO_2e)				65,000	38,000	64,000
Climate effect: Carbon Dioxide sequestration (tCO_2e)				240,000	517,000	530,000
Share of Finnfund's funding reported as official Finnish Climate Funding (EUR)				21,900,000		17,594,000

In 2019, responses were received from 112 companies, with a response rate of 97%. In 2018 106 companies replied, with a response rate of 97%, In 2017, responses were received from 103 companies. The numbers have been rounded off. As some of the indicators are sector-specific, the number of respondents varies.

Photo: Finnfund supports the expansion of Yalelo, an integrated tilapia aquaculture company in Zambia.

Annexes

SPARK Schools is the 3rd largest network of private K-12 schools in South Africa, operating 18 institutions and serving over 10,500 families from diverse social and cultural backgrounds.

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

Company
- Cheaper and more reliable electricity for electric utilities
- Cheaper and more reliable electricity for customers
- More customers and electricity connections

People
- Improved economic activity in the region

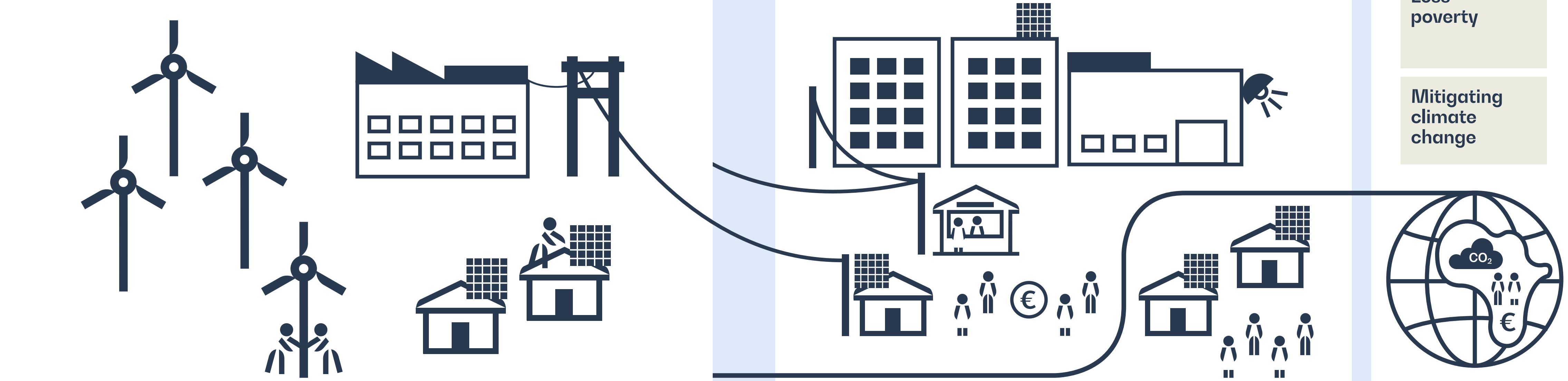
Environment
- Replaced fossil fuels
- Less CO2 emissions

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
- CO2 sequestration increases
- Less illegal logging

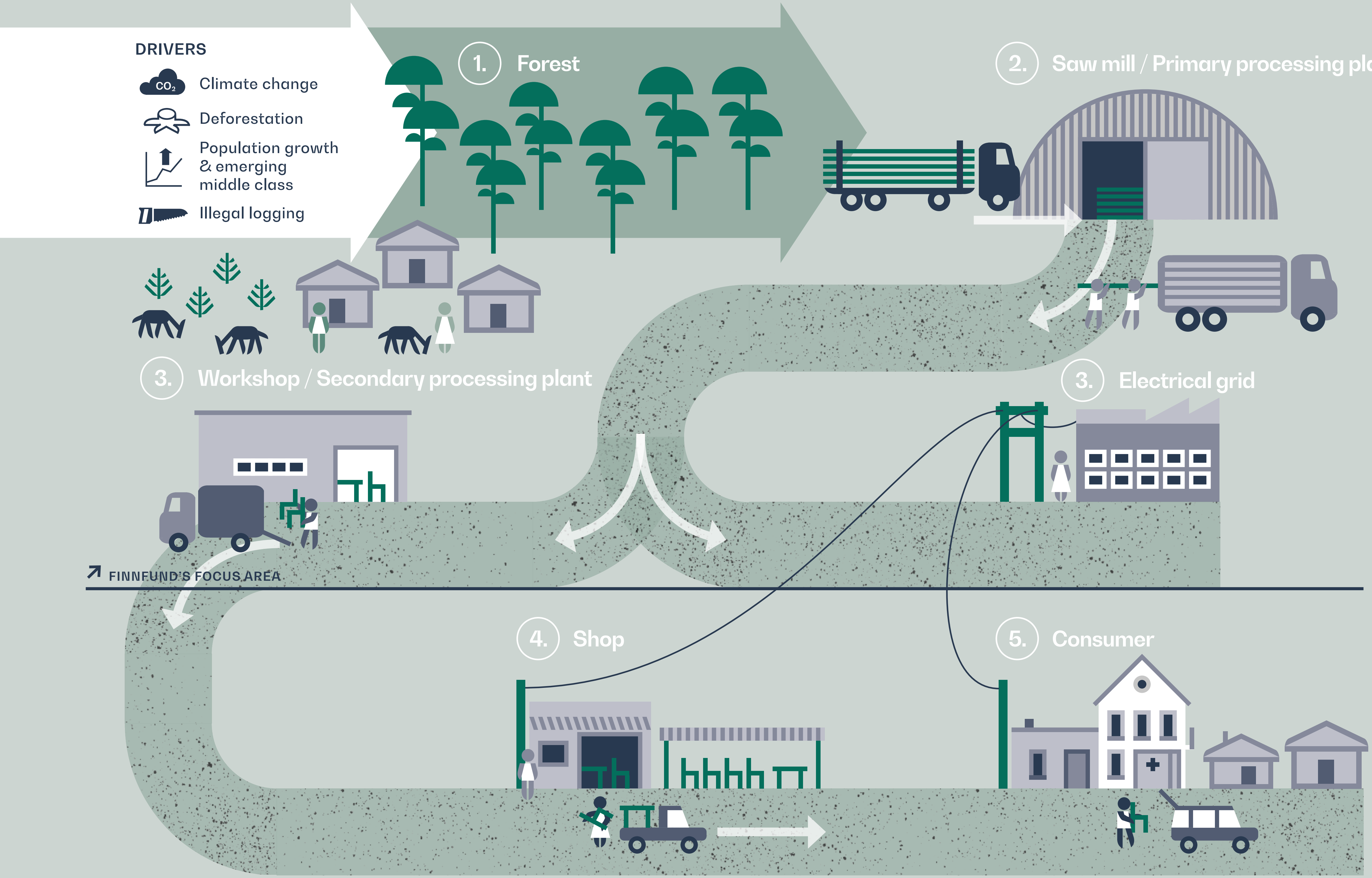
Wider impacts

- 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

Sustainable Development Goals

- 1 NO POVERTY
- 5 GENDER EQUALITY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 10 REDUCED INEQUALITIES
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION
- 15 LIFE ON LAND

SUSTAINABLE FORESTRY Value chain



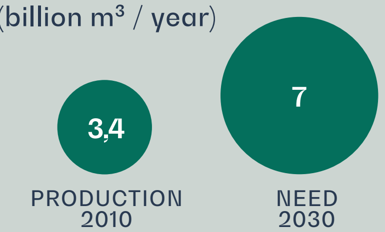
SUSTAINABLE FORESTRY

- 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

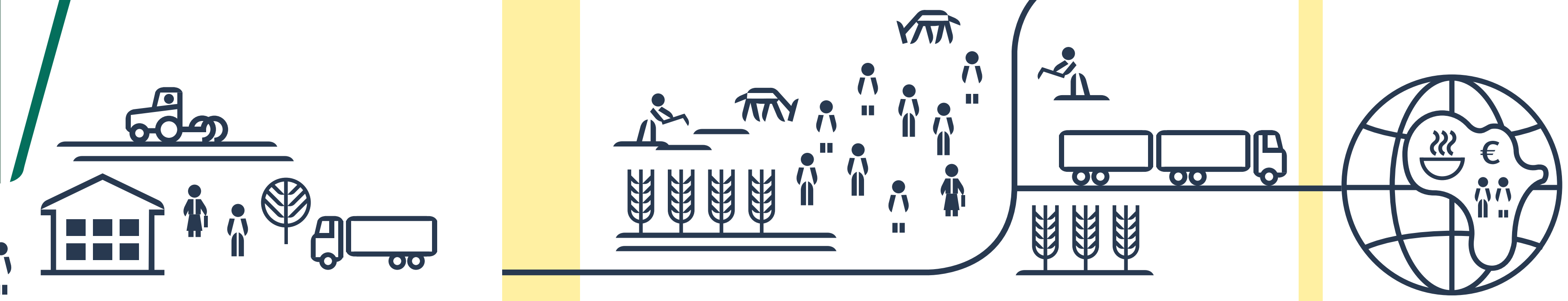
- Jobs and salaries (also to women)
- Improved income opportunities through local purchases
- Improved social standards
- Improved food security
- Improved roads and other infrastructure
- Increased access to improved seed and techniques

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
- 2 ZERO HUNGER
- 5 GENDER EQUALITY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION
- 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).

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- 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 2020 Annual General Meeting was held virtually on 22 April due to the COVID-19 pandemic situation. The meeting handled the matters specified in Article 11 of the Articles of Association, decided to increase the company's share capital and decided to change Article 3 of the Articles of Association so that the Supervisory Board has as of the date of the General Meeting 13 members instead of the previous 12 members.

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

On 1 December 2020, the company's shareholders decided, in accordance with Companies Act 5:1, unanimously and without convening a General Meeting, to increase the company's share capital and appoint a new member and a new vice chairperson to the Board of Directors.

Supervisory Board

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

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

See members of the Supervisory Board in 2020 on p. 88.

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.

See members of the Board of Directors in 2020 on p. 88.

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 2 to 3 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 has a Human Resources Committee consisting of the chairperson and at least 2 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 5,000,000 euros.

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 800 euros per meeting, the vice chair 600 euros per meeting and other members 500 euros per meeting.

Fees paid (EUR) and participation at the meetings, Supervisory Board 2020

Member	Fee	Present
Emma Kari (chair)	4,000	5/6
Sakari Puisto (vice chair)	3,000	5/6
Eeva Biaudet	2,500	5/6
Jarkko Eloranta	3,000	6/6
Veronika Honkasalo	3,000	6/6
Marko Kilpi	2,500	5/6
Juha-Erkki Mäntyniemi as of 22 April 2020	2,000	4/4
Jouni Ovaska	3,000	6/6
Juha Ruippo	3,000	6/6
Kristiina Salonen	3,000	6/6
Saara-Sofia Sirén	3,000	6/6
Erkki Tuomioja	3,000	6/6
Pertti Vuorio	3,000	6/6

In 2020, the Supervisory Board met six times.
The average attendance rate for members was 94.9%.

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

Audit Committee

In 2020, members of the Audit Committee of the Board of Directors received a fee of 300 euros per meeting attended.

Human Resources Committee

In 2020, members of the HR Committee of the Board of Directors received a fee of 300 euros per meeting attended.

Fees paid (EUR) and participation at the meetings, Board of Directors 2020

Member	Fee	Present
Robert Wihtol chair as of 21 April 2020	16,500	13/13
Ritva Laukkanen chair until 21 April 2020	5,900	4/4
Kristiina Kuvaja-Xanthopoulos vice chair until 12 November 2020	10,700	11/12
Pirita Mikkanen vice chair as of 1 December 2020	11,500	13/13
Helena Airaksinen as of 1 December 2020	900	1/1
Nicholas Anderson as of 21 April 2020	8,100	9/9
Jussi Haarasilta	10,800	11/13
Anu Hämäläinen	11,400	13/13
Hanna Loikkanen as of 21 April 2020	8,400	9/9
Lars-Erik Schöring until 21 April 2020	3,600	4/4
Antero Toivainen	11,100	13/13

In 2020, the Board met 13 times. The average attendance rate for members was 97.5%.

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

Member	Fee	Present
Jussi Haarasilta chair	1,500	6/7
Anu Hämäläinen	1,800	7/7
Pirita Mikkanen	1,800	7/7

In 2020, the Audit Committee met seven times. The attendance rate for members was 95.2%.

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

Member	Fee	Present
Robert Wihtol chair as of 24 April 2020	900	3/3
Ritva Laukkanen chair until 22 April 2020	300	1/1
Kristiina Kuvaja-Xanthopoulos until 12 November 2020	300	1/2
Hanna Loikkanen as of 24 April 2020	300	1/2
Helena Airaksinen as of 15 December 2020	0	0/0

In 2020, the HR Committee met three times. The attendance rate for members was 75%.

Managing Director

In the financial year 2020, managing director Jaakko Kangasniemi received taxable income of 253,268,13 euros 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 2020.

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 2020, a reserve of 58,641.38 euros 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 74,308 euros 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 1,347 euros 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 2020 financial year, taxable income received from the company by the management team, including the managing director and his deputy, totalled 1,143,586.83 euros.

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 2020, 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.

Starsight Energy provides captive power production solutions to commercial and industrial clients in Nigeria and Ghana.

MEMBERS OF THE SUPERVISORY BOARD, BOARD OF DIRECTORS, AND AUDIT AND HR COMMITTEES

Supervisory Board 2020

Emma Kari, chair
Member of Parliament

Sakari Puisto, vice chair
Member of Parliament

Eva Biaudet
Member of Parliament

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

Veronika Honkasalo
Member of Parliament

Marko Kilpi
Member of Parliament

Juha-Erkki Mäntyniemi
Executive director, Fingo

Jouni Ovaska
Member of Parliament

Juha Ruippo
Director, MTK

Kristiina Salonen
Member of Parliament

Saara-Sofia Sirén
Member of Parliament

Erkki Tuomioja
Member of Parliament

Petri Vuorio
Director, Confederation of Finnish Industries EK

Board of Directors 2020

Robert Wihtol
chair as of 21 April 2020
Independent development banking specialist

Ritva Laukkanen
chair until 21 April 2020
Board Professional

Kristiina Kuvaja-Xanthopoulos
vice chair until 12 November 2020
Deputy Director General, Ministry for Foreign Affairs

Helena Airaksinen
as of 1 December 2020
Deputy Director General, Ministry for Foreign Affairs

Nicholas Andersson
as of 21 April 2020
Independent Financial Specialist

Jussi Haarasilta
Executive Vice President, Finnvera Plc

Anu Hämäläinen
Vice President, Kesko

Hanna Loikkanen
as of 21 April 2020
Board Professional

Pirita Mikkanen
vice chair as of 1 December 2020
Director, Metsä Group

Antero Toivainen
Director for International Tax Affairs, Ministry of Finance

Lars-Erik Schöring
until 21 April 2020
CEO, Leinolat Group

Audit Committee

Jussi Haarasilta
chair

Anu Hämäläinen

Pirita Mikkanen

Human Resources Committee

Robert Wihtol
chair (as of 24 April 2020)

Ritva Laukkanen
chair (until 22 April 2020)

Kristiina Kuvaja-Xanthopoulos
(until 12 November 2020)

Hanna Loikkanen
(as of 24 April 2020)

Helena Airaksinen
(as of 15 December 2020)

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

Australis Aquaculture was the world's first producer to achieve certification against the ASC's Tropical Marine Finfish (TMFF) Standard for its ocean-based farm in Central Vietnam. The company was also the world's first Barramundi farmer and Asia's first aquaculture finfish producer to be Fair Trade Certified.

Financial statements

Board of Director's report 2020

Mission and strategy extending to 2025

Finnfund (Finnish Fund for Industrial Cooperation Ltd.) is a development financier and impact investor whose mission is to build a more sustainable world by investing in responsible, profitable businesses in developing countries. Finnfund is a development finance company in which the State of Finland has a majority holding, and its investments also involve Finnish interests.

Finnfund works with private companies operating in developing countries, providing equity risk financing, long-term investment loans, mezzanine financing, as well as specialist expertise related to investments in developing countries. We require every project to be profitable, responsible in terms of the environment and society, and measurable in terms of development impact in the target country.

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

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

The company's strategy emphasises the following:

- Achieving the development targets of projects and analysing and communicating their impact.
- Expanding business volumes and allocating resources to responsible, impactful and profitable projects.
- Acquiring additional financing and convincing private investors of the opportunities of joint investment.
- Developing our methods and showing appreciation for the work of our personnel and stakeholders.

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

Finnfund made extensive progress in achieving the objectives of its strategy in 2020 regardless of the COVID-19 pandemic. To broaden our financing base, we established Finland's first impact fund for professional institutional investors, OP Finnfund Global Impact Fund I, together with OP Group. The fund received commitments to the amount of EUR 135 million from investors, with Finnfund providing a commitment equal to half of the fund's capital. The fund has started operations and has already financed its first Finnfund-prepared project.

The Finnish State increased Finnfund's share capital in two tranches in 2020 by a total of approximately EUR 60 million. As planned for 2020, we withdrew EUR 130 million of the EUR 210 million loan granted by the Finnish State. The remainder of the loan will be withdrawn in 2021. The loan has been earmarked for projects related to combating climate change and improving the position of women and girls through two virtual funds. After 2020, both virtual funds are almost entirely reserved for these purposes based on their investment decisions.

We established Finland's first global emerging markets impact fund, OP Finnfund Global Impact Fund I for institutional investors.

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 COVID-19 pandemic and especially the resulting travel restrictions hindered project preparations in 2020. Thus, due diligence work, which is essential for project preparation, had to be carried out virtually after the beginning of the year. This also slowed down the process of moving new projects forward.

The project preparation targets for 2020 (EUR 250 million and 28 projects) were achieved in terms of units, but not in volume. A total of 31 new projects totalling EUR 206 million were prepared fully in 2020. The projects were prepared with existing resources, and no new financing managers were recruited in 2020.

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

The 31 new financing decisions made in 2020 (29 decisions in 2019), with a monetary value of EUR 206 million (EUR 237 million), targeted different income levels shown in the table below.

Of the financing decisions, 14 (17) involved investment loans, accounting for about 58 per cent (53 per cent) of the monetary value of the decisions.

Fifteen (9) of the projects that were approved were equity investments or mezzanine financing. When calculated in euros, they accounted for 32 per cent (28 per cent) of all approved projects. Two new fund investment decisions were made.

Africa was weighted in the new financing decisions according to plan and in line with the objective set by the owner. Approximately 58 per cent of the decisions, 54 per cent in monetary value, were allocated to Africa. Roughly a third of the decisions, in terms of both numbers and monetary value, were allocated to Asia. Only around 10 per cent of decisions were allocated to other continents.

Disbursements for investments totalled EUR 149 million (EUR 125 million).

Of the disbursements during the 2020 financial year, EUR 78 million (EUR 53 million) is considered official development assistance (ODA) by the Finnish State.

The amount of undisbursed commitments at the end of 2020 totalled EUR 226.8 million (EUR 177 million). In addition, EUR 151.4 million (EUR 162 million) was tied up in investment commitments that had not yet progressed to the agreement stage.

Income level	Number of decisions	%	EUR million	%
Least developed countries	13	42	78	38
Low-income countries	0	0	0	0
Lower-middle-income countries	17	55	124	60
Upper-middle-income countries	1	3	4	2
TOTAL	31	100	206	100

Development and priorities

Due to the COVID-19 pandemic that broke out at the beginning of the year, 2020 was in many ways an exceptional and difficult year. The pandemic forced the entire organisation to switch to remote work in mid-March 2020. At the same time, extensive restrictions were imposed on travel, making travel to Finnfund's destination countries, or anywhere else, impossible. Since that time, working in the familiar office environment and holding face-to-face meetings and events has been possible only to a very limited extent.

All meetings, seminars and other events have been held via teleconferencing since March 2020. This has created entirely new challenges for the organisation's culture and leadership, forcing the organisation to quickly adapt to a new way of working.

Finnfund has been developing its technology infrastructure and remote work tools for years, however, and this enabled a rapid transition to working from home and minimised the disruption caused by the COVID-19 pandemic.

All employees were provided with a lot of training and low-threshold support for the use of remote work tools and ICT systems to maintain performance during the protracted period of remote work, as the pandemic continued much longer than anticipated in the first half of the year. Our staff has also received increased support for coping and well-being, e.g. from our occupational health care provider. Coaching was arranged for supervisors to support leadership in these exceptional circumstances.

The execution of Finnfund's strategy continued to feature strongly in all areas of the company's operations in 2020. The company's operations have been managed in line with the four areas defined in the strategy as breakthroughs (triple development impact, ensure sustainability, diversify funding base and develop business culture).

The Ministry for Foreign Affairs directed Finnfund to carry out an interim assessment of the functionality of its tax policy in 2020. The assessment was presented to the company's administrative bodies and the Ministry for Foreign Affairs and will be published on Finnfund's website in early 2021. The main areas of development and monitoring identified in the assessment were the continuous development and maintenance of sufficiently broad-based competencies in the highly demanding business and regulatory environment of international taxation. The assessment was carried out internally by Finnfund.

Finnfund continued to enhance its IT infrastructure and system environment in 2020 in accordance with the guidelines set for their development. Special attention was paid to information security and cybersecurity, as well as the availability of services, as the COVID-19 pandemic and, consequently, working from home will continue at least for the first half of 2021. The deployment of the new financing system planned for the second half of 2020 has been postponed to 2021, mainly due to the scope and complexity of the project. In 2020, Finnfund adopted a new HR system that assembles the personal data of the company's own personnel into a centralised, secure system environment, while improving the availability and usability of the data for senior management, supervisors and employees alike.

Finnfund published its updated corporate sustainability policy in March 2020, replacing the earlier environmental and social policy. The new policy covers the various aspects of corporate responsibility and sustainability and their implementation within the investment process and Finnfund's own operations more extensively, linking them to the international corporate responsibility and sustainabiity frameworks. The organisation's practical work was heavily affected by the COVID-19 pandemic that spread to Finland in the spring, which prevented travel to project sites. Finnfund drew up guidelines for working on projects during the coronavirus emergency, and they were implemented consistently both in-house and in customer-facing work.

In the autumn, we started preparing a climate and energy policy to complement Finnfund's corporate sustainability policy. The policy defines Finnfund's climate targets and the forms of energy we finance and will be published in the spring of 2021. Finnfund also started development of a climate risk and climate change adaptation assessment tool in the autumn of

2020. Use of the tool is slated to begin in 2021.

In April, Finnfund published a report on its compliance with the nine Operating Principles for Impact Management.

Finnfund continued its impact assessments related to the projects and sectors it finances, but progress was hindered by the COVID-19 pandemic. A study of the Lake Turkana project's impact on the reduction of poverty in the project area was published in the spring. A study of the usefulness of collaboration between small-scale farmers and the project companies was begun in the spring and continued into 2021. Stakeholder Voices pilot projects were initiated in 2020 with two service providers (60decibels and WorkAhead) that make use of the technology. The pilot projects aim to create new agile ways of gathering information directly from employees, affiliated entities, supply chains and customers, and to deepen our understanding of our business's impact on the lives of stakeholders.

We organised three discussion events with NGOs and other parties within the impact network established in the previous autumn. The themes included impact measurement, such as performance-based climate financing, adaptation to climate change and success factors for small farmers and businesses.

The monitoring and reporting of both development impact and environmental and social impact was developed further. For the second time, we collected the data on the development impact of Finnfund's project portfolio directly from the project companies over the internet.

The 'Economic Development, Job Creation and Livelihoods' evaluation commissioned by the Ministry for Foreign Affairs' evaluation unit also touched on Finnfund. Finnfund provided information and gave interviews for the evaluation in 2020. Certain project companies were also interviewed for the evaluation. The evaluation report was published in January 2021 and was very favourable to Finnfund.

The COVID-19 pandemic, remote work and travel restrictions also posed their own challenges for the company's internal and external communications. Management invested heavily in clear internal communications on coronavirus guidelines, which was appreciated by Finnfund's personnel according to our internal surveys.

Digital channels played an even greater role than usual in our external communications. As a result of determined work, Finnfund's digital communications took a new leap forward, which was reflected as increased content production and, on the other hand, as a sharp growth in followers of the company's social media channels. We communicated with all key stakeholders, with a particular focus on visibility in our target markets.

In 2018, Africa's largest wind farm Lake Turkana Wind Power was connected to the national grid. Finnfund has been a shareholder in the company ever since the construction began in 2013.

The Finnpartnership programme

The past year was challenging for Finnpartnership as well due to the COVID-19 pandemic and global travel restrictions. New electronic service and communications channels were quickly set up and welcomed by the programme's customers and stakeholders, and the annual targets set for Finnpartnership before the coronavirus outbreak were achieved well on average.

A total of 79 (94) business partnership grant applications were received in 2020. The decrease in received applications was due to the pandemic's impact on companies' willingness to invest and general uncertainty about the future. From 1 November 2019 to 31 October 2020, a total of 89 applications were received for processing, and 53 (70) were accepted. Grants were issued in a total amount of EUR 4.3 million (EUR 4.2 million). Business partnership grants were paid out to 63 (91) projects in a total amount of EUR 2.2 million (EUR 2.7 million).

Finnpartnership managed to arrange two Doing Business with Finland (DBF) seminars, one in Suriname and one in Guyana, before the outbreak of the pandemic. The remaining scheduled DBF seminars had to be cancelled because of the COVID-19 pandemic, and Matchmaking efforts were focused on the creation and use of digital tools to replace the seminars. Finnpartnership organised three SDG Booster workshops with its partners, connecting Finnish businesses with companies operating in East Africa, Vietnam and Thailand. A total of 236 people participated in the SDG Booster workshops. In addition, Finnpartnership organised a number of bilateral digital meetings between Finnish enterprises and companies operating in developing countries.

A total of 272 (425) companies were either registered on the public database or proposed to Finnish companies via the Matchmaking service in 2020. In 2020, a total of 393 (261) 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.

A total of 393 new business partnership connections were opened between Finnish companies and companies in developing countries.

Finnpartnership

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 2020.

The objective of asset and risk management is to mitigate the negative effects of market risks, primarily changes in interest and exchange rates, on Finnfund's earnings and to ensure sufficient liquidity.

The company is exposed to greater risks than those present in typical financial institution operations. The management of funding and liquidity risks includes risk identification, hedging, and reporting to the company's administrative bodies.

The risk classification system developed by Finnfund, which has been in use since 2005, is a key instrument in the assessment and monitoring of project risks. A risk assessment is conducted on all projects in the Finnfund investment portfolio at least once a year, and more often if necessary, that is, if it is estimated that the risk level has changed. If the risk classification deteriorates, the project's balance sheet value will be impaired and, conversely, if the risk classification improves, previous impairments will be reversed. The developments of projects identified as high-risk are monitored closely and measures to mitigate the risks to Finnfund are initiated if deemed necessary.

From 2012 to 2015, Finnfund had access to a special risk financing instrument worth a total of EUR 50 million. In September 2018, the Finnish State decided to bring back the special risk financing instrument at a total value of EUR 75 million. In 2020, the Finnish State further increased the value of the instrument to EUR 150 million. The instrument is valid until the end of 2024 for the purpose of distributing investment risks between the Finnish State and Finnfund. The instrument covers a previous loss compensation commitment worth EUR 75 million, so the amount of the contingency increased by EUR 75 million during the year.

Special risk financing is provided on the basis of a loss compensation commitment, whereby the State undertakes to compensate Finnfund for a maximum of 60 per cent of credit losses and investment losses on projects covered by special risk financing during the validity of the commitment. No new projects covered by special risk financing can be accepted after 31 December 2024. Projects that are approved for coverage by the special risk financing scheme while it is valid are covered by the Finnish State's risk-sharing arrangement until the projects are repaid, 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 2020, projects worth a total of EUR 180.4 million were covered by special risk financing. The Finnish State is liable for 49 per cent of the related risks, amounting to EUR 88.2 million. The loss compensation commitment covers a maximum of EUR 7.5 million in compensations per year.

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

The objective with regard to interest and currency risks is to identify and hedge against potential risks. Forward exchange agreements and interest rate and currency swap contracts are used as hedges against currency and interest rate risks resulting from investment loans granted by Finnfund. Interest derivatives are used as hedges against interest rate risks resulting from investment loans when the interest basis of the investment loans deviates from that of Finnfund's own funding.

Solvent Nordic banks comprise the contracting parties of Finnfund's derivatives contracts.

The general rule for share capital and fund investments, applied on a case-by-case basis, is to cover currency positions that are certain or at least likely and that can be hedged at a reasonable cost in relation to the benefits gained.

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. Finnfund has a committed credit facility of EUR 100 million, non-committed credit facilities with Nordic banks, and a commercial paper programme totalling EUR 300 million. The credit facilities provided by banks were not in use at the end of 2020.

At the end of 2020, the value of the commercial papers issued through the programme amounted to EUR 0.

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 2.3 years if the convertible bond granted by the State is not included in calculations, and 15.4 years if the State loan is included.

The company's cash position was very strong at the end of 2020. This was due to the additional capitalisation of EUR 50 million by the Finnish State at the end of the year and the schedule for the withdrawal of the convertible bond, according to which the company had to withdraw at least EUR 130 million of the loan last year. Cash reserves will be invested according to the company's asset and risk management guidelines until a sufficient amount of disbursements accumulate for the investment portfolio to resolve the excess liquidity.

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

Finnfund's investee Burapha is an agroforestry and wood processing company operating in the greater Vientiane area in Laos.

Net profit and balance sheet

In 2020, Finnfund made a loss of approximately EUR 26.3 million (profit of EUR 0.7 million). The result was exceptionally weak, mainly due to large write-downs due to the COVID-19 pandemic.

The operating income is shown in the table below.

Summary

Net financial income remained high at EUR 22.2 million (EUR 23.7 million).

Financial income decreased by 12 per cent to EUR 31.4 million (EUR 35.7 million). Financial expenses, on the other hand, decreased by more than 23 per cent to EUR 9.2 million (EUR 12.0 million).

Interest income rose relative to the previous year, driving growth and representing 88 per cent of income, or EUR 27.7 million (EUR 27.0 million). Dividends and fund income only amounted to EUR 2.1 million in 2020 and fell significantly short of the 2019 level (EUR 5.4 million).

Operating expenses EUR 13.5 million, remained under control and remained below the previous year's level (EUR 14.1 million) and the budgeted amount (EUR 16.1 million).

Net profit before value adjustment items, sales and taxes remained at a good level at EUR 10.0 million (EUR 11.2 million).

Income

Dividend income amounted to EUR 0.6 million (EUR 0.5 million).

Interest income was EUR 27.7 million (EUR 27.0 million).

Other income from long-term investments amounted to EUR 1.5 million (EUR 4.8 million), consisting of gains from fund investments. Capital gains from investments were recognised as income to the amount of EUR 6.6 million (EUR 1.4 million).

Other financial income excluding foreign exchange gains, at EUR 1.6 million (EUR 2.1 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 38.0 million (EUR 37.1 million).

Other operating income amounted to EUR 1.3 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)	2020	2019	Change (EUR)	Change %
Financial income	31,382	35,711	-4,329	-12
Financial expenses	-9,227	-12,037	2,810	-23
Net financial income	**22,154**	**23,674**	**-1,520**	**-6**
Other operating income	1,343	1,527	-184	-12
Administrative expenses, depreciation and other expenses	-13,507	-14,051	544	-4
Profit before value adjustments, sales and taxes	**9,990**	**11,150**	**-1,160**	**-10**
Value adjustments and sales	-36,299	-10,433	-25,866	248
Income taxes	-2	-17	15	-88
NET PROFIT	-26,311	700	-27,011	-3,859

Impairment losses

Newly recognised individual impairment losses amounted to EUR 45.9 million (EUR 16.1 million), representing about 7.5 per cent (2.9 per cent) of the balance sheet value of investment assets at the end of the year under review. Approximately 74.7 per cent of the write-downs were allocated to share capital investments, with the single largest project accounting for half of this amount. Fund investments accounted for 21.5 per cent of write-downs, and 3.8 per cent were allocated to debt investments.

Reversals of previously recognised individual impairment losses amounted to EUR 4.8 million (EUR 11.7 million) in 2020.

The net effect of impairments, capital gains and sale losses on financial performance was approximately EUR 36.3 million negative (EUR 10.4 million negative).

Expenses

Interest expenses decreased significantly from the previous year's figure to EUR 5.7 million (EUR 8.7 million). Interest expenses were incurred through borrowing in both US dollars and euros.

Other financial expenses were EUR 3.1 million (EUR 3.3 million), including management fees of EUR 2.6 million (EUR 2.8 million) associated with fund investments.

The exchange rate differential due to currency trading and hedging was EUR 0.5 million negative (EUR 1.2 million positive).

Investment and sale losses were recognised to the amount of EUR 1.7 million (EUR 7.5 million).

Operating expenses totalled EUR 13.5 million (EUR 14.1 million). Expenses were reduced, for example, by the total end of travel after the first quarter.

The taxes recognised on the profit and loss account, totalling EUR 2,000 (EUR 17,000), consist of both sales gains taxes and stamp taxes paid to the target countries and taxes on remuneration for work and on dividends.

Balance sheet

The balance sheet total stood at EUR 721 million (EUR 616 million) at the end of the year under review.

The balance sheet value of investment assets was EUR 608 million (EUR 557 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 352.9 million (EUR 330.5 million) or 58.1 per cent (59.4 per cent); equity investments EUR 173.3 million (EUR 146.7 million) or 28.5 per cent (26.3 per cent); and fund investments EUR 81.3 million (EUR 79.5 million) or 13.4 per cent (14.3 per cent).

Liquid assets stood at EUR 90.8 million (EUR 45.0 million) at the end of the year under review. The liquid assets are invested in domestic bank deposits and money market instruments in accordance with the asset and risk management guidelines.

At the end of the financial year, the company's equity (share capital and unrestricted equity) totalled EUR 301 million (EUR 267 million) or 42 per cent of the balance sheet total (43 per cent).

The company executed two share issues in 2020. Under the first 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 21 April 2020 to 31 May 2020. 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.

Under the second share issue, a maximum of 310,587 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 1 to 17 December 2020. As a result of the share issue, the share capital was increased by EUR 49,999,890, corresponding to the proportion subscribed by the Finnish State. Pursuant to the issue decision, 294,117 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 first share issue and the year under review, the company's registered share capital stood at EUR 206,988,770, divided between 1,217,581 shares, with the Finnish State holding 1,153,011 shares (94.7 per cent), Finnvera Plc holding 63,349 shares (5.2 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 State of Finland at all times. The company does not distribute its funds in dividends or in payments from its unrestricted equity fund; nor does it acquire or redeem its own shares.

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

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

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

At the end of 2019, Finnfund signed an agreement with State Treasury on a conditional subordinated convertible bond of a total of EUR 210 million. The loan period is 40 years, of which the first 10 years are instalment-free. The interest on the loan is 0.5% per cent annum for the first five years. After this period, the State is entitled to adjust the interest rate if it so desires.

The State may collect receivables from the company either completely or partly by subscribing to the company's new shares in one or several allotments in such a way that EUR 170.00 of debt equity entitles it to one share. The State can subscribe to at most 1,235,294 of the company's shares. The subscription price corresponds to the accountable par of a share, and it is recorded in the company's invested unrestricted equity fund.

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

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 410 million (EUR 289 million) and short-term interest-bearing debt at EUR 4 million (EUR 53 million), totalling EUR 414 million (EUR 342 million).

Long-term interest-bearing debt includes the EUR 100 million bond issued in summer 2017, the long-term convertible bond of EUR 130 million granted by the State and withdrawn in 2017 and 2018, and the amount (EUR 130 million) withdrawn in 2020 from the convertible bond granted by the State in 2019. A total of EUR 80 million of the loan remains to be withdrawn. 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 99 per cent (85 per cent) at the end of the year under review.

The company had no guarantee commitments at the end of 2020 (EUR 0.0 million).

Key figures	2020	2019	2018
Financial income (EUR million)	73.3	46.6	50.6
Net profit (EUR million)	-26.3	0.7	2.1
Return on equity, %	-8.7	0.3	0.8
Equity ratio, %	41.7	43.4	46.4

Formulae

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

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

Administration and personnel

In 2020, the Supervisory Board convened six times, the Board of Directors convened 13 times, the Board of Directors' audit committee convened seven times, and the HR committee convened three times.

The Annual General Meeting, held on 21 April 2020, addressed an amendment to Article 3 of the Articles of Association, the statutory matters listed in Article 11 of the Articles of Association and the proposal by the Board of Directors concerning an increase of the company's share capital.

The following were elected at the Annual General Meeting as **members of the Supervisory Board** for the period 2020–2023: Emma Kari, Juha Ruippo, Kristiina Salonen, Marko Kilpi and Juha-Erkki Mäntyniemi.

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

Robert Wihtol, Chair
Kristiina Kuvaja-Xanthopoulos, Vice Chair
Nicholas Anderson
Jussi Haarasilta
Anu Hämäläinen
Hanna Loikkanen
Pirita Mikkanen
Antero Toivainen

Kristiina Kuvaja-Xanthopoulos resigned from the Board of Directors on 12 November 2020. Helena Airaksinen was elected as her replacement on 1 December 2020 by a unanimous decision of the shareholders. Pirita Mikkanen was elected Vice Chair of the Board of Directors as of 1 December 2020.

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 24 April 2020:

Jussi Haarasilta, Chair
Anu Hämäläinen
Pirita Mikkanen

The Board of Directors has an HR committee, with the following members since 24 April 2020:

Robert Wihtol, Chair
Kristiina Kuvaja-Xanthopoulos
Hanna Loikkanen

After Kristiina Kuvaja-Xanthopoulous resigned from the Board of Directors on 12 November 2020, Helena Airaksinen was elected as her replacement on the HR committee on 15 December 2020.

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 84 employees (77 employees in 2019). At year-end, the number of employees in contractual employment was 84 (81), of whom 82 (77) were full-time. Of the employees, 51 were women and 33 were men.

The total amount of salaries and bonuses paid to employees in 2018–2020 is shown in the table below.

The final accounts include a provision of 1,052,402.29 for incentive bonuses earned in 2020, amounting to 14.25 per cent of payroll expenses (12.70 per cent). In 2020, 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 2018–2020 were as follows:

	2020	2019	2018
Average number of personnel	84	77	75
Total salaries and bonuses (EUR thousand)	7,387	6,981	6,865

Outlook and strategic direction for 2021

In 2021, Finnfund will continue to implement its strategy for 2018–2025. In line with the strategy, Finnfund will double its volumes and triple its development impact by 2025. Regardless of the COVID-19 pandemic, we remain on the growth path envisioned in our strategy, meaning that new financing decisions worth approximately EUR 200 million will be made for around 22 projects in 2021.

Our 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 are renewable energy, the financial institutions, sustainable agriculture, and sustainable forestry. In 2021, we will examine the suitability of the telecom sector as a new focal sector.

From the perspective of expanding our financing base and mobilising private capital, our focus areas for 2021 include the project preparation of OP Finnfund Global Impact Fund I's investments, using the European Commission's pillar assessment in investment risk allocation, and preparing a sustainability framework for issuing a sustainable bond in 2022, when Finnfund's current bond matures.

Finnfund's finances and liquidity are strong, thanks to the Finnish State's additional capitalisations and convertible loan withdrawals made in 2020. In 2021, Finnfund must withdraw the remaining EUR 80 million of the EUR 210 million convertible bond granted in 2019.

Internationality will also be a strong theme in 2021. English has been Finnfund's working language from the beginning of the year so that the company can recruit non-Finnish speakers as well. We will also look at opening a local office in Nairobi, Kenya.

The earnings prospects for 2021 are reasonable. We expect successful exits from equity investments and a steady revenue stream from our growing loan book. Changes in the valuation of the Finnfund's investment assets during the financial year and whether we are able to make profitable exits from projects are decisive factors for the company's financial performance. These factors are difficult to predict in development financing even in normal circumstances, and even more so now that the COVID-19 pandemic continues to ravage the globe. We nevertheless expect a positive result in 2021.

Proposal of the Board of Directors for the distribution of profit

The company recorded a loss of EUR 26,311,165.58 in 2020. The Management Board proposes that the loss be transferred to the retained earnings account for previous financial years.

Profit and loss account

EUR 1,000

	Note	1 Jan. - 31 Dec. 2020	1 Jan. - 31 Dec. 2019
Other operating income	1	1,343	1,527
Staff expenses	2		
Wages and salaries	3	-7,387	-6,981
Social security expenses			
Pension expenses		-1,180	-1,207
Other social security expenses		-120	-627
Social security expenses		-1,300	-1,835
Staff expenses		-8,687	-8,816
Depreciation according to plan	4	-277	-202
Other operating expenses	5, 6	-4,544	-5,033
OPERATING LOSS		**-12,164**	**-12,523**
Financial income			
Income from participating interests		6,668	3,171
Income from other investments		2,044	3,735
Other interest and financial income		64,594	39,682
Financial income total		73,306	46,588
Reduction in value of investments		-41,159	-4,358
Financial expenses			
Interest and other financial expenses		-4,292	-28,989
Financial income and expenses	7	-14,145	13,241
PROFIT / LOSS BEFORE TAXES		**-26,309**	**718**
Income taxes	8	-2	-17
PROFIT / LOSS FOR THE FINANCIAL YEAR		**-26,311**	**700**

Balance sheet
EUR 1,000

	Note	31 Dec. 2020	31 Dec. 2019
ASSETS			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		751	534
Machinery and equipment		333	441
Total		1,085	976
Investments	10		
Participating interests		81,625	54,223
Receivables from participating interest	11	5,617	21,768
Other shares and similar rights of ownership		173,090	172,009
Other receivables	11	347,326	308,719
Total		607,659	556,719
NON-CURRENT ASSETS		608,743	557,694
CURRENT ASSETS			
Debtors			
Long-term	12		
Other long-term debtors		10,089	2,304
Short-term			
Amounts owned by participating interest undertakings	13	211	77
Other receivables	14	6,420	3,338
Prepayments and accrued income	15	5,122	7,296
Total		11,753	10,710
Debtors total		21,842	13,014
Financial securities	16		
Marketable securities		34,794	11,779
Cash in hand and at banks		56,041	33,178
CURRENT ASSETS		112,678	57,972
ASSETS		721,421	615,666

	Note	31 Dec. 2020	31 Dec. 2019
LIABILITIES			
EQUITY	17		
Share capital		256,989	196,989
Retained earnings		70,376	69,675
Profit / loss for the financial year		-26,311	700
EQUITY		**301,053**	**267,364**
CREDITORS			
Long-term	18, 19		
Private placement		99,907	99,844
Convertible loans		260,000	130,000
Loans from credit institutions		50,018	59,344
Other long-term creditors		1,449	700
Total		411,374	289,888
Short-term	20		
Loans from credit institutions		4,310	53,493
Advances received		4	9
Trade creditors		285	319
Other creditors		286	252
Accruals and deferred income	21	4,108	4,341
Total		8,995	58,414
CREDITORS		**420,368**	**348,302**
LIABILITIES		**721,421**	**615,666**

Cash flow statement

EUR 1,000

CASH FLOW FROM OPERATIONS	2020	2019
Payments received from operations	47,365	61,370
Disbursements to operations	-140,495	-127,106
Dividends received	218	53
Interest received	20,161	20,854
Interest paid	-5,942	-8,944
Payments received on other operating income	4,534	9,023
Payments of operating expenses	-16,203	-16,173
CASH FLOW FROM OPERATIONS (A)	**-90,362**	**-60,445**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-386	-1,133
CASH FLOW FROM INVESTMENTS (B)	**-386**	**-1,133**
CASH FLOW FROM FINANCING		
Short-term loans drawn	0	43,998
Short-term loans repaid	-43,998	-20,000
Long-term loans drawn	130,000	35,358
Long-term loans repaid	-9,391	-9,423
New share issue	60,000	10,000
CASH FLOW FROM FINANCING (C)	**136,611**	**59,933**
CHANGE IN LIQUID ASSETS (A+B+C) increase (+) decrease (-)	**45,863**	**-1,645**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**44,177**	**45,822**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**90,040**	**44,177**
NONMONETARY CHANGES IN LIQUID ASSETS	**796**	**780**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**90,836**	**44,957**

Accounting policy

Portfolio

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

The Islamic form of financing Murabaha has been treated according to the same principles as other loan receivables in both the balance sheet and the income statement. The value of loan receivables at the exchange rate on the balance sheet date is EUR 3,092,657.48. Income of EUR 392,991.88 has been entered in the income statement. The procedure is based on our request to the Accounting Board (KILA) for an opinion and the statement received from the board on 22 April 2020.
The principle of Islamic finance is to tie capital and income to commodity transactions. In 2020, the sales transactions referred to in the Islamic financing agreement were EUR 3,388,998.03 and the purchase transactions EUR 3,388,998.03. Income from the purchase transaction was EUR 392,991.88 in 2020.

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

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

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

Special risk finance

Special risk finance is the term used to describe the class of projects in which Finnfund has been indemnified, by a decision of the Finnish government on 20 September 2012 and in force until 31 December 2015 or decided on 20 September 2018 and in force until 31 December 2023, 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 on the balance sheet at their aquisition cost less depreciation. The depreciation plan for the premises has been prepared according to the rental period. The costs related to the renovation of the premises, machinery and furniture have been capitalised on other long-term expenses and machinery and equipment on the balance sheet. In addition to the previous year, a financial IT system project was launched in 2020 which costs have been capitalized on the balance sheet under other long-term expenses with a five-year depreciation plan. The purpose of the new financial IT system is to replace the existing system for the operational management of investments.

Planned depreciations:

Other capitalised as long-term expenses: premises	7 years
Other long-term expenses: IT system	5 years
Machinery and equipment	5 years

Pensions

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

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

Notes to the profit and loss account
EUR 1,000

	2020	2019
1 Other operating income		
Operating income from participating interests	0	5
Remunerations	763	779
Other operating income	580	743
	1,343	**1,527**
2 Average number of staff employed		
Employees	84	77
3 Wages and salaries		
Managing Director and his alternate	421	420
The Board of Directors and the Supervisory Board	144	124
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.

	2020	2019
4 Depreciation		
Other capitalised long-term expenses	166	92
Machinery and equipment	111	110
	277	**202**
5 Other operating charges		
Voluntary staff expenses	448	736
Office	745	751
ICT	710	777
Travel and negotiation expenses	335	1,181
Entertainment and PR expenses Including support in 2018 and a partial refund in 2019 of community projects in Honduras	120	44

External services	1,880	1,335
Other expenses	306	208
	4,544	**5,033**
6 Auditor's remunerations		
Audit fee	20	15
Assignments	2	6
Tax services	0	3
Other services	0	46
	22	**71**
7 Financial income and expenses		
Financial income		
Income from participating interests		
Dividends	0	335
Income from funds	73	1,312
Profit from sales of assets	6,595	1,378
From others	0	145
Income from participating interests	6,668	3,171
Income from other investments		
Dividends	569	213
From funds	1,475	3,522
Income from other investments	2,044	3,735
Other interest and financial income		
Interest income	20,922	23,047
Interest income from participating interests	6,754	3,938
Financial income	1,567	1,979
Financial income from participating interests	21	10
Exchange rate gain	35,330	10,708
Other interest and financial income	**64,594**	**39,682**
Financial income total	**73,306**	**46,588**
Permanent write-offs of investments and their reversals		
Equity and funds	-44,184	-9,757
Loans and other receivables	-1,742	-6,318
Reversal of write-offs on shares and fund investments	4,657	1,452
Reversal of write-offs on loans	110	10,265
Write-offs of investments and their reversals	**-41,159**	**-4,358**

Interest and other financial expenses		
Interest expenses to others	-5,682	-8,747
Other financial expenses	-3,088	-3,290
Loss from investments, funds and sales of assets including loss compensation from the State	-1,735	-7,453
Exchange rate loss	-35,786	-9,499
Interest and other financial expenses total	**46,292**	**-28,989**
Financial income and expenses total	**-14,145**	**13,241**
The item Financing income and expenses includes loss of exchange (net)	**-456**	**1,210**
7 **Income from financing operations by income level**		
(**does not include income from EU territory, liquidity and funding**)		
Least developed countries (LDC)	33,878	16,368
Other low-income countries (LIC)	966	3,849
Lower-middle-income countries (LMIC)	28,903	18,128
Upper-middle-income countries (UMIC)	8,305	6,492
Russia	67	104
	72,118	**44,940**
8 **Income taxes**		
Withholding taxes on emoluments	0	1
Withholding taxes on dividends	1	16
Stamp duty	1	0
	2	**17**

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. 2020	1,765	2,627	4,392
Increases	383	3	386
Acquisition cost 31 Dec. 2020	2,147	2,630	4,777
Accumulated depreciations 1 Jan. 2020	-1,230	-2,185	-3,416
Depreciation of the accounting period	-166	-111	-277
Accumulated depreciations 31 Dec. 2020	-1,396	-2,296	-3,692
Book value 31 Dec. 2020	**751**	**333**	**1,085**
Book value 31 Dec. 2019	534	441	976
10 Investments / Shares and funds	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2020	73,891	188,903	262,794
Increases	48,823	25,422	74,245
Transfer between items	9,424	-9,424	0
Decreases	0	-6,234	-6,234
Acquisition cost 31 Dec. 2020	132,137	198,667	330,804
Individual write-offs accumulated as of 1 Jan. 2020	-19,668	-16,894	-36,562
Reversal of write-offs	770	3,887	4,657
Write-offs during the financial year	-31,614	-12,570	-44,184
Individual write-offs accumulated as of 31 Dec. 2020	-50,512	-25,577	-76,089
Book value 31 Dec. 2020	**81,625**	**173,090**	**254,715**
10 Investments / Loans	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2020	23,003	330,545	353,549
Increases	401	114,255	114,655
Capitalised interest	0	1,840	1,840
Decreases	-16,525	-75,213	-91,738
Acquisition cost 31 Dec. 2020	6,879	371,427	378,306

Individual write-offs accumulated as of 1 Jan. 2020	-1,235	-21,826	-23,062
Reversal of write-offs	0	110	110
Write-offs during the financial year	-26	-2,384	-2,410
Individual write-offs accumulated as of 31 Dec. 2020	-1,262	-24,100	-25,362
Book value 31 Dec. 2020	**5,617**	**347,326**	**352,943**

	2020	2019
11 Subordinated receivables		
Capital loans to participating interests	5,617	21,768
Capital loans to others	70,056	54,232
	75,674	**76,000**
12 Other long-term receivables		
Acquisition cost 1 January	1,339	1,339
Deductions	-1,339	0
Acquisition cost 31 December	0	1,339
Impairment losses	0	-670
Book value 31 December	0	669
Derivative receivables	10,089	1,635
	10,089	**2,304**
13 Receivables from participating interests		
Legal expenses	160	26
Other	51	51
	211	**77**
14 Other receivables		
Loss compensation from the State according to the special risk financing commitment	2,183	2,183
Derivative receivables	4,204	1,057
Other	33	97
	6,420	**3,338**
15 Prepayments and accrued income		
Interests	4,409	6,364
Other	713	932
	5,122	**7,296**
16 Marketable securities		
Fair value	34,820	11,780
Book value	34,794	11,779
DIFFERENCE	**25**	**1**

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.	196,989	186,989
Increase of share capital	60,000	10,000
Share capital as of 31 Dec.	256,989	196,989
Unrestrected equity		
Profit from previous financial years 1 Jan.	70,376	70,245
Adjustments to interest and fund entries made in the previous year	0	-570
Retained earnings 31 Dec.	70,376	69,675
Profit/loss for the financial year	-26,311	700
Total unrestricted equity	44,064	70,376
Total equity	**301,053**	**267,364**
17 Share capital		
Number of shares	1,511,698	1,158,758
Nominal value, EUR	170,00	170,00
18 Loans with maturity more than 5 years		
Loans from credit institutions	15,212	21,364
Loans from government	260,000	130,000
	275,212	**151,364**
19 Private placements		
Private placement 2017/2022 Bullet Fixed 0.625%	100,000	100,000
20 Other short-term debt		
Loans from financial institutions	4,310	53,493
Derivative liabilities	5	9
Accounts payable	285	319
Other	285	251
	4,886	**54,073**
21 Accruals and prepaid income		
Deferral of personnel expensed	3,501	3,487
Interest	540	790
Taxes	53	60
Other	14	4
	4,108	**4,341**

Other supplementary information
EUR 1,000

Other contingent liabilities

The company terminated the leases of its previous 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, from 1 March 2021 EUR 50,465.28. The obligation to pay rent begun on 1 June 2019.

	2020	2019
Payable in the next financial period	605	598
Payable later	2,675	3,249
Other commitments		
The company is a shareholder in a company whose exit involves the following liability: the company has acquired a debt from a third party. The second part of the debt price corresponds to 17.24% of the currently expected exit amount from the investment.		
Undisbursed commitments		
Contractual commitments	226,800	177,000
Special risk finance (cumulative)		
Decisions of the Board of Directors	180,351	112,920
Government's indemnity	88,220	56,065
Government's indemnity, %	49%	50%
Disbursements	83,479	58,263

Derivative contracts EUR 1,000

Fair values of derivatives in financial assets and liabilities

	2020			2019		
Receivables	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	4,204		4,204	1,051		1,051
Interest rate swaps		0	0	6	207	213
Currency and interest rate swaps		10,089	10,089		1,429	1,429
Total	4,204	10,089	**14,293**	1,057	1,635	**2,693**
Liabilities	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements				9		9
Interest rate swaps	5	1,038	1,044		348	348
Currency and interest rate swaps						
Total	5	1,038	**1,044**	9	348	**357**

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.

	2020				2019			
Receivables	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		4,204		4,204		1,051		1,051
Interest rate swaps		0		0		213		213
Currency and interest rate swaps		10,089		10,089		1,429		1,429
Total	0	14,293	0	**14,293**	0	2,693	0	**2,693**
Liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements						9		9
Interest rate swaps		1,044		1,044		348		348
Currency and interest rate swaps				0				0
Total	0	1,044	0	**1,044**	0	357	0	**357**

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	2020	2019
Change of +/- 1% in EURIBOR interest	0 / 0	0 / 0
Change of +/- 1% in LIBOR interest	-669 / 669	-807 / 807
Change of +/- 10% in EUR-USD exchange rate	9,295 / -9,295	10,167 / -10,167

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 2020.

Undiscounted cash flow resulting from derivatives

	2020			2019		
Receivables	Under 1 year	1–5 years	**Total**	Under 1 year	1–5 years	**Total**
Forward exchange agreements	137,264		137,264	94,323		94,323
Interest rate swaps	104	275	379	629	1,322	1,951
Currency and interest rate swaps	625	100,625	101,250	625	101,250	101,875
Total	**137,994**	**100,900**	**238,894**	**95,577**	**102,572**	**198,149**
Liabilities	Under 1 year	1–5 years	**Total**	Under 1 year	1–5 years	**Total**
Forward exchange agreements	133,578		133,578	94,001		94,001
Interest rate swaps	419	1,101	1,520	662	1,379	2,042
Currency and interest rate swaps	1,063	91,392	92,455	2,829	103,484	106,313
Total	**135,059**	**92,493**	**227,552**	**97,492**	**104,863**	**202,355**

Receivables, liabilities and transactions with related parties

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

Exchange rate

31 December 2020	EUR/USD	1.2271

Signatures of Board of Directors' report and financial statements

Helsinki, 30 March 2021

Robert Wihtol
Chairman

Helena Airaksinen
Member of the Board

Nicholas Andersson
Member of the Board

Jussi Haarasilta
Member of the Board

Anu Hämäläinen
Member of the Board

Hanna-Leena Loikkanen
Member of the Board

Pirita Mikkanen
Member of the Board

Antero Toivainen
Member of the Board

Jaakko Kangasniemi
Managing Director, CEO

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 31 March 2021

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, 2020. 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, March 31, 2021

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 2020. 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, 1 April 2021

Emma Kari

Eva Biaudet

Jarkko Eloranta

Veronika Honkasalo

Marko Kilpi

Juha-Erkki Mäntyniemi

Jouni Ovaska

Sakari Puisto

Juha Ruippo

Kristiina Salonen

Saara-Sofia Sirén

Erkki Tuomioja

Petri Vuorio

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