finnfund

Financial statements 2021

Content

Board of Director's report 2021
Mission and strategy

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

Finnfund is a development financier and impact investor that builds a more sustainable world by investing in responsible, profitable businesses in developing countries. 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.

According to Finnfund's strategy in force in 2021, Finnfund's mission is to build a better world by financing responsible companies in developing countries. The company's vision is to be a valued partner and impact pioneer in European development financing.

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

The company's strategy 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 joint investment opportunities.
- 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.

In 2021 Finnfund updated its strategy and the new strategy will enter into force in 2022. Over the past two years, Finnfund's target markets have been severely ravaged by the coronavirus pandemic. Despite this, Finnfund has acted in accordance with its mission and made new investments throughout the pandemic. At the same time, many other development financiers have considered the risks to be too high and have put the brakes on new investment decisions.

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

In 2021, the Finnish State increased Finnfund's share capital by EUR 10 million. As planned for 2021, we withdrew the remaining EUR 80 million of the EUR 210 million long-term loan granted by the Finnish State in 2019. We undertook to allocate the loan capital, on the one hand, to projects combating climate change and, on the other, to projects improving the position of women and girls. As a result of the investment decisions made in 2021, the entire loan funds have been reserved for such projects.

Finnfund's strategy 2018–2021

Vision

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 coronavirus pandemic and especially the resulting travel restrictions hindered project preparations in 2021. Due diligence, which is essential for project preparation, still had to be carried out virtually.

The project preparation targets for 2021 (EUR 200 million and 22 projects) were clearly exceeded. A total of 28 new projects totalling EUR 241 million were prepared fully in 2021.

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

The 28 new financing decisions made in 2021 (32 decisions in 2020), with a monetary value of EUR 241 million (EUR 212 million), targeted different income levels shown in the table below.

Of the financing decisions, 12 (14) involved loans, accounting for about 48 per cent (49 per cent) of the monetary value of the decisions.

Fourteen (16) of the approved projects were equity investments or mezzanine financing. When calculated in euros, they accounted for 36 per cent (34 per cent) of all approved projects. Two investment decisions were made in private equity funds.

Africa was weighted in the new financing decisions according to plan and in line with the objective set by the owner. Approximately 57 per cent of the decisions, 60 per cent in monetary value, were allocated to Africa. Slightly less than a quarter of the decisions, in terms of both numbers and monetary value, were allocated to Asia. The remaining share, about 20 per cent, was allocated to other continents or international projects.

Disbursements for investments totalled EUR 144 million (EUR 149 million).

Of the disbursements during the 2021 financial year, EUR 42 million (EUR 78 million) is considered official development assistance (ODA) by the Finnish State.

The amount of undisbursed commitments at the end of 2021 totalled EUR 201 million (EUR 227 million). In addition, EUR 145 million (EUR 151 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	10	36	107	44
Low-income countries	0	0	0	0
Lower-middle-income countries	16	57	129	54
Upper-middle-income countries	2	7	5	2
TOTAL	28	100	241	100

Development and priorities

In 2021, Finnfund updated its strategy for 2018–2025, the implementation of which had been better than expected. The purpose of the update was to take better account of changes in the operating environment and new situations and to keep target setting ambitious.

With the strategy reform process, Finnfund launched a study and planning process in 2021 to strengthen its local presence in its key target country, Kenya. The establishment and registration of the regional office was launched, as well as negotiations on the lease of premises to launch the regional office in early 2022.

Contrary to preliminary estimates, the coronavirus pandemic, which started in 2020, continued throughout 2021 and made it significantly more difficult to invest in developing countries. The recommendation for remote work continued for most of 2021, except for a short period in the autumn, when some of the personnel worked at the office. Travel to Finnfund's target countries was very limited. To some extent, remote work seems to be becoming the new normal, and work is likely to continue after the pandemic, alternating between remote and on-site work. This creates the need to develop new practices.

In 2019, Finnfund signed the international Operating Principles for Impact Management. In 2021, an external evaluation was commissioned on how these principles are implemented in Finnfund's processes. As a rule, Finnfund's impact management processes were evaluated to be at a good or excellent level. The biggest areas of development are related to assessing the continuity of impact when selling an investment and to making more systematic use of lessons learned.

The development of indirect impact assessments, which began in 2020, continued in 2021, and several pilot studies were completed. Based on the experience gained from the pilot studies, Finnfund tendered for a comprehensive framework agreement, in which three service providers were selected to continue and utilise the so-called stakeholder voice surveys in several portfolio companies. In 2021, a survey was developed to better understand stakeholders' ability to adapt to climate change.

In 2021, the Ministry for Foreign Affairs directed Finnfund to commission an interim assessment of the functionality of its human rights policy published in 2019. The assessment was presented to the company's administrative bodies and the Ministry for Foreign Affairs and was published on Finnfund's website in early 2022. The interim assessment focused on the functionality of Finnfund's policy and the processes developed to detect and correct human rights problems. According to the assessment, Finnfund's commitment and human rights policy are at an internationally high level. The human rights management process is in line with the UN Guiding Principles on Human Rights and Business (UNGP) and is in place throughout the lifecycle of investments. The development of indicators, criteria and processes to monitor the effectiveness of the human rights policy and processes and the development of whistleblowing channels and the whistleblowing process to better meet UNGP requirements were identified as priority areas for development.

Biodiversity became an increasingly important theme in 2021, and Finnfund started cooperation with a leading consultant in the field with the aim of increasing its own expertise and that of project companies in identifying and managing risks related to diversity and creating positive impacts related to diversity.

Finnfund's development of IT infrastructure and system environment has continued in 2021 in accordance with previous plans, paying special attention to data security, cybersecurity and further strengthening users' skills. The deployment of the new financing system planned for the second half of 2020 has been postponed to 2022, mainly due to the scope and complexity of the project.

Finnfund has been developing remote work methods and tools for years, however, and in 2020, this enabled a rapid transition to working from home and minimised the disruption caused by the coronavirus pandemic.

In 2021, Finnfund tested its information system to identify and address vulnerabilities in systems and user practices that are critical to the continuity of operations.

All employees were provided with a lot of training and low-threshold support on data protection and cybersecurity, as well as on 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. 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.

Finnfund's development of IT infrastructure and system environment continued in 2021, paying special attention to data security, cybersecurity and further strengthening users' skills.

The Finnpartnership programme

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

2021 was also a challenging year for Finnpartnership due to the coronavirus pandemic and global travel restrictions, but operations continued uninterrupted after the coronavirus pandemic erupted, using new kinds of electronic service platforms and communication channels that were quickly deployed, and the targets set for the year were, on average, well achieved.

2021 was the last year of operation of the then programming period. In spring 2021, the Ministry for Foreign Affairs launched a large-scale public tendering process for the new programming period 2022–2024 and possible option years 2025–2027. Finnfund submitted a joint offer with Niras Finland Oy to manage Finnpartnership in the new programming period.

After the results of the tendering process were known in autumn 2021, and after Finnfund and Niras won the tendering process, preparatory measures for the new programming period were launched between the various parties involved in order to ensure the smoothest possible start of the new programming period at the same time with the measures related to the end of the old programming period.

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

Finnfund will continue to manage Finnpartnership until the end of 2024 in co-operation with Niras Finland Oy.

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 2021.

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 available until the end of 2024 for the purpose of distributing investment risks between the Finnish State and Finnfund. The instrument covers a previous loss compensation commitment worth EUR 75 million, so the amount of the contingency increased by EUR 75 million 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, or Finnfund exits the project, or until the risk level has decreased to a level for which Finnfund can be liable on its own balance sheet. To be eligible for special risk financing, projects are required to have an extremely high developmental impact in low-income or lower-middle-income countries and carry risks that are otherwise considered too high for the project to qualify for Finnfund financing.

At the end of 2021, projects worth a total of EUR 247.5 million were covered by special risk financing. The Finnish State is liable for 48 per cent of the related risks, amounting to EUR 118.6 million. The loss compensation commitment covers a maximum of EUR 15 million in compensations per year.

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

The objective with regard to interest and currency risks is to identify and hedge against potential risks. Forward exchange agreements and interest rate and currency swap contracts are used as hedges against currency and interest rate risks resulting from investment loans granted by

Finnfund. Interest derivatives are used as hedges against interest rate risks resulting from investment loans when the interest basis of the investment loans deviates from that of Finnfund's own funding.

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

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

In order to manage its liquidity risk, Finnfund maintains liquidity that is adequate in view of the anticipated volume of disbursements. Finnfund has a committed credit facility of EUR 100 million, non-committed credit facilities with Nordic banks, and a commercial paper programme totalling EUR 300 million. The credit facilities provided by banks were not in use at the end of 2021.

At the end of 2021, 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 1.4 years if the convertible bond granted by the State is not included in calculations, and 15.9 years if the State loan is included. The average time to maturity of interest-bearing debt is exceptionally low, as Finnfund's bond matures in June 2022.

The company's cash position was very strong at the end of 2021, which was largely due to the withdrawal schedule of the convertible bond. The cash funds will be invested in accordance with the company's current asset and risk management guidelines pending the progress of the investment decisions made to the payment phase.

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

Africado is Tanzania's first commercial and international grade producer of avocados. The company produces avocados around the Kilimanjaro area, and contracts other commercial and local small holder farmers. Photo: Africado

Net profit and balance sheet

In 2021, Finnfund made a loss of approximately EUR 20.0 million (loss of EUR 26.3 million). The result was negative for the second year in a row, mainly due to large write-downs and low capital gains due to the coronavirus pandemic. The operating income is shown in the table below.

Summary

Net financial income decreased to EUR 17.9 million (EUR 22.2 million).

Financial income decreased by 12 per cent to EUR 27.5 million (EUR 31.4 million). Financial expenses, on the other hand, increased slightly to EUR 9.6 million (EUR 9.2 million).

Interest income was the largest source of income of EUR 21.5 million (EUR 27.7 million) and represented 78 per cent of total income. As in the previous year, dividends and income from funds remained modest and amounted to approximately EUR 3 million in 2021 (EUR 2.1 million).

Operating expenses (EUR 14 million) remained clearly under control and slightly exceeded the previous year's level (EUR 13.5 million) but were well below budget (EUR 15.8 million).

Profit before valuation items, sales and taxes decreased to EUR 5.4 million (EUR 10 million).

Income

Dividend income amounted to EUR 0.9 million (EUR 0.6 million).

Interest income was EUR 21.5 million (EUR 27.7 million).

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

Capital gains from investments were recognised as income only to the amount of EUR 15,000 (EUR 6.6 million). This mainly reflects the fact that, in the midst of the pandemic, private equity was hardly sold, but was left waiting for better times.

Other financial income excluding foreign exchange gains, at EUR 1.7 million (EUR 1.6 million), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled EUR 27.5 million (EUR 38.0 million).

Other operating income amounted to EUR 1.5 million (EUR 1.3 million), and this comprised largely fees received for the administration of the Finnpartnership programme and other income from fees and charges.

Operating income (EUR 1,000)	2021	2020	Change (EUR)	Change %
Financial income	27,530	31,382	-3,852	-12
Financial expenses	-9,631	-9,227	-404	4
Net financial income	**17,899**	**22,154**	**-4,255**	**-19**
Other operating income	1,467	1,343	124	9
Administrative expenses, depreciation and other expenses	-14,008	-13,507	-501	4
Profit before value adjustments, sales and taxes	**5,358**	**9,990**	**-4,632**	**-46**
Value adjustments and sales	-25,307	-36,299	10,992	-30
Income taxes	-3	-2	-1	50
NET PROFIT	-19,952	-26,311	6,359	-24

Impairment losses

Newly recognised individual impairment losses amounted to EUR 31.8 million (EUR 45.9 million), representing about 4.8 per cent (7.5 per cent) of the balance sheet value of investment assets at the end of the year under review. A large part of the loss entries relate to the realisation of country risks in Ethiopia, Myanmar and Ukraine.

Reversals of previously recognised individual impairment losses amounted to EUR 12.9 million (EUR 4.8 million) in 2021.

The net effect of impairments, capital gains and sale losses on financial performance was approximately EUR 25.3 million negative (EUR 36.3 million negative).

Expenses

Interest expenses increased from the previous year's figure to EUR 4.3 million (EUR 5.7 million). Interest expenses were incurred through borrowing in both US dollars and euros.

Other financial expenses were EUR 5.3 million (EUR 3.1 million), including management fees of EUR 4.9 million (EUR 2.6 million) associated with fund investments.

The exchange rate differential due to currency trading and hedging was EUR 1.3 million positive (EUR 0.5 negative).

Investment and sale losses were recognised to the amount of EUR 6.4 million (EUR 1.7 million).

Operating expenses totalled EUR 14.0 million (EUR 13.5 million).

The taxes recognised on the profit and loss account, totalling EUR 3,000 (EUR 2,000), consist of both sales gains taxes and stamp taxes paid to the target countries and taxes on remuneration for work and on dividends. Finnfund usually pays substantial taxes only on capital gains that were not realised in the year under review. The taxes paid by the project companies are not reflected in Finnfund's profit and loss account, but they are reported as part of the development impacts.

Balance sheet

The balance sheet total stood at EUR 794 million (EUR 721 million) at the end of the year under review.

The balance sheet value of investment assets was EUR 657 million (EUR 608 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 373.6 million (EUR 352.9 million) or 57.3 per cent (58.1 per cent); equity investments EUR 170.1 million (EUR 173.3 million) or 25.6 per cent (28.5 per cent); and fund investments EUR 113.7 million (EUR 81.3 million) or 17.1 per cent (13.4 per cent).

Liquid assets stood at EUR 127 million (EUR 91 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 291 million (EUR 301 million) or 37 per cent of the balance sheet total (42 per cent).

In 2021, the company executed one share issue. Under the share issue, a maximum of 61,447 new shares were offered to existing shareholders in proportion to their existing holdings at the issue price of EUR 170 per share. The subscription period was from 22 April 2021 to 31 May 2021. As a result of the share issue, the share capital was increased by EUR 9,999,910, corresponding to the proportion subscribed by the Finnish State. Pursuant to the issue decision, 58,823 new shares were issued. Finnvera Plc and the Confederation of Finnish Industries EK did not subscribe to any of the new shares they were offered.

At the end of the share issue and the year under review, the company's registered share capital stood at EUR 266,988,570, divided between 1,570,521 shares, with the Finnish State holding 1 505 951 shares (95.9 per cent), Finnvera Plc holding 63,349 shares (4.0 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 annum for the first five years. After this period, the State is entitled to adjust the interest rate if it so desires. The State is also entitled to convert the loan either entirely or partly as Finnfund's share capital.

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

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

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

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

At the end of the year under review, the company's long-term interest-bearing debt stood at EUR 385 million (EUR 410 million) and short-term interest-bearing debt at EUR 109 million (EUR 4 million), totalling EUR 494 million (EUR 414 million).

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

Short-term debt includes the EUR 100 million bond, maturing in the summer of 2022, loan repayments in less than 12 months, and interest.

Long-term debt as a percentage of all financing liabilities totalled approximately 78 per cent (99 per cent) at the end of the year under review.

The company had no guarantee commitments at the end of 2021 (EUR 0.0 million).

Key figures	2021	2020	2019
Financial income (EUR million)	52.5	73.3	46.6
Net profit (EUR million)	-20.0	-26.3	0.7
Return on equity, %	-6.9	-8.7	0.3
Equity ratio, %	36.7	41.7	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 2021, the Supervisory Board convened five times, the Board of Directors convened 13 times, the Board of Directors' audit committee convened six times, and the HR committee convened three times.

The Annual General Meeting, held on 22 April 2021, addressed the statutory matters listed in Article 11 of the Articles of Association and the proposal by the Board of Directors concerning an increase of the company's share capital.

The Annual General Meeting elected Erkki Tuomioja, Eva Biaudet, Jouni Ovaska and Petri Vuorio as **members of the Supervisory Board** for the period 2021–2024.

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

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

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

The Board of Directors has an audit committee, with the following members since 23 April 2021:

Jussi Haarasilta, Chair
Anu Hämäläinen
Sari Nikka

The Board of Directors has an HR committee, with the following members since 23 April 2021:

Robert Wihtol, Chair
Helena Airaksinen
Hanna Loikkanen

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 and MBA).

During the year under review, the company employed an average of 83 employees (83 employees in 2020). At year-end, the number of employees in contractual employment was 85 (84), of whom 81 (82) were full-time. Of the employees, 51 were women and 34 were men.

The total salaries and bonuses paid to personnel in 2019–2021 is shown in the table below.

The final accounts include a provision of 877,292.21 for incentive bonuses earned in 2021, amounting to 11.21 per cent of payroll expenses (14.25 per cent). In 2021, 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 2019–2021 were as follows:

	2021	2020	2019
Average number of personnel	83	83	77
Total salaries and bonuses (EUR 1,000)	7,827	7,387	6,981

Outlook and strategic direction for 2022

In 2021 Finnfund renewed its strategy for 2022–2025. The new strategy underlines our philosophy and puts people and planet are at the core of every investment decision. We will double the positive development impacts of our operations from 2020 to 2025. We will increase the share of private money in our investments to 50 per cent by 2030 and keep our investment portfolio carbon negative. We are building a sustainable future and generating lasting impact by investing in businesses that solve global development challenges.

Our project preparation policy prioritises projects that are expected to have very positive development impacts, including those that are known to be challenging. Our emphasis is on three global impact themes. These are climate action, diversity and inclusion, as well as digitalisation. In addition to these, the geographical focus is strongly on Africa. Finnfund's focal areas are renewable energy, the financial sector, sustainable agriculture, sustainable forestry, and digital infrastructure and solutions, added in 2021.

The coronavirus pandemic has had a strong impact on the way in which project preparation is being carried out. We are responding to this changing operating environment by opening a local office in Nairobi, Kenya, in spring 2022. This is also a continuation of the internationalisation we started in 2021.

In terms of expanding the funding base and mobilising private money, we will focus on the following themes in 2022. We will invest together with Finnish institutions and OP Finnfund Global Impact Fund I, utilise the European Commission's pillar assessment in the risk-sharing of investments, and emit a new responsible bond at the end of the year.

Finnfund's finances and liquidity are on a strong footing due to additional capitalisations by the Finnish State, long-term convertible bonds and positive cash flow.

The earnings prospects for 2022 are better than in the previous two years with the pandemic. We expect successful exits from equity investments and a steady income stream from our growing loan book. We believe that the pandemic will weaken globally and, as a result, investment activity will increase in our target countries. Whether the economic uncertainty caused by the pandemic and the recent increase in unrest in our target countries ease are decisive factors for our financial performance. These have a major impact on the ability of our project companies to succeed and, consequently, on their value. In investments in developing countries, it is usually difficult to anticipate events, and therefore there is normal uncertainty about financial performance. We nevertheless expect a positive result in 2022.

At the time of writing, Russia has invaded Ukraine and, among other things, has taken over the area where a large wind power project, newly completed and co-financed by Finnfund, is located. We anticipate that the war and the sanctions against Russia will have direct and indirect impacts on many countries and will hamper Finnfund and the companies we finance in various ways. The impacts may be significant and substantially weaken the earnings prospects anticipated above.

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

The company recorded a loss of EUR 19,952,263.18 in 2021. The Board of Direc-tors 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. 2021	1 Jan. - 31 Dec. 2020
Other operating income	1	1,468	1,343
Staff expenses	2		
Wages and salaries	3	-7,827	-7,387
Social security expenses			
Pension expenses		-1,429	-1,180
Other social security expenses		-245	-120
Social security expenses		-1,673	-1,300
Staff expenses		-9,500	-8,687
Depreciation according to plan	4	-393	-277
Other operating expenses	5, 6	-4,115	-4,544
OPERATING LOSS		**-12,541**	**-12,164**
Financial income			
Income from participating interests		946	6 668
Income from other investments		2,095	2,044
Other interest and financial income		49,455	64,594
Financial income total		52,496	73,306
Reduction in value of investments		-18,948	-41,159
Financial expenses			
Interest and other financial expenses		-40,957	-46,292
Financial income and expenses	7	-7,409	-14,145
PROFIT / LOSS BEFORE TAXES		**-19,949**	**-26,309**
Income taxes	8	-3	-2
PROFIT / LOSS FOR THE FINANCIAL YEAR		**-19,952**	**-26,311**

Balance sheet
EUR 1,000

	Note	31 Dec. 2021	31 Dec. 2020
ASSETS			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		1,050	751
Machinery and equipment		222	333
Total		1,273	1,085
Investments	10		
Participating interests		86,101	81,625
Receivables from participating interest	11	6,999	5,617
Other shares and similar rights of ownership		197,714	173,090
Other receivables	11	366,602	347,326
Total		657,416	607,659
NON-CURRENT ASSETS		**658,689**	**608,743**
CURRENT ASSETS			
Debtors			
Long-term	12		
Other long-term debtors		584	10,089
Short-term			
Amounts owned by participating interest undertakings	13	264	211
Other receivables	14	2,200	6,420
Prepayments and accrued income	15	4,641	5,122
Total		7,105	11,753
Debtors total		7,689	21,842
Financial securities	16		
Marketable securities		44,866	34,794
Cash in hand and at banks		82,416	56,041
CURRENT ASSETS		**134,971**	**112,678**
ASSETS		**793,659**	**721,421**

	Note	31 Dec. 2021	31 Dec. 2020
LIABILITIES			
EQUITY	17		
Share capital		266,989	256,989
Retained earnings		44,064	70,376
Profit / loss for the financial year		-19,952	-26,311
EQUITY		**291,101**	**301,053**
CREDITORS			
Long-term	18, 19		
Private placement		0	99,907
Convertible loans		340,000	260,000
Loans from credit institutions		44,735	50,018
Other long-term creditors		886	1,449
Total		385,621	411,374
Short-term	20		
Loans from credit institutions		109,387	4,310
Advances received		1	4
Trade creditors		225	285
Other creditors		3,308	286
Accruals and deferred income	21	4,016	4,108
Total		116,938	8,995
CREDITORS		**502,559**	**420,368**
LIABILITIES		**793,659**	**721,421**

Cash flow statement
EUR 1,000

	2021	2020
CASH FLOW FROM OPERATIONS		
Payments received from operations	93,724	47,365
Disbursements to operations	-148,175	-140,495
Dividends received	815	218
Interest received	21,011	20,161
Interest paid	-4,211	-5,942
Payments received on other operating income	7,256	4,534
Payments of operating expenses	-18,985	-16,203
CASH FLOW FROM OPERATIONS (A)	**-48,565**	**-90,362**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-581	-386
CASH FLOW FROM INVESTMENTS (B)	**-581**	**-386**
CASH FLOW FROM FINANCING		
Short-term loans repaid	0	-43 998
Long-term loans drawn	80,000	130,000
Long-term loans repaid	-4,466	-9,391
New share issue	10,000	60,000
CASH FLOW FROM FINANCING (C)	**85,534**	**136,611**
CHANGE IN LIQUID ASSETS (A+B+C) increase (+) decrease (-)	**36,388**	**45,863**
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	**90,040**	**44,177**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**126,428**	**90,040**
NONMONETARY CHANGES IN LIQUID ASSETS	**854**	**796**
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	**127,282**	**90,836**

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 8,913,120.26. Income of EUR 339,962.72 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 2021, the sales transactions referred to in the Islamic financing agreement were EUR 8,437,528.95 and the purchase transactions EUR 8,437,528.95. Income from the purchase transaction was EUR 339,962.72 in 2021.

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 per cent of the valuation by the fund manager.

Special risk finance

Special risk finance is the term used to describe the class of projects in which Finnfund has been indemnified, by a decision of the Finnish government on 20 September 2012 and in force until 31 December 2015 or decided on 20 September 2018 and in force until 31 December 2023 or decided on 17 December 2020 and in force until 31 December 2024, against investment losses or write-offs. Projects that were indemnified before the deadline remain within this class afterwards. The indemnified investments and loans were separately approved by the Board of Directors.

Projects with the company's risk classification of C, CC or CCC are eligible for special risk finance. The corresponding level of losses indemnified by the government will be 40%, 50% and 60%. The investment risk is carried partly by Finnfund and partly by the government. The company's Board of Directors ensures that the maximum risk to the state of the entire special risk financing portfolio for projects approved for special risk financing does not exceed 50% of the total risk. Government's share of the risk is a percentage of the disbursed investments deducted by repayments. Yearly write-offs and their cancellations of the projects included in the special risk finance class are made using the same principles as for other investments.

The deferred value of claims on the government for its share of net losses from special risk finance projects is stated separately in the company's accounts. Separate application must be presented to the government for payment of the indemnity, which cannot exceed EUR 15 million annually.

Other investments in current assets

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

Derivatives

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

Items denominated in foreign currencies

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

Intangible and tangible assets

Intangible and tangible assets are entered on the balance sheet at their acquisition cost less depreciation. The depreciation plan for the premises has been prepared according to the rental period. The costs related to the renovation of the premises, machinery and furniture have been capitalised on other long-term expenses and machinery and equipment on the balance sheet. The development of the financial IT system project launched in 2020 continued in 2021. The costs of the IT system have been capitalised on the balance sheet under other long-term expenses with a five-year depreciation plan. The 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

	2021	2020
1 Other operating income		
Operating income from participating interests	4	0
Remunerations	891	763
Other operating income	572	580
	1,468	**1,343**
2 Average number of staff employed		
Employees	83	84
3 Wages and salaries		
Managing Director and his alternate	436	421
The Board of Directors and the Supervisory Board	138	144
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.

	2021	2020
4 Depreciation		
Other capitalised long-term expenses	310	166
Machinery and equipment	83	111
	393	**277**
5 Other operating charges		
Voluntary staff expenses	479	448
Office	766	745
ICT	666	710
Travel and negotiation expenses	112	335
Entertainment and PR expenses	90	120

External services	1,564	1,880
Other expenses	438	306
	4,115	**4,544**
6 Auditor's remunerations		
Audit fee	19	20
Assignments	3	2
	22	**22**
7 Financial income and expenses		
Financial income		
Income from participating interests		
Dividends	593	0
Income from funds	353	73
Profit from sales of assets	0	6,595
Income from participating interests	946	6,668
Income from other investments		
Dividends	280	569
From funds	1,800	1,475
Profit from sales of assets	15	0
Income from other investments	2,095	2,044
Other interest and financial income		
Interest income	21,477	20,922
Interest income from participating interests	43	6,754
Financial income	1,709	1,567
Financial income from participating interests	9	21
Exchange rate gain	26,217	35,330
Other interest and financial income	**49,455**	**64,594**
Financial income total	**52,496**	**73,306**
Permanent write-offs of investments and their reversals		
Equity and funds	-9,487	-44,184
Loans and other receivables	-22,322	-1,742
Reversal of write-offs on shares and fund investments	9,637	4,657
Reversal of write-offs on loans	3,224	110
Write-offs of investments and their reversals	**-18,948**	**-41,159**

Interest and other financial expenses		
Interest expenses to others	-4,314	-5,682
Other financial expenses	-5,317	-3,088
Loss from sales of assets	-6,374	-1,735
Exchange rate loss	-24,951	-35,786
Interest and other financial expenses total	**-40,957**	**-46,292**
Financial income and expenses total	**-7,409**	**-14,145**
The item Financing income and expenses includes loss of exchange (net)	**1,266**	**-456**
7 Income from financing operations by income level		
(does not include income from EU territory, liquidity and funding)		
Least developed countries (LDC)	15,426	33,878
Other low-income countries (LIC)	964	966
Lower-middle-income countries (LMIC)	27,952	28,903
Upper-middle-income countries (UMIC)	5,710	8,305
Russia	35	67
	50,087	**72,118**
8 Income taxes		
Withholding taxes on dividends	3	1
Stamp duty	0	1
	3	**2**

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. 2021	2,147	2,630	4,777
Increases	581	0	581
Acquisition cost 31 Dec. 2021	2,728	2,630	5,358
Accumulated depreciations 1 Jan. 2021	-1,396	-2,296	-3,692
Depreciation of the accounting period	-282	-111	-393
Accumulated depreciations 31 Dec. 2021	-1,678	-2,407	-4,085
Book value 31 Dec. 2021	**1,050**	**222**	**1,273**
Book value 31 Dec. 2020	751	333	1,085
10 Investments / Shares and funds	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2021	132,137	198,667	330,804
Increases	4,627	37,391	42,018
Transfer between items	3,970	-3,970	0
Decreases	-2,353	-10,715	-13,068
Acquisition cost 31 Dec. 2021	138,381	221,373	359,754
Individual write-offs accumulated as of 1 Jan. 2021	-50,512	-25,577	-76,089
Reversal of write-offs	2,287	6,241	8,528
Write-offs during the financial year	-4,055	-4,323	-8,378
Individual write-offs accumulated as of 31 Dec. 2021	-52,280	-23,659	-75,939
Book value 31 Dec. 2021	**86,101**	**197,714**	**283,815**
10 Investments / Loans	**Participating interests**	**Others**	**Total**
Acquisition cost 1 Jan. 2021	6,879	371,427	378,306
Increases	1,681	125,403	127,084
Capitalised interest	0	1,125	1,125
Decreases	-6	-88,448	-88,454
Acquisition cost 31 Dec. 2021	8,554	409,507	418,061

Individual write-offs accumulated as of 1 Jan. 2021	-1,262	-24,100	-25 362
Reversal of write-offs	0	3,224	3,224
Write-offs during the financial year	-294	-22,029	-22,322
Individual write-offs accumulated as of 31 Dec. 2021	-1,555	-42,905	-44,460
Book value 31 Dec. 2021	**6,999**	**366,602**	**373,601**

	2021	2020
11 Subordinated receivables		
Capital loans to participating interests	6,999	5,617
Capital loans to others	89,404	70,056
	96,403	**75,674**
12 Other long-term receivables		
Derivative receivables	572	10,089
Rent security deposit of the Nairobi office	12	0
	584	**10,089**
13 Receivables from participating interests		
Interests	43	0
Legal expenses	172	160
Other	49	51
	264	**211**
14 Other receivables		
Loss compensation from the State according to the special risk financing commitment	0	2,183
Derivative receivables	2,200	4,204
Other	0	33
	2,200	**6,420**
15 Prepayments and accrued income		
Interests	3,711	4,409
Other	930	713
	4,641	**5,122**
16 Marketable securities		
Fair value	45,142	34,820
Book value	44,866	34,794
DIFFERENCE	**276**	**25**

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.	256,989	196,989
Increase of share capital	10,000	60,000
Share capital as of 31 Dec.	266,989	256,989
Unrestrected equity		
Profit from previous financial years 1 Jan.	44,064	70,376
Retained earnings 31 Dec.	44,064	70,376
Profit/loss for the financial year	-19,952	-26,311
Total unrestricted equity	24,112	44,064
Total equity	**291,101**	**301,053**
17 Share capital		
Number of shares	1,570,521	1,511,698
Nominal value, EUR	170,00	170,00
18 Loans with maturity more than 5 years		
Loans from credit institutions	11,772	15,212
Loans from government	340,000	260,000
	351,772	**275,212**
19 Private placements		
Private placement 2017/2022 Bullet Fixed 0.625%	100,000	100,000
20 Other short-term debt		
Private placement	99,969	0
Loans from financial institutions	9,418	4,310
Derivative liabilities	2,968	5
Accounts payable	225	285
Other	342	285
	112,921	**4,886**
21 Accruals and prepaid income		
Deferral of personnel expensed	3,356	3,501
Interest	649	540
Taxes	1	53
Other	10	14
	4,016	**4,108**

Other supplementary information

EUR 1,000

Other contingent liabilities

The company has a non-fixed-term lease on its office premises. The lease period and the tenure began on 1 March 2019 and may be terminated for the first time on 31 May 2025 with a 12 month notice period. Monthly rent excluding VAT is EUR 49,341.00, from 1 March 2020 EUR 49,977.61, from 1 March 2021 EUR 50,775.20. The obligation to pay rent began on 1 June 2019. The company has entered into a six-year fixed-term lease for the Nairobi office in Kenya as of 1 February 2022. The obligation to pay the rent begins on 1 April 2022. The monthly rent excluding VAT is approximately EUR 3,000, including the service charge and parking costs.

	2021	2020
Payable in the next financial period	636	607
Payable later	2,295	2,691
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	201,000	227,000
Special risk finance (cumulative)		
Decisions of the Board of Directors	247,517	180,351
Government's indemnity	118,611	88,220
Government's indemnity, %	48%	49%
Disbursements	129,142	83,479

Derivative contracts EUR 1,000
Fair values of derivatives in financial assets and liabilities

	2021			2020		
Receivables	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	197		197	4,204		4,204
Interest rate swaps		572	572			
Currency and interest rate swaps	2,003		2,003		10,089	10,089
Total	2,200	572	**2,772**	4,204	10,089	**14,293**
Liabilities	Short-term	Long-term	**Total**	Short-term	Long-term	**Total**
Forward exchange agreements	2,968		2,968			
Interest rate swaps		416	416	5	1,038	1,044
Currency and interest rate swaps						
Total	2,968	416	**3,384**	5	1,038	**1,044**

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.

	2021				2020			
Receivables	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		197		197		4,204		4,204
Interest rate swaps		572		572				
Currency and interest rate swaps		2,003		2,003		10,089		10,089
Total	0	2,772	0	**2,772**	0	14,293	0	**14,293**
Liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Forward exchange agreements		2,968		2,968				
Interest rate swaps		416		416		1,044		1,044
Currency and interest rate swaps								
Total	0	3,384	0	**3,384**	0	1,044	0	**1,044**

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	2021	2020
Change of +/- 1% in EURIBOR interest	0 / 0	0 / 0
Change of +/- 1% in LIBOR interest	-192 / 192	-669 / 669
Change of +/- 10% in EUR-USD exchange rate	9,876 / -9,876	9,295 / -9,295

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 2021.

Undiscounted cash flow resulting from derivatives

	2021				2020		
Receivables	Under 1 year	1–5 years	Over 5 years	Total	Under 1 year	1–5 years	Total
Forward exchange agreements	167,123			167,123	137,264		137,264
Interest rate swaps	80	172	2	254	104	275	379
Currency and interest rate swaps	100,625			100,625	625	100,625	101,250
Total	**267,829**	**172**	**2**	**268,002**	**137,994**	**100,900**	**238,894**
Liabilities	Under 1 year	1–5 years	Over 5 years	Total	Under 1 year	1–5 years	Total
Forward exchange agreements	170,347			170,347	133,578		133,578
Interest rate swaps	489	918	5	1,412	419	1,101	1,520
Currency and interest rate swaps	99,053			99,053	1,063	91,392	92,455
Total	**269,889**	**918**	**5**	**270,812**	**135,059**	**92,493**	**227,552**

Receivables, liabilities and transactions with related parties

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

Receivables, liabilities and transactions with related parties

When Russia started the war in Ukraine, the Syvash wind farm was damaged, and the area is under the control of Russian forces. The financial statements include a write-off risk equivalent to 50 per cent of the amount of the loan receivable. It is likely that this receivable will have to be written off in full during the financial year 2022.

Exchange rate

31 December 2021	EUR/USD	1.1326

Signatures of Board of Directors' report and financial statements

Helsinki, 30 March 2022

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 Loikkanen
Member of the Board

Sari Nikka
Member of the Board

Antero Toivainen
Member of the Board

Jaakko Kangasniemi
Managing Director, CEO

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 30 March 2022

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, 2021. The financial statements comprise the balance sheet, income statement, cash flow statement and notes.

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

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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

Other Reporting Requirements

Other Information

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

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

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki, April 6, 2022

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 2021. 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, 8 April 2022

Outi Alanko-Kahiluoto

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