Annual Report 2023

finnfund

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COVER
Kelvin Mwangi, Twiga's agent, is helping **Naomi Wambui**, 74, to make an order on her mobile phone. Wambui is selling bananas in Nairobi's Kahawa West area, and Twiga delivers her a box of bananas every day. Twiga is a food distribution platform operating in 12 cities in Kenya and in Kampala, Uganda. Finnfund has been financing Twiga through OP Finnfund Global Impact Fund I since 2021. Read more on our website. *Photo: Finnfund*

Year 2023

In 2022, Finnfund invested in Igloo, an insurtech company, that facilitates digital insurance products and solutions that address each step of the insurance value chain across Southeast Asia. The company has a vision of enabling 'Insurance for All'. Through Igloo, for example, entrepreneurs and MSMEs (micro, small and medium-sized enterprises) - such as delivery drivers - can have an access to affordable insurances both for their property and themselves. Read more on our website. *Photo: Finnfund*

This is Finnfund

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

Each year, we invest 200–250 million euros in 20-30 projects, emphasising renewable energy, sustainable forestry, sustainable agriculture, financial institutions, and digital infrastructure and solutions. Besides our five focus sectors, we invest in other sectors when projects meet our requirements and are aligned with our strategy. Today, Finnfund's investments, commitments, and investment decisions total 1.23 billion euros, with half of them in Africa.

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

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

Finnfund's shareholders are the State of Finland (96.18%), Finland's export credit agency Finnvera (3.75%), and the Confederation of Finnish Industries (0.07%).

Finnfund's owners set annual targets for the company (p. 23). The targets address financial results, development impact, geographical focus, and operational efficiency. The goals are documented in the Foreign Ministry's annual Ownership Steering Memorandum, which is available on our website. The company's share capital on 31 December 2023 was 286,988,390 euros.

Our mission

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

Our vision

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

Our values

- Responsibility
- Respect
- Development
- Effectiveness

Our key strategic objectives

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

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

At the end of 2023, Finnfund employed 97 people, of whom 4 worked at the Nairobi office and 9 worked for the Ministry for Foreign Affairs' Finnpartnership programme.

Finnfund's approach to development.

Chief Executive Officer's review

Turning the corner

In many ways, 2023 was a year when times were hard but took a clear turn for the better. Firstly, this applies to the economic environment in the countries in which we operate. For much of the year, interest rates were going up, developing and emerging markets were losing access to finance, and many governments were running out of money.

During the course of the year, however, the global economic environment improved, the feared defaults in our main markets were largely avoided, and by early 2024, some countries even regained access to financial markets. India, in particular, is doing better and successfully improving the lives of millions of people.

Transition is on its way

Secondly, 2023 was a pivotal year for the major challenge of our times: climate change. While new records of warmer seas, shrinking glaciers, and various feared impacts of global warming were made, the year was also characterised by significant improvements in the development and deployment of green technologies. Solar and wind energy are beating fossil fuels, and the world is busily making the investments needed to electrify transportation. For hundreds of millions of people, the transition is about to bring much cleaner air to breathe in the near future.

Thirdly, for Finnfund and many of our investee companies, 2023 was a hard year that ended up being a clear turn for the better.

Record year again

In fact, 2023 was a record year in many ways. We took 35 investment decisions, totalling 256 million euros, once again exceeding our targets. Aligned with dollars and euros, our impact also kept on growing. You can find many impressive figures and examples in this report.

We successfully continued to execute our strategy launched in 2022. Going forward, we intend to put more emphasis on supporting Ukraine's recovery and on leveraging technological advances for impact. Collaboration with Finnish businesses has always been an integral part of Finnfund's work, and in a number of cases it has greatly contributed to our development objectives. As interest in this cooperation has increased, we will put a special emphasis on cooperation with Finnish companies that have innovative solutions for global challenges.

Raising the bar

In each strategy, we have had the courage to raise the bar even higher, and

"For Finnfund and many of our investee companies, 2023 was a hard year that ended up being a clear turn for the better. In fact, 2023 was a record year in many ways"

Jaakko Kangasniemi
Chief Executive Officer, Managing Director

we will continue to do so. On the financial side, after a few challenging years in the aftermath of the pandemic and global conflicts, we are back on a good track. The year 2024 already started strongly as we successfully exited from our biggest investment, Lake Turkana Wind Power, which accounts for up to 14 per cent of Kenya's electricity generation. The outlook for the rest of the year also looks bright.

Mastering the craft of development impact is and must be a team play. Therefore, Finnfund´s goal is to foster sustainable development not only by investing our own resources in impactful projects but also by providing investment opportunities for private investors. In 2023, we issued a 100 million euro Green Bond under our Sustainability Bond Framework. Mobilising private capital is a key to achieving the UN Sustainable Development Goals (SDGs) in developing countries.

In addition, Finnfund signed the Africa Connected programme with the European Commission: a landmark agreement aimed at mobilising sustainable investments for digital infrastructure and digital service platforms in Sub-Saharan Africa. Finnfund became the first-time implementing partner of EFSD+ Guarantees, reinforcing collaboration among European partners and Global Gateway.

Growth is a holistic project

Nature and biodiversity are at the very core of Finnfund´s mission and daily work. All businesses are called to take a closer and more critical look at their operations with respect to our planetary boundaries. We at Finnfund have started preparing our first Nature and biodiversity statement to safeguard this.

Growth is a holistic project. It goes hand in hand with increasing trade. Sustainable growth requires both international and domestic trade, a solid and well-maintained infrastructure, and a skilled workforce with decent jobs. It also requires predictable and transparent legislation and respect for human rights. In this process, money is an enabler, not an end goal.

Breaking the vicious circle of poverty together

Creating livelihoods for the poorest is – in its essence – also a peace project to create a more stable future. We want to express our gratitude to all our partners, staff members, and supporters for sharing the journey with us, in order to break the vicious, sometimes violent circle of poverty.

Jaakko Kangasniemi
Chief Executive Officer, Managing Director

Our 2023 at a glance

Highlights

Portfolio
831
million euros

Portfolio, commitments, and investment decisions
1.23
billion euros

New investment decisions
256
million euros

Of new investment decisions
95%
targeted countries in the three lowest income categories (OECD DAC; EUR)

Read more on p. 11.

Africa Connected!

In October, Finnfund signed an agreement with the European Commission under the new European Fund for Sustainable Development Plus (EFSD+), thus becoming a first-time implementing partner of EFSD+ Guarantees. The Africa Connected programme is a landmark agreement aimed at mobilising more than one billion euros in sustainable investments for digital infrastructure and digital service platforms in Sub-Saharan Africa. Read more on p. 27.

Our first green bond

In December, Finnfund issued its first green private placement bond. This is based on the 2022 sustainability framework. The size of the bond was 100 million euros, and four European institutional investors from outside the Nordic countries invested in it. Read more on p. 126.

Let's ask the stakeholders

2023 was also a record year in terms of rapid stakeholder surveys through which we, in cooperation with our investee companies, aim to ask their main stakeholder groups how the companies' operations have affected their lives. We concluded nine studies and started nine studies to be completed in 2024. One of the surveys was conducted with Sanergy among smallholder farmers in Kenya. Read more about the surveys on p. 51 and more about Sanergy on p. 18.

Best annual report of the year

The long-term development of Finnfund's Annual Report was rewarded when Finnfund's Annual Report for 2022 was recognised with an award for the best annual report of the year in the 'Oma Media' competition by ProCom – The Finnish Association of Communication Professionals. Read more on p. 43.

Highlights from our impact figures 2022

Finnfund's investments removed a total of
98,000
tCO_2e more than they emitted

276,000
supported jobs – of which 39% for women

9,100
GWh of energy generated

720,000
hectares of forest under sustainable management

Cooperation with
6.5 million
small-scale and livestock farmers – 79% of them women

6 million
micro and SME loans – total value EUR 10 billion

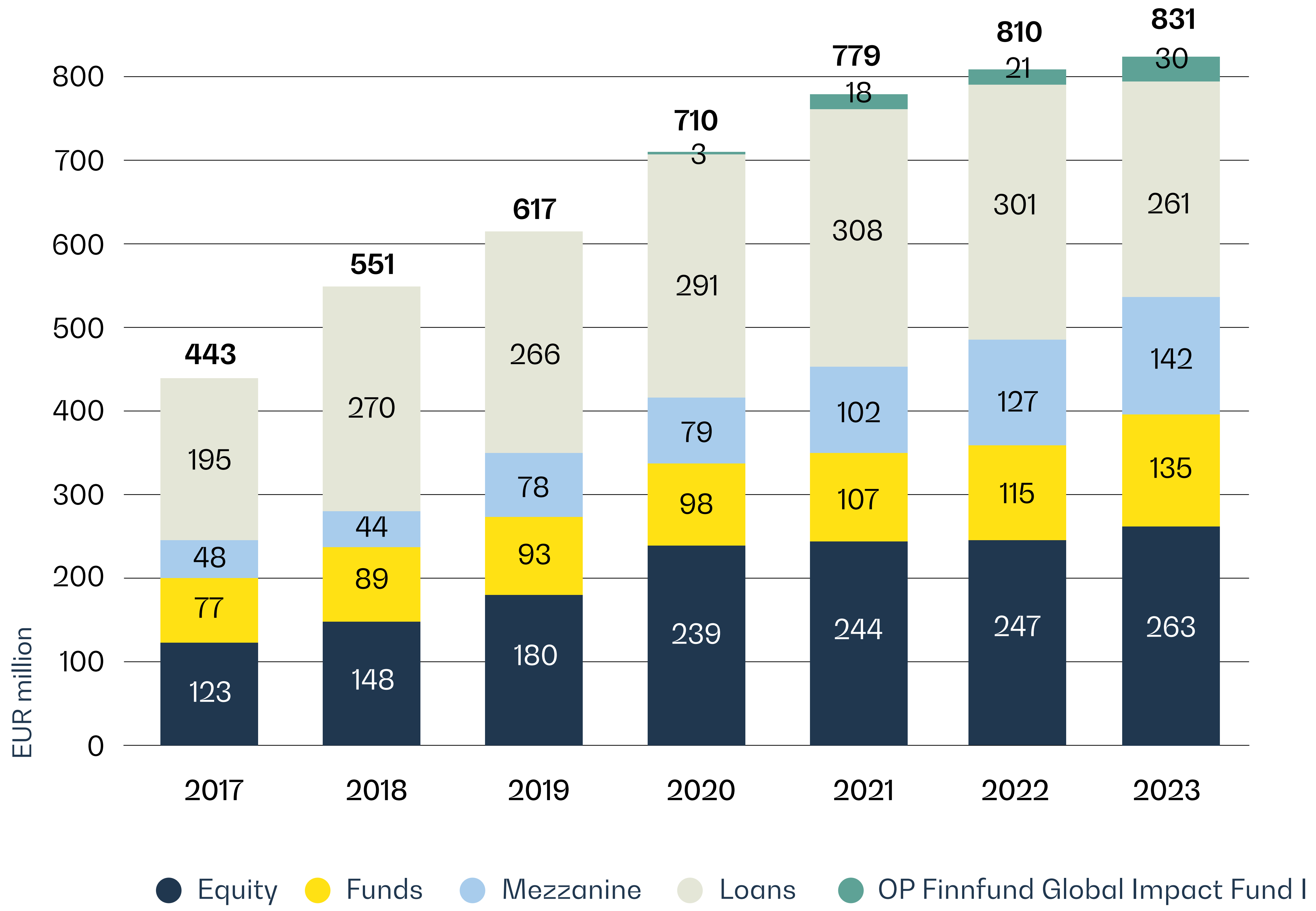
153 million
people reached and served through digital solutions and infrastructure

Read more on p. 87.

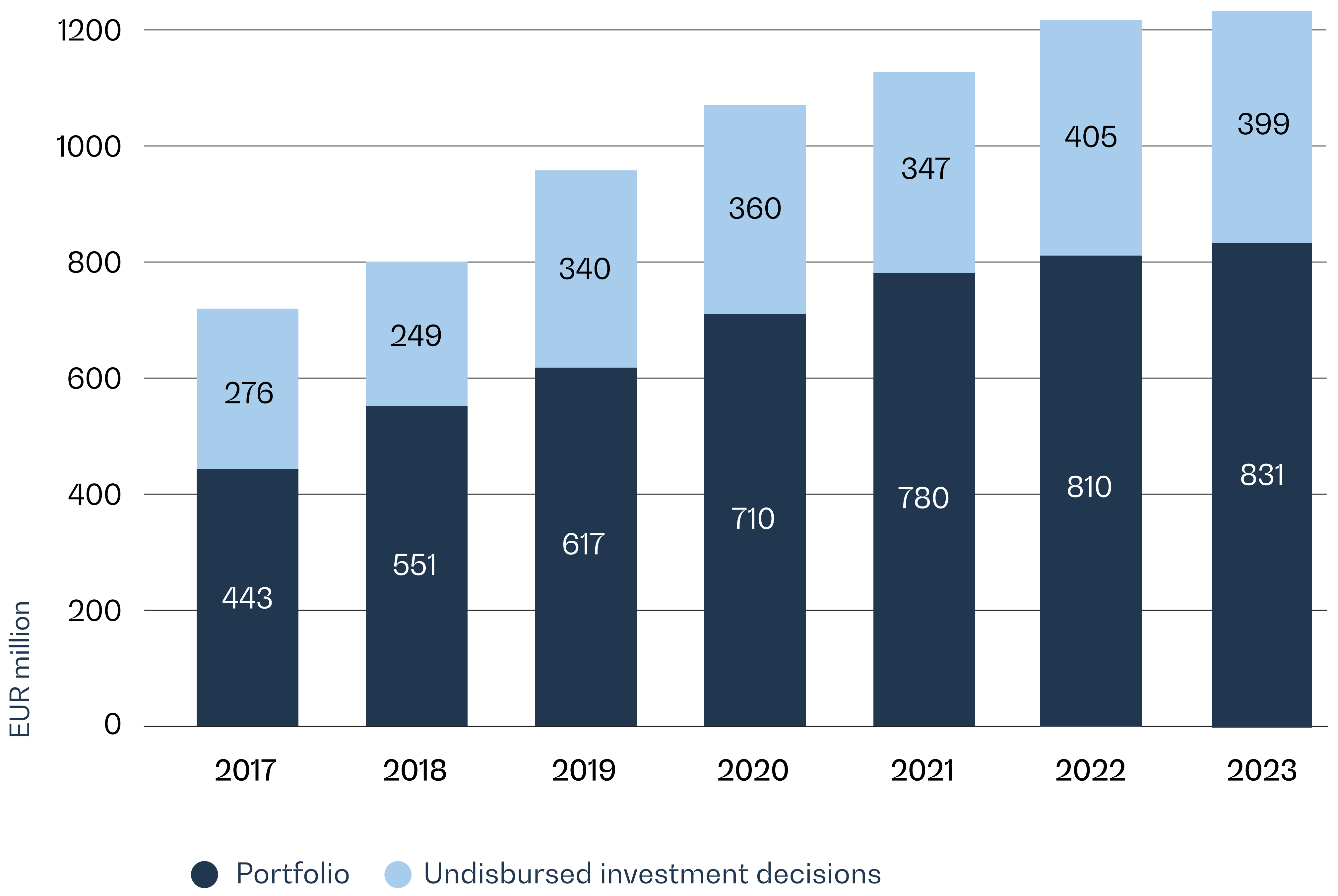
Many of our investee companies in the agriculture and forestry sectors work with smallholders. One of the latest examples is Kentegra in Kenya.
Read more on our website or watch a video.
Photo: Kentegra Biotechnology

Key figures

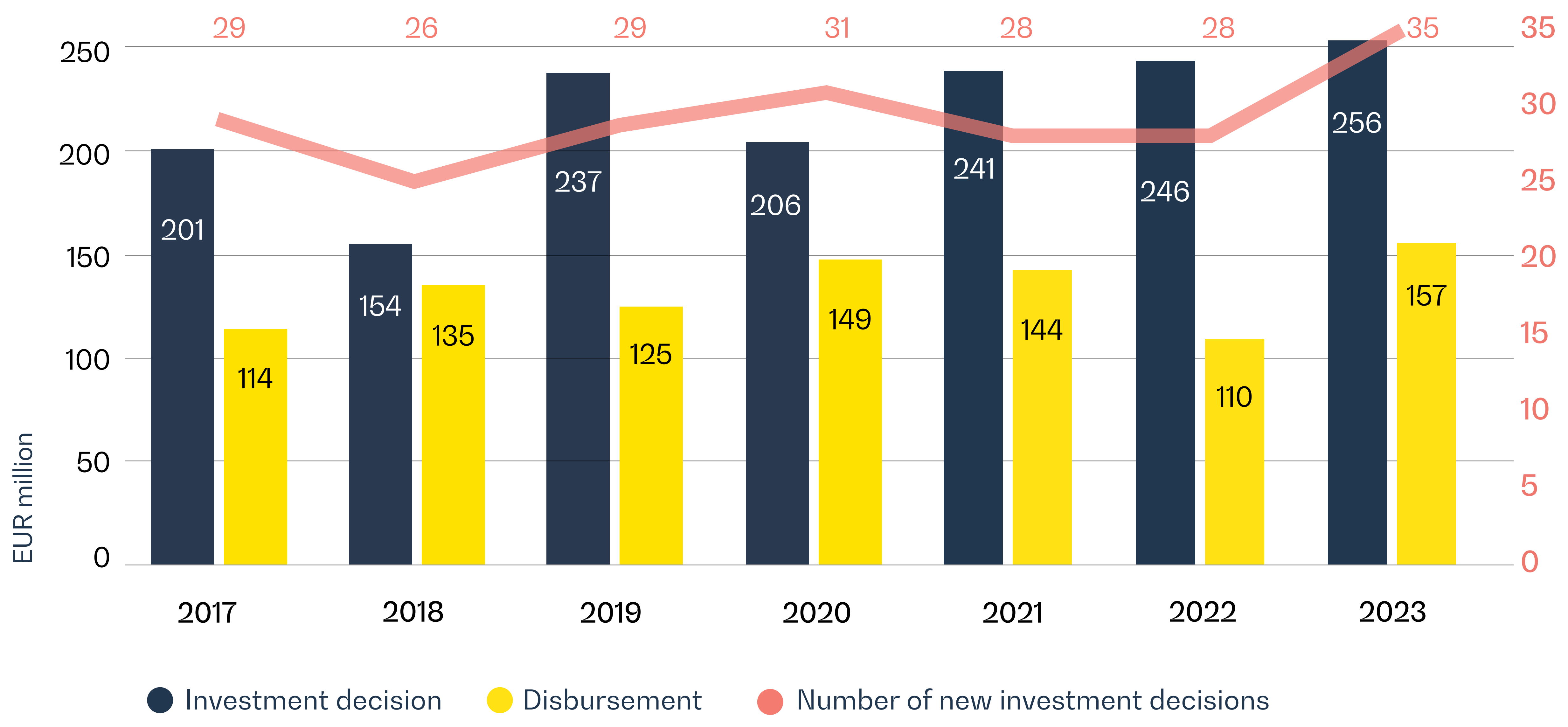
Portfolio EUR million (total EUR 831 million)



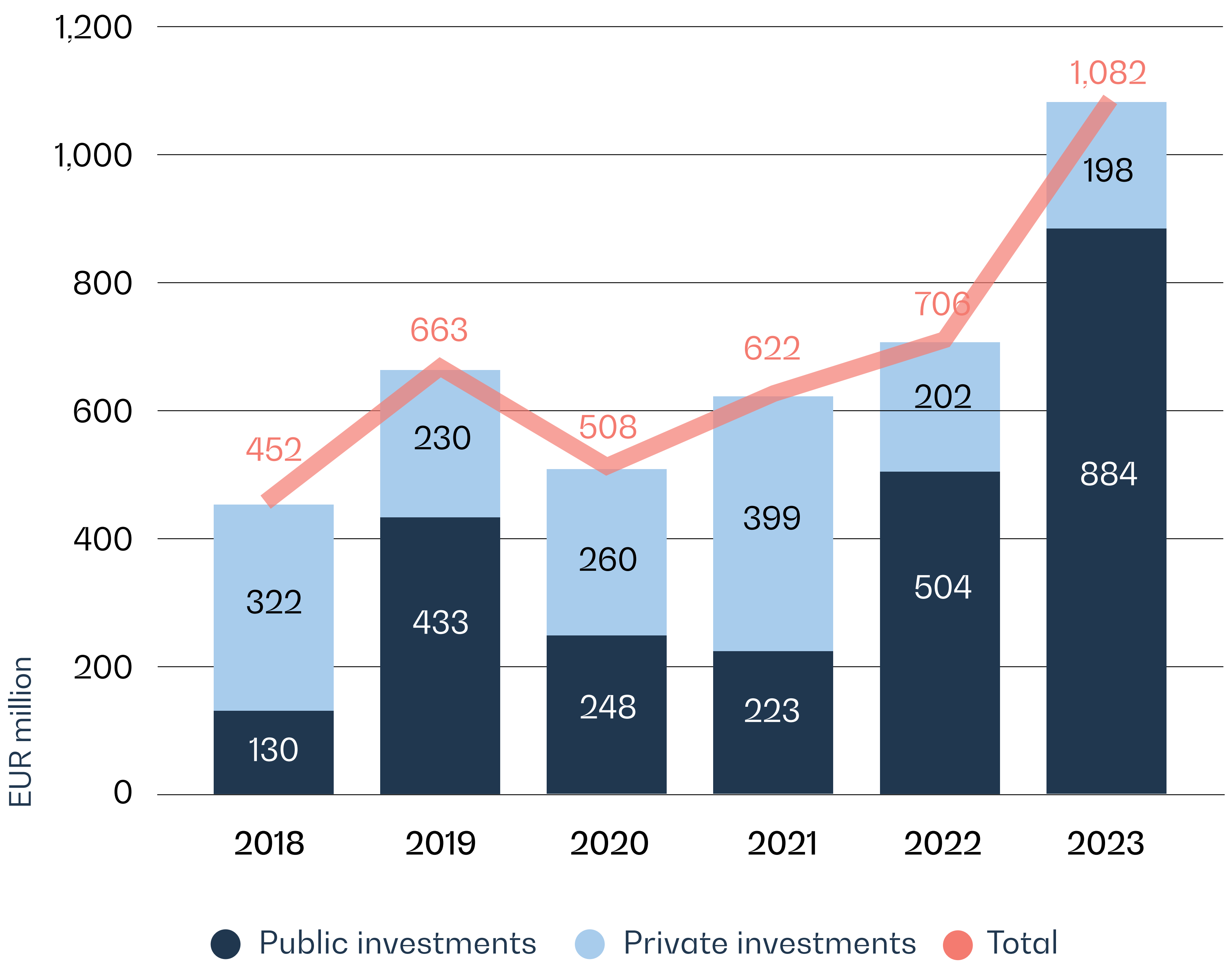
Portfolio and undisbursed investments decisions EUR million (total EUR 1.23 billion)



Investment decisions and disbursements EUR million



Mobilisation of additional private and public capital through new investments made by Finnfund EUR million

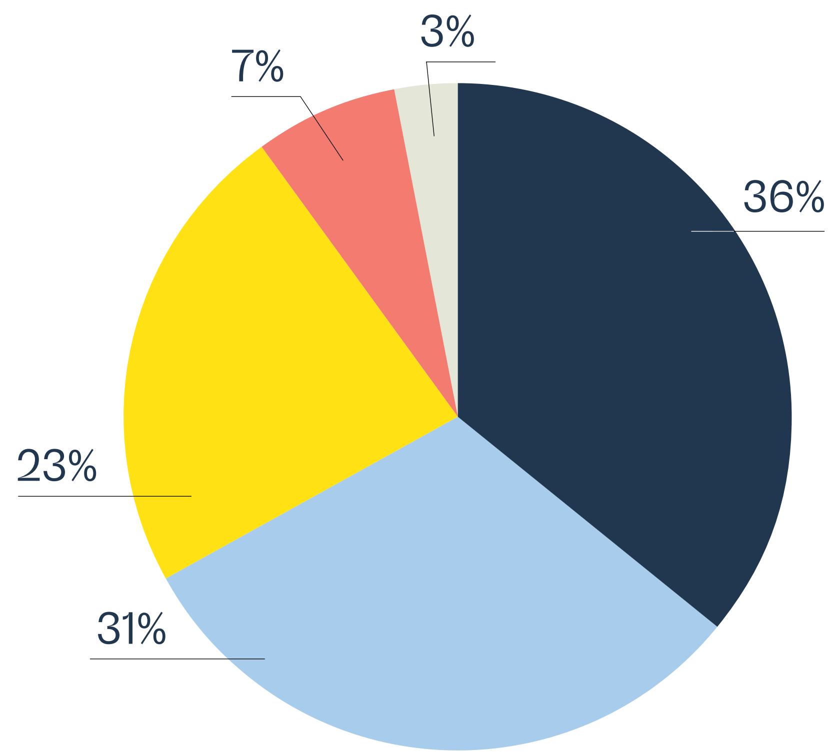


Mobilisation of private financing includes the financing provided by a private entity (financially and managerially autonomous from national or local governments) on commercial terms provided in connection with a specific activity for which Finnfund is providing financing (including the amount directly mobilised by Finnfund). This excludes sponsor financing. Public entities include multilateral and bilateral financial institutions, export credit agencies and any other institution whose purpose is to benefit or promote specific national interest, regardless of ownership. The definition is based on the common definition of the European Development Finance Institutions (EDFI). In addition to this, Finnfund aims to mobilise funding for sustainable development, for example, through issuing sustainability and green bonds (p. 40 and 126) as part of its own fund raising.

Key figures 2019–2023

	2019	2020	2021	2022	2023
Number of project countries	52	53	53	55	53
Number of investment decisions in portfolio	183	206	196	191	198
Number of investees	153	152	151	153	161
New investment decisions, EUR million	237	206	241	246	256
Number of new investment decisions	29	31	28	28	35
Disbursements, EUR million	125	149	144	110	157
Undisbursed investment decisions and commitments, EUR million	340	360	347	405	399
Portfolio, EUR million	617	710	780	810	831
Shareholders' capital, EUR million	267	301	291	301	315
Total assets/liabilities, EUR million	616	721	794	773	881
Number of personnel on average	77	84	83	90	101

Sources of Finnfund's funding, 31 December 2023



- Government: loan 36%
- Government: equity 31%
- Other private funding and investors 23%
- Institutional investors/ OP Finnfund Global Impact Fund I 7%
- Retained earnings 3%

Five years in review

Operational analysis, EUR million	2019	2020	2021	2022	2023
Financial income	35.7	31.4	27.5	29.7	44.1
Financial expenses	-12.0	-9.2	-9.6	-13.5	-17.2
Net financial income	23.7	22.2	17.9	16.2	26.9
Other operating income	1.5	1.3	1.5	1.8	2.1
Administration. depreciation and amortisation and other operating expenses	-14.1	-13.5	-14.0	-17.3	-20.4
Profit before impairment. sales of assets and taxes	**11.1**	**10.0**	**5.4**	**0.7**	**8.6**
Impairment and sales of assets	-10.4	-36.3	-25.4	-0.4	-4.8
Taxes	0	0	0	0	0
Net profit	**0.7**	**-26.3**	**-20.0**	**0.3**	**3.8**

Balance sheet, EUR million	2019	2020	2021	2022	2023
Assets					
Tangible and intangible assets	1.0	1.1	1.3	1.2	0.8
Investments	556.7	607.6	657.4	697.6	722.3
Current assets	58.0	112.7	135.0	74.5	157.9
	615.7	**721.4**	**793.7**	**773.3**	**881.0**
Liabilities					
Equity	267.4	301.0	291.1	301.4	315.2
Liabilities	348.3	420.4	502.6	471.9	565.8
	615.7	**721.4**	**793.7**	**773.3**	**881.0**

Financial indicators	2019	2020	2021	2022	2023
Equity ratio. %	43.4	41.7	36.7	39.0	35.5
Return on equity p.a.. %	0.3	-8.7	-6.9	0.1	1.2

Investments

Over the past few years, Finnfund's target markets have been severely impacted by global crises. Russia's invasion of Ukraine, rising energy and food prices, political and economic instability and, most recently, the debt crisis and the inability of national economies to meet their debts, particularly in African countries, have led to a deteriorating operating environment. On the other hand, this has further emphasised the importance of long-term and responsible financiers such as Finnfund. Despite the situation, Finnfund has continued to invest actively in developing and emerging markets. 2023 was a record year in many ways: Finnfund took 35 investment decisions with a total value of 256 million euros.

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

Africa continued to be Finnfund's primary investment destination, with 46 per cent of the decisions and 30 per cent of the monetary value. Asia comes second, with approximately 40 per cent in terms of both the number of decisions and monetary value. The remaining share, about 14 per cent of the decisions worth 27 per cent of the monetary value, was allocated to other continents or international projects.

Of the financing decisions, 16 involved loans, accounting for about 56 per cent of the monetary value of the decisions. Of the projects that were approved, 17 were equity investments or mezzanine financing, which, when calculated in euros, accounted for 33 per cent of all approved projects. Two investment decisions were made with regard to private equity funds, accounting for about s of the monetary value of the decisions.

In line with our strategy to triple our impact, we kept investing in low-income countries. In terms of number, 26 per cent (9), and in terms of volume, 22 per cent (57 million euros) of new investment decisions targeted the least developed countries. For lower-middle-income countries, the number of decisions was 68 per cent (24) and the volume was 73 per cent (187 million euros); and for upper-middle-income countries, the figures were 6 per cent (2) and 5 per cent (12 million euros), respectively.

The profit for 2023 was 3,803,242 euros.

With regard to the expansion of the financing base, OP Finnfund Global Impact Fund I continued to invest alongside Finnfund. Finnfund also invites Finnish

"The past few years have been very challenging in our key markets in many ways. The role of Finnfund as a long-term responsible investor is to support local, innovative, growth-minded companies to tackle these challenges, create jobs, provide essential goods and services and build responsible and commercially sound businesses. We are actively looking for new inspiring investment opportunities across our target countries."

Hanna Loikkanen
Chief Investment Officer (from January 2024)

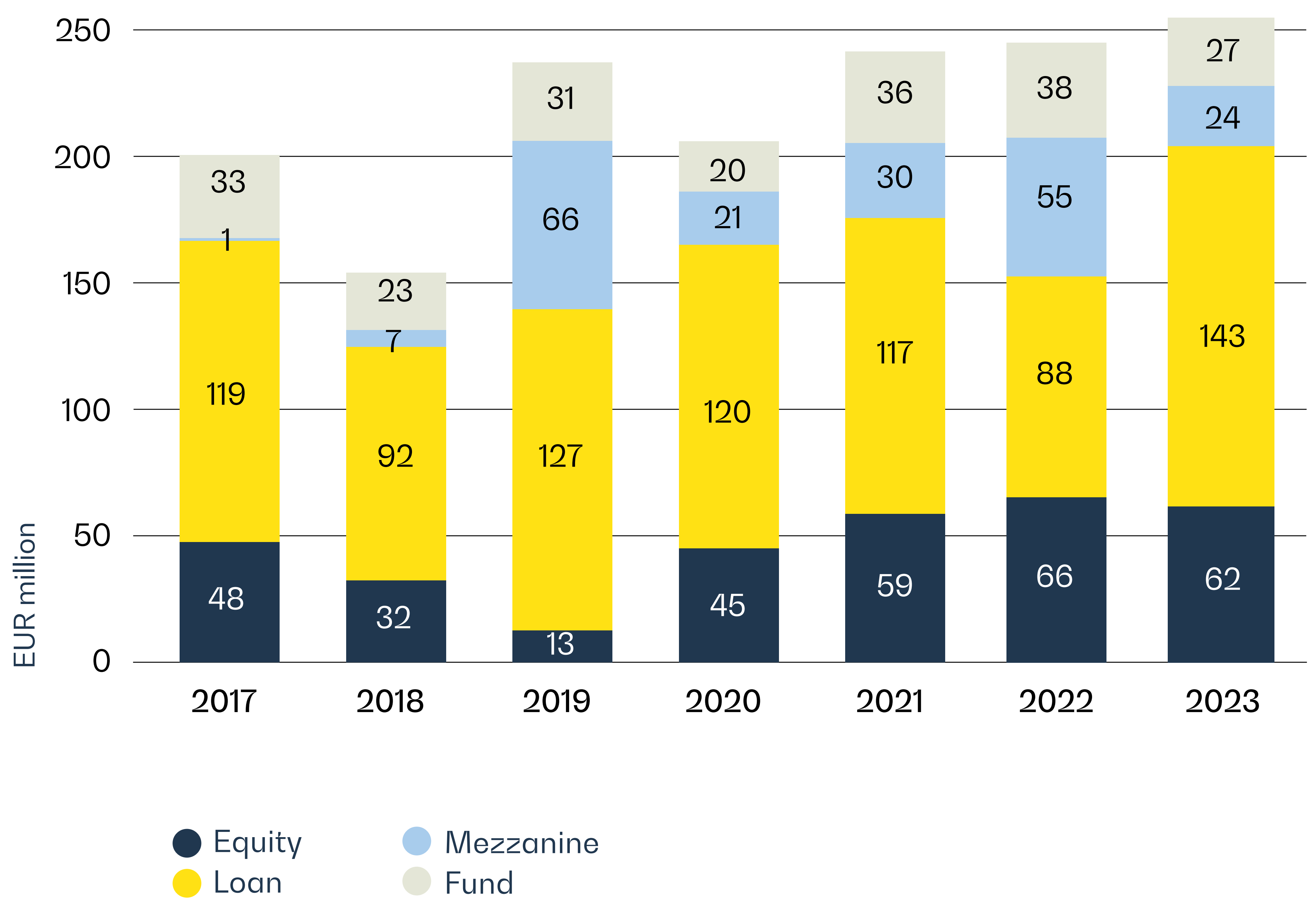
institutions to become direct co-investors.

In 2023, disbursements for investments totalled 157 million euros, and undisbursed commitments at the end of the year totalled 258 million euros. In addition, 159 million euros was tied up in investment commitments that had not yet progressed to the agreement stage. Of the disbursements during the 2023 financial year, a total of 86 million euros is considered official development assistance (ODA) by the Finnish State.

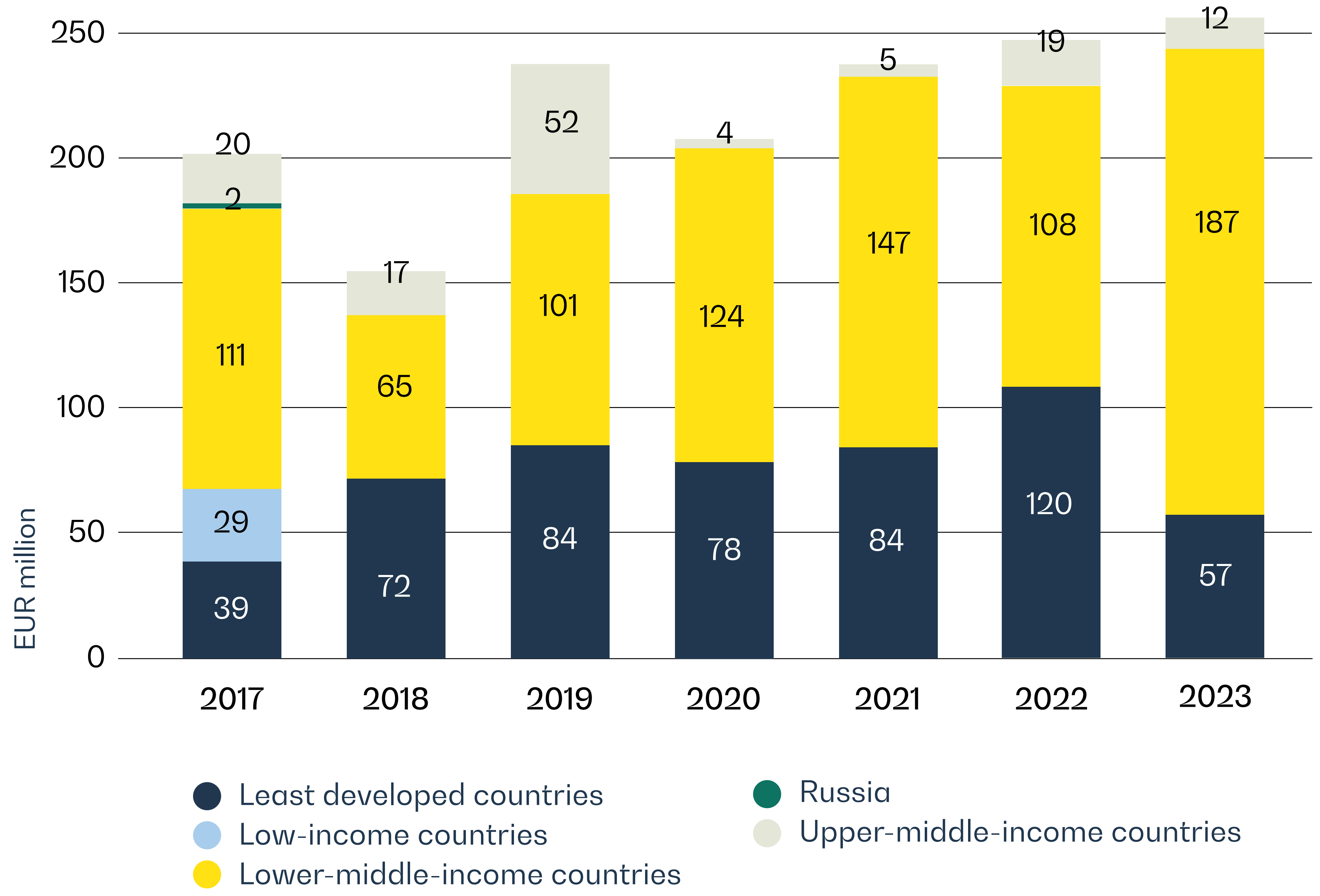
At the end of 2023, Finnfund's portfolio comprised 161 investments. Some of these were new investments in existing projects. Finnfund's investments, commitments, and investment decisions total 1.23 billion euros.

The list of our investments is available on our website.

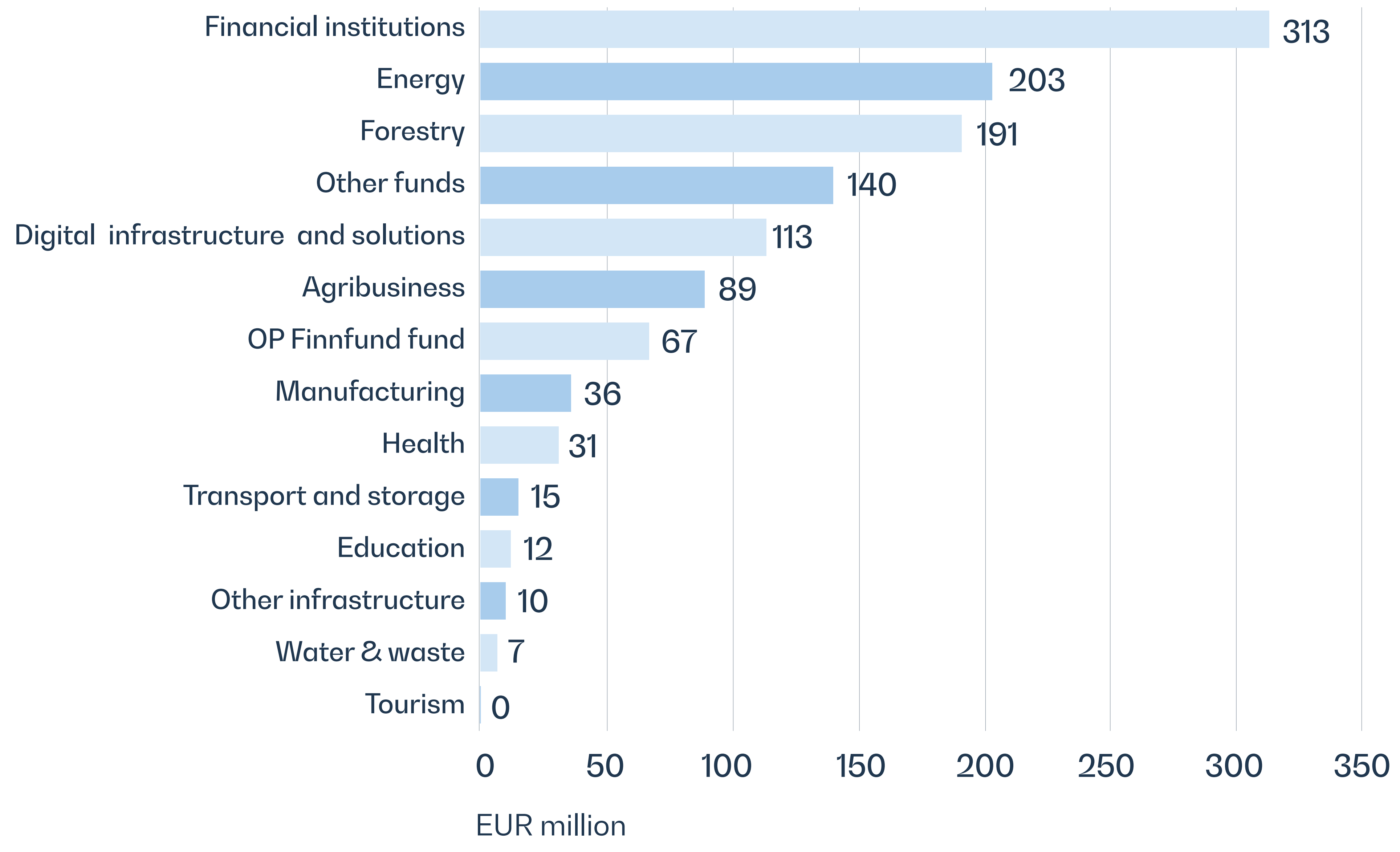
Annual investment decisions by instrument EUR million



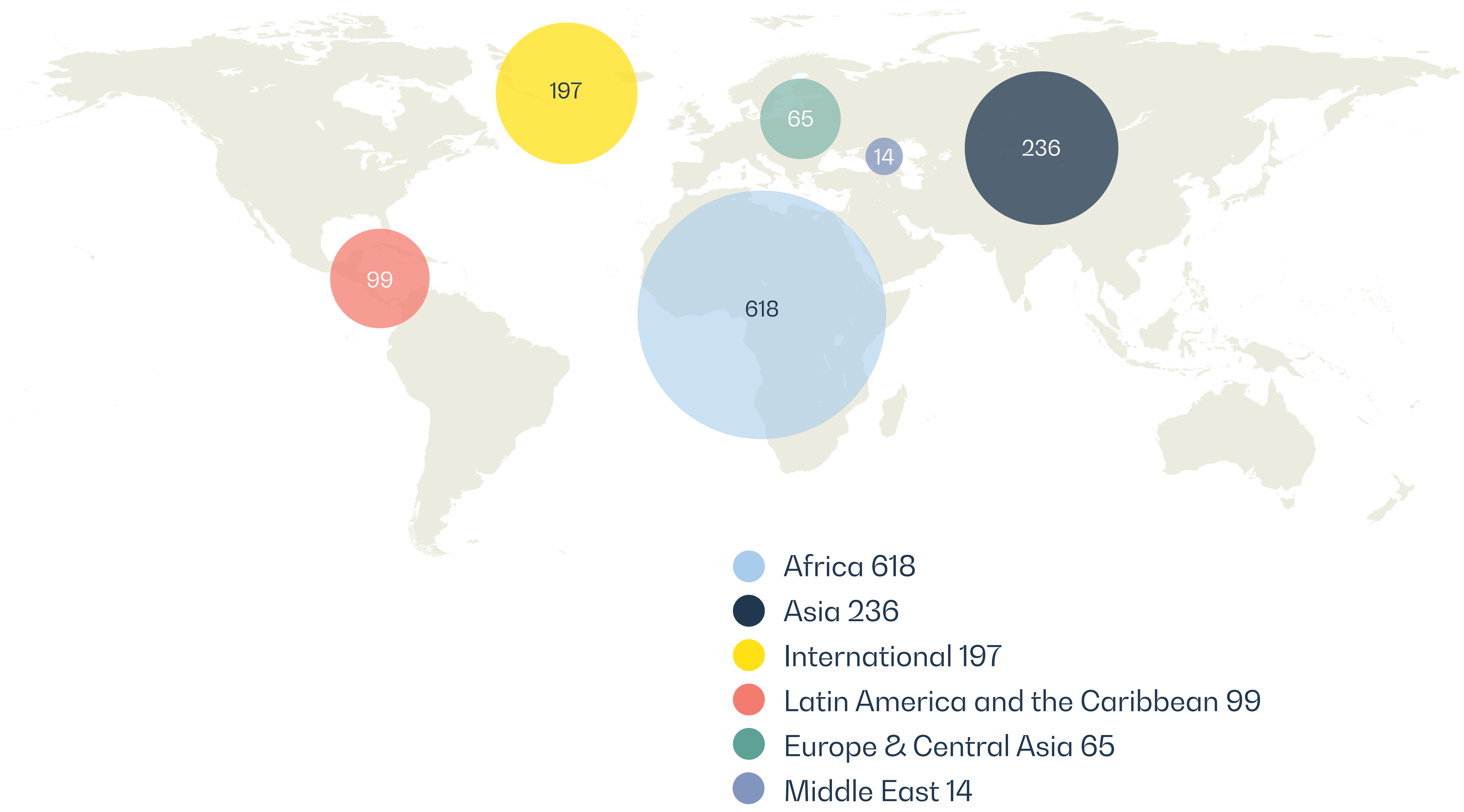
Annual investment decisions by country category (**OECD, DAC**) EUR million



Portfolio and undisbursed investment decisions and commitments by sector (total EUR 1.23 million)



Portfolio and undisbursed investment decisions and commitments (EUR million) **on 31 December 2023, geographical distribution** (total EUR 1.23 billion)



How and where Finnfund invests

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

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

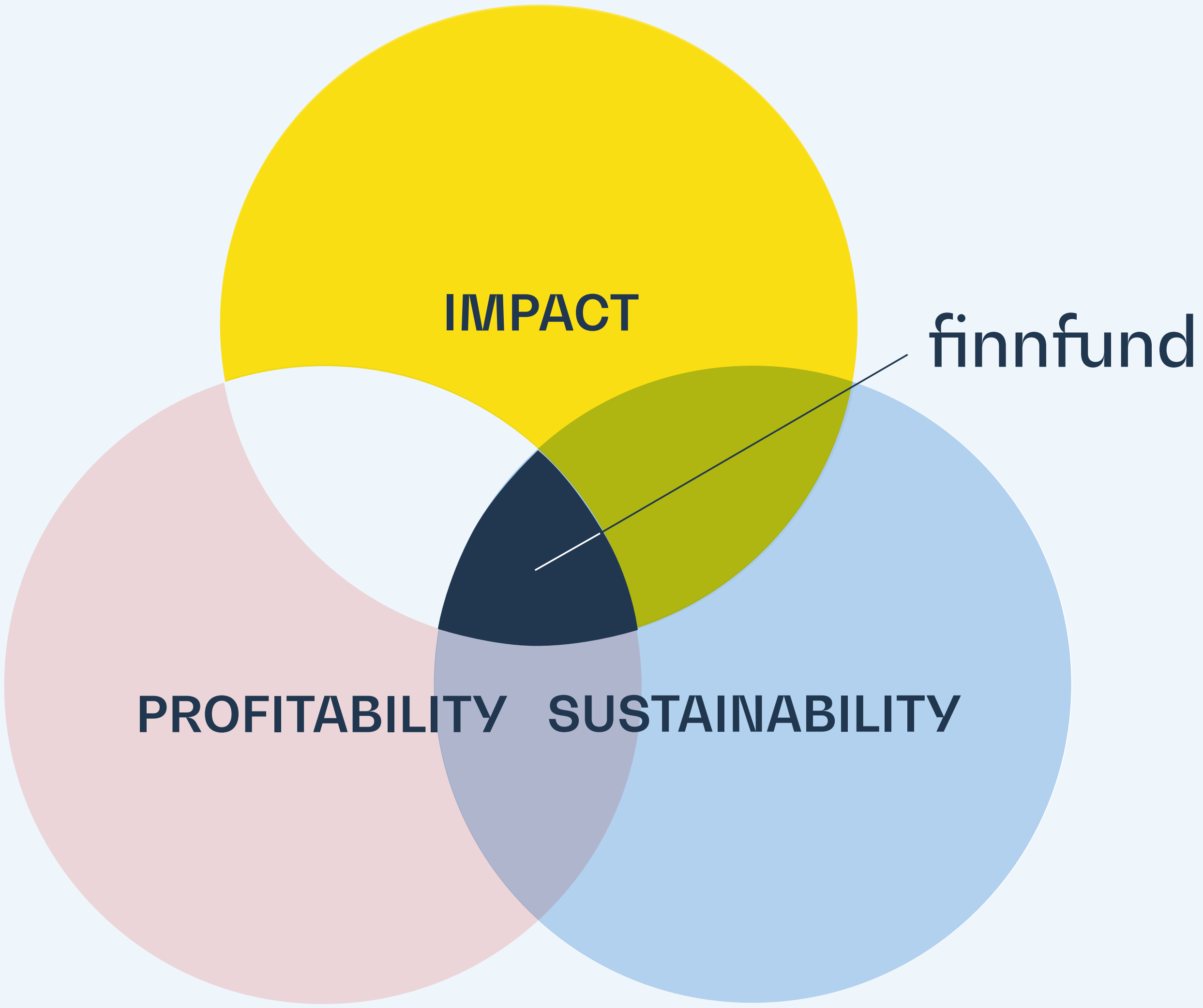
The majority of Finnfund's investments are made directly in companies operating in developing countries. Besides such direct investments, we can make indirect investments through funds. Additionally, Finnfund finances banks and financial institutions. Funds and financial institutions complement direct 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 often focus on serving small and medium-sized enterprises, small-scale infrastructure projects, family businesses, or households. Well-managed funds can also provide companies with other types of support, such as expertise related to the industrial sector or environmental sustainability.

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

Read more about our investment process on our website.

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



CASE

Sanergy's circular economy model helps Kenyan farmers

Natural fertilizer and animal food with the help of larvae? Better yields and more money to save? Kenyan company Sanergy produces organic fertilizers and animal feed using black soldier fly larvae. The beneficiaries are farmers and animal breeders, as well as nature.

"The productivity has become greater since I started using (Evergrow) fertilizer, and I am able to sell the crops at a good price and get more income. Through this income, I manage to provide a livelihood for my family." For example, this is what a 54-year-old female farmer says about her experiences.

The production process of Sanergy, which has been operating since 2011, is a great example of the circular economy in practice. Regen Organics, which is part of the Sanergy Collaborative, collects thousands of tonnes of organic waste annually from the Nairobi area, and transports it to its production facility in Kinanie, to the south of the city. Here the waste is fed to black soldier fly larvae which grow and are harvested and dried to provide protein for animal feed. They leave behind a pulp which is mixed with further organic wastes and composted to produce soil-improving organic fertilizer.

Organic waste that acts as a raw material can be obtained, for example, from farms, markets, restaurants, and hotels, as well as e from a network of toilets in Nairobi's informal settlements built and operated by Fresh Life Initiative, another member of the Sanergy Collaborative.

Finnfund has financed the company's growth and development since 2017. To support the development work, Finnfund proposed a customer survey to Sanergy, to survey the experiences of farmers who used Sanergy's Evergrow Organic fertilizer and the effects of use on their lives.

The survey was carried out in October 2023 by 60 Decibels, an international research company, and the results were very positive: almost all respondents said that their crop production had increased due to the use of Evergrow and that their families now also had more food to eat. Four out of five (84%) respondents said that their income had increased, and almost half (47%) said that their income had increased very significantly.

"Through surveys, we can ask the company's customers about the effects directly. This is important in terms of both business development and verification and strengthening of development effects", says **Marko Berglund**, Finnfund's Senior Development Impact Adviser.

Read more on our website.

Name: **Sanergy**
Country: **Kenya**
Investment year: **2017**
Sector: **Waste management and recycling**

The production process of Sanergy is a great example of the circular economy in practice. *Photo: Sanergy*

CASE

Finnish technology and knowledge will make a big difference to connectivity in Africa

Finnfund has invested two million euros in the Fibertime Group, a company offering world-class internet and connectivity to people in poor communities in South Africa. At the heart of the innovation are both the affordable pricing model, pay-as-you-go, and the technology used.

The Finnish company Nokia is providing both fibre access nodes for the fibre exchange and fibre modems to create a WiFi network across entire townships. Digital inclusion is a shared value for Nokia, Finnfund, and Fibertime. The journey has been a valuable learning process for all partners.

"It is crucial to learn how people act and spend money, to make sure that our product will adapt to the local environment," says **Toni Pellegrino**, Managing Director of Nokia South Africa.

Finnfund joined the journey already at an early stage

"For many European investors, there is a lot of scepticism around investing in Africa. But already from the outset, Finnfund saw that this project would have a great impact and that it fulfils their requirements for a sustainable and profitable investment. I hope it will show how Finland and Finnish technology will make a difference to connectivity in Africa, and how the model can be scaled to many African countries," Pellegrino continues.

The strong development impact of tackling the usage gap is clear: increasing internet access helps create jobs and is crucial to all personal human development, including education, communication, access to information, and financial inclusion.

"Our vision at Fibertime is to connect the next billion Africans to the internet. We pioneer new pay-as-you-go models for fibre internet for low to middle-income communities. Every single home gets a free Wi-Fi router installed, and then we sell time-based, world-class internet at an affordable price," says **Rich Henn**, CEO and co-founder of Fibertime.

"We have had an excellent collaboration with Finnfund. Right from the outset, we have been aligned that this business needs to be profitable in order to be sustainable. And while making a profit, we act in an ethical and responsible way. We are super passionate about delivering the impact that Finnfund's investment has made in the Kayamandi community," Henn adds.

Read more on our website.
Watch a video on YouTube.

Name:	**Fibertime Group Proprietary Limited**
Country:	**South Africa**
Investment year:	**2023**
Sector:	**Telecommunication**

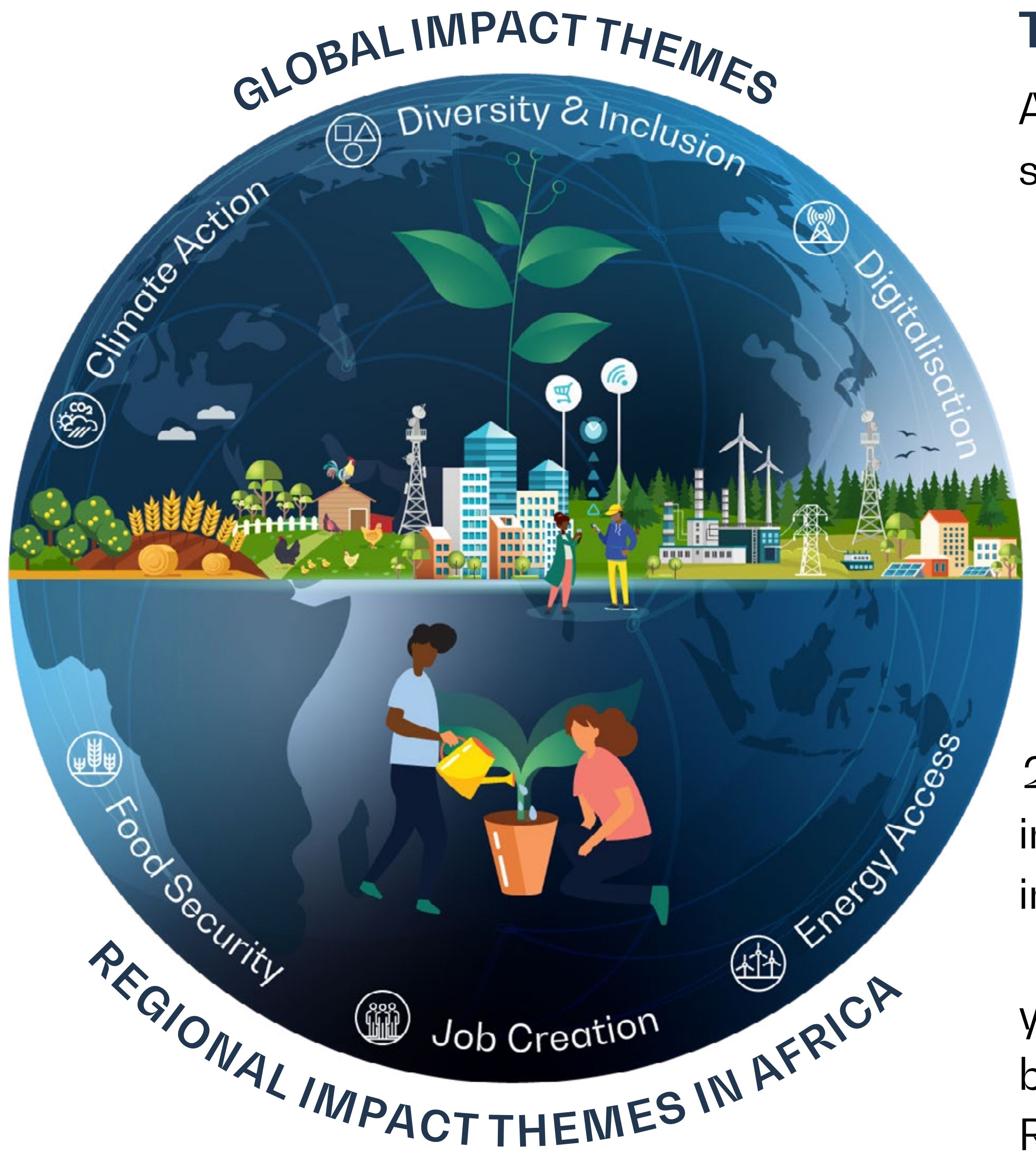
Abongile Nqenqa works as a community officer at Fibertime in the Kayamandi township, South Africa. *Photo: Finnfund*

Strategy and targets

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

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

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



Finnfund's strategy emphasises three global impact themes and three regional impact themes particularly relevant in Africa.

Three strategic goals

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

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

In 2023, the implementation of the strategy continued well, and the year 2024 has also got off to a strong start in terms of both new investments and impact.

As explained on p. 123, over the past few years, Finnfund's target markets have been severely impacted by global crises. Russia's invasion of Ukraine, rising energy and food prices, political and economic instability and, most recently, the debt crisis and the inability of national economies to meet their debts, particularly in African countries, have led to a deteriorating operating environment. On the other hand, this has further emphasised the importance of long-term and responsible financiers such as Finnfund. Despite the situation, Finnfund has continued to invest actively in emerging markets. 2023 was a record year in many ways.

At the same time, particularly in Europe, sustainable development issues such as the fight against climate change, the need to adapt to it, human rights, and the crisis of biodiversity loss have become the focus of business activity. These are also important elements in the implementation of Finnfund's strategy. We worked actively to strengthen our competence and will continue to invest in these themes.

Mobilising private finance to drive sustainability is also a key part of Finnfund's mission and strategy. In 2023, with regard to 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 since the first full year of operation. In addition, we provide opportunities for Finnish institutional investors to participate as co-investors in Finnfund's investments.

In 2023, the Finnish State increased Finnfund's share capital by 10 million euros. In December, we issued Finnfund's first green private placement bond, totalling 100 million euros.

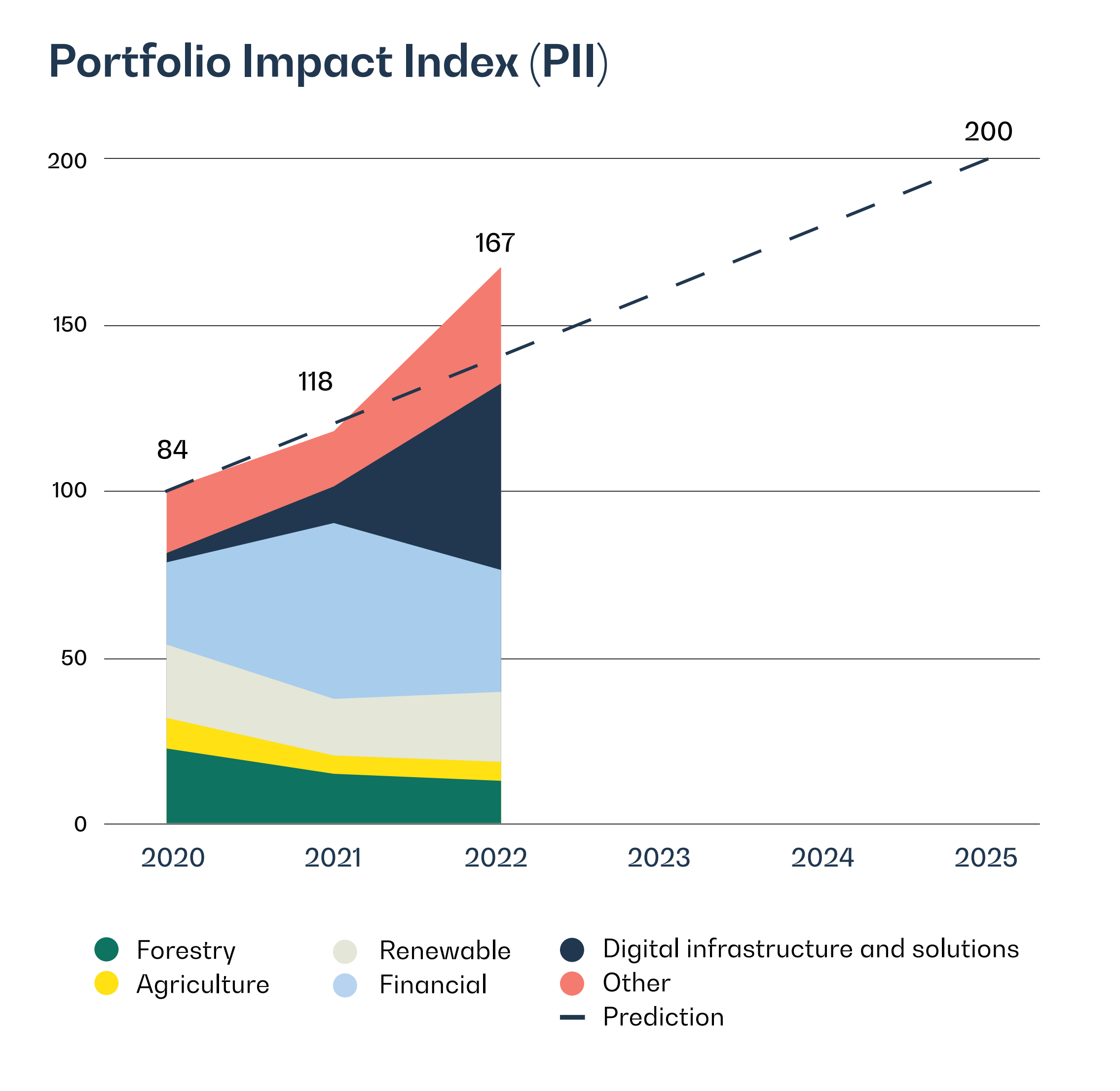
Finnfund signed an agreement with the European Commission under the new Fund for Sustainable Development (EFSD+). The agreement provides Finnfund with 100 million euros in guarantees for investments in the digital sector in Africa. Finnfund is also working with other European development financiers to negotiate a guarantee programme for investments in the forestry and agricultural sectors.

In line with our strategy, we continued to actively work with our portfolio companies as well as with other partners and stakeholders. For example, we participated in a working group organised by UNICEF that developed a Child Impact Analysis tool for use by international investors. In addition, as part of preparing a biodiversity policy, we began developing the Earth System Boundaries framework to support our investment activities. We also began to develop Finnfund's first nature and biodiversity statement, which will be published in 2024 (p. 67).

The progress of the three strategic goals is presented in the table on p. 22. You can read more about our strategy on p. 122.

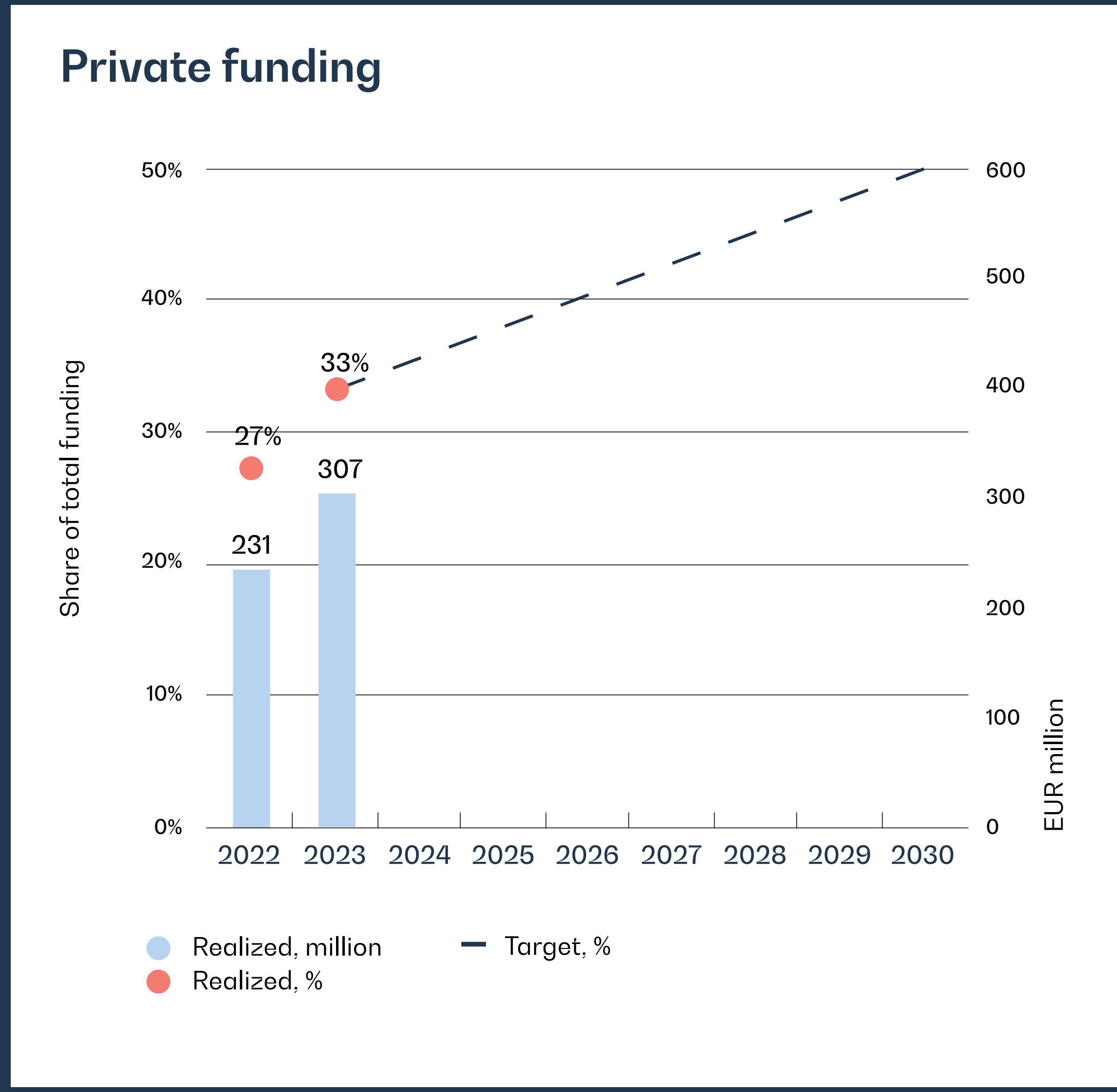
Key strategic objectives
Progress in strategic objectives is reviewed on an annual basis.

1. Double total impact from 2020 to 2025



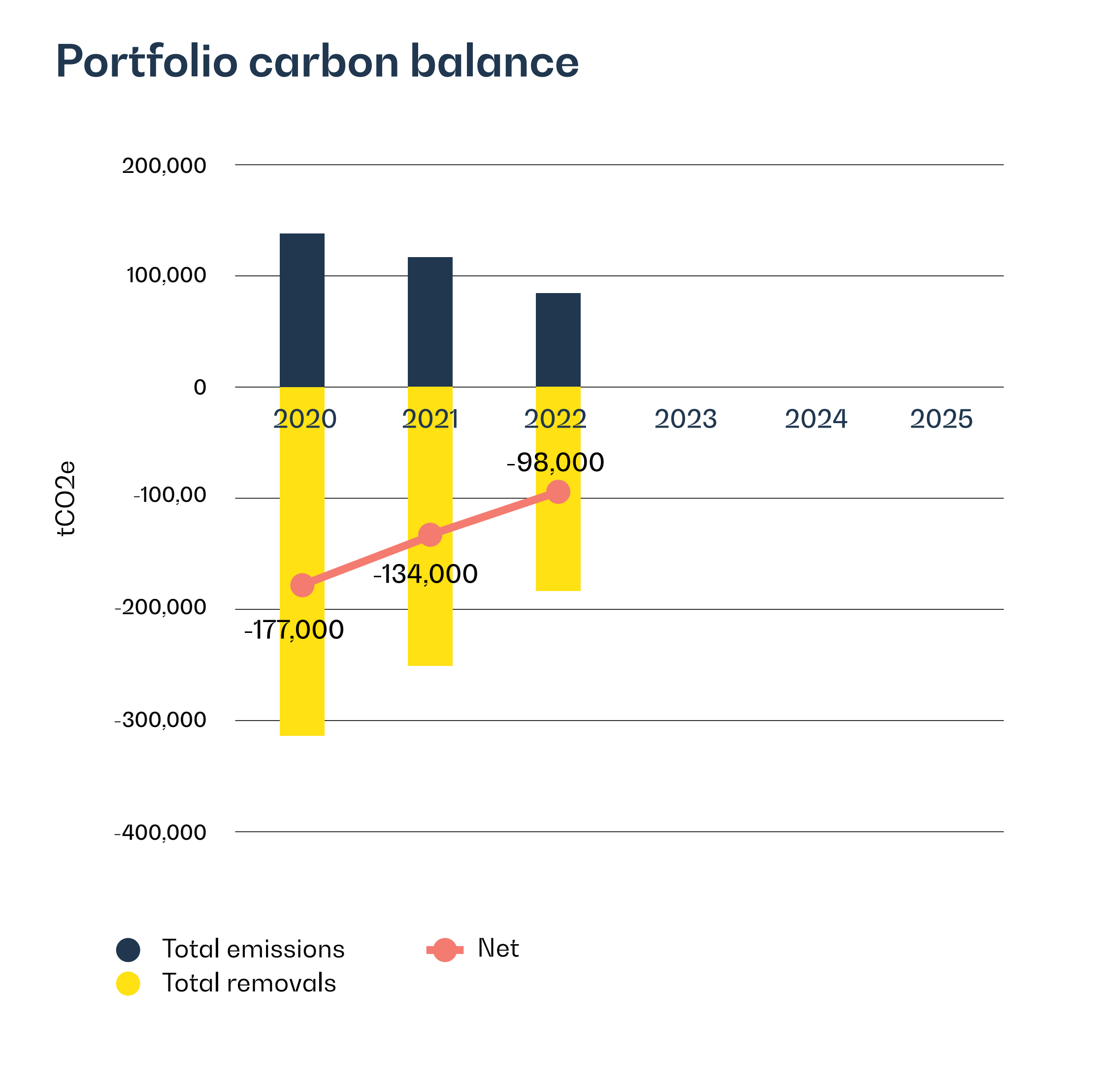
Definition: Portfolio level indicator capturing both portfolio and investee impact growth
Base year: 2020

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



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

3. Maintain carbon net negative portfolio



Definition: Sum (tCO_2e) of portfolio investments, including Scope 1-3 emissions (+) and removals (-)
Base year: 2020

Finnfund closely monitors the progress of its three strategic objectives. You can find more information on p. 40, 88, 93 and 122.

Annual targets set by the Ministry for Foreign Affairs

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

The targets and the results for the year 2023 are presented in the table.

	Indicators	Reference level 2022	Target 2023	Result 2023
1	Investments in low- and lower-middle-income countries of the value of Finnfund's new investment decisions (%)	> 75% (98%)	> 75%	95%
	, of which values by LDC, LIC and LMIC (%)		To be reported	95%
2	Climate investments of the value of Finnfund's new investment decisions (%)	> 50% (40%)	> 50%	39%
	, of which for adaptation	(33 %)	To be reported	Adaptation 31%, mitigation 67%, both 2%
3	Investments in Africa of the value of Finnfund's new investment decisions (%)	> 50% (60%)	> 50%	30%
4	Jobs generated by investees (direct investments/fund portfolio companies)	(83,000 direct investments, 129,000 fund's portfolio companies)	To be reported	108,000 direct investments, 168,000 fund's portfolio companies
	, of which for women	'(35%)	To be reported	39%
5	Number of investees (direct investments/fund portfolio companies)	(117 companies, 36 funds)	To be reported	123 companies, 38 funds
	, of which SME companies (number)	(52 companies, 69 fund's portfolio companies)	To be reported	48 companies, 83 fund's portfolio companies
	, of which owned by women (%)	(2% direct investments)	To be reported	2% direct investments
	Number of Finnish companies involved in Finnfund's investments and their share of Finnfund's portfolio (%) (including suppliers, owners and Finnish investors and service providers)		To be reported	Number of new investment decisions: 35. Number of new investment decisions where Finnish companies were involved: 14 (41% of all new investment decisions). This includes 10 investments where Finnish companies were suppliers, owners, investors or service providers (29% of all new investment decisions), and 4 OP Finnfund Global Impact Fund I investments not belonging the aforementioned categories (12% of all new investment decisions).

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

	Indicators	Reference level 2022	Target 2023	Result 2023
6	Number of investments promoting gender equality that have met the 2X Challenge criteria		To be reported	51% of all new investment decisions

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

	Indicators	Reference level 2022	Target 2023	Result 2023	Budget 2022
7	Return on equity as a five-year moving average	> 2% (-1.4%)	> 2%	-2.9%	-2.6%
8	Share of operating costs of the investment assets (including undisbursed decisions, excluding administrative expenses of the Finnpartnership program)	< 2% (1.3%)	< 1.8%	1.67%	1.56%

Economic recovery is underway

In 2023, we witnessed the impact of high interest rates and growing geo-political tensions. Moreover, the globally synchronised, swift, and sharp monetary policy tightening was felt in most corners of the world. Despite a very rapid rise in interest rates, the global economy remained surprisingly resilient, with growth remaining above expectations.

At the same time, we have been facing growing headwinds from tightening geopolitical relations in which national security and government interventions are taking space from a free market global economy. The geopolitical risks have already increased fragmentation in the global economy and trading system, dampening growth prospects in the longer term.

Recent years have been rough for Finnfund's markets

In Finnfund's markets, largely frontier and developing economies, the past few years have been rough. First, the pandemic and the shock related to the Ukraine war left many countries on a lower growth path. Second, the combination of high interest rates, appreciating the US dollar, and risk aversion has severely constrained private financing flows, especially to high debt frontier markets.

In addition, China's lending to Africa has fallen radically over the past three years, amplifying the credit crunch. The economic uncertainty came with increased political risks, which we can see, for example, in the Middle East crisis, as well as by the increasing number of coups in the Sahel region. On the other hand, many of the more developed emerging economies and countries with more sustainable debt profiles have managed the large shocks surprisingly well.

Outlook looking brighter

After many challenging years, we are seeing a more positive outlook for Finnfund's markets. In 2024, emerging and developing economies will be driving global growth, led by Southeast and South Asia, particularly India. In addition, in Sub-Saharan Africa, growth will accelerate, especially in the East African economies. Expectations of easing monetary policy in advanced economies have already provided some much-needed breathing space for emerging and frontier markets.

This was visible in early 2024, when we saw the first Eurobonds issued in Sub-Saharan Africa in almost two years by Côte d'Ivoire, Benin, and Kenya. Overall, macroeconomic conditions are expected to improve to some extent as inflation decelerates, growth remains resilient, and fiscal conditions strengthen in many countries, which is also a good sign for Finnfund's investments.

Read more on p. 136.

"In Finnfund's markets, largely frontier and developing economies, the past few years have been rough. We are glad to see that economic recovery is underway and financing shortages in developing countries are easing with the help of decelerating inflation and moderating interest rate expectations."

Kristiina Karjanlahti
Lead Economist

Cooperation with Finnish businesses

Collaboration with Finnish companies has always been part of Finnfund's work. While our investments cannot target a company in Finland, we are interested in projects by and with Finnish companies that meet our investment criteria.

This can mean, for example, investing in companies in developing countries that are fully or partially owned by Finnish companies, co-investments with Finnish companies, or investing in companies that purchase goods or solutions from Finnish companies. For its Finnish stakeholders, Finnfund also strives to share knowledge, contacts, and know-how on developing markets and specific sectors. Finnfund is also part of the Team Finland network and works closely with other members of the network.

In recent years, interest in collaboration with Finnish companies has increased, which is also reflected in the government ownership steering of Finnfund and the annual targets set by the Ministry for Foreign Affairs (p. 23). In 2023, Finnish companies were involved in 14 new investment decisions, representing 41 per cent of all new investment decisions made. Of these, 10 investment decisions included Finnish companies as owners, co-investors, or suppliers of goods or services. In addition, four joint investments not belonging to the aforementioned categories were made with OP Finnfund Global Impact Fund I, representing 12 per cent of all new investment decisions.

Read more on our website.

"Throughout the years, we have worked with many different types of Finnish businesses. We know that Finnish companies have many innovative solutions to offer, and we strongly encourage Finnish businesses to explore the opportunities in developing markets."

Patrik Bredbacka
Team Finland Adviser

Africa Connected strives to mobilise more than 1 billion euros for Sub-Saharan Africa's digital infrastructure

In October 2023, at the Global Gateway Forum, European Commissioner for International Partnerships, **Jutta Urpilainen**, and Finnfund CEO, **Jaakko Kangasniemi**, officially signed the Africa Connected programme, a landmark agreement aimed at mobilising more than 1 billion euros in sustainable investments for digital infrastructure and digital service platforms in Sub-Saharan Africa.

Finnfund became a first-time implementing partner of EFSD+ Guarantees, reinforcing a growing family and optimistic spirit of collaboration among European partners to share solutions, support, and skills for our people, planet, prosperity, and peace.

"The European Union's Global Gateway Strategy is about creating a better future in our partner countries. The EU shares Finnfund's vision for a greener, more connected, and economically empowered digital future for our partners in Sub-Saharan Africa and worldwide. The guarantees presented today will strengthen our partnership with citizens across Africa and our commitment for a more sustainable, connected, and prosperous continent, with the EU and worldwide. As Team Europe, bringing together the best EU know-how and resources will allow us to have a bigger and better impact and results for citizens across our partner countries," said Commissioner Urpilainen.

The agreement provides Finnfund an opportunity to grow its investment portfolio of digital solutions and infrastructure in Sub-Saharan Africa by up to 166 million euros over three years.

"The digital infrastructure and solutions sector is a priority for Finnfund. We see digitalisation as a necessary condition for development and a critical component to meet the sustainable development goals. We are very excited to sign the Africa Connected guarantee programme with the European Commission. The programme will allow us to accelerate investments in impactful digital infrastructure and solutions companies in Africa. In co-operation with the Commission, we will be improving connectivity and usage of digital services in the region," said CEO Kangasniemi.

Read more on our website.

"The European Union's Global Gateway Strategy is about creating a better future in our partner countries," said Commissioner **Jutta Urpilainen**.

Five key sectors

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

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

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

Sustainable forestry

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

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

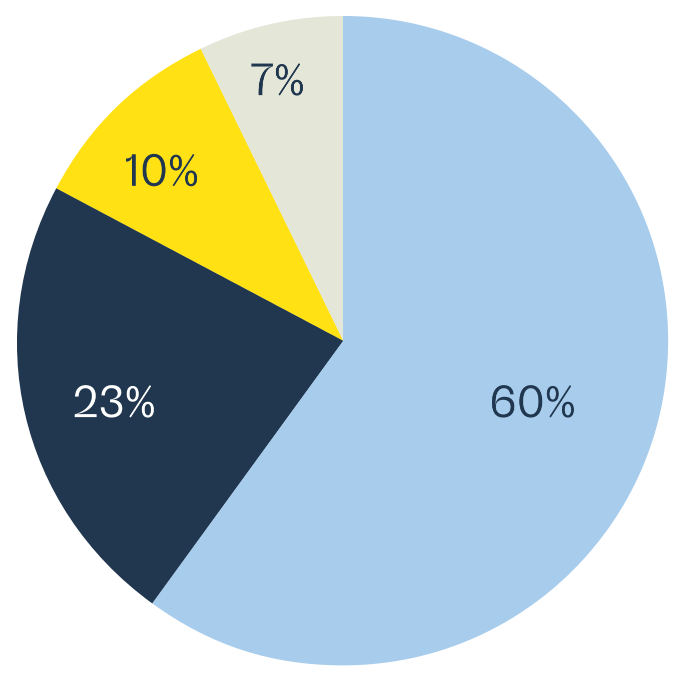
In addition, forests prevent erosion, help maintain clean water supplies, and provide many sources of wellbeing for local communities. Sustainably managed forests also bring jobs, services, and prosperity to people living in remote rural areas. However, rapid deforestation, particularly in many parts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

At the end of 2023, our investments in forestry (portfolio and commitments) were worth 189 million euros, which represented 17 per cent of the total portfolio. Finnfund's forestry investments include, for instance, plantations, sawmills, and other wood-processing facilities. In 2023, industrial production was further emphasised when, for example, Miro Forestry's plywood production facility in Sierra Leone became fully operational, following the plywood factory in Ghana, which began its operations in 2022 (p. 113).

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 per cent of a forested area. In the case of Finnfund investees, the share of protected forest is often considerably higher.

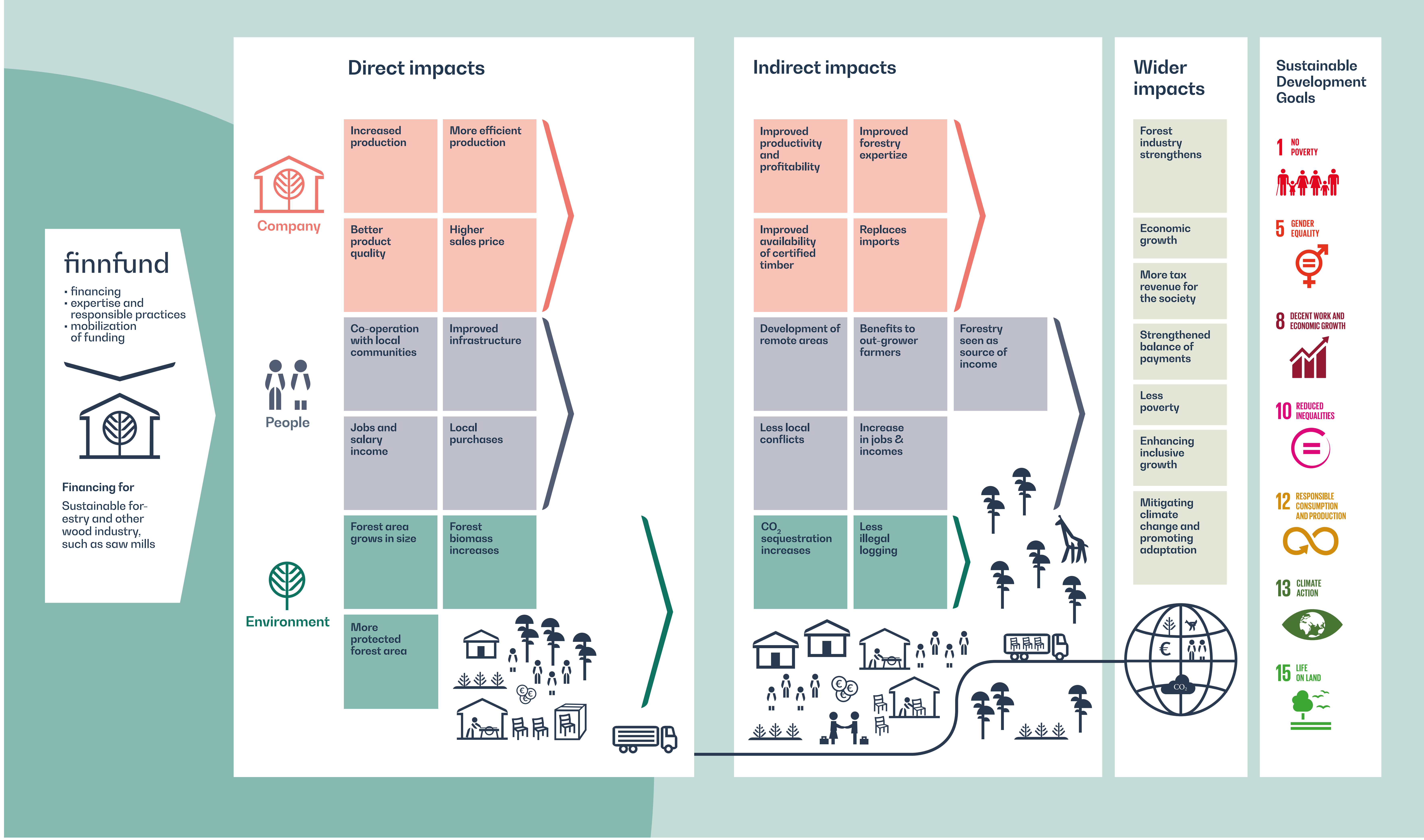
Read more about the impact on p. 89.

Forestry portfolio and commitments, on 31 December 2023, geographical distribution
(total EUR 189 million)



- Africa 60%
- Latin America and the Caribbean 23%
- Asia 10%
- International 7%

Our Theory of Change (ToC) for sustainable forestry



Renewable energy

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

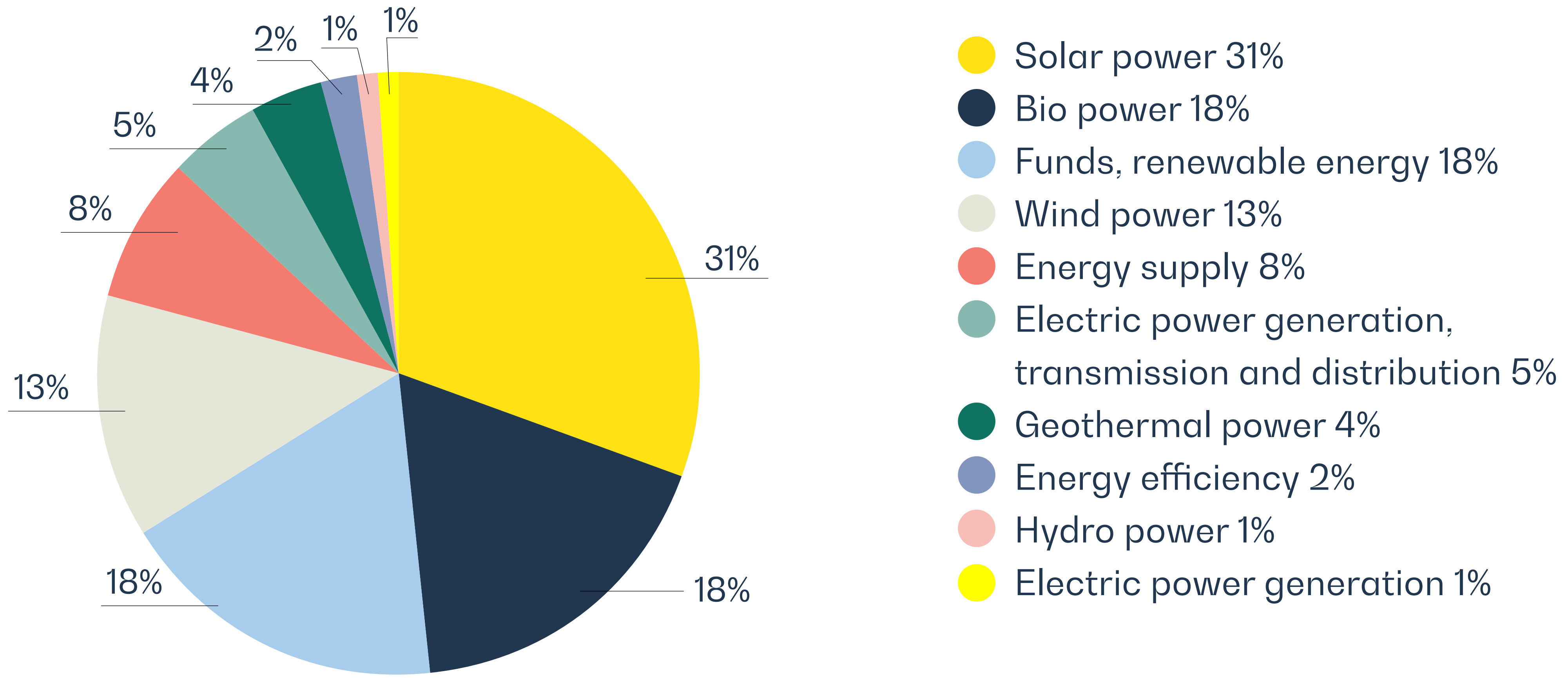
Renewable energy is clearly a sector that can generate significant positive impacts at both global and local levels. All pathways that limit global warming to 1.5°C would require rapid and far-reaching transitions in energy, and such transitions are only feasible through a significant upscaling of investments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

Our Statement on Climate and Energy underlines our commitment to the Paris Agreement and explains what this commitment means in practice. In addition, we are committed to making 1 billion euros worth of new investments in climate finance by 2030 (p. 57).

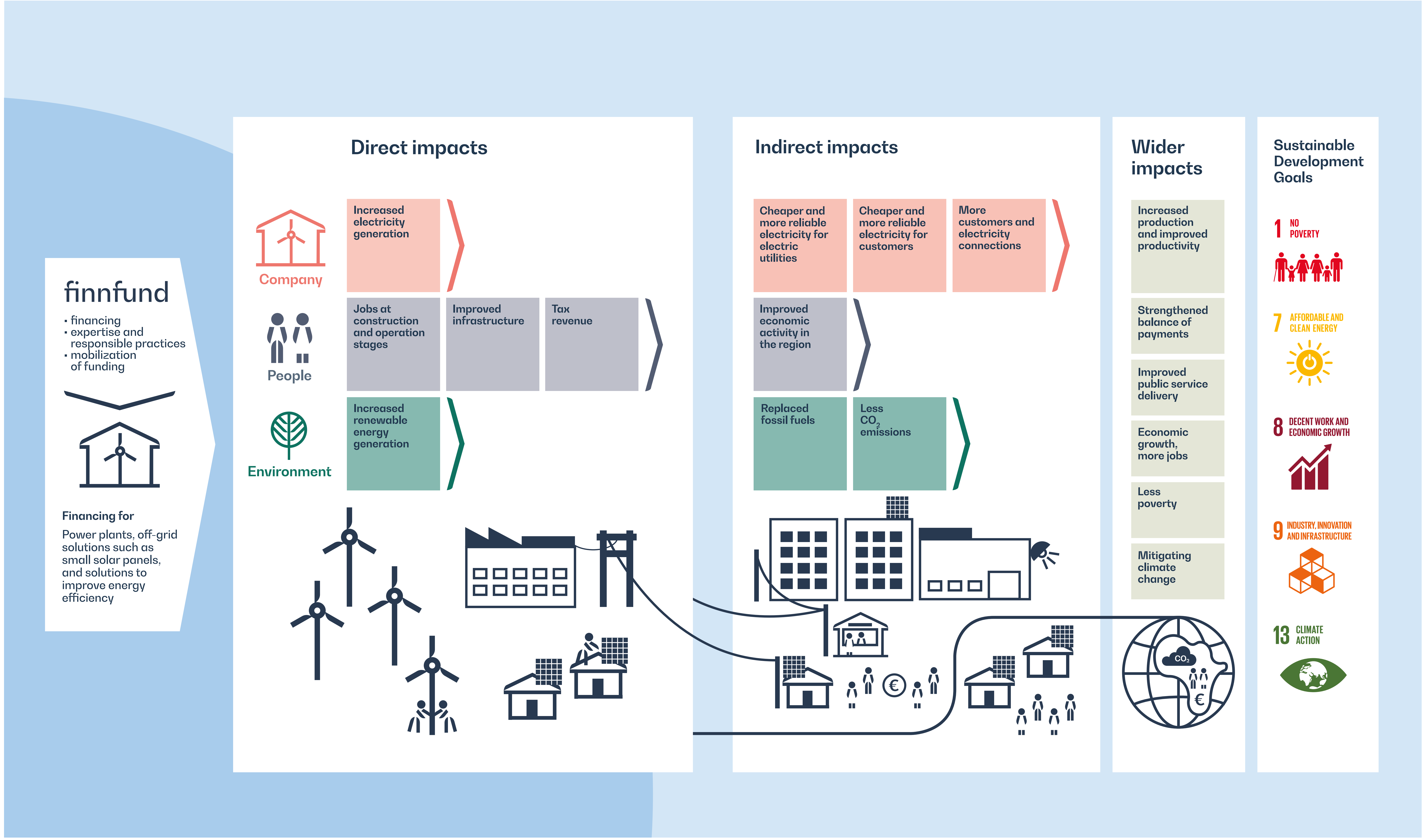
At the end of 2023, our investments (portfolio and commitments) in this sector were worth 175.5 million euros, representing approximately 16 per cent of our portfolio. The majority of our energy investments are in grid-connected renewable energy power plants, but the share of commercial and industrial (C&I) solar-based and hybrid power solutions is becoming increasingly important. Investments include, for instance, solar, wind, hydro, biomass and geothermal energy, e-mobility and energy efficiency.

Read more about the impact on p. 89.

Energy portfolio and commitments as of 31 December 2023
(total EUR 175.5 million)



Our Theory of Change (ToC) for renewable energy



Sustainable agriculture

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

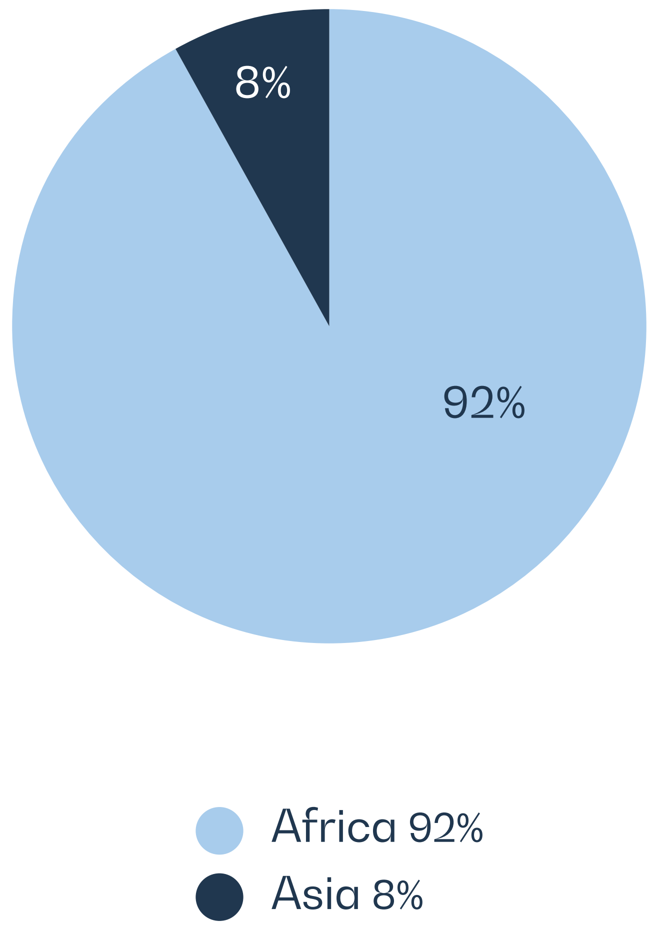
Improving agricultural productivity is essential for feeding the world's growing population. Agribusinesses can generate significant development impacts at local and regional levels, as they usually operate outside cities and towns, where they are often important and sometimes even the sole local employers.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

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

At the end of 2023, Finnfund's investments (portfolio and commitments) in sustainable agriculture were worth 88 million euros, representing approximately 8 per cent of our portfolio. We have also invested in financial institutions that increase access to finance in this capital-scarce sector.

Read more about the impact on p. 90.

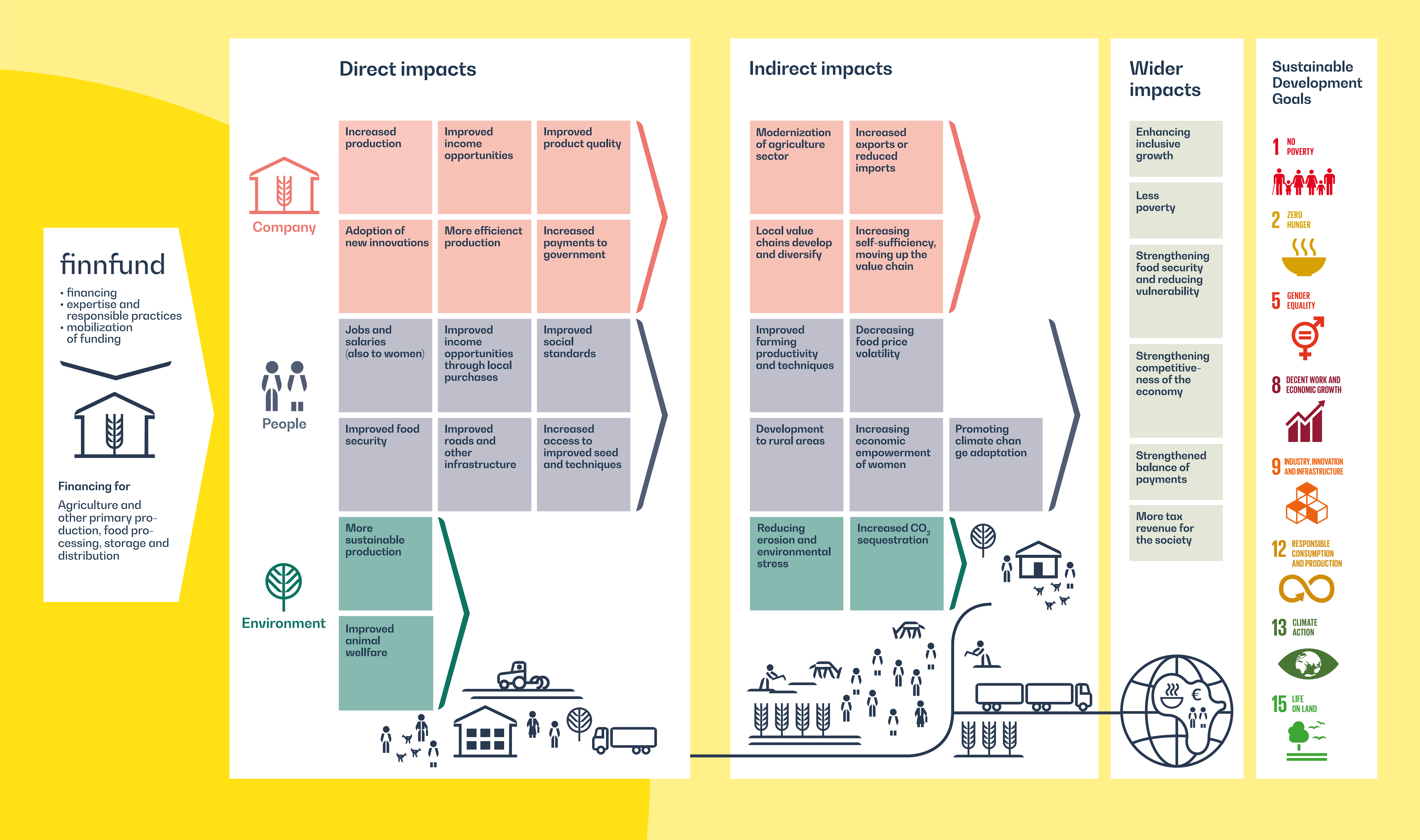
Agribusiness portfolio and commitments, on 31 December 2023, geographical distribution
(EUR 88 million)



"Enhancing agricultural productivity and food security, as well as fostering farmers' resilience and their capability to adapt to climate change, are key drivers in our work as an impact investor."

Ilkka Norjamäki
Associate Director,
Head of the Agri and Forestry portfolio

Our Theory of Change (ToC) for sustainable agriculture



Financial institutions

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

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

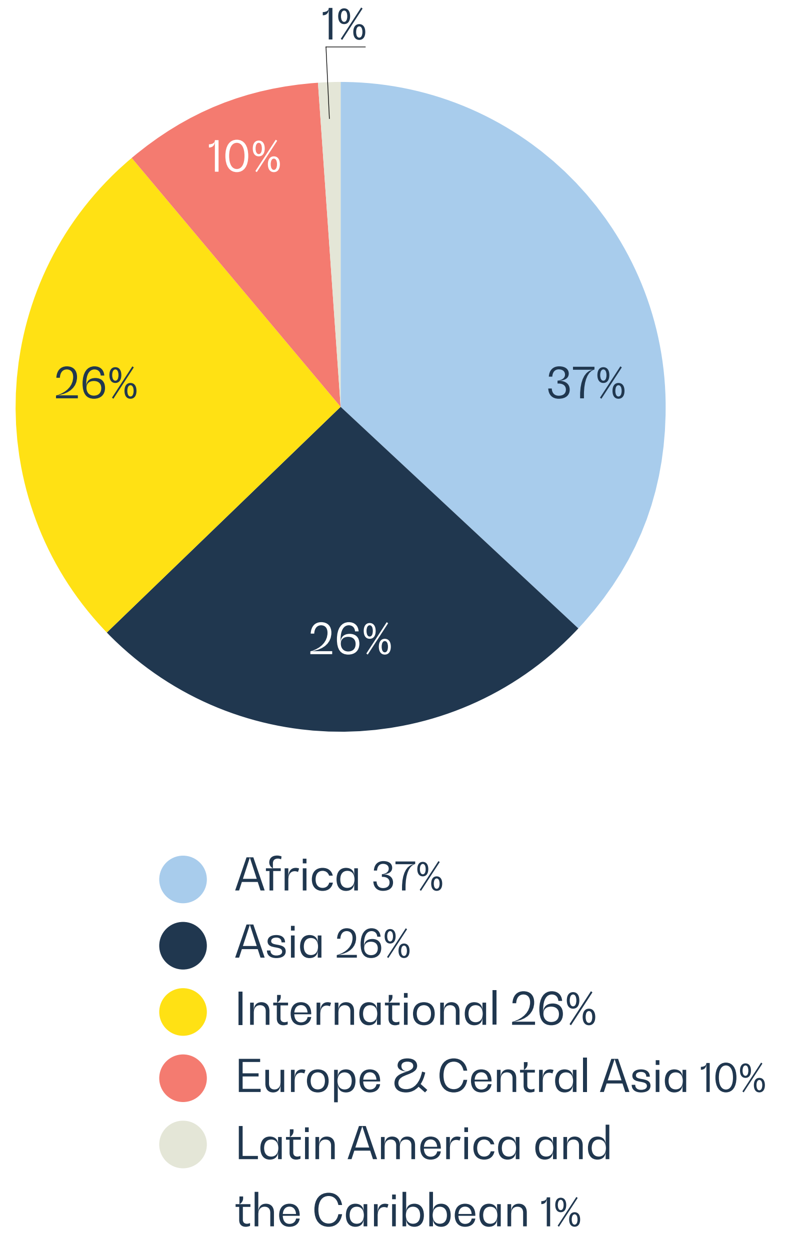
Gender equality and, more specifically, women's improved access to financial services is a significant criterion for us in selecting new investments. For instance, most microfinance customers in our portfolio companies are women.

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

At the end of 2023, Finnfund's investments (portfolio and commitments) in this sector were worth 266.7 million euros, representing approximately 24 per cent of our portfolio. Finnfund's investees typically provide financial services to micro, small, and medium-sized enterprises (MSMEs), as well as to individuals who have few alternative sources of reliable and formal banking services, such as savings and digital money transfers. In addition, Finnfund invests in insurance companies.

Read more about the impact on p. 90.

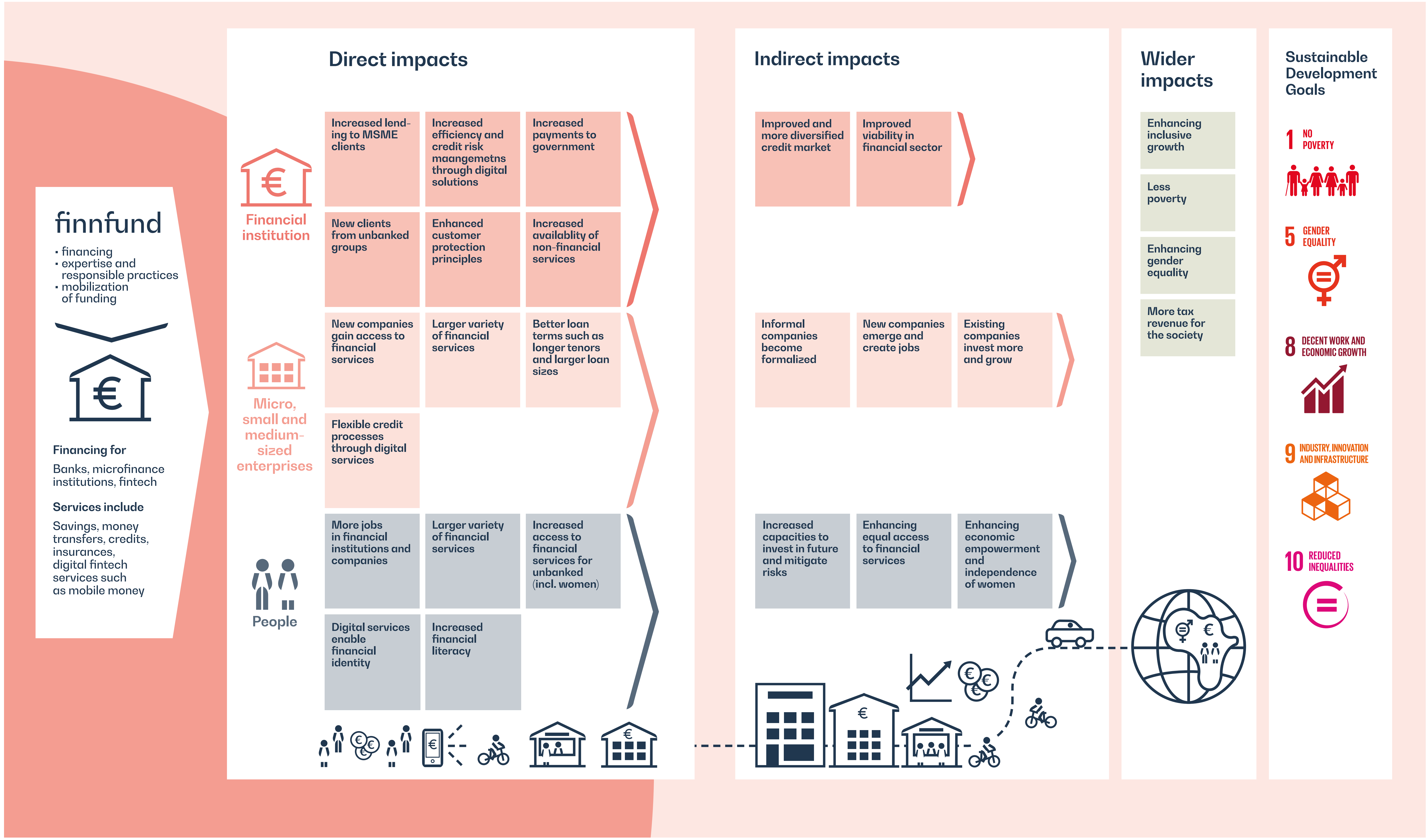
Financial institutions portfolio and commitments, on 31 December 2023, geographical distribution
(EUR 266.7 million)



"By investing in local financial institutions, Finnfund can foster financial inclusion and support, and in particular, the growth of micro, small, and medium-sized businesses. Promoting gender equality also plays a key role in our investment decisions, as very often, our focus is on women entrepreneurs or specific sectors, such as agribusiness. In 2023, we both continued financing some of our investee companies and started co-operation with several new institutions."

Antti Urvas
Associate Director,
Head of the Financial Institutions portfolio

Our Theory of Change (ToC) for financial institutions



Digital infrastructure and solutions

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

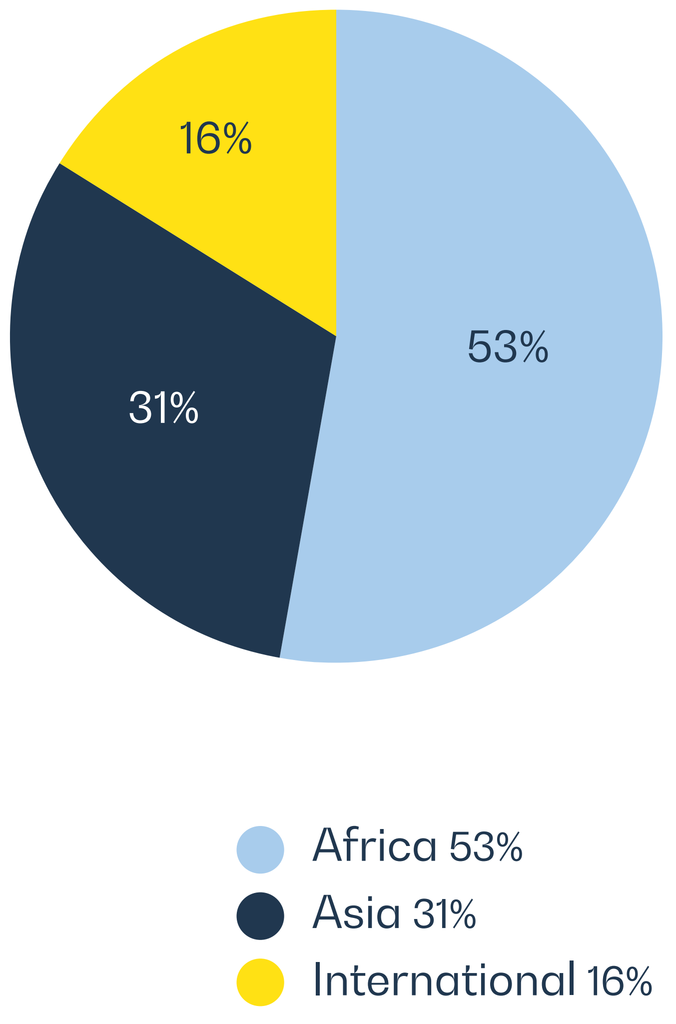
Infrastructure investments are needed to enable access to basic mobile services and to more affordable and higher-speed internet connections in developing countries. Digital solutions increase productivity and improve access to products and services. This all contributes to inclusive growth. Increasing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

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

At the end of 2023, Finnfund's investments (portfolio and commitments) in this sector were worth 63 million euros, representing approximately 6% of our portfolio. The majority of the investments were in telecommunications and information technologies (34%), fintech (33%), and information and communication (28%).

Read more about the impact on p. 91.

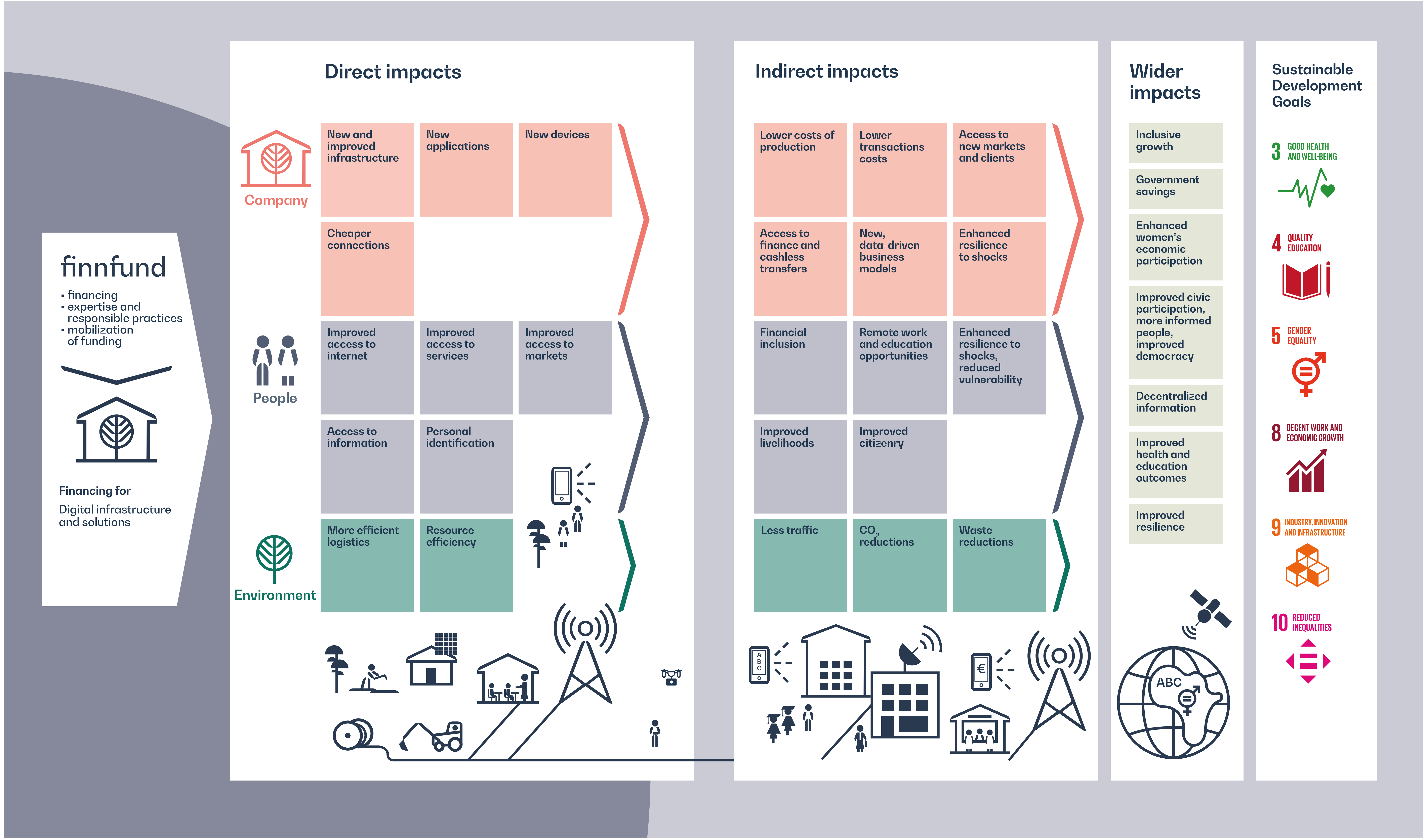
Digital infrastructure and solutions portfolio and commitments, on 31 December 2023, geographical distribution
(EUR 63 million)



"Connecting the unconnected is one of our development targets. We are actively looking for new investment opportunities across the digital value chain, with a strong focus on rural connectivity, affordability, and access to data, as well as on high-impact solutions that increase productivity and improve access to products and services."

Kuutti Kilpeläinen
Senior Investment Manager, Head of the Digital Infrastructure and Solutions portfolio

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



Financing through funds

Finnfund makes fund investments to supplement our direct investments. Our fund investments expand the mobilisation of much-needed risk finance to small and medium-sized enterprises and also enhance our other impacts in the challenging countries in our investment mandate.

We invest in funds that target a group of countries or a region within our geographical mandate. These funds can either be sector agnostic or thematic funds, where the thematic funds reflect Finnfund' s focus areas.

While Finnfund's investment focus is, first and foremost, growth equity funds, we also invest in other types of funds, including venture capital, mezzanine, and private credit funds. Finnfund prefers funds that provide us with co-investment opportunities.

Well governed and managed

It is essential that the funds in which Finnfund invests are well governed and managed. Before investing, Finnfund examines, for example, the fund managers' competence and experience, and their funds' investment strategies and policies. We seek to ensure that fund managers' values and their funds' principles and policies are aligned with Finnfund's requirements.

Finnfund participates in the governance of the funds in which it invests (e.g., as a member of a fund's Limited Partner Advisory Committee, LPAC) to ensure the proper governance of the funds, including the efficient and effective execution of the funds' investment and impact strategies. Transparency is one of Finnfund's key tenets, and Finnfund's fund investments are required to provide comprehensive information on their investments, including information on taxes paid annually.

At the end of 2023, Finnfund's investments (portfolio and commitments) in funds were worth approximately 220 million euros, representing approximately 20 per cent of our portfolio.

"Many innovative and growth-oriented small and mid-market companies lack funding in developing countries. By investing through funds, Finnfund can support the development of these companies. Funds can put together risk financing and offer other forms of support, such as sectoral know-how or experience in environmental and social sustainability, for companies that would otherwise have no access to funding."

Riikka Molander
Associate Director,
Head of the Funds portfolio

Impact

Time to celebrate! In November, SPARK Soweto won the World's Best School Prize for Community Collaboration. Finnfund has been financing SPARK Schools since 2021. *Photo: SPARK Schools*

Investing in impact

Finnfund's mission as a development financier and impact investor is to build a sustainable future and to generate a lasting impact by investing in businesses that solve global development challenges (p. 20). Responsible companies play an important role in solving major global challenges such as poverty, inequality, climate change, and biodiversity loss, and in meeting the Sustainable Development Goals (SDGs) by 2030.

We also strive to mobilise funding to enhance sustainable development and climate actions in developing countries. In 2023, we mobilised over 1 billion euros of additional private and public capital through our new investments (p. 22). In addition to this, Finnfund aims to mobilise funding for sustainable development, for example, by issuing sustainability and green bonds (p. 126) as part of its own fundraising.

At the end of 2023, 33 per cent of Finnfund's financing came from private sources (p. 13).

In our strategy (p. 20), we set a strategic objective of increasing the percentage of private capital to 50% by 2030. We also aim to double our total impact between 2020 and 2025 and to maintain a carbon net negative investment portfolio.

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

Impact and sustainability governance

We strongly believe that sustainability is part of everyone's role within Finnfund, which is also seen in the way responsibilities are divided within our organisation. At Finnfund, impact and sustainability are owned by the Board of Directors and the managing director/chief executive officer (CEO). The CEO has ultimate responsibility for the successful implementation of Finnfund's sustainability and impact approach.

In terms of implementation, the director of impact and sustainability oversees our sustainability policies and practices in our investment process. The complaints channel and the grievance mechanism, and the sustainability issues surrounding procurement, are overseen by the director of administration. The chief financial officer oversees sustainability in human resources management and in Finnfund's own funding, such as the issuance of Finnfund's first sustainability bond. Read more about the management of Finnfund on p. 114.

"We are pleased to note that several impact-related themes with which we are actively engaged, including biodiversity, climate, and gender equality, are increasingly attracting the attention of private investors. Our strategic positioning enables us to establish diverse partnerships, including collaborations with like-minded private investors."

Kaisa Alavuotunki
Director, Impact and Sustainability

Transparency and stakeholder engagement

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

Stakeholder engagement is an ongoing process. We require our investees to actively engage with their stakeholders in all project phases, including planning, implementation, and monitoring. Specific requirements for stakeholder engagement vary, depending on the project size, scope, and impact, but compliance with host country obligations, as well as applicable international standards, is essential.

Likewise, Finnfund strives to build and maintain a mutually beneficial and fruitful dialogue with its stakeholders in Finland and in our target countries, as well as internationally.

Transparency as a guiding principle

Transparency plays an important role in Finnfund's operations. Transparent information on Finnfund's operations is important in 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 that 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. As explained further on p. 78, the complaints channel, key processes, and tools were renewed in 2023.

Finnfund also requires its investees to establish and maintain operational-level grievance mechanisms that are accessible to affected communities and other stakeholders (p. 78). Effective grievance mechanisms provide a channel for the communities and other stakeholders to voice their concerns, and they are important from a human rights perspective. They enable investees to address and resolve disputes and grievances in a systematic manner.

In 2023, we launched the renewal of our website, in which one of the key targets is to provide our stakeholders with information on both our operations and our investments in a more coherent, timely and accessible manner. The new website will be launched in 2024. We also followed closely, for example, the development of the Finnish Transparency Register, based on the Finnish Transparency Act adopted in spring 2023.

Our stakeholders

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

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

Active engagement is key

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

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

In 2023, Finnfund continued to seek to strengthen its openness and cooperation with stakeholders such as experts, NGOs, influencers and the media. For example, for the second time we organised the "Growth from Africa" seminar for Finnish companies, in partnership with KasvuOpen and Finnpartnership, as well as the "Clean energy in Africa – closing investment gaps" seminar, with EEP Africa and Finnpartnership, focused on renewable energy. In addition, during the spring parliamentary elections, we organised an elections panel in cooperation with Fingo, the umbrella organisation of Finnish development organisations. Meetings of the Impact Network, a network of Finnish actors interested in measuring and developing impact and responsibility, were continued. Finnfund's experts also actively participated as speakers at various events in Finland and internationally.

In addition, Finnfund's internal debate series "FF Talks" also continued to give the floor to both internal and external experts, as well as civil society representatives. The topics included biodiversity roadmaps, global minimum taxation, and natural capital valuation.

Jussi Tourunen, Associate Director and Head of Energy and Infrastructure portfolio at Finnfund, speaking in a knowledge sharing and networking event "Clean energy in Africa – closing investment gaps" in September. Read more on our website. *Photo: Finnfund*

The long-term development of Finn-fund's Annual Report was rewarded when Finn-fund's Annual Report for 2022 was recognised with an award for the best annual report of the year in the "Oma media" ("My media") competition by ProCom – The Finnish Association of Communication Professionals.

In 2023, Finnfund continued conducting impact surveys and studies to gain better insight into the voices of individual stake-holders, including our investee companies' employees and local communities.
To read more about these projects, please see p. 51.

Happy and suprised! **Kirsi Pere**, Communications Manager, and **Hannele Korhonen**, Communications Specialist, after Finnfund's Annual Report 2022 was awarded as the Best Annual Report of the Year. Read more on our website.
Photo: Finnfund

Memberships

- 2X Global
- Adaptation and Resilience Investors Collaborative (ARIC)
- Africa Infrastructure Development Association
- Development Policy Committee
- Fonden World Climate Foundation
- East Africa Venture Capital Association
- European Development Finance Institutions (EDFI ASBL)
- EMPEA Emerging Markets Private
- Finland-Southeast Asia Business Association
- Finnish Business & Society ry
- Finnish Business Travel Association
- Finsif, Finland's Sustainable Investment Forum ry
- Finnish Venture Capital Association
- Global Impact Investing Network (GIIN)
- Global Private Capital Association
- Helsinki Region Chamber of Commerce
- Investors for Health
- Loan Market Association
- Operating Principles for Impact Management (OPIM)
- Partnership for Carbon Accounting Financials (PCAF)
- Stichting Joint Impact Model
- Task Force on Climate-Related Financial Disclosures (TCFD)
- Yritystutkimus Association
- World Biodiversity Network

Scope of this report and materiality

Sustainability reporting has developed and will develop strongly in the next few years, and, for example, the European Corporate Sustainability Reporting Directive (CSRD) plays a central role in this. The directive does not apply to Finnfund, but we acknowledge the concept of double materiality in our impact and sustainability approach and strive to continuously develop our reporting, aiming to incorporate that approach increasingly in our reporting and communication.

As stated above, we acknowledge that the greatest potential for positive and negative impacts lies within our investments. Therefore, in this impact and sustainability report, we also put a strong emphasis on reporting the development impact of our investments and the sustainability work within our investments.

In addition, we aim to provide information about our strategy, policies, and practices in terms of sustainability and impact, as well as to report openly and transparently both the results and the challenges we have faced in 2023.

The focus is on impact management and sustainability (environmental, social, and governance) aspects that present the most significant risks and opportunities – and that play an integral role in our mandate and strategy – such as climate change, biodiversity, human rights, gender equality, responsible tax, and good corporate governance. These aspects have also been highlighted by our stakeholders, for instance, in our latest stakeholder survey, as explained above. The material sustainability and impact topics for Finnfund, according to the CSRD, are listed on p. 44.

Material sustainability and impact topics for Finnfund (according to the CSRD)

- Climate
- Biodiversity and ecosystems
- Own workforce
- Workers in the value chain
- Affected communities
- Business conduct

CASE

Hewatele brings affordable medical liquid oxygen to healthcare facilities in East Africa

In Kenya, demand for medical oxygen has increased significantly. Kenyan hospitals frequently experience unpredictable deliveries, higher prices, and expensive transportation costs for medical oxygen. Due to the high production costs, fragmented delivery, and storage options, medicinal oxygen is typically eight to ten times more expensive in Sub-Saharan Africa than it is in Europe and North America.

"The rise of the COVID pandemic made everyone around the world aware of the importance of oxygen supply," says **Johanna Raehalme**, Finnfund's Head of Origination in Africa.

Improving access to oxygen and administering oxygen can reduce child mortality from pneumonia by 35 per cent and lessen foetal distress when given to women during pregnancy, thus saving lives.

Supported by a funding package of USD 20 million from Finnfund, DFC (the U.S. International Development Finance Corporation), SEDF (Soros Economic Development Fund), the UBS Optimus Foundation, and Grand Challenges Canada, Hewatele, a medical oxygen producer in Kenya, will build a liquid oxygen manufacturing facility some 20 kilometres from the centre of the city of Nairobi, together with regional distribution capacity in key strategic regions within Kenya.

This is expected to enable Hewatele to boost production of medical oxygen by least 20 tons per day, which is expected to reduce the cost to its rural and urban healthcare customers by up to 30 per cent.

Read more on our website.

Name: **Hewatele**
Country: **Kenya**
Investment year: **2023**
Sector: **Healthcare**

Hewatele produces medical oxygen in Kenya. *Photo: Finnfund*

Development impact and sustainability of our investments

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

Finnfund's strategy (p. 20) also guides us to invest in business projects that contribute to the Sustainable Development Goals (SDGs).

Before any investment decision, we assess the investment against the SDGs. For each new investment, two SDGs and targets are chosen to describe the investment contribution towards the SDGs.

Finnfund invests only in private companies that are expected to generate a positive net impact on society, as well as to solve global or local development challenges. Our experts assess the expected development impact of every investment before the investment decision, and we monitor different levels of impact throughout the life cycle of the investment.

Shehnaz Bibi, a client of Kashf Foundation in Kasur, Pakistan, creates fans from recycled plastic straws woven with wool. Frills on the edges are made from flea market-sourced dupattas. The wool is also pulled out from used sweaters. Finnfund has been supporting Kashf Foundation, one of the leading microfinance institutions in Pakistan, since 2021. Kashf has also grown to become the largest distributor of micro-insurance solutions in the country and introduced health insurance products aimed at underserved women who did not have access to insurance before. Read more on our website.
Photo: Hassan Kausar

How does Finnfund promote Sustainable Development Goals?

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

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

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

IMPACT

1 NO POVERTY
- Eradicating poverty from the world by 2030

RESULTS

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

13 CLIMATE ACTION
- Financing for climate change mitigation and adaptation

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

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

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

ACTIVITIES

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

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

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

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

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

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

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

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

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

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- Responsible production methods

TOOLS

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

Our approach to impact and sustainability

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

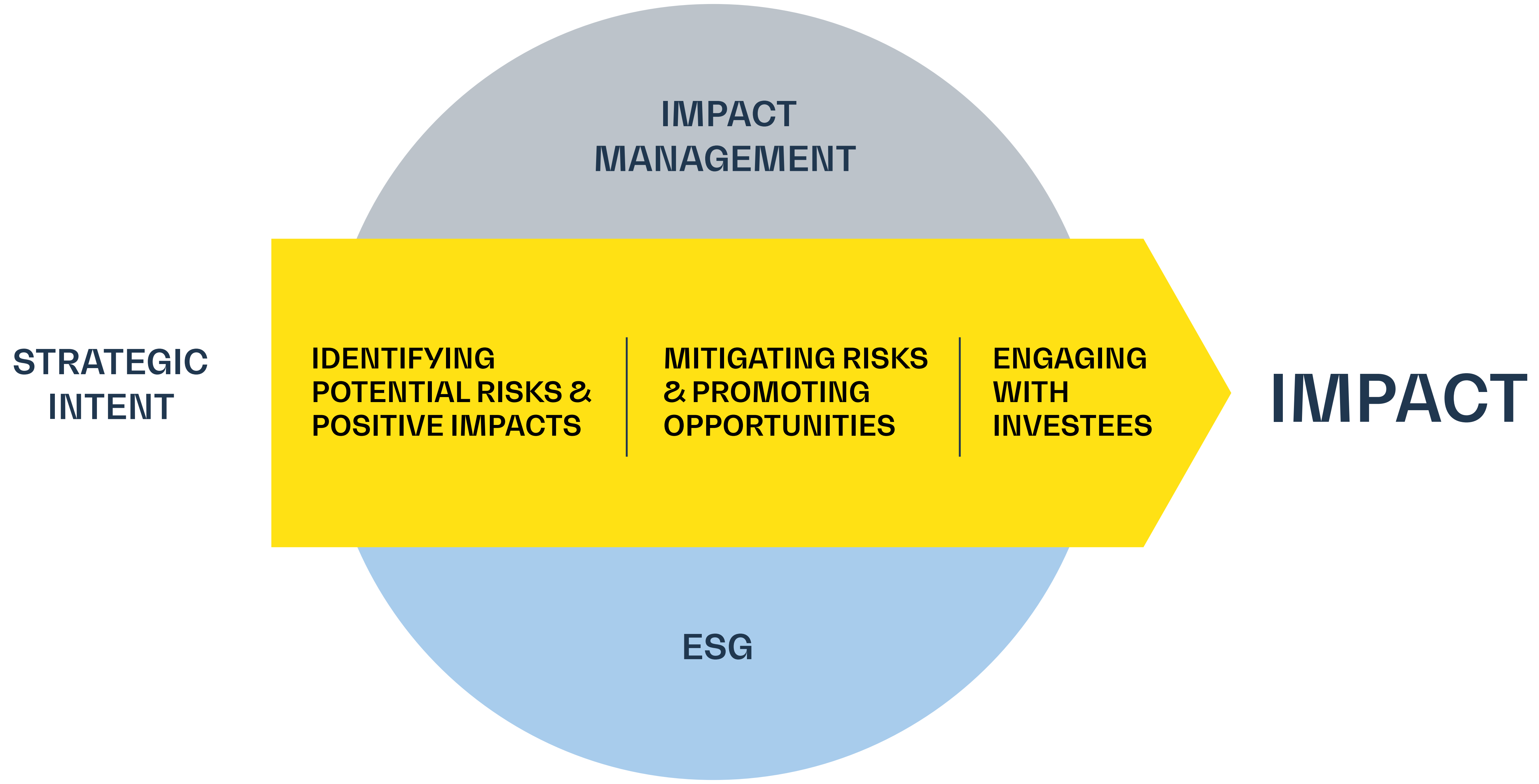
We strongly believe that it also improves the company's risk management to ensure that the "do no harm" principle is respected in our investments, as it helps to anticipate unexpected risks and impacts, enhances cooperation with stakeholders, and strengthens the social licence to operate.

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

Catalytic financing

Many projects that have a significant development impact would never take off without long-term financing provided by Finnfund and other development financiers. Finnfund's funding is often catalytic because it helps projects to raise additional commercial financing. As shown on p. 12, in 2023, we mobilised over 1 billion euros of private and public investments through our investments. In addition to this, Finnfund aims to mobilise funding for sustainable development, for example, through issuing sustainability and green bonds (p. 126) as part of its own fundraising.

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



Impact creation at Finnfund.

Finnfund's sustainability capacity

Finnfund has ten full-time advisers working on environmental and social sustainability matters, as well as on development impact. In 2023, the environmental and social team continued with six experienced specialists, and the development impact team had four specialists.

Governance matters are integrated into the workstreams of various in-house teams, namely risk management, investment operations, and legal affairs. Transparency matters and stakeholder engagement are also integrated into the work of several teams, namely communications, impact and sustainability, and investment operations. The responsible tax issues are mainly taken care of by the legal team's six in-house lawyers, as well as by an internal tax committee that includes experts from the legal, impact, and investment teams. Know-your-customer (KYC) processes are taken care of by the compliance team, which in 2023 consisted of three full-time specialists and a part-time trainee.

The sustainability and impact topics are ever more important in Finnfund operations. Finnfund's experts look for opportunities to develop their capacities and learn from peers, investee companies, and other stakeholders.

In 2023, our experts participated in networking and training sessions, for instance, on occupational health and safety, decent work and a living wage, data protection and privacy, gender-based violence and harassment, supply chains including but not limited to solar power and agribusiness, and responsible business in conflict areas, as well as on responsible corporate taxation, international tax regulation, know-your-customer and sanctions, and the prevention of money laundering.

Sustainable forestry has been one of the Finnfund's key sectors for several years. Forests and sustainable forestry can play a key role in the fight against climate change and biodiversity loss. In addition, forests prevent erosion, help maintain clean water supplies, and provide many sources of wellbeing for local communities. Read more on p. 28–29 and 89.
Photo: Finnfund

Development impact

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

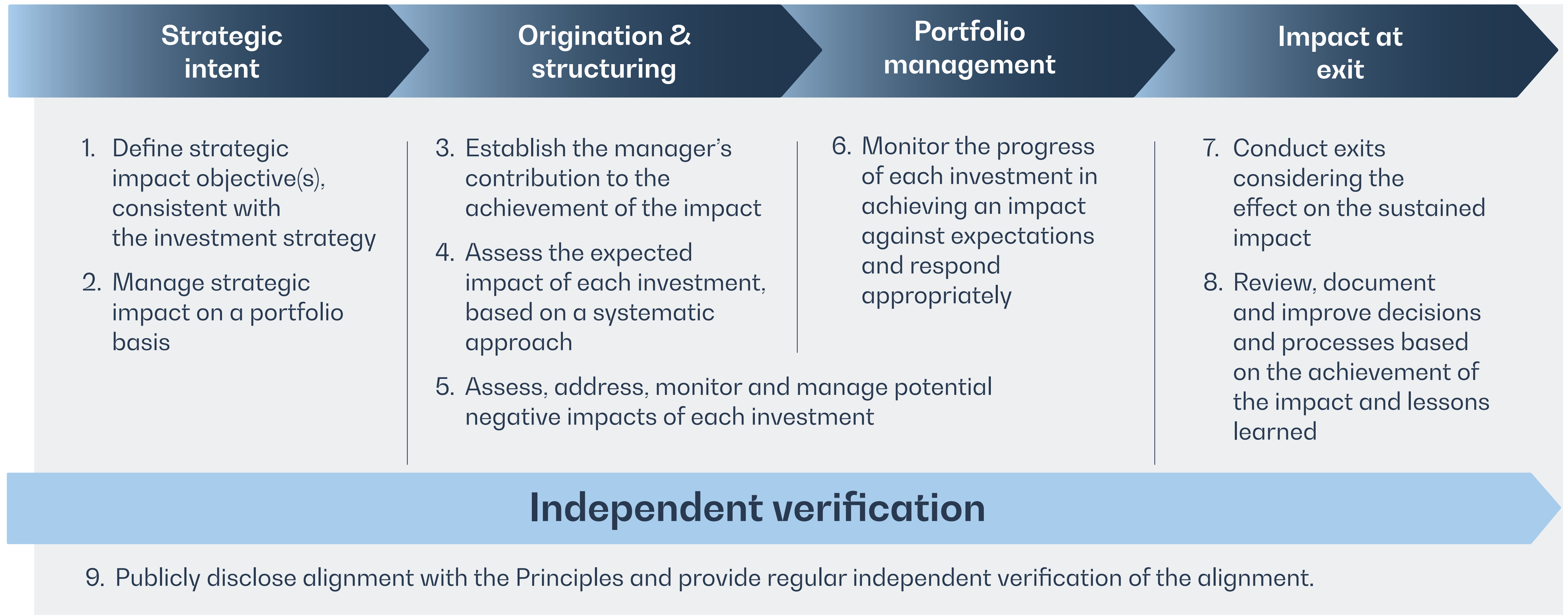
Finnfund invests only in private companies that are expected to generate a positive net impact on society, as well as to solve global development challenges.

In our strategy, introduced at the end of 2021, we aim, for instance, to double our total impact between 2020 and 2025, and to maintain our investment portfolio as carbon net negative (p. 20).

Impact management framework

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

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



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

Theories of Change guide our impact work

For each of our five key sectors, we have created Theories of Change (p. 28–37). These guide our impact thinking when we assess investments before financing decisions, monitor projects annually, and commission specific impact studies and surveys.

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

Development Effect Assessment Tool (DEAT)

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

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

Monitoring direct impact on an annual basis

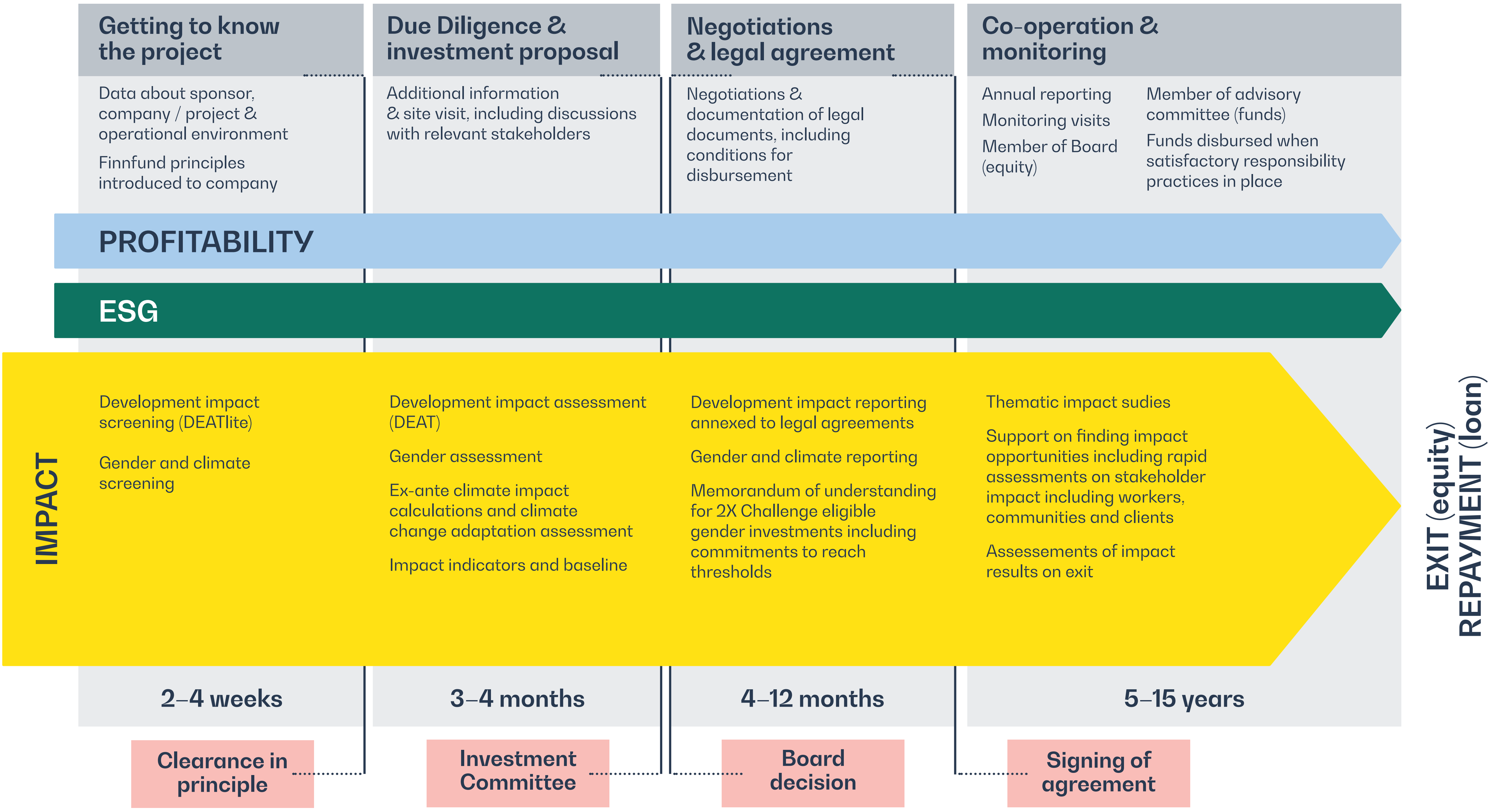
As part of the due diligence process, Finnfund collects baseline values for key indicators. In addition, Finnfund agrees with the client on impact key performance indicators (KPIs), which best measure the enhancement of the development impact of the investment. For these impact KPIs, the targets will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

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

Capturing indirect impact through studies, surveys, and modelling

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

In 2023, we continued conducting rapid stakeholder surveys, asking the main stakeholder groups of our portfolio companies how the companies' operations have affected their lives. We concluded nine studies and started nine studies to be completed in 2024. These surveys help our investee companies to better understand who their stakeholders (such as employees, customers, and community members) are, how they experience the impact of the company, how significant the impact is, and what could be done to further improve the benefits. One benefit of the rapid surveys is that the results are available to enable the management to take action in due course, if it is deemed necessary.



Development impact as part of Finnfund's investment process.

We also commissioned two more in-depth impact studies for internal use, one on Socio-Economic Impact of Kilombero Valley Teak Company, and another on Impacts of Micro-Finance Institutions in Cambodia and Uganda.

For indirect and induced economic and employment impacts, where primary data is not available, Finnfund uses the Joint Impact Model (JIM), which is a modelling tool commonly used by most development finance institutions. In addition to economic and employment impacts, JIM is used for CO_2 emission calculations, and especially for Scope 3 emissions.

You can read more about the surveys on p. 18 and on our website.

Impact creation at Finnfund.

Sustainability

At Finnfund, we believe that conducting business in a responsible manner is not only a wise decision but also beneficial. Responsible and environmentally, socially and economically sustainable business practices can boost the operational and financial performance of a company, enhance employee wellbeing and commitment, and bring a competitive advantage. These practices also improve a company's risk management capacity, helping to mitigate unexpected risks and impacts, enhance cooperation with stakeholders, and strengthen the social licence to operate.

Our sustainability approach

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

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

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

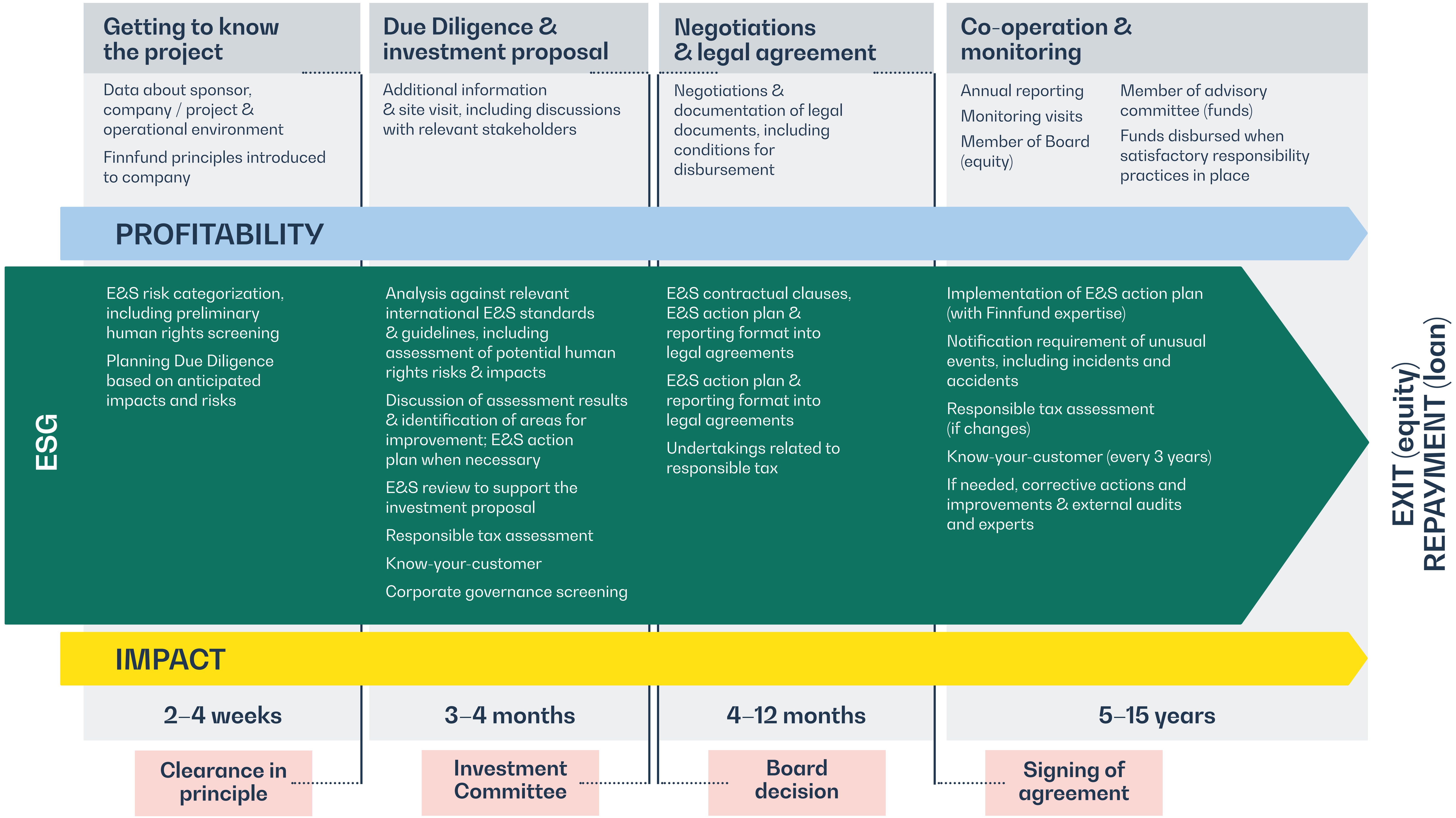
In 2023, Finnfund continued enforcing its human rights approach. On biodiversity, the focus has widened from assessing the risks to assessing both the risks and opportunities and to providing training sessions and capacity building to investee companies. In addition, climate change risks, impacts, and mitigation and adaptation opportunities are carefully assessed using further improved assessment tools in a specific project team climate assessment meeting.

Sustainability in Finnfund's investment process

Finnfund investee companies must commit to our sustainability requirements. Environmental sustainability, social responsibility and corporate governance (ESG) are incorporated into every stage of our investment process, from identification of potential investments to ongoing monitoring, as shown in the figure.

"Environmental sustainability, social responsibility, and corporate governance are incorporated into every stage of our investment process, from identification of potential investments to ongoing monitoring, and our team actively supports and assists our investees in developing their sustainability policies and processes."

Riikka Thomson
Manager, Environmental and Social



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

Finnfund concentrates on the key ESG impacts, risks, and opportunities relevant for each project. The more significant the risks and anticipated adverse impacts, the stricter the requirements become and the more closely Finnfund monitors each project.

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

We actively support and assist our investees in developing their sustainability policies and processes. We monitor them to ensure they take corrective action if discrepancies are found between their practices, commitments, and the actual situation on the ground.

IFC Performance Standards as a basis for environmental and social assessment

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

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

The IFC Performance Standards address eight topics:

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

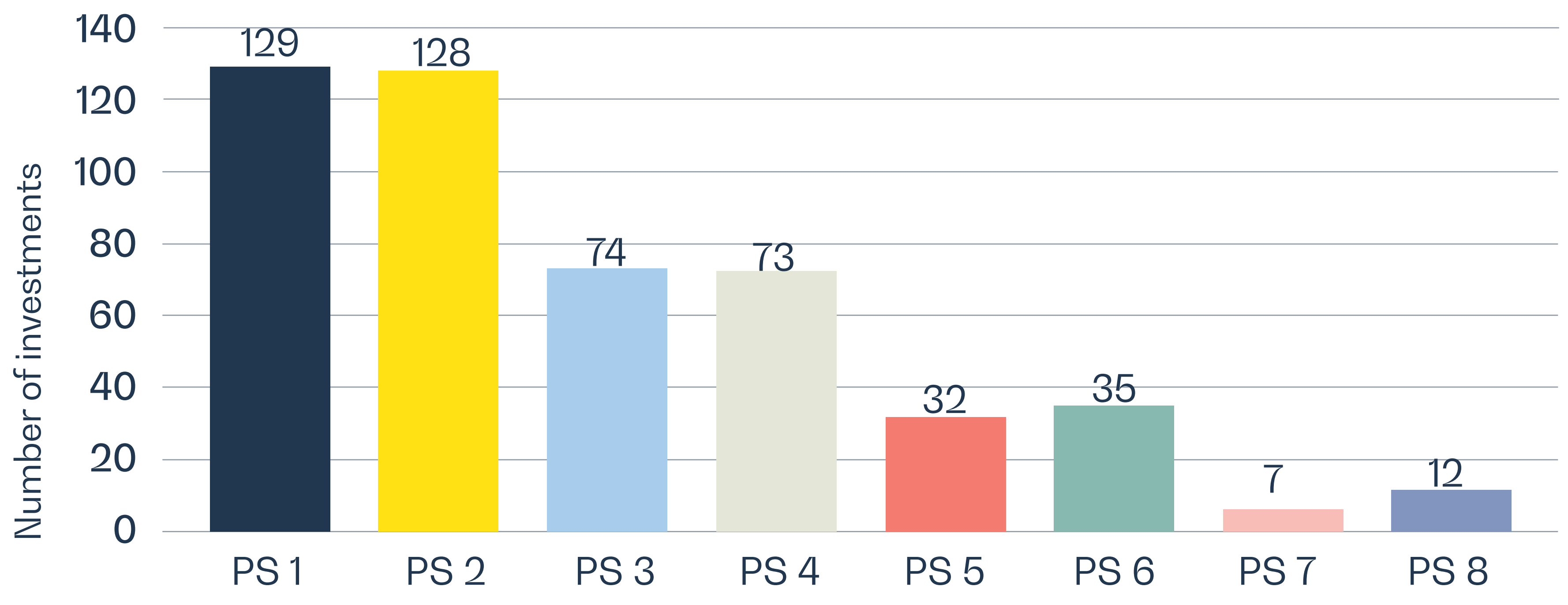
PS 1 and PS 2 are in all medium to high-risk investments. Additional compliance with PS 3 to PS 8 is required when risks related to the specific themes are triggered by the project and its indirect area of influence.

Other relevant international standards and principles include, for example, the UN Guiding Principles on Business and Human Rights (UNGPs), which also create a basis for our human rights management approach (p. 76), as well as various internationally recognised certification standards, such as the ISO management system standards for environmental and social management, occupational health and safety and information security management, as well as sector-specific certifications such as FSC for sustainable forest management, Global GAP for good agricultural practices, and SA8000 for social accountability, among others.

Finnfund is also a signatory to the Investor Guidelines for Responsible Investing in Digital Financial Services. It requires its members to comply with the responsible digital finance guidelines and client protection principles.

As explained below, Finnfund is also committed to the Task Force on Climate-related Financial Disclosures (TCFD, p. 57), and at the end of 2023, we also decided to join the early adopters of the Task Force on Nature-related Financial Disclosures (TNFD, p. 67), which officially commenced at the beginning of 2024.

The IFC PS triggered by the Finnfund portfolio as of 31 December 2023



Working together to improve sustainability

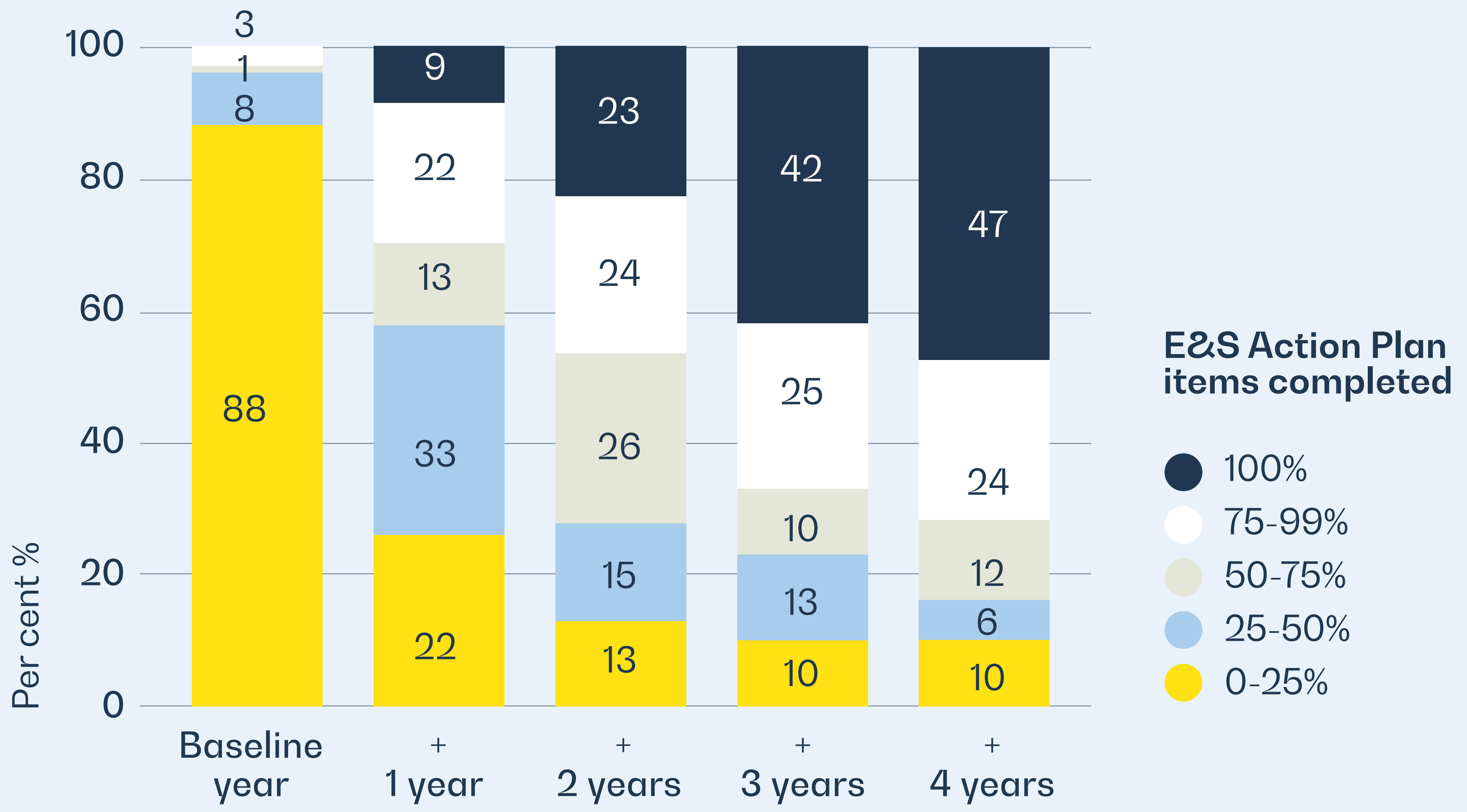
The potential investments are assessed according to Finnfund's due diligence process against the applicable requirements. The identified gaps in the investee's environmental and social management and performance are discussed with the investee company and documented in an Environmental and Social Action Plan (ESAP) with a clear description of the gap identified, necessary actions, resources, expected outcomes, defined budget, and mutually agreed deadlines. The ESAP is a legally binding requirement included in the financing agreement. Compliance with and progress in the ESAP are followed up regularly by Finnfund's environmental and social advisers. This approach ensures that the measures taken are appropriate for the level of risk and impact, and that the resources of the investee company are used efficiently. It also ensures that all potential issues are addressed in a manner that is commensurate with their severity.

Finnfund does not expect a company to be perfect to qualify for investment. The focus is on investing in companies that are committed to setting clear sustainability goals and that are eager to continually enhance their environmental and social management and performance.

After Finnfund decides to invest, it typically takes the investee company between 1 to 3 years to complete the Environmental and Social Action Plan (ESAP) and reach the required performance level. This timeline is illustrated in the figure.

Compliance with environmental and social standards is not a one-off accomplishment. It is a dynamic process that progresses and expands throughout the project's duration. As a development financier, Finnfund encourages its clients to appreciate the advantages of sustainable operations. It promotes business practices that aim to reduce environmental harm, contribute to sustainability, and ensure responsible resource usage. The goal is to create a continuous cycle of improvement and sustainability in all operations during and after Finnfund investment.

Progress of Environmental & Social Action Plans of Finnfund's investments since 2014, as of 31 December 2023



Climate: Task Force on Climate-related Financial Disclosures

Climate change is an all-encompassing global challenge that fundamentally affects all aspects of societies, economies, and the planet. As a development financier and impact investor, Finnfund places climate change mitigation and adaptation and resilience among its key objectives and development achievements.

This is reflected in Finnfund's strategy and the key sectors that we finance, as well as throughout our investment process. We acknowledge that climate change disproportionately affects developing countries, which often have less capacity to adapt to climate change. Women and the poor living in rural areas will be hit hardest, providing an additional incentive to place these groups at the centre of Finnfund's investment agenda.

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

Climate governance

Finnfund's Board of Directors is responsible for overall oversight of Finnfund's climate approach, including keeping climate-related risks and opportunities under review, and setting and ensuring the implementation of Finnfund's related strategies and actions. In this context, the Board of Directors first approved Finnfund's Climate and Energy Statement in 2021, and subsequently Finnfund's strongly climate-focused strategy for the period 2022–2025. The Board is regularly updated on Finnfund's ongoing climate risk work and investment processes that are evolving to address the realities of a changing climate.

Climate change is the greatest global challenge of our time, and it affects developing countries the most. The poor and women living in rural areas will be hit hardest, which is another reason why these groups are at the focus of Finnfund's work. *Photo: Shutterstock*

Finnfund's Management Team, led by the CEO, oversees Finnfund's operative climate agenda, including managing and overseeing the implementation of Finnfund's strategic climate targets, as explained below. Finnfund's Director of Impact and Sustainability, a member of the Management Team, is responsible for overall climate-related substantive issues, while the Chief Financial Officer manages and oversees Finnfund's climate risk exposures.

Finnfund's Investment Committee assesses the climate risks and opportunities of individual investments and related investees as part of Finnfund's investment process, giving clearance for principles and due diligence phases. The Portfolio Management Committee is responsible for annual project monitoring, which includes climate dimensions.

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

Finnfund's Climate, Nature and Biodiversity Committee, established in 2023, brings together a broad range of Finnfund teams working on climate and nature issues as a forum for addressing these cross-cutting themes. The Committee consists of subject-matter experts from the CEO's Office, Investment Operations, Impact, Environmental and Social Responsibility, Risk Management, and Communications. The Committee aims to promote active ownership related to climate and nature issues and is responsible for developing Finnfund's internal processes and capabilities in the domain.

The Committee met eight times in 2023 and addressed issues such as climate finance reporting, monitoring Finnfund's carbon balance, preparing and reviewing portfolio emissions and removal scenarios, updating Finnfund's country risk assessment process to include climate dimensions, updating the physical climate risk assessment process at the clearance in principle stage, and preparing a Nature and Biodiversity Statement for Finnfund. In 2024, planned work of the Climate, Nature and Biodiversity Committee includes reviewing the physical climate risk assessment in the due diligence phase, taking work on transition risk assessments further, and extending work on the Paris alignment of certain priority sectors.

Climate strategy

At the end of 2021, Finnfund updated its strategy for the period 2022–2025. Climate change mitigation and adaptation and resilience became an even more integral piece of Finnfund's work. The new strategy recognises climate action as a sustainability priority and one of Finnfund's three global impact themes, together with diversity and inclusion, and digitalisation. Maintaining a net carbon negative portfolio was selected as one of three key strategic objectives, together with doubling the impact by 2025 and increasing the amount of investments with private capital.

Finnfund's climate approach, with assessment and management of climate-related risks and opportunities, is based on Finnfund's strategy (p. 20), our Sustainability Policy (p. 53), our Exclusion list, our Climate and Energy Statement, and the Government Ownership Steering Memorandum issued annually by the Ministry for Foreign Affairs of Finland.

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

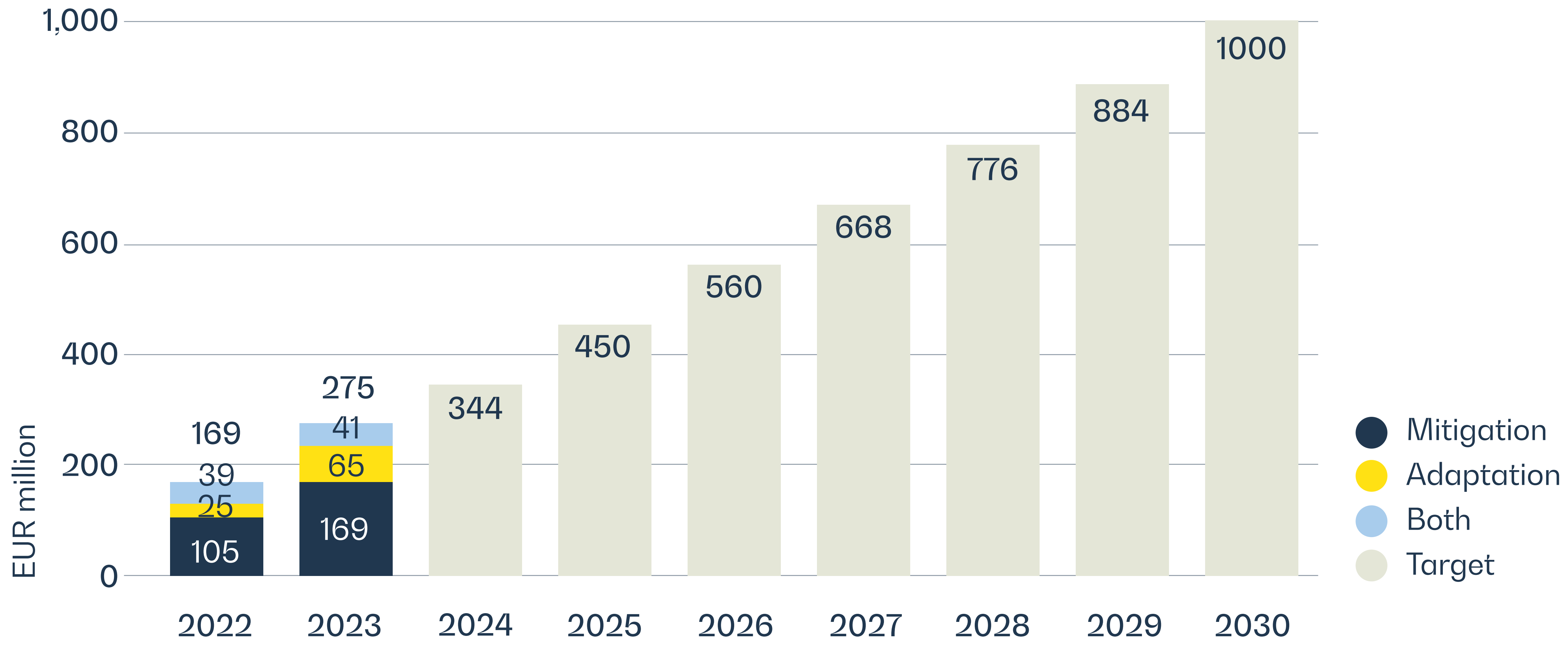
The Climate and Energy Statement is built upon three key targets. Finnfund is committed to:

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

The first target is based on an investment portfolio that aims to finance, at an annual level, more greenhouse gas emissions removals than greenhouse gas emissions. Monitoring of this target is undertaken through thorough carbon accounting of Finnfund's investment portfolio (p. 93). Since 2019, Finnfund has released annual data showing that its total investment portfolio has a net negative carbon balance, enabled by the carbon sinks from our forestry investments.

The second target underlines our commitment in contributing to the vast need for mitigation and adaptation finance. The progress of climate finance is being reported to the Board of Directors annually as part of Finnfund's company-level strategy. In 2023, Finnfund made investment decisions worth 105 million euros in climate change mitigation and/or adaptation and resilience projects. Finnfund is currently on track to meet its commitment to make one billion euros worth of new investments in climate finance by 2030.

Finnfund's investment decisions (EUR) in climate change mitigation and/or adaptation and resilience in 2022–2023, and targets until 2030, cumulative



As part of the third target, Finnfund actively follows and adopts best practices related to climate finance reporting, and to climate reporting and accounting more broadly. For example, Finnfund joined TCFD and reports in line with its recommendations. We also joined the Partnership for Carbon Accounting Financials in 2022 and made our first PCAF disclosure in 2023. For our carbon removals projects, we use the FRESCOS tool, developed jointly with other development finance institutions.

Besides Finnfund's own climate finance targets, Finnfund's investments are also a key part of Finland's climate-related official development assistance. In 2023, the Ministry for Foreign Affairs of Finland published an Evaluation of Finland's International Climate Finance 2016–2022. In this independent evaluation, Finnfund's approach to climate mainstreaming and Paris alignment was recognised as a strong example of best practice.

From a financial contribution perspective, over the period 2016–2022, Finnfund's contribution to official development assistance (ODA) in the form of climate finance was 96.3 million euros out of a total of 663.7 million euros. Finnfund therefore contributed approximately 15 per cent of Finland's climate ODA over that seven-year period. In 2023, Finnfund reported 15.5 million euros as part of Finland's climate-related official development assistance. As only certain flows qualify as ODA, the actual financing provided by Finnfund has been significantly higher.

As explained on p. 67, in 2023, Finnfund began developing the company's first statement on nature and biodiversity, which is expected to be approved and published in 2024. The statement builds on the fact that climate change and biodiversity loss are inextricably linked, and therefore need to be addressed together: climate change is one of the main drivers of biodiversity loss and one of the recognised Earth system boundaries. On the other hand, degrading or destroyed ecosystems can no longer sustain their climate regulating functions, strengthening climate change in turn. In addition, ecosystems lose their adaptive capacity against climate change effects as a result of the changing climate itself. These two crises must therefore be tackled together, and actions should be designed to address both nature and biodiversity loss and climate change.

Climate risk management

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

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

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

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

Work in progress

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

In 2023, we continued working with the Adaptation and Resilience Investors Collaborative (ARIC), a joint body of 18 development finance institutions (DFIs) aiming to promote finance in climate change adaptation and resilience. Work in 2023 focused on adaptation impact metrics and will continue in 2024 with further work on impact metrics as well as physical climate risk. Participating in the work of this group has enabled Finnfund to share its own practices and to work together with peers to develop joint tools for climate risk management.

We will continue developing the assessment and management of climate-related risks and opportunities on a portfolio level, including different climate-related scenarios.

Key sector	Physical risks, Acute	Physical risks, Chronic	Opportunities	Transition risks
Renewable energy	Flooding damages a power plant	Changes in rain patterns impact hydro powerplant power generation	Site selection improves reliability of energy generation during extreme weather events.	Political uncertainties affect energy policy
Sustainable forestry	Wildfire destroys a forest plantation	Accelerating biodiversity loss weakens tree quality	Fire breaks protect the plantation as well as surrounding areas.	Increasing insurance premiums
Sustainable agriculture	Drought results in harvest losses and food insecurity	Emergence of tropical pests kills crops	Improved irrigation measures conserve water and improve yields	Regulations related to fertilisers or water use, or demand for certification or carbon data, disproportionally impact smallholders
Financial institutions	Natural disaster leaves local people unemployed	Rising sea levels hamper local economic activity	Financial institutions develop climate finance products and services	Climate change driven costs harm clients' ability to repay loans
Digital infrastructure and solutions	Hurricane destroys telecommunication infrastructure	Biodiversity loss restricts land use in infrastructure projects in remote areas	Climate-resilient infrastructure enables communities to recover faster	Increased raw material costs

Some examples of climate risks and opportunities in our five key sectors.

Every investment is assessed

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

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

Based on this risk assessment, we also identify possible climate change adaptation needs and opportunities in every investment, both from a business perspective (adaptation of) and in terms of the support the business may give to adaptation efforts among their clients and in society (adaptation through).

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

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

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

The assessment is made in three stages:

1. Screening of climate risks and adaptation opportunities

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

Kenyan company Sanergy produces organic fertilizers and animal feed using black soldier fly larvae. In addition, the company provides training for farmers. As a result, 8,000 farms have already adopted regenerative practices that can help them, for example, adapt to climate change. Read more on p. 18.
Photo: Sanergy

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

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

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

Screening for risks relies on existing public databases and data sources, such as IPCC, the INFORM Climate Change tool, and other sector and country-specific sources. The final rating of the screening process provides an initial scaling for the existing risks in the business operating environment (geographical location(s) and sectoral risks), taking into consideration the vulnerability and readiness of the operating environment to adapt to hazards and changes.

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

Since 2021, Finnfund has also included a consideration of physical and transition climate risks in its internal credit risk rating methodology. Based on the outcomes of the climate risk assessment undertaken in the due diligence phase, Finnfund applies standardised metrics as inputs in its credit risk rating. Depending on the specifics of each investment, climate risk can affect the overall credit risk rating class.

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

After a positive clearance in principle from the Investment Committee, the investment case proceeds to the due diligence phase. Any climate risks or adaptation potential identified in the initial screening will be further investigated during due diligence. Finnfund's transition risk assessment is carried out by Investment Analysts using a tool developed for Finnfund specifically for the purpose.

The assessment builds on potential risks related to policy, technology, market and reputation and the tool guides the project team in identifying transition risks based on Finnfund's key sectors. Individual risks are identified and graded on a three-tier scale (high, medium, low). The likelihood of the risk materialising over the investment lifetime, as well as the impact on the investee itself, is also assessed. Risk mitigation measures are identified, and a residual transition risk level is assigned.

"Climate change and the transition to a low-carbon economy lead to costs for companies. Therefore, consideration of climate risks as well as opportunities must be one factor determining companies' credit or investment risk."

Aleksi Koskikallio
Risk Manager

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

Potential adaptation opportunities are further assessed in parallel with climate risk identification. If the company's adaptation activities increase the adaptive capacity and resilience of others, due diligence will specify the adaptation product or service, its benefits and beneficiaries, and the scale of benefits.

If the due diligence process identifies a need to improve the mitigation and adaptation efforts in the company, this may be included, for example, in the Environmental and Social Action Plan or in other contractual documents between Finnfund and the investee company (p. 56).

3. Monitoring

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

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

Metrics and targets

Finnfund assesses the climate effects of every investment before the respective investment decision, and as part of the monitoring of the investment. Finnfund uses metrics such as the absolute emissions of the investment, avoided emissions for energy investments, and carbon removals for forestry projects. Finnfund's carbon accounting stems from our desire to better understand the climate impacts of all our investments.

To support this goal, Finnfund joined the Partnership for Carbon Accounting Financials (PCAF) in 2022 and made its first PCAF disclosure in 2023. Finnfund's accounting is based on the GHG Protocol and PCAF Standard and takes into account the direct and indirect emissions of the production and purchased services of each investee company, but not post-production use. Finnfund therefore accounts for Scopes 1 and 2, as well as Scope 3 upstream emissions, but not Scope 3 downstream emissions. These effects are attributed to Finnfund in proportion to our financing share, increasing or decreasing our share of financed emissions or removals as our funding share increases or decreases.

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

Finnfund uses primary data to calculate and analyse the amount of carbon sequestered in our forestry projects, using the FRESCOS tool.

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

The annual attributed climate effects of Finnfund's investment portfolio, covering the year 2022, are presented on p. 93. The results for 2023 will be available at the end of 2024 and published in our 2025 Annual Report.

Finnfund assesses data quality and strives to improve its data continuously.

Data quality is presented as the weighted average of Finnfund's outstanding amount.

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

Carbon footprint of our own operations

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

As presented on p. 110, in 2023, the total operational carbon footprint of our own operations was 802 tonnes (t) of CO_2e, which averages approximately 8 tCO_2e per employee.

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

Our work in practice

INTERESTED IN KNOWING MORE?

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

Read more about climate risk assessment on our website: Climate risk assessment and identification of adaptation opportunities – our work in practice

"We are very pleased to have been recognised in an independent evaluation commissioned by the Ministry for Foreign Affairs of Finland on Finland's International Climate Finance 2016–2022. Finnfund's approach to climate mainstreaming and Paris alignment was deemed a strong example of best practice in the area. We are happy to continue working with Finnish and other stakeholders to share experiences of our approach and to learn from each other."

Marko Berglund
Senior Development Impact Adviser

CASE

Evolution III strives to foster the availability of clean energy and climate mitigation in Africa

"Our investment in the Evolution III fund marks our commitment to enhancing the production and availability of clean energy across the African continent, as well as to fighting against climate change. This investment builds on several of Finnfund's strategic goals, such as making 1 billion euros worth of new investment in climate finance by 2030, as well as maintaining our investment portfolio carbon net negative," says **Riikka Molander**, Associate Director and Head of Funds at Finnfund.

In March 2023, Finnfund announced a 20 million United States dollars commitment to the Evolution III fund, a pan-African equity fund aiming to foster the availability and accessibility of clean energy and to increase energy efficiency.

Finnfund's commitment was part of the first closing of the fund, managed by Inspired Evolution Managers Limited, a pan-African climate-centred private equity firm specialising in clean energy infrastructure and energy and resource-efficiency growth investments. The fund will target around 10 to 15 investments over an investment period of five years.

Despite the fact that Africa has tremendous solar and wind potential and vast hydropower resources, access to reliable and clean electricity remains far behind most other parts of the world. With an electrification rate of 46 per cent, 590 million people are still without access to electricity in Sub-Saharan Africa. This situation reinforces socio-economic inequalities and impedes progress.

The funding needed to facilitate Africa's energy transition to a net-zero energy mix by 2050 is estimated to be around 2.8 trillion dollars. For Africa to achieve its climate action and energy SDGs (Sustainable Development Goals), its generation capacity must be doubled by 2030 and multiplied five-fold by 2050.

Read more on our website.

Name: **Evolution III**
Country: **Africa, focus on Sub-Saharan countries**
Investment year: **2023**
Sector: **Renewable energy and energy efficiency**

Roggeveld Wind in South Africa is one of the investments of Evolution II, the predecessor of Evolution III. *Photo: Finnfund*

Nature and biodiversity

The world is living in the middle of twin crises of climate and biodiversity loss. The two crises are inextricably linked and, therefore, they need to be addressed together.

The most vulnerable population groups, such as indigenous peoples, women, and the poor people living in rural areas in developing countries, while not being the cause of these crises, often suffer the most from them, highlighting their importance in Finnfund's work as a development financier and impact investor.

Since 2022, we have developed our approach in assessing and managing nature and biodiversity-related risks and opportunities, closely following the development of the Task Force on Nature-related Financial Disclosures (TNFD) initiative and aiming to align our reporting with its four pillars: governance, strategy, risk management, and metrics and targets. The work around the approach builds on Finnfund's existing sustainability policies, frameworks, and processes, and is integrated into the investment process, including environmental and social assessment and development impact assessment of our investments.

Finnfund is committed to preparing its first TNFD report for the financial year 2024.

Nature and biodiversity governance

Finnfund recognises the interlinkage between climate change and biodiversity loss, and our governance also follows the same procedures and responsibilities, as explained in our TCFD report (p. 57).

Nature and biodiversity strategy

Climate change mitigation and adaptation play an integral role in Finnfund's strategy, and biodiversity loss is recognised as a key driver of emerging changes in the financial sector. In our strategy, we are committed to continue to deliver and advocate excellence in sustainability, and in terms of biodiversity, particularly to enhance our approach and define indicators and targets for no-net-loss and net-gains in biodiversity.

Finnfund's key sectors, such as sustainable agriculture, sustainable forestry, and renewable energy, can potentially have a significant impact on biodiversity, but they are also heavily dependent on the natural resource base.

Finnfund's nature and biodiversity approach, with assessment and management of nature and biodiversity-related risks and opportunities, is based on Finnfund's strategy (p. 20), the Sustainability Policy (p. 53), the Exclusion list, and the Government Ownership Steering Memorandum issued by the Ministry for Foreign Affairs of Finland. A new Nature and Biodiversity Framework approach was de-

"We believe that investors can play a vital role in the fight against biodiversity loss. In 2023, for example, we began work on our new statement on nature and biodiversity, aiming to put together our principles, as well as to demonstrate our ambition level for today and for the future. This report also marks the first attempt to align our approach with the TNFD."

Anne Valto
Senior Development Impact Adviser

veloped in 2023 and will be tested, piloted, and rolled out in 2024.

At the end of 2023, Finnfund begun to prepare its first statement on nature and biodiversity, aiming to put together the principles we follow in our nature and biodiversity work and demonstrate our ambition level for today and for the future. The statement will be ready and published in 2024.

In December, as part of the preparation of the new statement, we also organised an internal Finnfund Talks session with the European Bank for Reconstruction and Development (EBRD) on natural capital valuation. The session was open for all Finnfund employees. External stakeholder meetings and engagement will continue in 2024.

As mentioned above, at the beginning of 2024, Finnfund also joined the Early Adopters of the Task Force on Nature-related Financial Disclosures (TNFD).

Nature and biodiversity risk and impact management

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

In addition, we increasingly aim to seek and promote nature-based solutions (NbS) and nature positive impacts in our projects.

In 2023, Finnfund developed a revised, comprehensive assessment framework for Nature and Biodiversity, and set indicators and metrics for biodiversity and nature that will be systematically applied in our portfolio and thus allow better aggregation of data at portfolio level in the future. The tools and processes to implement the framework will be tested and then rolled out in 2024 as part of the implementation of our new statement.

Improved and accumulating biodiversity data will allow Finnfund to set specific, measurable targets for biodiversity – both for risks and for net gains.

What is TNFD?

The Taskforce on Nature-related Financial Disclosures (TNFD) is a global initiative, which has developed a set of disclosure recommendations and guidance that encourages and enables business and finance to assess, report, and act on their nature-related dependencies, impacts, risks, and opportunities. The TNFD disclosure recommendations are structured around four pillars, consistent with the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB): governance, strategy, risk and impact management, and metrics and targets. They accommodate the different approaches to materiality in use currently, and they are aligned with the goals and targets of the Kunming-Montreal Global Biodiversity Framework.

Finnfund joined the Early Adopters of the Task Force on Nature-related Financial Disclosures (TCND) at the beginning of 2024.

IFC Performance Standard 6 focuses on biodiversity and ecosystem services

Finnfund has assessed the biodiversity risks and impacts of its investments since our first Environmental Policy was published in 2005.

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

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

At the end of 2023 approximately 22 per cent of our investments had triggered IFC PS 6, hence there are biodiversity risks and impacts that need to be actively managed by the investees.

IFC Performance Standard 3 aims for resource efficiency and pollution prevention

PS 3 requires that investees avoid or minimise adverse impacts on human health and the environment by avoiding or minimising pollution from project activities, and it promotes more sustainable use of resources, including energy and water. PS 3 objectives contribute to addressing four out of five drivers of biodiversity loss, as defined by IPBES.

Through PS 6, PS 3, and the application of specific tools such as IBAT and WWF Water Risk Filter nature and biodiversity-related risks, Finnfund already has a good, location-specific understanding

Amazona autumnalis lives in MLR Forestal's forests in Siuna, Nicaragua. Read more on p. 71.
Photo: MLR Forestal

of direct risks and impacts at investment level. In many cases, an environmental and social impact assessment is required, providing a detailed description of risks and their mitigation options.

At the end of 2023, approximately 46 per cent of our investments triggered IFC PS 3.

Every investment is assessed

Biodiversity risk assessment and management is integrated into Finnfund's investment process from the early stages of identification and due diligence assessment, monitoring, and reporting.

Direct investments: Three phases for assessing biodiversity risks

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

The assessment is made in three stages:

1. Screening of biodiversity risks and net-gain opportunities

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

Biodiversity risks are triggered based on factors such as sector, location, and land and natural resource use, or supply chain factors. An environmental and social adviser undertakes the biodiversity risk screening, and a development impact adviser then assesses the net-gain opportunities of the investment. Every potential investment receives a risk score that guides the next steps in the process, and the net-gain potential also contributes to the development effect scoring of the investment.

Screening for risks relies on existing databases, data sources, and tools, such as IBAT and the WWF Risk Filter. Identified risks contribute to the overall risk rating of the project and the requirements set for the investee in the Environmental and Social Action Plan, which is part of the contractual documentation.

2. In-depth biodiversity risk and net-gain analysis during the due diligence phase

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

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

The net-gain potential is further investigated in parallel with the risk identification. If the company's activities or business model address one or several drivers of biodiversity loss, due diligence will specify the biodiversity benefits and beneficiaries, and the scale of benefits.

If the due diligence process identifies a need to improve the biodiversity risk mitigation and management efforts in the company, this may be included, for example, in the Environmental and Social Action Plan or in other contractual documents between Finnfund and the investee company (p. 56).

3. Monitoring

After making the investment agreement, Finnfund monitors its investee companies on an annual basis for their financial and environmental and social performance, and for development impacts. Biodiversity risk monitoring is integrated into this monitoring process.

Nature and biodiversity metrics and targets

In 2023, portfolio-level metrics measuring biodiversity risks and impacts counted projects where PS 3 and PS 6 are triggered, and identification of projects that are delivering biodiversity benefits through some mechanisms. More detailed indicators at investee level are described in project-level Environmental and Social Action Plans, but as targets and indicators are project specific, data is not aggregated at a portfolio level.

Restoration project, training and knowledge sharing

In 2022, Finnfund, together with MLR Forestal, a Nicaraguan agroforestry company, launched an innovative pilot project to restore 554 hectares of degraded forest lands with significant biodiversity potential in Nicaragua (p. 69). The funding will be provided through a carbon credit programme whereby emission reductions, equivalent approximately to the emissions generated by Finnfund's own operations over three years (p. 110), will be sold to Finnfund and a biodiversity action plan for the restoration area will be implemented in tandem under the agreement.

In 2022 and 2023, MLR has done restoration plantings on 171 hectares, exceeding their target. They have also established a comprehensive biodiversity monitoring programme and are accumulating valuable information about biodiversity in their operational area.

In 2023, Finnfund also continued providing training and opportunities for knowledge sharing by organising learning sessions on biodiversity and the implementation of IFC PS 6 for its investee companies. Agriculture and forestry companies received tailored hands-on support to review and develop their biodiversity management policies and practices, as guided by IFC PS 6. In addition, we organised internal training for our environmental and social sustainability team to enhance their skills in using IBAT tools.

"Sharing best practices and lessons learned on fostering biodiversity and mitigating potential risks is key. In 2023, we continued organising knowledge-sharing sessions for our investee companies and developing our approach on assessing potential risks and opportunities for positive impacts on biodiversity."

Harold Gordillo
Environmental and Social Adviser

Gender equality

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

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

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

Finnfund is also a founding member of the 2X Collaborative, a new global industry body that convenes the entire spectrum of investors to promote gender lens investing. In 2023, 2X Collaborative joined forces with GenderSmart, and together they are now called 2X Global.

As part of our due diligence process, the potential of every investment to promote gender equality and women's empowerment is assessed before an investment decision. This means that we screen all our investments through 2X Challenge criteria, launched by the international 2X Challenge initiative, including indicators on ownership, leadership, employment, and consumption. The 2X Challenge has defined specific thresholds for each criterion, to determine whether an investment is eligible. Each new investment is required to report annually on the 2X indicators, and the data is also collected from the companies. In 2023, the 2X criteria were under revision and will be launched in 2024, particularly to emphasise safeguarding and gender governance.

"For us as an impact investor, it is clear that targeting gender equality and seeking to close the gender gap has benefits for both business and society – and, as a result, for our investment. If people are not equal and do not have similar possibilities in society or at the workplace, human resources are not used efficiently."

Lauri Etelämäki
Senior Environmental and Social Adviser

In 2023, 51 per cent of our new investment decisions promoted gender equality and met the 2X Challenge criteria or made a commitment to get there (46 per cent in 2022).

In addition, a gender lens is always integrated into our surveys and studies, meaning that each time we launch a study, it includes an assessment of the results through a gender lens.

The quality of the jobs matters

Increasing women's employment is one of the 2X objectives, but the increase in jobs should not be counted in numbers alone, but also assessed against the job quality.

In practice, promoting women's employment and leadership requires leadership and intentional activities. In 2023, some of our 2X-qualified investee companies, for example, reviewed their recruitment practices and trained their human resources personnel to ensure that their recruitment process is gender sensitive and encourages female candidates to apply.

For instance, AwanTunai, an Indonesian financing solution platform, aims to increase the share of women to 30 per cent at all levels of the organisation, and it has implemented programmes for women to encourage them to apply for higher positions. Indifi, an Indian lending platform for micro, small and medium-sized enterprises, has also established a women's council to allow better information flow to support decision-making with a gender lens.

Many companies facilitate mothers returning to work after maternity leave, with flexible working hours and with an opportunity to have breastfeeding breaks. Hybrid work opportunities enable both parents to spend more time with their families. In addition, childcare can be offered to ensure that children are in a safe environment while their mothers are at work.

Paternity leave is also increasingly included in many countries' legislation, but there are also some forerunner companies that offer additional paternity leave beyond the legislative requirement. A great example is Kashf Foundation (p. 46), a microfinance institution in Pakistan: their human resource policy aims to address life cycle changes for both men and women by providing maternity and paternity leave and subsidised childcare facilities for people working both in the head office and in their branches. In a challenging country context, they also do ground-level awareness raising work by promoting gender empowerment, allowing women to have access to financial services and to earn their income through employment.

CASE

Name: **Satya, MicroCapital Limited**
Country: **India**
Investment year: **2023**
Sector: **Microfinance**

Making formal finance more accessible to women in India

In June 2023, Finnfund invested 10 million United States dollars in SATYA MicroCapital Ltd, a Delhi-based company that provides affordable micro-credit to women from low-income households across rural areas of India.

Many women in India lack access to formal finance. According to the World Bank, only 10 per cent have borrowed from a formal financial institution. SATYA reaches out to rural women in their home villages and helps them access small finance. Clients have been able to increase their annual income by 11 per cent after taking a loan from SATYA.

The client base of SATYA MicroCapital Ltd is predominantly formed by self-employed rural women nestled in rural and suburban areas. The capital raised will be used in an appropriate manner to expand the operations to a broader spectrum, thereby providing much-needed financial access to women micro-entrepreneurs for their livelihood rehabilitation.

Like many other financial institutions in India, SATYA previously required that borrowers should be married, and widow members needed to have a son acting as their co-borrower. This policy was changed during 2023, and SATYA has worked on removing marital status from loan eligibility and implementing changes in their operations to accommodate the policy change.

"Including previously under-served groups such as unmarried women and widows is a big step both culturally and business-wise," says **Kyaw Latt**, Investment Manager at Finnfund. "Both SATYA and we see the need for change and believe that expanding the client base will help SATYA achieve their vision of being a catalyst for the socio-economic improvement of 5 million households in India by 2025."

Read more on our website.

Like many other financial institutions in India, SATYA previously required that borrowers should be married, and widow members needed to have a son acting as their co-borrower. This policy was changed during 2023. *Photo: SATYA MicroCapital*

CASE

Jobs, growth, and entrepreneurial skills across Sub-Saharan Africa

Many innovative, growth-oriented, and very promising mid-market companies lack funding in Sub-Saharan Africa. In October 2023, Finnfund announced a 15 United States dollars commitment to Metier Capital Growth Fund III.

"Through this investment, Finnfund aims to provide funding as well as training and entrepreneurial skill development to growth-oriented companies that will, at the end of the day, generate multiple positive impacts, such as jobs and clean energy, across Sub-Saharan Africa," says **Riikka Molander**, Associate Director and Head of Funds at Finnfund.

The fund has a geographic focus on Sub-Saharan Africa, and it is expected to make eight to twelve equity and equity-related investments in mid-market companies with high growth features in sectors, including ICT and manufacturing, that benefit from regional economic and demographic trends such as population growth and increased urbanisation, and to generate positive impacts.

The fund is also firmly committed to enhancing gender equality both in its investment portfolio and within its own organisation, hence for Finnfund, the commitment is classified as a 2X Challenge investment.

"Our active deal pipeline is characterised by growth capital investments that will have a positive impact on climate change, create decent jobs with a focus on gender lens investing, support the connectivity of rural communities, and enhance the development of businesses across Africa," says **Paul Botha**, CEO and Co-founder of Metier.

Read more on our website.

The fund is firmly committed to enhancing gender equality both in its investment portfolio and within its own organisation. *Photo: Metier*

Name: **Metier Capital Growth Fund III**
Country: **Sub-Saharan Africa**
Investment year: **2023**
Sector: **Multiple sectors**

Human rights

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

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

Human rights risk screening

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

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

"In 2023, we renewed our complaints channel and mechanism, aiming both to meet the latest legislative requirements and to strengthen our commitment to the UNGPs. Our new complaints mechanism is designed to be more accessible, to better protect the complainant, and to better manage information."

Sylvie Fraboulet-Jussila
Senior Environmental and Social Adviser

suppliers (primary suppliers are not limited to tier one suppliers).

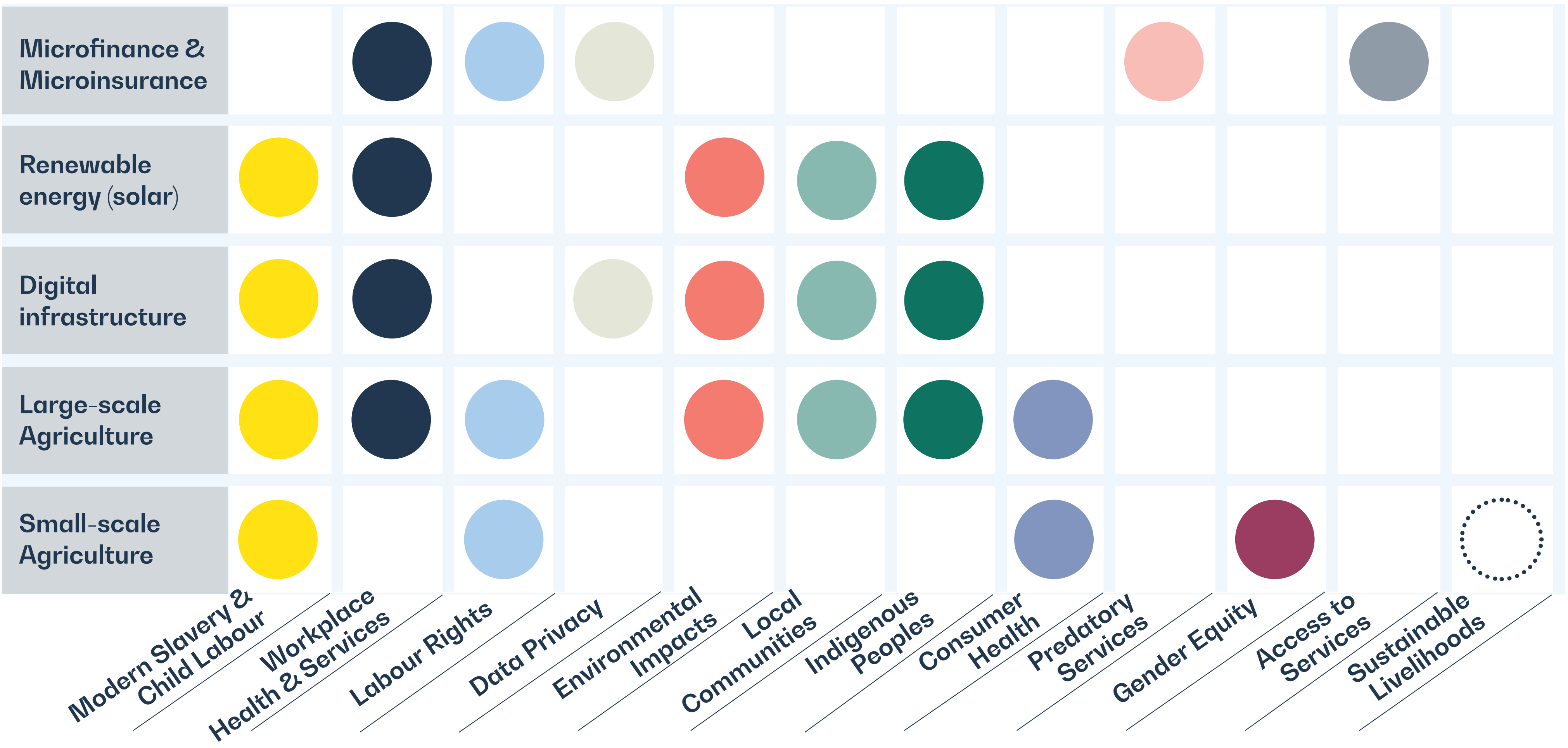
Nevertheless, impacts on some human rights, or rights holders, require additional focus, including potential impacts on workers' rights beyond primary suppliers, the right to privacy, civil and political rights, and children's rights, or gender-based violence and harassment. Then we go beyond our regular, IFC PS and ILO CLS-based environmental and social appraisal, and we perform additional human rights assessments.

As a development financier, our mandate is to invest in challenging geographies and sectors. In certain situations, there are – in the country or local context – systematic abuses of human rights that may make it difficult for our investees to fully implement their commitment to international environmental and social standards and to respect human rights (for example, widespread gender-based violence, systematic discrimination against certain groups, laws restricting freedom of association, state surveillance of activities of citizens on the internet, etc.). To identify such situations, scope our due diligence and monitoring work accordingly, and plan for additional support, we have developed and use a specific screening tool, which is described on our website.

The sector-based salient human rights assessment completed in 2023 for some of our key sectors, namely microfinance and microinsurance, renewable energy (particularly solar energy), digital infrastructure, large-scale agriculture, and small-scale agriculture, is also considered when scoping and performing the due diligence of projects in those sectors.

For example, the salient human rights assessment confirmed that non-respect of data privacy, surveillance, and impacts caused by gaps in cybersecurity were salient human rights issues for the digital infrastructure sector, which is one priority sector for Finnfund. At the same time, cybersecurity, data privacy, and surveillance were not part of a typical environmental and social appraisal framework. To address this issue, we have strengthened our approach to digital infrastructure and services projects, for example, with additional assessments, tailored questionnaires and project-specific requirements.

The salient human rights issues identified for the five selected sectors



Human Rights Based Approach and promotion of positive human rights impacts

The Finnish Ministry of Foreign Affairs' Human Rights Based Approach to development (HRBA) defines four levels of the approach to human rights in development financing: human rights blind, sensitive, progressive, and transformative.

The Human Rights Based Approach requires financing via private sector instruments, such as Finnfund, to be human rights sensitive at a minimum. Being "human rights sensitive" is defined as follows by the Finnish Ministry of Foreign Affairs: *"Human rights sensitive – application of human rights as a process. Human rights principles guide the programming, implementation, monitoring ad evaluation of the intervention. A basic human rights assessment has been carried out in order to be sufficiently aware of the human rights situation. This is done to avoid unintentional negative effects on the enjoyment of human rights and to ensure that the intervention does not contribute to discriminatory structures, norms and practices. The intervention does not have an explicit commitment to human rights in terms of expected results. Elements related to capacity development or advocacy may be included in the intervention."*

For private sector instruments such as Finnfund, the requirement to be human rights sensitive translates into a requirement to conduct *"a basic assessment of the impact on the human rights of their business operations funded by the Ministry for Foreign Affairs and [take] the findings into account to avoid or mitigate negative impacts on human rights"*. That is, to carry out human right due diligence in line with the UNGPs. The long-term objective of the HRBA is also to increase the share of human rights progressive development financing.

In addition to being human rights sensitive, Finnfund's investments are human rights progressive, meaning that they promote the realisation of human rights. This happens through our developmental impact mission and our commitment to development impact, the SDGs, the 2X Challenge (p. 72), and decent work.

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

In 2023, we participated in the development of UNICEF's Child-Lens Investing Framework, which provides private equity and debt investors with best practices and a practical toolkit to consider child-related factors to advance positive child outcomes while minimising child harm. The framework was published in September 2023.

Grievance mechanisms

Addressing human rights risks and impacts requires timely information on the ground. Investees are expected to have adequate operational-level grievance mechanisms and are committed to notifying Finnfund within days of any significant incidents that may have human rights impacts, and to informing us about the results of investigations and measures taken to remediate and prevent re-occurrence of such events. We also expect to receive regular – and anonymised – reports on the number, type, and status of grievances received by our investees.

Rights holders can voice their concerns directly using our investees' grievance mechanisms or Finnfund's complaints channel.

In 2023, Finnfund renewed its complaint channel and mechanism, aiming to meet the latest Finnish legislative requirements on whistleblowing and protection of whistleblowers, to strengthen alignment with the UNGP's effectiveness criteria for non-judicial grievance mechanisms, and to close gaps that had previously been identified in the review of Finnfund's human rights approach. The renewed complaint channel was launched in December. Our new complaint mechanism is designed to be more accessible, to better protect the complainant, and to better manage information.

The key changes are:

- The new complaint channel is hosted by an EU-based third-party service provider, with restricted and controlled access to detailed complaint and complainant information, and automatic encryption of information on the complainant.
- There is improved anonymised complaints reporting.
- Information on the complaint channel, as well as complaint forms, is made available in six languages: Finnish, English, Spanish, French, Portuguese and Swahili, on Finnfund's homepage.
- A voice mail option has been introduced, with local or toll-free phone numbers for twenty different countries.
- The internal processes and data management have been strengthened, and the appeal options have been clarified.

Finnfund's staff have received training regarding the new complaint channel, including on the specific procedure to be applied should a complaint be received directly from a stakeholder during, for example, monitoring visits. Finnfund is also introducing a requirement that our investees inform their own stakeholders about the existence of Finnfund's complaint mechanism. We are also requiring our investees to report the complaints they have received, with an indication of the way they have been addressed.

"In addition to being human-rights sensitive, Finnfund's investments aim to promote the realisation of human rights. In practice, this happens through our developmental impact mission and our commitment to promoting the SDGs, gender equality, and decent work."

Päivi Michael
Environmental and Social Adviser

Grievances addressed in 2023

Given that our renewed complaint channel was launched in December 2023, most of the grievances received in 2023 would have been through our "old" complaint mechanism or other channels. The grievances addressed in 2023 and 2022 are listed in the table below.

Grievance number	Subject of the grievance	Location	Follow-up actions	Status
2023 - 1	Several issues, e.g. unpaid wages and safety issues	Africa	The grievances were received while Finnfund was still assessing the project for a potential investment. Finnfund decided, after investigation, not to provide financing to the project.	Closed
2023 - 2	Unfair termination of employment agreement	Africa	The grievance has been addressed with the company, and this was heard by an arbitrator in the target country. The case is to be settled as a labour law matter in a local court.	Ongoing
2022 - 1	Gender discrimination, unfair treatment	Asia	A settlement agreement has been reached between the parties. The complainant has transferred to another employer.	Closed
2022 - 2–	Labour dispute, retrenchment	Africa	The grievance was addressed by the investee company board and settled as a private law matter.	Closed
2022-3	Unfair dismissal	Africa	Anonymous – there was no possibility to contact the complainant and investigate.	Closed
2022 - 4	Discrimination and unfair dismissal	Africa	It was agreed with other financiers that one financier would address the grievance on behalf of the group.	Closed

Our work in practice

INTERESTED IN KNOWING MORE?

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

Example 1

Lack of stakeholder consultations

One investee has been accused of adverse impacts and a lack of stakeholder consultation. Finnfund and another development financier increased their monitoring of the investee, with site visits, more frequent calls with the investee's environmental and social team and the management, and document requests. Each site visit included meetings and discussions with local stakeholders, to understand whether the issues/adverse impacts brought forward by the critics were founded. The visits did not confirm the accusations of adverse impacts or of gaps in stakeholder consultations. However, some areas of improvement were identified with regard to the labour conditions of the investee's staff. This was addressed in a corrective action plan, which has been adequately implemented and led to improvements in the working conditions. The site visits also indicated some gaps in environmental monitoring and impact assessments. The company has started the implementation of corrective actions.

Example 2

Adapting to changes in the local security situation

One of Finnfund's investee companies is located in a region where the security situation has significantly deteriorated during 2023. At the request of Finnfund, and based on the results of a previously completed human rights assessment of the company's supply chain, the company was implementing an ambitious improvement programme with its primary suppliers. The programme includes surveys of working conditions, deployment of grievance boxes, improvements to occupational health and safety, training, regular visits to suppliers by the company's human right team, and so on.

The significant change in the security situation has made it unsafe for the company's human rights team to visit the suppliers and therefore has impacted the implementation of the improvement programme, while the monitoring of the suppliers continues at the company's raw material purchase locations. The change in the security situation also disturbs stakeholder engagement and meetings with communities (as it is not safe to organise meetings in the area), but it has not interrupted all the community development initiatives. Last but not least, it has become unsafe for staff to come to work during certain times of the day/night, even with commuting arranged by the company.

Thus, it was decided to change the working shifts and transport routes to protect the company's staff. Arrangements were also made to better protect the outsourced transport contractors. Given the security situation, if the company had continued operating with "business as usual", it could have contributed to negative impacts on the health and safety of its workers, contractors, and community members. Finnfund continues to monitor the situation closely.

Example 3

Improving working conditions among sub-contractors

Within one of Finnfund's investee companies operating in the agricultural sector, an independent environmental, health, safety and social monitoring audit revealed that some subcontractors were working very long hours in 24/7 operating plants, and some were also not properly protected from health and safety risks, hence the operations were not aligned with ILO and IFC requirements on labour and working conditions. With support from the investors, the investee company put in place a corrective action plan. The corrective action plan requests the development and implementation of a supply chain audit protocol with on-site visits to verify the implementation of the investee's own Code of Conduct, the adequate management of environmental and social risks, including respect of the maximum weekly working hours and the minimum wage, and the prevention of gender-based violence harassment risks, of child labour, and of forced labour. The audit visits are to be carried out regularly on all sites. The outlook is positive: as soon as the investee was notified of the issues on some sites, they immediately took action to improve the situation.

Knowing our customer

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

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

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

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

"Know Your Customer is an integral part of our investment process, and it is followed throughout the entire life cycle of an investment."

Terhi Hannula
Senior Compliance Counsel

to financial sanctions. In terms of the Money Laundering Act, Finnfund must report any suspicious transaction to the Finnish Financial Intelligence Unit (FIU).

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

The KYC process, including sanctions screening, is managed by the compliance function. KYC due diligence verifications and monitoring work are conducted by two dedicated employees. They are assisted by an investment manager from each project team and, if necessary, a legal counsel. The senior compliance counsel serves as the person in charge of KYC and the contact person for money laundering affairs.

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

Kilombero Valley Teak Company (KVTC) paves the way for sustainable forestry in Tanzania. The plantation is certified and adheres to the principles of sustainable forestry. A large portion of the company's land is protected and teak trees are planted only in most suitable areas. The company supports local communities through, for instance, financing schools and health care. Read more on our website.
Photo: KVTC

Corporate governance

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

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

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

In 2023, Finnfund actively participated in the corporate governance working group of the European Development Finance Institutions (EDFI) to discuss and share ideas related to corporate governance. In addition, close cooperation was made between Nordic development financiers.

Responsible taxation

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

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

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

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

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

In November, we organised an internal Finnfund Talks session focusing on the latest trends in the field of international tax regulation and, in particular, on global minimum taxation. The session was open to all staff members. In 2023, our experts also participated, for example, in the Corporate Taxation and Sustainability/Responsible Tax Behaviour course organised by Lund University and CRS Sweden.

"Tax revenue and other tax-like fees paid by our investee companies constitute one of the development aims of our work. We require our investees to act responsibly and transparently in taxation matters. Tax structures of all new investments are evaluated against our tax policy, and we monitor the tax footprint of our investees on an annual basis."

Veera Mäenpää
Senior Legal Counsel

Tax footprint of our investments

As part of our approach to responsible taxation, we collect data from our investees and publish the tax footprints of the projects we finance, with details for each country at the portfolio level (p. 95).

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

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

Our work in practice

INTERESTED IN KNOWING MORE?

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

Key impact figures 2022

Due to the timeframe for collecting the data from Finnfund's investees, the figures representing the direct impact indicators on the following pages are from 2022. Data for 2023 will be presented in the 2024 Annual Report.

As Finnfund's investment portfolio kept growing in 2022, so did the aggregate impact of our investments. The content of our investment portfolio is constantly changing, which is good to keep in mind if comparing figures across years (see the summary table on p. 97). We make 20–30 new investments each year, while we also exit old investments. Portfolio-level data gives a good overview of the types of investments in the portfolio, even if it does not show the impact of an individual investment over time.

Most of the figures in this report (with the exception of climate data and portfolio impact index) are the direct impact indicators that have been provided by the investee companies, and they do not reflect the proportion of Finnfund's investment.

In most cases, this report presents the overall results to which Finnfund has contributed. Exceptions to this are the portfolio impact index and the measurement of climate effects. For the latter, Finnfund applies the PCAF standard, and it subsequently presents results directly attributed according to our share of funding (p. 93).

The data was collected in 2023 using an online questionnaire that was sent to all portfolio companies. The response rate was 97 per cent (117 companies in total).

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

Juho Uusihakala
Head of Impact

Impact by five key sectors

Portfolio Impact Index

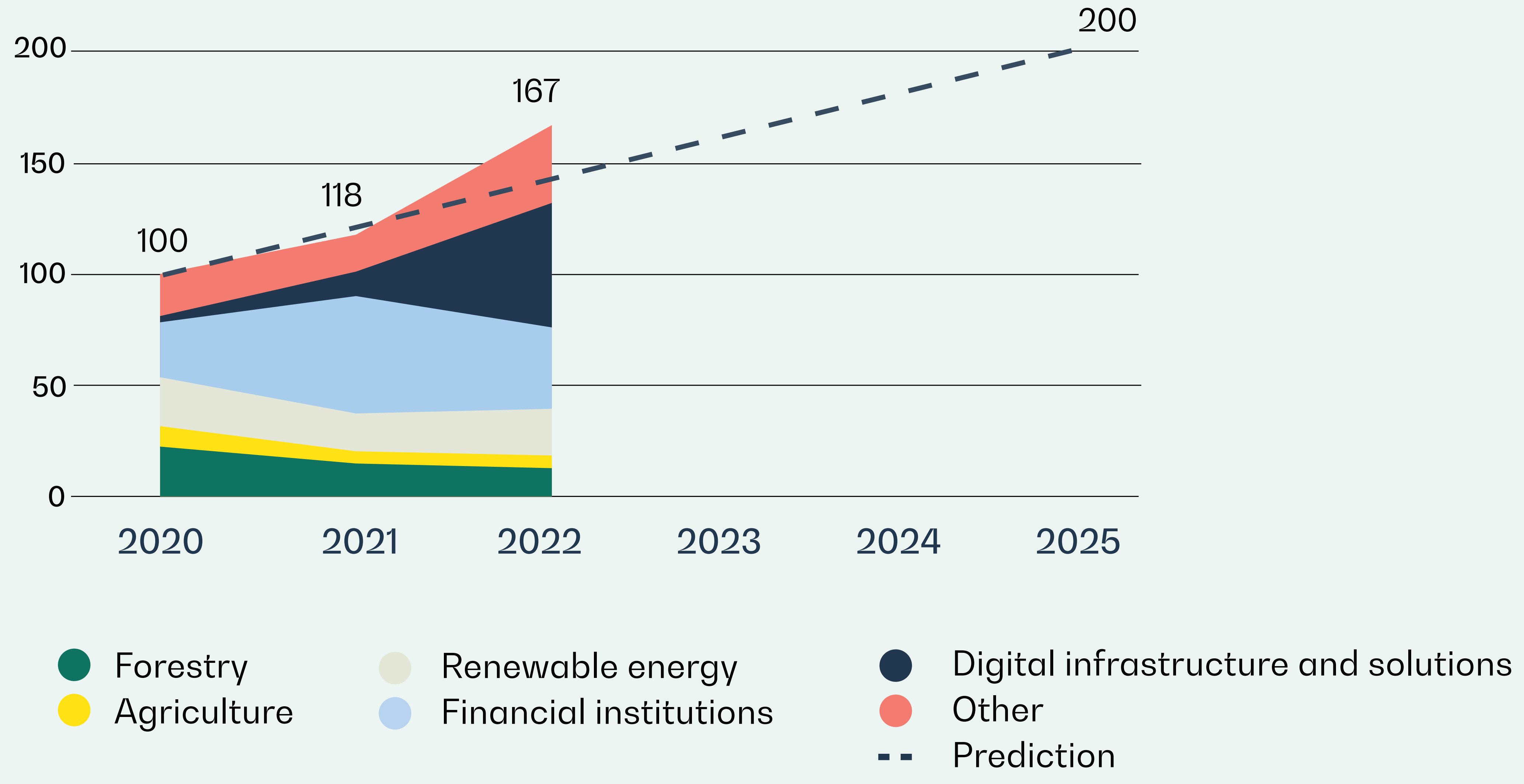
The portfolio impact index (PII) was constructed to track our strategic target of doubling our impact by 2025 (p. 22).

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

Sector specific impact key performance indicators (KPIs) are:

- **Sustainable forestry:** Sequestrated CO_2. While forestry investments have multiple impact pathways, a key reason to invest in forestry is the sequestration potential of growing forests.
- **Renewable energy:** Avoided CO_2. Energy plays a key role in helping countries to develop. Increasing energy production by investing in clean and more affordable energy production is at the heart of this development.
- **Sustainable agriculture:** Number of people fed or smallholder farmers reached. Local food production and enhancing local agriculture value chains help to increase food security and create inclusive livelihood opportunities.
- **Financial institutions:** Number of loans to micro, small and medium sized (MSME) companies. Limited access to financial services remains a fundamental constraint on development in most of Finnfund's target countries.
- **Digital infrastructure and solutions:** Number of users / beneficiaries. Access to digital services is vital for inclusive development for people especially in rural regions.
- **Other:** Number of jobs in the investee company (full time equivalent).

Portfolio Impact Index (PII)

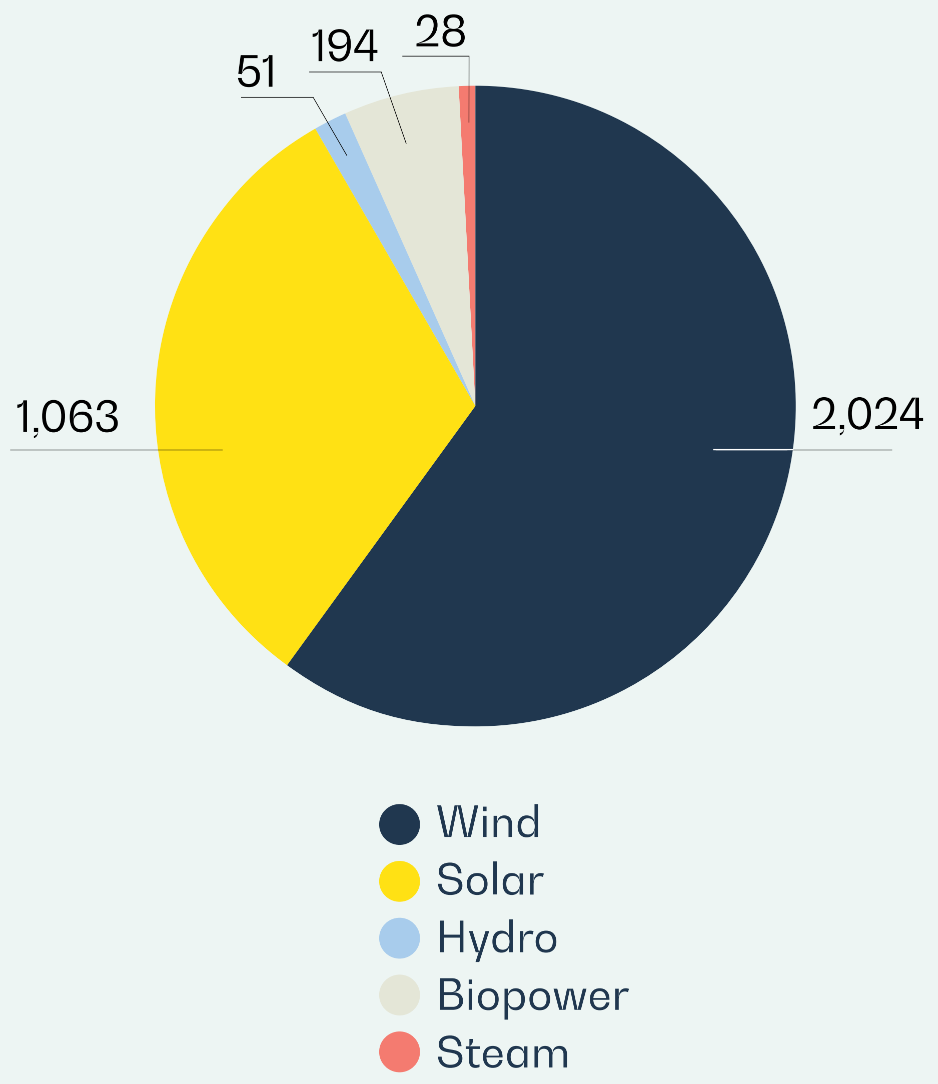


Definition: Portfolio level indicator capturing both portfolio and investee impact growth. Base year 2020.

Renewable energy

- In total, our investees generated **9,100 GWh** of energy, of which 90% was from renewable sources. This represents a 68% increase compared to the previous year. The increase mostly stems from increased power production in Finnfund's fund investments in Africa (Evolution Two), Latin America (CIFI) and Asia (Global Environmental Emerging Markets Fund III).
- In our direct investments, power generation remained at **3,500 GWh**, the same level as in the previous year. Nearly half of the generation was in Lake Turkana Wind Power, which produced 1,700 GWh of electricity for the Kenyan grid. This equals the annual electricity consumption of nearly 10 million Kenyans.
- In 2022, Finnfund had invested in ten solar power producers whose combined production amounted to over **1,000 GWh.**

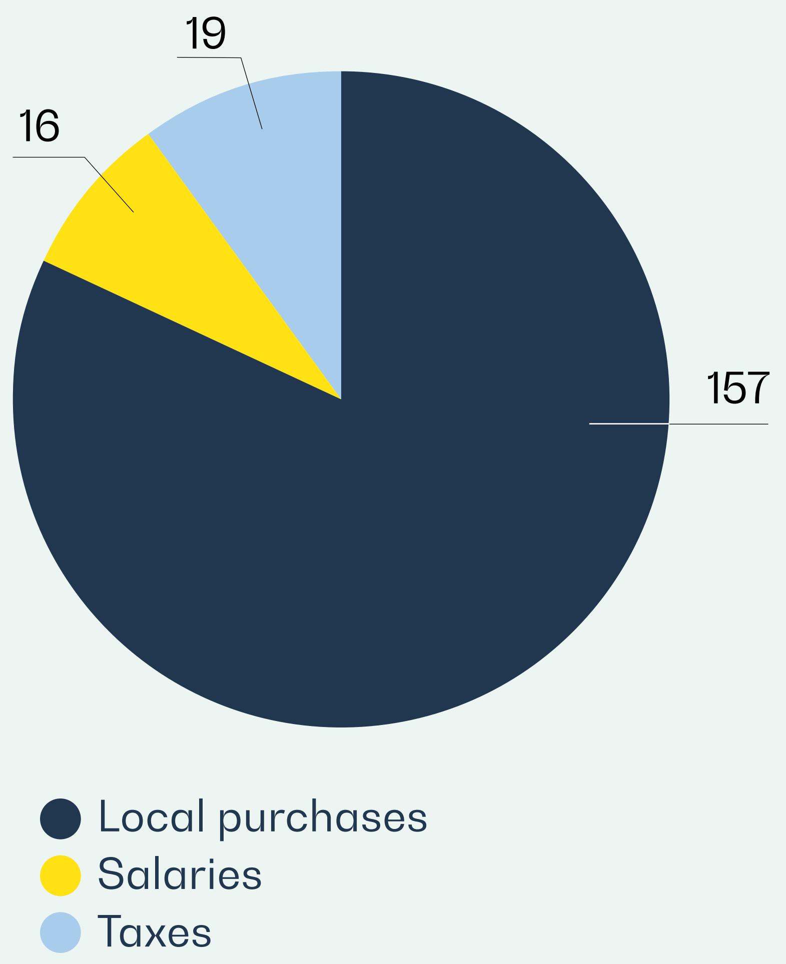
Renewable energy generation by source in 2022, direct investments
(total GWh 3,360)



Sustainable forestry

- Finnfund's direct investees had approximately **350,000 hectares** under sustainable management, of which 130,000 hectares were planted and growing, and approximately 125,000 hectares (31%) were protected areas.
- In addition, through funds, Finnfund financed nearly **370,000 hectares** of forest under sustainable management. A majority of this area is FSC-certified forest.
- Our direct forestry investees had **5,800 employees, of whom 1,600** (28%) **were women.**
- These companies contributed **200 million euros** to local economies through salaries and local taxes, and especially through purchasing local goods and services.

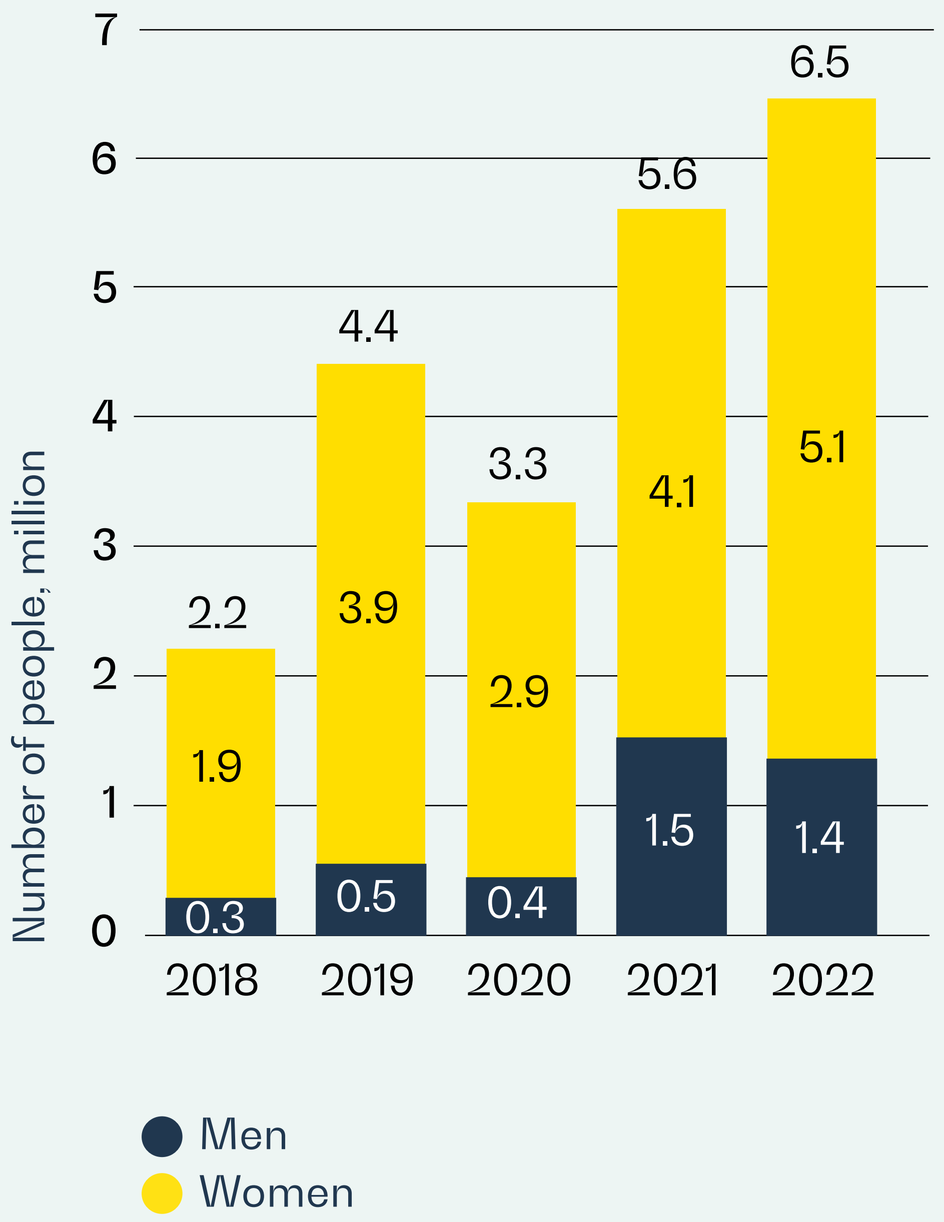
Forestry contribution to local economic development in 2022 EUR million
(total EUR 192 million)



Sustainable agriculture

- Agribusinesses in our portfolio (direct investments and businesses financed through funds) had a total of 25,000 employees in 2022, of whom 45% were women. This is 4,000 jobs more compared to the previous year. The increase is due to two factors: inclusion of new companies in our portfolio and growth in existing portfolio companies. All except one of our old portfolio companies increased their number of employees, and the total increase in the old companies was over 2,000 new jobs.
- The increase also shows in the paid salaries, which increased from 13 million euros in 2021 to 30 million euros in 2022.
- Our investees were working with **6.5 million small-scale and livestock farmers**, of whom 79% were women.

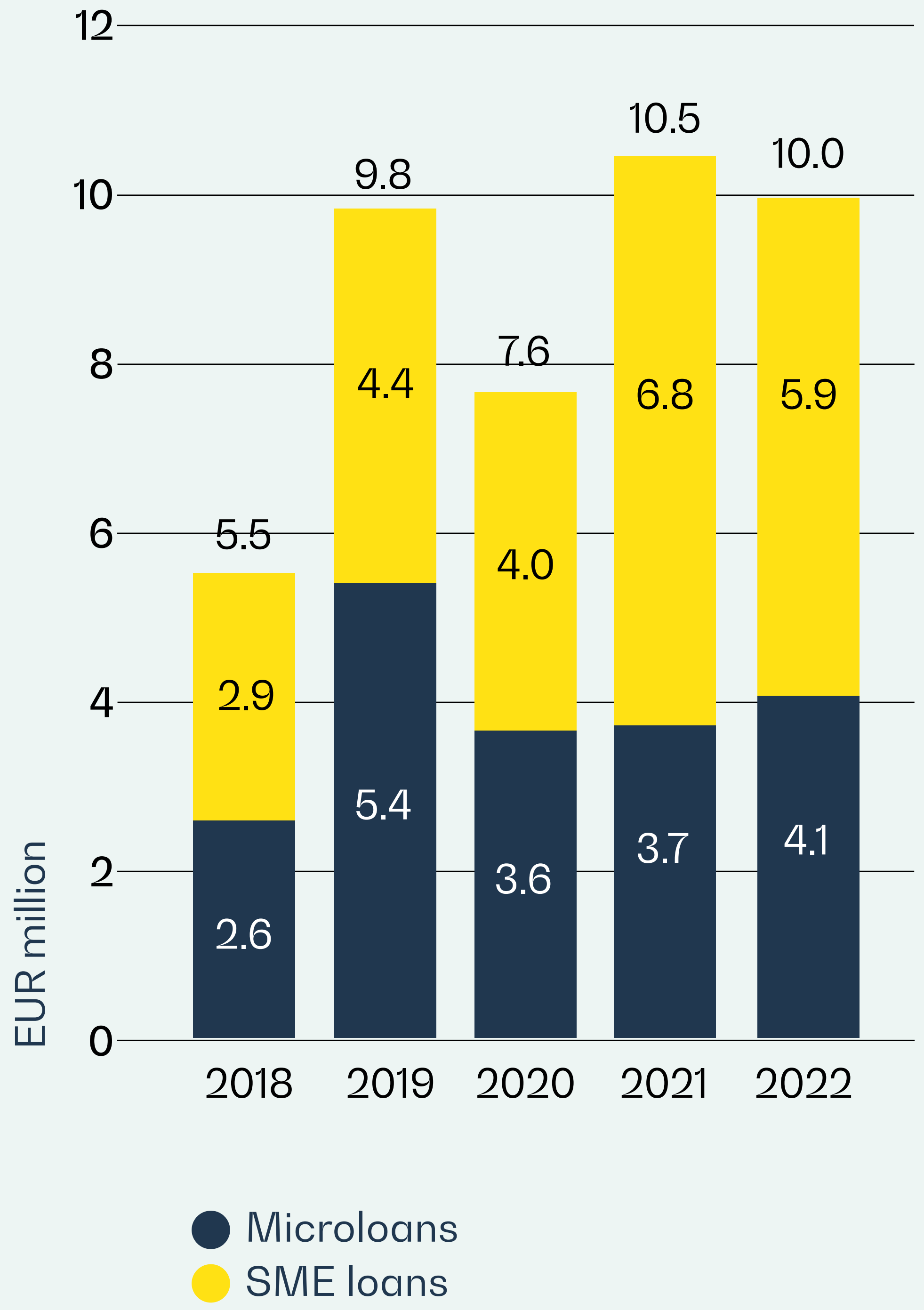
Farmers reached



Financial institutions

- In 2022, Finnfund's portfolio included 18 financial institutions whose combined loan portfolio stood at **40 billion euros**. Approximately one third (10 billion euros) of this was micro and SME (MSME) loans of an average size of **1,686 euros**.
- These companies granted 6 million MSME loans in total, worth 10 billion euros, of which **68%** were for female customers.
- In addition, Finnfund's investee companies offered **185,000 housing loans** with a total value of 2.2 million euros. Of the housing loans, **49%** were for female customers.
- Not included above are the **26 million mobile loans** of an average size of **32 euros** offered by one investee company to its **4.5 million customers**, one third of whom are women.

Micro and SME loans EUR million



Digital infrastructure and solutions

- In digital infrastructure and solutions, Finnfund aims to 1) increase the number of people using the internet or 2) make the internet cheaper, faster, and more reliable, and offer more online services.
- 153 million people reached and served through digital solutions and infrastructure.
- For example, in closing the coverage gap, by end 2022, Finnfund's investees had constructed or modernised **8,900 teletower** sites in Sub-Saharan Africa and built **550 kilometres** of fibre cable. This helped bring the internet within the reach of over **30 million people**.
- A usage gap refers to not using the internet even though it is available. The most common reason for not using the internet is high cost, especially of devices, followed by connection costs, literacy, and security concerns. For example, one Finnfund investee company enables internet access on cheaper feature phones and had **104 million customers** in 2022.
- Five investees provided better online services, generating employment, purchases, and transfers for over **15 million customers** in Sub-Saharan Africa.

KaiOS strives to bring mobile connectivity to millions of people in emerging markets by providing an operating system that allows manufacturers and operators to make KaiOS powered phones affordable. Finnfund has been financing KaiOS Technologies since 2022. Read more on our website. *Photo: KaiOS*

Impact across sectors

Jobs

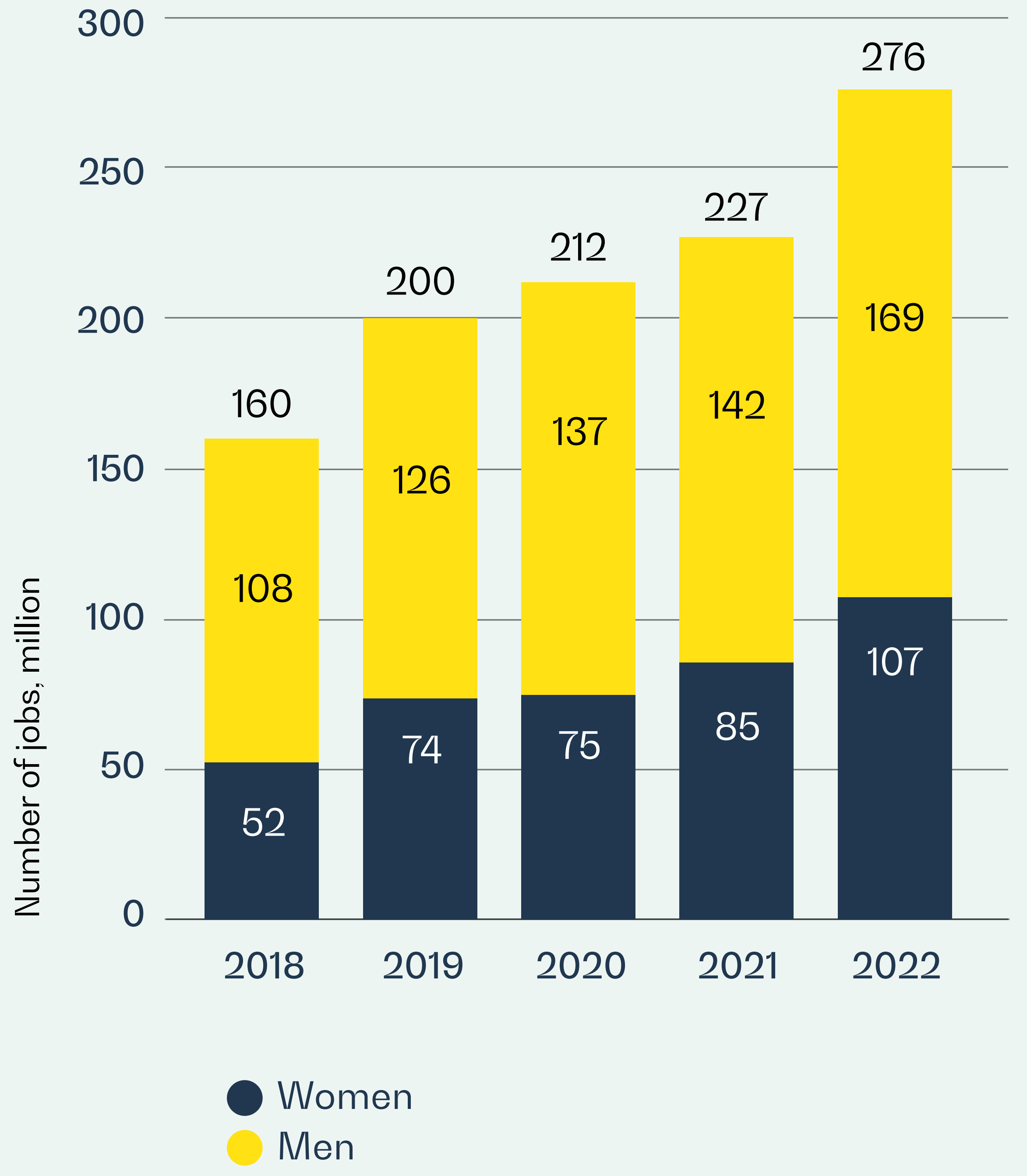
- Direct investments supported 108,000 jobs, of which **37% were for women**.
- Fund portfolio companies supported 168,000 jobs, of which **40% were for women**.
- In total, our investees supported **276,000 jobs**.

In addition to this, based on the estimations conducted by the Joint Impact Model (JIM), our direct and indirect investments created **1.5 million indirect and induced jobs**, bringing the total employment effect to **1.75 million jobs**. These indirect jobs and induced jobs are created and supported, for example, by salaries, domestic purchases, taxes, increased access to finance, and increased power production.

In terms of countries, the most jobs were created and supported in Nigeria (290,000), Vietnam (170,000), Kenya (150,000) and Ethiopia (130,000).

In 2022, the added value generated through domestic purchases and salaries in our direct and indirect investments amounted to **11 billion euros** in total.

Jobs in direct and indirect investments



AwanTunai, an Indonesian fintech company, offers affordable inventory purchase financing, integrated online ordering, and inventory management solutions to merchants and wholesalers across the country. Through this investment, OP Finnfund Global Impact Fund I aims to increase digital and financial inclusion of micro, small, and medium-sized enterprises and also promote gender equality as small retailers, often women, have been underserved. Read more about the investment on our website.

Climate

Investments attributed to Finnfund removed more greenhouse gas emissions, measured as carbon dioxide equivalent, from the atmosphere than they emitted during 2022. The calculation covers 98% of Finnfund's total assets. The main asset classes are business loan and fund investments (75% of outstanding total assets) and unlisted equity (25% of total assets).

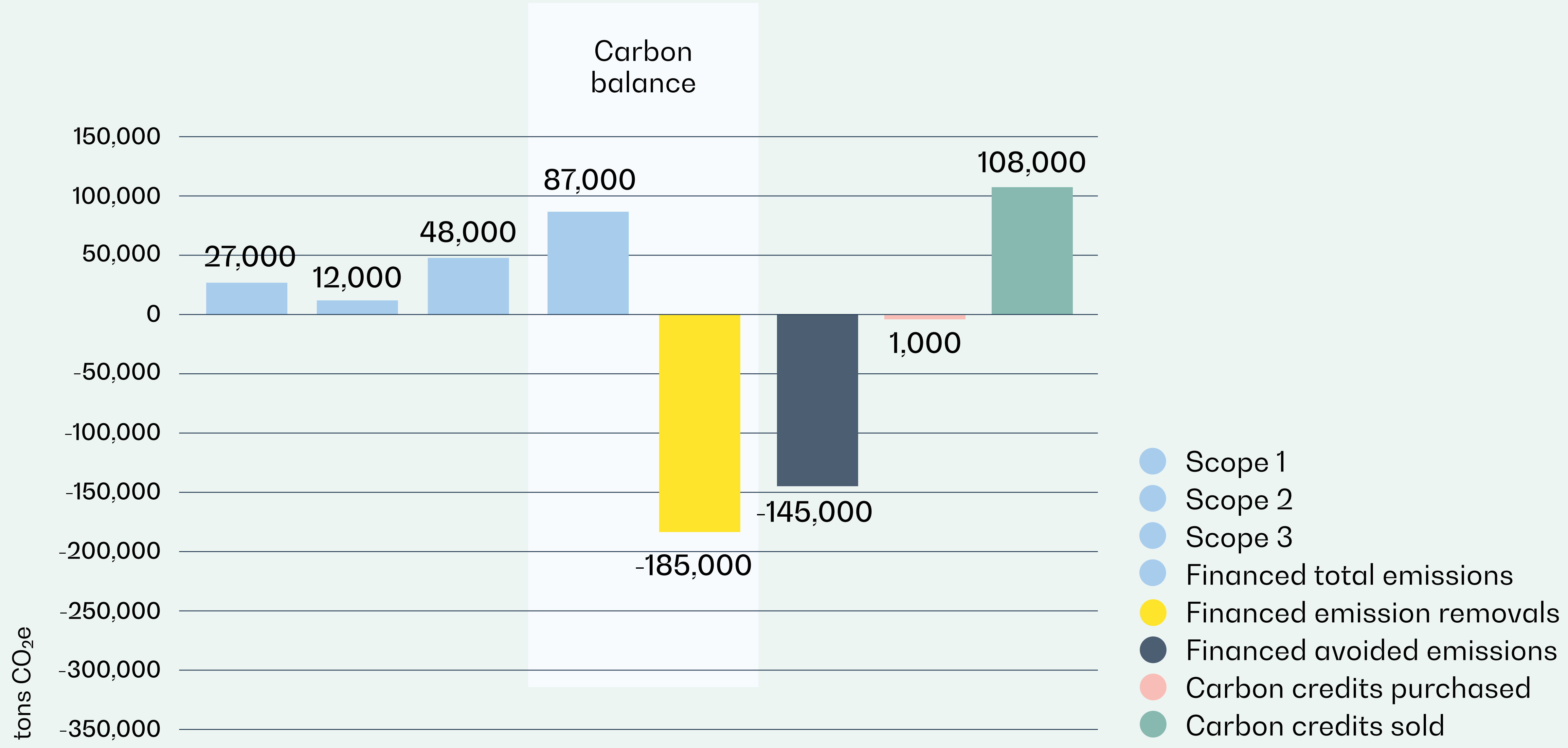
In 2022, Finnfund's portfolio **emissions were 87,000 tCO_2e**, which is equivalent to **160 tCO_2e per outstanding million.**

Finnfund's portfolio **carbon removals were 185,000 tCO_2**, which is equivalent to **1,400 tCO_2e per outstanding million.** Most of the forests in Finnfund's portfolio are afforestation and reforestation projects and still relatively young, which means that the average annual growth of the forests is larger than the amount harvested. This leads to a significant carbon sink. Once the forests mature, the carbon storage in forest biomass will reach a steady state. Finnfund also calculates the carbon stored in harvested wood products, which is approximately 12% of total removals.

This means that Finnfund's portfolio removed **98,000 tCO_2e more than emitted.**

In 2022, Finnfund's renewable energy investments **avoided 145,000 tCO_2** of emissions. These are accounted only in grid-connected renewable energy investments.

Finnfund's portfolio's climate impact in 2022



DATA QUALITY

Finnfund assesses data quality and strives to improve data quality continuously.
Data quality is presented as the weighted average per outstanding million euros invested by Finnfund (scale 1-5).

Scope 1: 3.21 (3.30 in 2022)
Scope 2: 3.24 (3.34)
Scope 3: 3.70 (3.79)

Gender

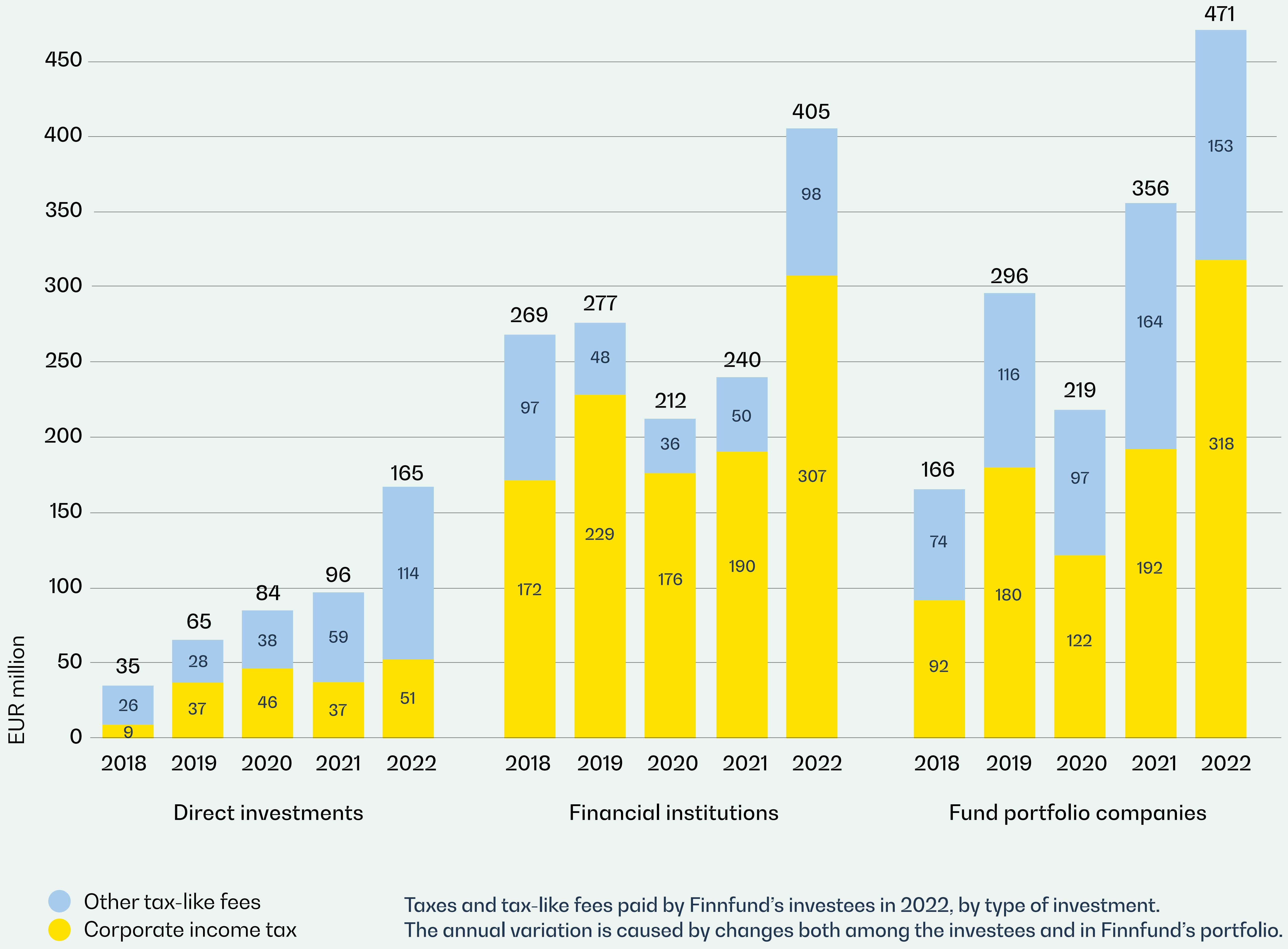
- **20% of board members** at our direct investees were women.
- **28% of senior management** among our direct investees were women.

Suman owns a grocery shop in Mandawali Khadar village in Uttar Pradesh, India. She is one of the clients of SATYA MicroCapital, a Delhi-based company which provides affordable microcredit to women from low-income households across the rural areas of India. Like many other financial institutions in the country, SATYA earlier required that borrowers should be married and widow members needed to have their son acting as a co-borrower. This policy was changed during 2023, and SATYA has worked on removing the marital status from loan eligibility and implementing changes in their operations to accommodate the policy change. Read more about the investment on p. 74 and more about financial institutions on p. 34–35 and 90. *Photo: Finnfund.*

Taxes

- Our investees paid a total of **1.041 million euros** in taxes and tax-like fees in their respective countries.
  39% by financial institutions.
  16% by other direct investments.
  45% by fund portfolio companies.
- 74% of the taxes were paid in African countries.

Taxes and tax-like fees, EUR million



Taxes and tax-like fees paid by Finnfund's investees in 2022, by type of investment.
The annual variation is caused by changes both among the investees and in Finnfund's portfolio.

Corporate taxes and other tax-related payments by countries in 2022

Country	Number of investees	Corporate income tax (EUR million)	Other taxes (EUR million)	Total (EUR million)
Total	**231**	**675**	**366**	**1 041**
AFRICA total	**146**	**454**	**296**	**750**
South Africa	19	105	12	**117**
Kenya	16	32	32	**64**
Tanzania	12	1	12	**13**
Nigeria	10	30	50	**80**
Ghana	9	17	25	**42**
Ethiopia	8	9	4	**12**
Uganda	8	2	6	**7**
Egypt	8	4	12	**16**
Zambia	7	9	3	**12**
Mozambique	5	8	7	**15**
Africa LMIC	21	60	79	**139**
Africa LDC	19	173	51	**224**
Africa UMIC	4	4	4	**8**
ASIA total	**46**	**128**	**50**	**178**
India	6	9	4	**13**
Nepal	6	-	0	**0**
Pakistan	5	9	0	**9**
Asia LDC	11	20	14	**33**
Asia UMIC	11	80	31	**111**
Asia LMIC	7	11	0	**12**

Country	Number of investees	Corporate income tax (EUR million)	Other taxes (EUR million)	Total (EUR million)
LATIN AMERICA total	**30**	**89**	**21**	**109**
Mexico	6	8	2	**10**
Colombia	5	12	5	**17**
Latin America UMIC	15	6	13	**19**
Latin America LMIC	4	63	0	**63**
Europe and Turkey total	**3**	**3**	**0**	**3**
Europe and Turkey UMIC	3	3	0	**3**
Middle East total	**6**	**1**	**0**	**1**
Jordan	6	1	0	**1**

The table compiles taxes and other tax-like fees paid by all of Finnfund's investee companies (including fund portfolio companies). Any government subsidies have been deducted from the figures. The average effective tax rate for companies with non-negative pre-tax profits in Finnfund's portfolio was 13%. If a country has fewer than five investments, data is classified by continent and OECD/DAC income level categories.

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

Development impact 2020–2022

	Direct investments	Financial institutions	Funds	Total 2022	Total 2021	Total 2020
# of reporting companies	**71**	**18**	**28**	**117**	**124**	**114**
Reporting rate%	96%	100%	100%	97%	98%	97%
Jobs, total				276,000	227,000	212,000
Jobs, total women %				39%	38%	35%
Jobs, direct investment, total	43,000	64,000	1,000	108,000	83,000	83,000
Jobs, direct investment, women %	32%	40%	41%	37%	37%	34%
Jobs in fund portfolio companies			168,000	168,000	144,000	129,000
Jobs in fund portfolio companies, women %			40%	40%	38%	36%
Taxes, all (EUR)	165,000,000	405,000,000	471,000,000	1,041,000,000	692,247,000	514,884,000
Domestic purchases, EUR	2,733,767,000	817,071,000	872,702,000	4,423,540,000	1 572,988,000	901,535,000
Smallholders, total	6,117,058		352,978	6,470,000	5,635,000	3,385,000
Smallholders, women %	80%		70%	79%	73%	86%
Renewable Energy generated (GWh)	3,360		4,863	8,223	5,300	6,300
Microloans, number		4,253,000	1,140,000	5,393,000	4,458,000	5,453,000
Microloans (number), women %		96%	23%	74%	74%	77%
Microloans, rural %		70%		55%	55%	38%
Microloans, EUR		2,082,946,000	1,967,146,000	4,050,092,000	3,700,989,000	3,638,078,000
Microloans (EUR), women %		66%	39%	42%	42%	52%
Microloans, average size		490	1,726	751	800	600
SME loans, number	-	486,000	23,000	509,000	478,000	244,600

	Direct investments	Financial institutions	Funds	Total 2022	Total 2021	Total 2020
SME loans (number), women %		26%	18%	11%	11%	36%
SME loans (number), rural %		57%	0%			
SME loans, EUR		5,317,063,000	584,036,000	5,901,099,000	6,750,469 000	4,010,090,000
SME loans (EUR), women %		19%	7%	10%	10%	16%
SME loans (EUR), average size		10,940	25,393	11,594	14,100	14,400
Agricultural loans, number		1,976,000		1,976,000	2,479,000	1,663,700
Agricultural loans (number), women %		89%		89%	89%	76%
Agricultural loans, EUR		1,976,803,000	217,026,000	2,193,829,000	2,353,234,000	2,103,702,000
Agricultural loans, average size		1,000		1,000	900	1,200
Housing loans, number		157,000	28,000	185,000	110,000	170,600
Housing loans (number), women %		49%	50%	49%	39%	42%
Housing loans, EUR		2,054,201,000	184,063,000	2,238,264,000	1,565,300,000	2,238,264,000
Housing loans (EUR), average size		13,084	6,574		14,200	3,100
Mobile loans, number		25,808,000		25,808,000	22,784,000	19,159,300
Mobile loans (number), women %		31%		31%	31%	35%
Mobile loans, EUR		820,481,000		820,481,000	996,238,000	659,969,000
Mobile loans (EUR), women %		32%		32%	31%	35%
Mobile loans (EUR), average size		32		32	44	34
Carbon footprint of investments (tCO_2e)				87,000	116,328	135,693
Avoided emissions (tCO_2e)				-145,000	-100,974	-122,852
Carbon dioxide sequestration (tCO_2e)				-185,000	-250,523	-312,829

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

CASE

Name: **OP Finnfund Global Impact Fund I**
Country: **Global**
Investment year: **2020**
Sector: **Multiple sectors with focus on renewable energy, agriculture and financial institutions**

The first global emerging markets impact fund in Finland

An e-commerce food distribution platform in Kenya, SME loans and women empowerment in Cambodia, fintech in India, poultry farming in Ethiopia, and improved healthcare in Morocco; these are examples of the investments made by OP Finnfund Global Impact Fund I.

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.

The total fund size stands at 135 million euros.

The fund is classified as an Article 9 Dark Green Fund, according to the European Sustainable Finance Disclosure Regulation (SFDR).

OP Finnfund Global Impact Fund I focuses on three main industries in developing countries: renewable energy, financial institutions, and sustainable agriculture. The fund is managed by OP Asset Management Ltd, part of the OP Financial Group, one of the largest banking groups in Finland. Finnfund acts as an adviser and anchor investor for the fund. The fund sources its investments solely through Finnfund.

Read more on our website.

The CIM Santé Group, the leading Moroccan private healthcare group, provides a wide range of medical and surgical specialities. The company is also committed to supporting women at all levels of the organisation; women currently make up nearly 70% of the total workforce and are well represented in both senior and middle management positions. Read more and watch a video on our website.

CASE

Solar panel production with Finnish know-how in Thailand

Solar Finland, from Salo in Finland, is a pioneer in solar energy. The first solar energy systems supplied by the company were commissioned more than 40 years ago, and many of these systems are still operational. These sustainable, high-quality solar panels are now being produced at Salo Tech Thailand, a joint venture among Solar Finland, Finnfund, and PEA Encom of Thailand. The new facility targets Thailand and its neighbouring markets, which is why the panels are being designed with the local conditions as a starting point. The production capacity is set to 100 MW per year in the first phase.

The carbon footprint of the solar panels produced is an important metric for Solar Finland. Knowing your supply chain is essential both for calculating the carbon footprint and for ensuring the sustainability of the solar panels. For both of these purposes, you need to know every supplier very well.

"The benefit of renewable energy is negligible if the carbon footprint of the solar panels produced is massive. Through raw material choices, an emphasis on recycling, and appropriate structural design, we aim to reduce the carbon footprint so that it can be offset after only a couple of years of operations," **Esa Areva** calculates.

Finnfund has long experience of investing in renewable energy

"Solar energy plays a key role in the energy transition," says **Jussi Tourunen**, Head of Energy and Infrastructure at Finnfund. "The short construction phase, which is reflected as a relatively low financial risk, has also encouraged many private financiers to finance solar energy. As an investor, we pay attention to the quality and sustainability of the solar panels, as well as the appropriateness of the design to the prevailing conditions. Salo Tech Thailand is a great example of a project in which these aspects are well combined."

Read more on our website.

Name: **Salo Tech Thailand Ltd**
Country: **Thailand**
Investment year: **2020**
Sector: **Solar power**

Somphong Phanthong is working at Salo Tech Thailand. *Photo: Finnfund*

Corporate responsibility at Finnfund

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

The Code of Conduct, together with regulations, policies, and statements – such as the Sustainability Policy, the Human Rights Statement, and the Gender Statement, as well as the procedures concerning our business operations – form the operating culture and values of Finnfund.

In terms of impact and sustainability governance at Finnfund, responsibilities are explained on p. 40.

Finnfund has a Compliance unit, which is responsible, for instance, for compliance issues within Finnfund, including the know-your-customer (KYC) process as part of the investment process (p. 82), as well as anti-money-laundering issues and sanction regulation.

Finnfund's Board of Directors has appointed an internal Anti-Corruption and Grievance Committee to investigate corruption and misconduct and to deal with whistleblowing matters. The Committee consists of a chairperson and two members, one of whom shall be a lawyer. The Committee may give recommendations on the matters it deals with. Allegations concerning the Managing Director shall be dealt with by the Board of Directors.

As explained on p. 78, at the end of the year 2023, Finnfund renewed its complaints channel and process. The complaints channel, covering both whistleblowing and grievances, can be used to alert Finnfund about suspected misconduct, serious wrongdoing affecting people or our environmental and social responsibilities, or other breaches of the policies, codes or guidelines that steer Finnfund's activities. As part of the renewed process, the role and the composition of the internal Anti-Corruption and Grievance Committee will also be updated.

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

Our economic sustainability and tax footprint

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

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

In addition, annual targets set by the Ministry for Foreign Affairs include an indicator regarding the return on equity as a five-year moving average. In 2023, the return on equity was -2.9 and the target was 2 per cent (p. 24).

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

In 2023, Finnfund signed an agreement with the European Commission under the European Fund for Sustainable Development Plus (EFSD+, p. 27). The agreement provides Finnfund with 100 million euros in guarantees for digital sector investments in Africa. Together with other European development financiers, Finnfund is also negotiating a guarantee programme for investments in the forestry and agricultural sectors. It is expected that this agreement will be signed in 2024.

In 2023, we developed Finnfund's readiness to implement a new form of financing that comes with EFSD+, the so-called technical assistance. Technical assistance will provide us with an opportunity to increasingly support and enhance the impact and

Finnfund strives to be a responsible employer that encourages its personnel to continuously learn new skills and develop professionally. *Photo: Finnfund* sustainability work of our investee companies.

In 2023, we continued developing our risk assessment as part of the investment process and monitoring. This means, for example, better consideration of political and macroeconomic risks, as well as risks and opportunities caused by climate change, as part of the investment process and risk classification.

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

In 2023, Finnfund made 35 new investment decisions in its target countries, with a total value of 256 million euros. These are covered in more detail on p. 14.

A detailed report on Finnfund's efficiency and profitability can be found in the Board of Directors' report on p. 122.

Key figures: Economic sustainability

Key figures	2023	2022	2021
Financial income (EUR million)	68.7	71.3	52.5
Net profit (EUR million)	3.8	0.3	-20.0
Return on equity (%)	1.2	0.1	-6.9
Equity ratio (%)	35.5	39.0	36.7

Formulae

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

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

Finnfund's tax footprint and other payments

Generating tax revenue and other tax-like fees, paid by companies to the public sector in developing countries, constitutes one of the development aims of Finnfund's work with the companies it finances. As explained on p. 85, Finnfund's tax policy consists of Finnfund's principles and practices to assess and promote the tax responsibility of the projects it finances.

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

In Finland, Finnfund is exempt from income tax under the Act on Income Tax (1535/1992), and it does not pay tax to the Finnish state. Finnfund's activities are essentially a VAT-free financial service. The table below shows the material taxes and other tax-like fees paid in Finland in 2023.

In terms of taxes and other tax-like fees paid outside Finland, in 2023, Finnfund paid a total of 187,128.41 euros in taxes. The taxes are divided as shown below.

In principle, Finnfund exercises restraint in issuing charitable grants and donations, and it does not engage in any activities that could be considered sponsorship. At Christmas time, Finnfund donated 5,000 euros to Médecins Sans Frontières (MSF) to deliver life-saving medical care in the midst of conflict zones.

Taxes and tax-like fees paid in Finland in 2023

Taxes paid in Finland, EUR	2023
Income taxes	-
Employer's contributions	2,004,361.12
Non-deductible VAT on services and procurement	-45,965.04
Transfer taxes	-
Total	**1,958,396.08**
Taxes to be settled, EUR	
Withholding tax on salaries	2,890,732.99
Total	**2,890,732.99**
Total taxes to be paid and settled	**4,849,129.07**

The division of taxes paid outside Finland

Country	Type of tax	EUR
Kenya	Correction of payroll tax entries 2022	-16,189.48
Kenya	Corporate income tax	55,722.20
Kenya	Withholding tax on salaries	146,279.85
Panama	Dividends	1,315.84

Reporting and accounting principles

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

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

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

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

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

Our people and corporate culture

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

In our strategy, launched at the beginning of 2022, we also set a goal to become an internationally recognised employer that provides an attractive working environment for professionals striving to be best in class. The measures to meet this target include, for example, putting more emphasis on diversity and inclusion within the organisation, employer branding, and training and support for personal development of employees. In 2023, we also put a special emphasis on our trainee programme and invited several student associations for a visit to learn more about development finance and our work.

Finnfund operates using a hybrid work model, and remote work continues as part of normal work.

Human resources management

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

Key figures: Our people

- At the end of 2023, Finnfund employed 97 people, of whom 4 worked at the Nairobi office and 9 worked for the Ministry for Foreign Affairs' Finnpartnership programme.
- Average number of personnel: 101
- Outgoing turnover: 11.2%
- Share of women/men: 57.7% / 42.3%
- Personnel expenses: 12.2 million euros (including pension and other personnel add-on costs and voluntary personnel costs)
- Payroll total: 9.6 million euros
- Average age of employees: 44 years

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

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

Equality and diversity

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

No factor related to a person's age, family relationships, ethnic background, gender, parenthood, religious conviction, personal attributes, or sexual orientation shall place the person in an unequal position when applying for a job, advancing in their career, or operating in the work community during the employment relationship, unless there

Our People and Culture team organises trips to explore the sights and wonders of Helsinki. The aim is particularly to familiarise new colleagues from abroad with their new hometown. This time, **Anita Huovio**, **Peter Chappell**, **Kyaw Latt**, **Valentine Kipkoech**, **Kelvin Kiiru**, **Justin Nthala**, and **Gyuree Lee** visited the Suomenlinna sea fortress. The photo was taken by **Jenni Joensuu**.

is a weighty or acceptable reason due to the nature of the job or task. The employee may have personal characteristics, such as physical limitations or sense-related limitations, including hearing, sight, and noise tolerance, which shall be considered on a task-by-task basis. For example, if a person's health prevents them from travelling, they cannot carry out such a task.

The purpose is to ensure that all employees have equal employment terms, working conditions, placements in different tasks, and training and career development possibilities, as well as equal justifications for their salaries. Finnfund monitors the salary difference between women and men both on average and in different salary groups on an annual basis. In terms of the average salary at Finnfund, at the end of 2023, the difference was -1.5 per cent in the favour of female employees. This means that the average salary of a female employee is 1.5 per cent higher than the average salary of a male employee at Finnfund.

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

Finnfund is committed to monitoring the development of diversity within the organisation. The aspects include, for example, nationality, native language, gender, age, and position. At the end of the year, Finnfund carried out an internal equality survey, and based on the results, organised info sessions on how to make the workplace safe and comfortable for everyone. The sessions were mandatory for every staff member.

We value a team made up of diverse skills, experiences, and abilities, and therefore, we also put emphasis on diversity in our recruitment process and strive to encourage applications from qualified individuals from a wide range of backgrounds. As one concrete step, in 2023, we began cooperation with Startup Refugees, a non-profit organisation, to reach international experts that have recently relocated to Finland.

As explained further below, in 2023, we also organised training sessions for supervisors, covering, for example, topics related to diversity and inclusion and Finnfund's increasingly international role as an employer.

In 2023, Finnfund's People and Culture team also continued organising monthly visits around the Helsinki region for our international experts, aiming to support their integration into Finnfund and Finland.

"I am glad to say that in a sector where male employees often enjoy bigger salaries than their female colleagues, at Finnfund we are doing quite well: at the end of 2023, the difference was -1.5 per cent in favour of female employees. This means that the average salary of a female employee is 1.5 per cent higher than the average salary of a male employee at Finnfund."

Katja Koski
People & Culture Manager

Average salary by gender

Men	Women	Difference
98.50%	100.00%	-1.50%

Share of women and men in Finnfund's personnel in 2021–2023

	2023			2022			2021		
	Total	Women	Men	Total	Women	Men	Total	Women	Men
Personnel	97	56 (57.7%)	41 (42.3%)	96	55 (57%)	41 (43%)	83	51 (61%)	32 (39%)
Board of Directors	8	4	4	8	4	4	8	4 (50%)	4 (50%)
Management Team	6	3	3	6	3	3	6	2 (33%)	4 (67%)

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

	Men	Women	Total
20–29	5	5	10
30–39	17	12	29
40–49	11	20	31
50–59	8	11	19
60–	2	6	8
Average age			44

Remuneration

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

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

The company has an incentive scheme that covers every member of personnel except the managing director. Employees can earn a bonus of either one-and-a-half or two months' salary, depending on their position, for reaching the targets set annually. In 2023, the incentive scheme was based partly on the company's performance and partly on the fulfilment of personal targets. The half of the incentive scheme based on the company's performance depends on the project quality, which, in turn, is defined by the profitability, impact, and sustainability of the investments.

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

In the 2023 financial statements, a provision was made for the cost of bonuses corresponding to approximately 13.62 per cent of remuneration costs (p. 114).

Competence building and training

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

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

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

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

In 2023, Finnfund reported a total of 176 training days.

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

In 2023, we organised a six-module training course for supervisors, which focused on developing the corporate culture at Finnfund. The training sessions covered, for example, diversity and inclusion, and Finnfund's increasingly international role as an employer. In addition, a special intranet site was established to support the daily work of supervisors. Short monthly info sessions covering various topics, such as working abroad, insurance, and annual leave, were also provided both for the supervisors and the entire staff.

In addition, different teams across Finnfund organised training sessions on various topics. For example, in terms of ICT, training was provided on cyber security and using artificial intelligence. Finnfund's Communications Academy also provided, for instance, training on media interviews and presentation skills.

Internal "FF Talks" and "Lunch and learn" sessions were also held throughout the year, covering topics such as biodiversity and natural capital valuation, global minimum taxation, and the e-mobility value chain.

As part of the development of our investment process and internal workflow, a model for a feedback discussion was developed, and the piloting phase began at the end of the year.

Occupational wellbeing, health and safety

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

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

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

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

In 2023, Finnfund was not made aware of any work-related accidents.

The number of days taken as sick leave, the trend in absences, and the known causes of absences are continuously monitored in collaboration with the occupational health care provider. Overall, the number of absences due to illness is at an ordinary level (1.93%), and annual changes in the numbers have been moderate.

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

In April, we celebrated the Dog Day with quite a few fluffy friends and family members visiting our Helsinki office. In this picture, **Jimbo**, **Nuuk**, **Hilda**, and **Simba** mingle with new friends. *Photo: Finnfund*

Our environmental sustainability and footprint

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

Due to the nature of our work, the most significant negative environmental impact of our own operations is our carbon footprint. In addition, we monitor and strive to reduce our water use, energy consumption, and waste.

Finnfund's Helsinki office has been certified by WWF Green Office since 2019.

Carbon footprint

Finnfund calculates the carbon footprint of its own operations annually, as presented in the table, on p. 110 covering the most essential emission sources. In principle, the most significant source of our emissions is business travel, which accounts for approximately 95 per cent of our emissions. Finnfund's operations require its staff to thoroughly familiarise themselves with the investees and to actively participate in the management and monitoring of investments. This requires frequent visits to the target countries. Finnfund is continuously developing electronic tools and encouraging the personnel to use them.

In 2019, Finnfund set an internal target of reducing emissions per employee by 10 per cent by 2025. The baseline emission year is 2019. The COVID-19 pandemic decreased our business flights and increased the opportunities to work remotely. As expected, the need to fly increased significantly after the COVID-19 pandemic, but the emission figures are still far from the pre-COVID figures, and we are well aligned with our target.

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

As explained on p. 71, in 2022, Finnfund, together with MLR Forestal, a Nicaraguan agroforestry company, launched an innovative pilot project to restore 554 hectares of degraded forest lands with significant biodiversity potential in Nicaragua. The funding will be provided through a carbon credit programme whereby emission reductions, equivalent approximately to the emissions generated by Finnfund's own operations over three years, will be sold to Finnfund, and a biodiversity action plan for the restoration area will be implemented in tandem under the agreement.

Finnfund accounts for its office's scope 1, 2 and 3 category 1, 2 and 6 emissions. The scope 1 emissions are zero, as Finnfund does not have any direct emissions. The scope 2 emissions cover only the heating of the Helsinki office, in which the electricity comes only from renewable sources. For scope 3 emissions, Finnfund has chosen to account for the emissions originating from purchased goods and services, mainly laptops and monitors, and business travel.

You can read more about our climate actions and the climate effects of our investment portfolio as part of our disclosure aligned with the Task Force on Climate-Related Financial Disclosures (TCFD) on p. 57 and on p. 93.

Finnfund's carbon footprint in 2019–2023

	2023	2022	2021	2020	2019
Carbon footprint tCO_2e	802	546	379	387	1399
Carbon footprint tCO_2e/person	8	6.4	4.5	4.5	16.5

Water and waste

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

CASE

Boosting private sector development in Uzbekistan

In Uzbekistan, access to finance for small and medium-sized enterprises has been limited, and the status of self-employed entrepreneurs has not been recognised, often leaving them outside formal finance. Ipak Yuli is one of the leading privately owned commercial banks in Uzbekistan focusing on private sector financing. With Finnfund's 15 million United States dollars senior loan, the bank can continue to develop its business with micro, small and medium-sized enterprises.

"Private sector development in Uzbekistan can only happen if the previously underserved SMEs get access to finance," says **Jaakko Kangasniemi**, Managing Director and CEO at Finnfund. "Ipak Yuli has ambitious plans to increase its lending and is well on its way in developing its services both online and offline, and we are convinced that this is exactly what entrepreneurs need in order to develop their businesses."

Ipak Yuli has been among the first banks to introduce internet and mobile banking products in the market. The bank strives to achieve and maintain gender balance among its employees and leaders; currently, 46 per cent of employees and five out of nine board members are women. There is also product development especially tailored for women entrepreneurs.

Read more on our website.

Name:	**Ipak Yuli**
Country:	**Uzbekistan**
Investment year:	**2023**
Sector:	**Financial institutions**

Ipak Yuli is one of the leading privately owned commercial banks in Uzbekistan focusing on private sector financing. *Photo: Finnfund*

CASE

“This is the moment when Ukrainians need the rest of the world’s help the most”

Name: **Horizon Capital Growth Fund IV**
Country: **Ukraine**
Investment year: **2023**
Sector: **Private equity fund**

“In January 2022, we leased 50 rooms in the city of Lviv in western Ukraine and, in mid-February, we told our people that now we have to leave,” says founding partner and CEO of Kyiv-based private equity firm Horizon Capital, **Lenna Koszarny**.

Shortly after the call to move, Russia launched a full-scale war of aggression against Ukraine. Two years after the start of the war, almost all of Koszarny’s team have returned to Kyiv. “We need to be close to our business,” Koszarny says. “We can’t let this stop us.”

In April 2023, Finnfund made a commitment of 15 million United States dollars to Horizon Capital Growth Fund IV, which is the latest fund managed by Horizon Capital. Horizon’s major funding round was signed at the Presidential Administration with the in-person participation of President **Volodymyr Zelenskyi**.

“The role of Finnfund and other development financiers is very important now that commercial investors hesitate,” says **Jaakko Kangasniemi**, Finnfund’s managing director and CEO.

The fund invests in Ukrainian companies, particularly in the technology and export industries. The investments are expected to contribute to Ukraine’s ongoing resilience, including supporting growth and job creation, expanding the tax base, and increasing the availability of capital for SMEs. Horizon Capital Growth Fund IV also became the first fund in Central and Eastern Europe to be awarded 2X Flagship Fund status, reflecting its commitment to investing with a gender lens.

Koszarny is very grateful to Finnfund for its investment. The decision to invest will help Ukrainians to help themselves, she says. Koszarny points out that the country needs capital and other resources right now: “This is the moment when Ukrainians need the rest of the world’s help the most.”

Read more about the investment on our website.
Read Lenna Koszarny’s interview on our website.

Horizon’s major funding round was signed at the Presidential Administration with the in-person participation of President Volodymyr Zelenskyi. Finnfund’s Jaakko Kangasniemi, Managing Director and CEO, and Sarita Bartlett, Senior Portfolio Manager, attended the event. *Photo: Horizon Capital*

Corporate governance

In 2023, Miro Forestry's plywood production facility in Sierra Leone became operational, following the plywood factory in Ghana, which began its operations in 2022. Finnfund has been financing Miro Forestry since 2014. *Photo: Miro Forestry*

Corporate governance

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

In 2023, a legislative initiative, led by the Ministry for Foreign Affairs, was preparing an overall renewal of the Finnfund Act 291/79 (amended). The main goal of this initiative is to assign Finnfund a partial public administration task and thus strengthen its capacity to manage the Finnpartnership business partnership programme and similar publicly funded programmes. Publicly funded tasks are to be separated from Finnfund's investment activities and are subject to their own steering and decision-making rules. Other expected changes to the Finnfund Act aim to better meet current and anticipated future needs and to improve Finnfund's capacity as a development financier. The renewed Finnfund Act is expected to enter into force in June-July 2025.

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

Governing bodies

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

General Meeting

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

The Annual General Meeting takes decisions on all matters designated for it in the Limited Liability Companies Act and the Articles of Association. This includes the adoption of the financial statements; assignment of the balance sheet result; release from liability of the Supervisory Board members, directors, and managing director; election of Supervisory Board members, the directors, and the auditor; and determination of their remuneration. Furthermore, the Annual General Meeting handles the

"Good corporate governance is extremely important for us, both within our investee companies and in our own operations. In 2023, the focus was on the legislative initiative led by the Ministry for Foreign Affairs, aiming to update the so-called Finnfund Act to meet the needs of today and tomorrow even better."

Minnamari Marttila
Director, Administration; Deputy to the CEO

annual corporate responsibility targets set for the company by the Ministry for Foreign Affairs, including the report on tax responsibility and tax footprint, and the report on actual remuneration policies.

The 2023 Annual General Meeting was held on 3 May in Helsinki. The meeting handled the matters specified in Article 11 of the Articles of Association and decided to increase the company's share capital. All of the company's outstanding shares were represented at the meeting.

On 11 August 2023, the company's shareholders decided, in accordance with paragraph 5:1 of the Companies Act, unanimously and without convening a General Meeting, to appoint six new members to the Supervisory Board. The new composition of the Supervisory Board reflects the change in parliamentary power relations after the parliamentary elections.

Supervisory Board

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

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

See the members of the Supervisory Board on p. 119.

Board of Directors

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

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

See the members of the Board of Directors on p. 119.

Audit Committee of the Board of Directors

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

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

Human Resources (HR) Committee of the Board of Directors

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

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

Managing Director

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

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

Management team

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

Remuneration

Supervisory Board

Members of the Supervisory Board have received fees as follows. The chair of the Supervisory Board received 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 2023

Member	Fee EUR	Present
Emma Kari, chair untill 3 May 2023	1,600	2/2
Erkki Tuomioja until 11 August 2023	1,500	3/3
Nasima Razmyar as of 11 August 2023	1,000	2/2
Eeva Biaudet	2,500	5/5
Jouni Ovaska until 11 August 2023	1,500	3/3
Anne Kalmari as of 11 August 2023	1,000	2/2
Petri Vuorio	2,500	5/5
Jarkko Eloranta	2,500	5/5
Saara-Sofia Sirén until 11 August 2023	1,000	2/3
Noora Fagerström as of 11 August 2023	1,000	2/2
Sakari Puisto, vice chair until 14 September 2023	2,800	5/5
Veronika Honkasalo	2,500	5/5
Jenni Pitko as of 3 May 2023, chair as of 1 June until 11 August 2023	800	1/1
Mikko Polvinen as of 11 August 2023	-	0/2
Juha Ruippo	2,500	5/5
Kimmo Kiljunen as of 3 May until 11 August 2023	500	1/1
Johannes Koskinen as of 11 August 2023, chair as of 14 September 2023	1,600	2/2
Marko Kilpi until 11 August 2023	1,500	3/3
Ville Valkonen as of 11 August 2023 vice chair as of 14 September 2023	1,200	2/2
Juha-Erkki Mäntyniemi	2,500	5/5
Kristiina Salonen until 3 May 2023	500	1/2

In 2023, the Supervisory Board met five times. The average attendance rate for members was 93.9 per cent.

Board of Directors

Members of the Board of Directors have received monthly fees and fees per meeting as follows. The chair of the Board of Directors received a monthly fee of 1,100 euros, the vice chair 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 chair has also been paid a fee per meeting for attending the Supervisory Board and Audit and HR Committee meetings.

Fees paid (EUR) and participation at the meetings Board of Directors 2023

Member	Fee EUR	Present
Robert Wihtol	18,600	12/13
Helena Airaksinen	12,600	12/13
Nicholas Anderson	12,600	13/13
Jussi Haarasilta	11,400	11/13
Anu Hämäläinen	12,300	12/13
Hanna-Leena Loikkanen	11,700	13/13
Sari Nikka	12,600	13/14
Jari Salokoski	7,500	9/9
Antero Toivainen	3,600	4/4

In 2023, the Board of Directors met 13 times. The average attendance rate for members was 95.2 per cent.

Audit Committee

In 2023, members of the Audit Committee of the Board of Directors received a fee of 300 euros per meeting attended.

Fees paid (EUR) and participation at the meetings Audit Committee 2023

Member	Fee EUR	Present
Jussi Haarasilta until 25 May 2023	900	3/3
Nicholas Anderson	1,800	6/6
Anu Hämäläinen	1,800	6/6
Sari Nikka	1,800	6/6

In 2023, the Audit Committee met six times. The attendance rate for members was 100 per cent.

Human Resources Committee

In 2023, 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 Human Resources Committee 2023

Member	Fee EUR	Present
Robert Wihtol, chair	600	2/2
Helena Airaksinen	600	2/2
Hanna-Leena Loikkanen	600	2/2

In 2023, the HR Committee met two times. The attendance rate for members was 100 per cent.

Managing director

In the financial year 2023, managing director Jaakko Kangasniemi received taxable income of 282,176 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 2023.

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 per cent 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 2023, a reserve of 66,241 euros was specified 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 previous years. This loss of pension benefit has been counterbalanced by raising the gross monthly wage from 1 January 2013 by 1,347 euros, which will provide full compensation by the time he reaches the age of 63.

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

Management team

In the financial year 2023, taxable income received from the company by the management team, including the managing director and his deputy, totalled 1,183,603 euros.

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

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

In 2023, members of the management team were Jaakko Kangasniemi, managing director/CEO; Minnamari Marttila, deputy to the CEO and director of administration; Kaisa Alavuotunki, director of impact and sustainability; Unna Lehtipuu, communications director; Markus Pietikäinen, chief investment officer; and Olli Sinnemaa, chief financial officer.

Finnfund's management team in spring 2024. In the picture, from left to right, are: **Unna Lehtipuu**, **Jaakko Kangasniemi**, **Hanna Loikkanen** (since January 2024), **Kaisa Alavuotunki**, **Minnamari Marttila**, and **Olli Sinnemaa**. *Photo: Finnfund*

Supervisory Board, Board of Directors, Audit Committee and Human Resources Committee in 2023

Supervisory Board at the end of 2023

Eeva Biaudet
Member of Parliament

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

Noora Fagerström
Member of Parliament

Veronika Honkasalo
Member of Parliament

Anne Kalmari
Member of Parliament

Johannes Koskinen
Member of Parliament

Juha-Erkki Mäntyniemi
Executive director, Fingo

Mikko Polvinen
Member of Parliament

Sakari Puisto
Member of Parliament

Nasima Razmyar
Member of Parliament

Juha Ruippo
Director, MTK

Ville Valkonen
Member of Parliament

Petri Vuorio
Director, Confederation of Finnish Industries EK

Board of Directors 2023

Robert Wihtol, chair
Independent development banking specialist

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

Nicholas Anderson
Independent Financial Specialist

Jussi Haarasilta
Executive Vice President, Finnvera Plc

Anu Hämäläinen
Vice President, Kesko

Hanna-Leena (Hanna) Loikkanen
Board professional

Sari Nikka
Board Professional

Jari Salokoski
Head of Unit, Ministry of Finance

Audit Committee

Nicholas Anderson
Anu Hämäläinen, chair
Sari Nikka

Human Resources Committee

Robert Wihtol, chair
Helena Airaksinen
Hanna Loikkanen

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

Finnfund was a shareholder in Lake Turkana Wind Power, the owner and operator of the largest wind farm in Africa, since its construction began in 2014. The wind farm was connected to the national grid in 2018, and today, it meets up to approximately 14 per cent of Kenya's current electricity demand, serving 1.2 million homes. The exit took place in February 2024, and the shares were acquired by Climate Finance Partnership, a public-private finance vehicle managed by BlackRock Alternatives.

"This is a natural next step for us", says Finnfund's Associate Director **Helena Teppana**, who has been closely involved in the project since the beginning and in the company's Board of Directors since 2014. "We were there to share the initial risk of the construction phase and the start of operations. Today, it has been proved that the wind farm lives up to the expectations and generates revenue from providing Kenya with low-cost green power. It is time for us to move on." Watch a video.

Financial statements

Approximately 80% of homes in South Africa remain unserved by fast and affordable broadband internet. The Kayamandi township is one of the neighbourhoods where Fibertime, a Finnfund investee since 2023, is offering fast, uncapped, and time-based open-access fiber internet. Read more on p. 19. *Photo: Finnfund*

Board of directors' report 2023

Mission

Finnish Fund for Industrial Cooperation Ltd. (Finnfund) is a special purpose entity, development financier and impact investor in which the State of Finland has a majority holding, whose mission is to build a more sustainable future and create lasting impacts by investing in companies that solve global development challenges.

Finnfund falls within the administrative branch of the Ministry for Foreign Affairs, carrying out a special development policy mission. The law governing the company's activities defines its purpose as promoting the economic and social development of its target countries by financing private-sector projects with a Finnish interest.

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

Strategy

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

Our strategic goals are:

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

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

The company's strategy focuses on five growth enablers:

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

Finnfund's strategy 2022–2025

Vision

People and the Planet in every investment decision.

Strategic intent

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

Key strategic objectives

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

Growth enablers

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

Mission

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

Over the past years, Finnfund's target markets have been severely impacted by global crises. Russia's invasion of Ukraine, rising energy and food prices, political and economic instability and, most recently, the debt crisis and the inability of national economies to meet their debts, particularly in African countries, have led to a deteriorating operating environment. On the other hand, this has further emphasised the importance of long-term and responsible financiers such as Finnfund. Despite the situation, Finnfund has continued to invest actively in emerging markets. 2023 was a record year in many ways.

At the same time, particularly in Europe, sustainable development issues such as the fight against climate change, the need to adapt to it, human rights, and the crisis of biodiversity loss have become the focus of business activity. These are also important elements in the implementation of Finnfund's strategy. We worked actively to strengthen our competence and will continue to invest in these themes.

Mobilising private finance to drive sustainability is also a key part of Finnfund's mission and strategy. In 2023, 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. In addition, we provide opportunities for Finnish institutional investors to participate as co-investors in Finnfund's investments.

In 2023, the Finnish State increased Finnfund's share capital by 10 million euros. In December, we issued Finnfund's first green private placement bond, totalling 100 million euros. A total of four international investors invested. This will ensure a high level of investment activity in the coming year as well.

Funding and investments

In 2023, project preparation was particularly active.

The project preparation targets for 2023 (213 million euros and 24 projects) were clearly exceeded. A total of 35 new projects totalling 256 million euros were prepared fully in 2023.

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 35 new financing decisions made in 2023 (28 decisions in 2022), with a monetary value of 256 million euros (246 million euros), targeted different income levels as follows:

Income level	Number of decisions	%	EUR milllion	%
Least developed countries	9	26	57	22
Low-income countries	0	0	0	0
Lower-middle-income countries	24	68	187	73
Upper-middle-income countries	2	6	12	5
TOTAL	**35**	**100**	**256**	**100**

Of the financing decisions, 16 (10) involved loans, accounting for about 56 per cent (37 per cent) of the monetary value of the decisions.

Seventeen (16) of the projects that were approved were equity investments or mezzanine financing. When calculated in euros, they accounted for 33 per cent (49 per cent) of all approved projects. Two investment decisions were made in private equity funds.

Africa's share of new financing decisions fell short of the 2023 ownership steering target. Approximately 46 per cent of the decisions, 30 per cent in monetary value, were allocated to Africa. Roughly 40 per cent of the decisions, in terms of both numbers and monetary value, were allocated to Asia. The remaining 14 per cent, and 27 per cent in monetary value, of the decisions were allocated to other continents or international projects.

Disbursements for investments totalled 157 million euros (110 million euros).

Of the disbursements during the 2023 financial year, 86 million euros (51 million euros) is considered official development assistance (ODA) by the Finnish State.

The amount of undisbursed commitments at the end of 2023 totalled 258 million euros (235 million euros). In addition, 141 million euros (155 million euros) was tied up in investment commitments that had not yet progressed to the agreement stage.

Development and priorities

Finnfund's strategy up to 2025 will continue to be implemented as planned in 2024. The strategic objectives are to double our impact by 2025, mobilise private funding to finance 50 per cent of Finnfund's investments in 2030, and maintain a net negative portfolio carbon footprint. The results for 2023 are aligned with these strategic objectives.

Opened in 2022, Finnfund's local office in Nairobi, Kenya established its status as part of our operations. This is a branch of the Helsinki Office, and its main task is to promote project preparation in the East African region. Our office is in the same building as several European development financiers. Finnfund's presence locally has increased our visibility in the target market, and cooperation with other financiers has strengthened. The branch currently has four seconded employees.

During the year, we continued to invest in companies whose operations have a positive impact on society and the environment, reduce poverty and contribute to the fight against climate change and biodiversity loss. Gender equality, providing basic and high-quality services to people, and good workplaces are key elements in investment decisions.

In line with our strategy, in 2023 we continued to actively work with our portfolio companies. We also used external studies to understand the impact of existing portfolio companies on stakeholders (customers, employees, communities) as well as to provide additional information on the impact of the company, both when preparing investment decisions and during the lifecycle of investments. In the coming year, we are committed to continuing this work, with a special focus on understanding the implications of climate change and the need to adapt to it both within our portfolio companies and in their stakeholders. We will also continue to work towards more equal jobs and to reach local communities even better.

Year 2023 also included openings of new themes. For example, we participated in a working group organised by UNICEF that developed a Child Impact Analysis tool for use by international investors. In addition, as part of preparing a statement on nature and biodiversity, we began developing an Earth System Boundaries framework to support our investment activities.

Development work related to biodiversity remained an important focus. The pilot project of Finnfund and MLR Forestal in Nicaragua, which started last year, continued to be implemented in 2023. The aim of the project is to restore forests with reduced natural value and to better connect valuable natural areas. The restoration work has begun faster than expected, and the experience gained is intended to support other companies funded by Finnfund to identify, protect and strengthen biodiversity. We also continued to provide training sessions focused on biodiversity to the companies we fund. We also developed indicators for measuring biodiversity during the year to be introduced in portfolio monitoring in 2024 – with the goal of generating the first report in line with the Taskforce on Nature-related Disclosures (TNFD) framework at the beginning of 2025. Finnfund's first nature and biodiversity statement will also be published during 2024.

Climate analysis development continued during 2023. We significantly improved the quality of the data used in carbon footprint calculation, and the same trend is expected to continue in 2024. We supported our portfolio companies in developing and increasing their calculation capabilities and creating goal-oriented plans for reducing emissions. We continued to develop tools for assessing climate risk, and this work will continue the following year.

We participated in several working groups and meetings on sustainable finance, including the European Union's Global Gateway initiative and the Commission-led High-Level Expert Group on Sustainable Finance, an advisory group of external experts. This work will also continue in 2024.

Human rights remained one of the key areas for improvement in 2023. At the beginning of the year, an industry-specific human rights risk assessment was completed, the results of which are used to further develop Finnfund's assessment and management of human rights. We also actively participated in working groups of European development financiers on issues such as human rights risks arising from solar panel supply chains and developing a common approach to addressing claims arising from human rights risks. Work in these areas will continue in 2024.

During 2023, the policy and process for handling suspected misconduct and violations was also revised and a new complaints channel was introduced, which meets the requirements of the EU whistleblowing regulation and national whistleblower protection legislation, as well as better meeting the requirements of the UN Guiding Principles on Business and Human Rights (UNGP). Possible reports under the regulation on the prevention of money laundering and terrorist financing, as well as other suspected violations of Finnfund's policies and procedures, are also processed through the whistleblowing channel. Reports can be sent via the channel, both in writing and by voice mail, in six different languages. In addition, the channel allows for anonymous communication with the complainant, and processing takes place in a technologically secure environment.

In December, Finnfund issued the first green private placement bond. It is based on the 2022 sustainability framework. The size of the bond was 100 million euros, and four European institutional investors from outside the Nordic countries invested in it.

In 2023, Finnfund signed an agreement with the European Commission under the new European Fund for Sustainable Development Plus (EFSD+). The agreement provides Finnfund with 100 million euros in guarantees for investments in the digital sector in Africa. Finnfund is also working with other European development financiers to negotiate a guarantee programme for investments in the forestry and agricultural sectors. For these, it is expected that the agreement will be signed in 2024. During 2023, we developed the organisation's readiness to implement a new form of funding that accompanies EFSD+, so called technical assistance. Technical assistance will provide an opportunity in the future to support the development of impact and sustainability work in our investments.

During the year, Finnfund continued to seek to strengthen transparency and cooperation with stakeholders such as experts, NGOs, influencers, and the media. For example, for the second time we organised the 'Growth from Africa' seminar for Finnish companies in cooperation with KasvuOpen and Finnpartnership, as well as the 'Clean energy in Africa – closing investment gaps' seminar with EEP Africa and Finnpartnership, focused on renewable energy. In addition, under the spring parliamentary elections in Finland, we organised an elections panel in cooperation with Fingo, the umbrella organisation of Finnish development organisations. Meetings of the Impact Network, a network of Finnish actors interested in measuring and developing impact and responsibility, were continued.

The long-term development of Finnfund's Annual Report was rewarded when Finnfund's Annual Report for 2022 was recognised with an award for the best annual report of the year in the 'Oma Media' competition by ProCom – The Finnish Association of Communication Professionals.

For communication, we made good progress on the objectives of the communication strategy that supports the overall strategy. A major redesign project for the Finnfund's website was launched in the autumn, and we achieved the objectives set for the company's expert visibility in the media and public forums both in Finland and internationally. The number of followers on social media also grew rapidly, and during the year we invested in producing video footage of our investments. The Communications Academy training programme, which aims to strengthen the communication skills of all staff, continued its activities by offering, among other things, communication training for supervisors and media training for personnel. We cooperated internationally with the communications network of European development financiers, including by developing new joint platforms for information disclosure and strengthening transparency.

Finnfund operates with a hybrid work model, and remote work continued as part of normal work. After the COVID-19 pandemic, travel related to both project preparation and monitoring of existing investments increased as expected. However, carbon dioxide emissions from air travel are at a significantly lower level than before the pandemic, and we are in line with our emissions reduction goal: our goal is to reduce our carbon dioxide emissions per employee by 10 per cent from the 2019 level by 2025.

In 2023, Finnfund invested in personnel development, particularly in improving supervisory work. In the autumn, we conducted a six-module training for supervisors, which reflected on the existing organisational culture and how to develop it from different perspectives. The training sessions covered, for example, Finnfund's increasingly international role as an employer and how the community is becoming more diverse. In support of supervisory work, an intranet for supervisors was also established with instructions for daily work.

In addition, the People & Culture unit held monthly information sessions for both supervisors and all staff on topics such as postings abroad, conducting development discussions, insurance, annual leave and other absences. People & Culture also organised joint excursions with international talents to the capital region about once a month, with the aim of supporting the integration of international talents into Finnfund and Finland. Towards the end of the year, we conducted an equality and non-discrimination survey, and based on the results, we reviewed the rules with the staff to ensure a more comfortable and safer workplace for each employee.

Following the extensive development of our ICT infrastructure in previous financial years, at the end of the most recent financial year we focused on the full deployment of the current features, as well as further and small-scale development.

In Finnfund's IT environment, the expansion of the use of cloud services, the development of information security, and the automation of workflows continued. For security, we implemented a modern firewall at the company level and new encrypted remote access software on workstations. User support was enhanced by abandoning external support, transitioning to support provided by our own ICT personnel. This change was made possible by recruiting an expert to the ICT team. The personnel's information security expertise was increased through mandatory information security training.

"Despite the challenging investing environment both globally and in our target markets, I am pleased that the year 2023 was a record year in many ways. In line with our strategy, we managed to make significant new investments in digital infrastructure and green transition as well as widen our funding base."

Robert Wihtol
Chair of Finnfund's Board of Directors

The Finnpartnership programme

Finnpartnership is a business partnership programme financed by the Ministry for Foreign Affairs of Finland and managed by Finnfund on the basis of a contract. Finnpartnership's goal is to promote sustainable development by creating long-term business cooperation that creates sustainable and decent jobs and other positive development impacts.

2023 was the second year of operation of Finnpartnership's 2022–2024 programming period. Finnfund implements the current programme in extensive subcontracting cooperation with Niras Finland Oy. The programming period aims, among other things, to increase impact in the target countries through a broad international network and two locally recruited experts.

In light of Finnpartnership's performance figures in 2023, Finnish companies' interest in emerging markets increased significantly. The number of applicants increased by more than 30 per cent over the previous year. A large number of new applications arrived just before the turn of the year, and the number of grants issued in 2023 increased moderately by about 11 per cent. As a new market, a particularly large number of Finnish projects started in Ukraine. Other most popular countries included Kenya, Somalia, and Vietnam. The significant increase in projects in Vietnam was facilitated by the active Team Finland work of the Hanoi Regional Office of Finnpartnership and the successful SDG Booster events. The result of Kenya and Somalia may also be increased by the work of the Finnpartnership Regional Coordinator in Nairobi and the active contribution of the Finnpartnership programme to the implementation of Finland's Africa strategy. In total, 115 applications were received.

In 2023, the Global Gateway campaign was launched to bring at least 15 Finnish companies into contact with larger EU investments and Team Europe initiatives between 2023 and 2024. This means that with Finnpartnership's support, a Finnish company can establish itself in Global Gateway activities and be informed and ready to participate in tenders when smaller tenders and contracts for major investments are launched. In 2023, the campaign channelled funding to six new Finnish projects in five different countries and four different EU funding schemes. The campaign helped a total of nine Finnish companies to access more extensive EU funding, including projects that received funding already earlier. In 2023, Finnpartnership launched its new graphic image and redesigned its website.

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

In 2023, the Ministry for Foreign Affairs initiated a legislative project aimed at a comprehensive reform of the Finnfund Act, inter alia by giving Finnfund a public administrative mission, which would allow the management of the Finnpartnership programme to continue as part of Finnfund's activities on a permanent basis. The intended effective date of the reform is in the summer of 2025.

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 2023.

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 Finnfund's risks are initiated if deemed necessary.

In 2023, Finnfund continued to develop the assessment and consideration of risks in investment decisions and risk classification. An essential part of this has been the better identification and integration of risks and opportunities related to sustainability, such as climate change, into the classification and management of financial risks. As part of the preparation of Finnfund's first statement on nature and biodiversity, the same will also be developed during 2024 in terms of biodiversity risks.

In recent years, Finnfund's target markets have been strongly affected by global crises, and the company has developed macroeconomic and political risk assessment as part of its investment preparation process and monitoring.

In 2023, we also clarified our financing policy to include the presentation of the cost calculation for hedging fixed-rate dollar-denominated loans as part of the investment memorandum.

From 2012 to 2015, Finnfund had access to a special risk financing instrument worth a total of 50 million euros. In September 2018, the Finnish State decided to bring back the special risk financing instrument at a total value of 75 million euros. In 2020, the Finnish State further increased the value of the instrument to 150 million euros. The instrument is available until the end of 2024 for the purpose of distributing investment risks between the Finnish State and Finnfund.

Special risk financing is provided on the basis of a loss compensation commitment, whereby the State undertakes compensating 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 2023, projects worth a total of 279.6 million euros were covered by special risk financing. The Finnish State's share of the related risk was 138.2 million euros, or 49.5 per cent. The loss compensation commitment covers a maximum of 15 million euros in compensations per year.

In 2023, Finnfund submitted its second ever compensation claim for special risk financing to the State. The claim was for a pioneering project for a mobile payment and wallet network in Ethiopia. The claim amount was 1,507,197.83 euros. The State announced that it will not pay the compensation until 2025. In 2019, we submitted our first compensation claim concerning photovoltaic project Mobisol's dollar-denominated loan. The amount claimed in compensation was 2,183,162.07 euros. The corresponding amounts are deducted from the special risk financing limit of 150 million euros. After payment of the compensation, the amount of the limit is 146,309,640.10 euros.

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 100 million euros, non-committed credit facilities with Nordic banks, and a commercial paper programme totalling 300 million euros. The credit facilities provided by banks were not in use at the end of 2023.

At the end of 2023, there were no commercial papers issued through the programme.

The refinancing risk associated with borrowing is managed by trying to maintain a sufficiently extensive group of financiers and a versatile range of instruments. An additional aim is that at least half of the borrowing should be long-term financing. At the end of the year under review, the average time to maturity of interest-bearing debt was 5.8 years if the convertible bonds granted by the State are not included in calculations, and 14.8 years if the State loan is included.

The company's cash position at the end of 2023 was very strong, largely due to the successful bond issuance. The cash funds will be invested in accordance with the company's current asset and risk management guidelines pending the progress of the investment decisions made for 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.

Net profit and balance sheet

The profit for 2023 was 3,803,000 euros (324,000 euros). The operating income is shown in the table below.

Operating income (EUR thousand)	2023	2022	Change (EUR)	Change %
Financial income	44,054	29,652	14,402	49
Financial expenses	-17,143	-13,467	-3,676	27
Net financial income	**26,911**	**16,185**	**10,726**	**66**
Other operating income	2,087	1,800	287	16
Administrative expenses, depreciation and other expenses	-20,438	-17,280	-3,158	18
Profit before value adjustments, sales and taxes	**8,560**	**705**	**7,855**	**1,114**
Value adjustments and sales	-4,716	-340	-4,376	1,287
Income taxes	-41	-41	0	0
Net profit	**3,803**	**324**	**3,479**	**1,074**

Summary

Net financial income increased to 26.9 million euros (16.2 million euros).

Financial income increased significantly by 49 per cent to 44.1 million euros (29.7 million euros). Financial expenses, on the other hand, increased by 27 per cent to 17.1 million euros (13.5 million euros).

Interest income was the largest source of income of 33.7 million euros (24.2 million euros) and represented 78 per cent of total income. Dividends and income from funds increased significantly relative to previous years, totalling 7.4 million euros (2.3 million euros).

Operating expenses (20.4 million euros) exceeded the previous year's level (17.3 million euros). The increase in expenses was due to an increase in the number of employees and a significant rise in general costs.

Profit before valuation items, sales and taxes increased significantly to 8.6 million euros (0.7 million euros).

Income

Dividend income amounted to 1.9 million euros (0.7 million euros).

Interest income was 33.7 million euros (24.2 million euros).

Other income from long-term investments amounted to 5.6 million euros (1.5 million euros), consisting of gains from fund investments. Capital gains from investments were recognised as income to the amount of 3.9 million euros (0.9 million euros).

Other financial income excluding foreign exchange gains, at 2.1 million euros (1.3 million euros), mainly consisted of arrangement fees, commitment fees, and other financing fees.

Investment income before taxes totalled 44.1 million euros (29.7 million euros).

Other operating income amounted to 2.1 million euros (1.8 million euros), and this comprised largely fees received for the administration of the Finnpartnership programme and other income from fees and charges.

Impairment losses

Newly recognised individual impairment losses amounted to 16.9 million euros (13.8 million euros), representing about 2.3 per cent (2.0 per cent) of the balance sheet value of investment assets at the end of the year under review.

Reversals of previously recognised individual impairment losses amounted to 23.8 million euros (33.3 million euros) in 2023.

The net effect of impairments, capital gains and sale losses on financial performance was approximately 4.7 million euros negative (0.3 million negative euros).

Expenses

Interest expenses increased from the previous year's figure to 12.1 million euros (8.4 million euros). Interest expenses were incurred through borrowing in both US dollars and euros.

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

The exchange rate differential due to currency trading and hedging was 0.8 million euros positive (1.9 million euros positive).

Sales losses were recognised to the amount of 15.5 million euros (20.8 million euros).

Operating expenses totalled 20.4 million euros (17.3 million euros).

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

Balance sheet

The balance sheet total stood at 881 million euros (773 million euros) at the end of the year under review.

The balance sheet value of investment assets was 722 million euros (698 million euros) at the end of the year under review.

The breakdown of investment assets was as follows: loans (including subordinated loans and other mezzanine instruments) 365.2 million euros (385.4 million euros) or 50.6 per cent (55.2 per cent); equity investments 213.6 million euros (193.8 million euros) or 29.6 per cent (27.8 per cent); and fund investments 143.3 million euros (118.4 million euros) or 19.8 per cent (17.0 per cent).

Liquid assets stood at 136 million euros (54 million euros) 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 315 million euros (301 million euros) or 36 per cent of the balance sheet total (39 per cent).

In 2023, the company completed one share issue. Under the share issue, a maximum of 61,447 new shares were offered to existing shareholders in proportion to their existing holdings at the issue price of 170 euros per share. The subscription period was from 3 May 2023 to 9 June 2023. As a result of the share issue, the share capital was increased by 9,999,910 euros, 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 286,988,390 euros, divided between 1,688,167 shares, with the Finnish State holding 1,623,597 shares (96.18 per cent), Finnvera Plc holding 63,349 shares (3.75 per cent), and the Confederation of Finnish Industries EK holding the remaining 1,221 shares (0.07 per cent).

The company's shares have no nominal value. The equivalent value of a share in bookkeeping is 170 euros. 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 130 million euros. 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 to 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 170.00 euros 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 part 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 210 million euros. 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 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 170.00 euros 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 part 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 537 million euros (453 million euros) and short-term interest-bearing debt at 28 million euros (19 million euros), totalling 565 million euros (464 million euros).

Long-term interest-bearing debt includes a 130 million euros convertible bond granted by the State and withdrawn in 2017 and 2018, a 210 million euros convertible bond granted by the State in 2019 and withdrawn in 2020 and 2021, a 75 million euros sustainability bond issued in 2022, and a green private placement bond issued in 2023. Otherwise, the long-term interest-bearing debt is in US dollars, used to refinance Finnfund's investment loans denominated in US dollars.

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

Long-term debt as a percentage of all financing liabilities totalled approximately 95 per cent (97 per cent) at the end of the year under review.

The company had no guarantee commitments at the end of 2023 (0.0 million euros).

Key figures

	2023	2022	2021
Financial income (EUR million)	68.7	71.3	52.5
Net profit (EUR million)	3.8	0.3	-20.0
Return on equity (%)	1.2	0.1	-6.9
Equity ratio (%)	35.5	39.0	36.7

Formulae

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

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

Administration and personnel

In 2023, the Supervisory Board convened five times, the Board of Directors convened 12 times, the Board of Directors' audit committee convened six times, and the HR committee convened three times.

The Annual General Meeting, held on 3 May 2023, addressed the statutory matters listed in Article 11 of the Articles of Association and the proposal by the Board of Directors concerning an increase of the company's share capital.

Members of the Supervisory Board elected at the Annual General Meeting for the period 2023–2026: Kimmo Kiljunen, Marko Kilpi, Juha-Erkki Mäntyniemi, Jenni Pitko and Juha Ruippo.

By a unanimous decision dated 11 August 2023, the shareholders of the company decided to change the composition of the Supervisory Board as follows:

Erkki Tuomioja was replaced by **Nasima Razmyar** for the remainder of Tuomioja's term, which runs until the Annual General Meeting to be held in spring 2024.

Jouni Ovaska was replaced by **Anne Kalmari** for the remainder of Ovaska's term, which runs until the Annual General Meeting to be held in spring 2024.

Saara-Sofia Sirén was replaced by **Noora Fagerström** for the remainder of Sirén's term, which runs until the Annual General Meeting to be held in spring 2025.

Jenni Pitko was replaced by **Mikko Polvinen** for the remainder of Pitko's term, which runs until the Annual General Meeting to be held in spring 2026.

Kimmo Kiljunen was replaced by **Johannes Koskinen** for the remainder of Kiljunen's term, which runs until the Annual General Meeting to be held in spring 2026.

Marko Kilpi was replaced by **Ville Valkonen** for the remainder of Kilpi's term, which runs until the Annual General Meeting to be held in spring 2026.

After the above elections, the composition of the Supervisory Board is as follows in its entirety:

Nasima Razmyar
Eva Biaudet
Anne Kalmari
Petri Vuorio
Jarkko Eloranta
Noora Fagerström
Sakari Puisto
Veronika Honkasalo
Mikko Polvinen
Juha Ruippo
Johannes Koskinen
Ville Valkonen
Juha-Erkki Mäntyniemi

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
Jari Salokoski

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

Hanna Loikkanen resigned from the Board of Directors on 31 December 2023 after being appointed Chief Investment Officer of the company.

The Board of Directors has an audit committee, with the following members since 25 May 2023:

Anu Hämäläinen, Chair
Nicholas Anderson
Sari Nikka

The Board of Directors has an HR committee, with the following members since 25 May 2023:

Robert Wihtol, Chair
Helena Airaksinen
Hanna Loikkanen

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

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

During the year under review, the company employed an average of 101 employees (90 employees in 2022). At year-end, the number of employees in contractual employment was 97 (96), of whom 93 (87) were full-time. Of the employees, 56 were women and 41 were men.

The total salaries and bonuses paid to personnel in 2021–2023 were as follows:

	2023	2022	2021
Average number of personnel	101	90	83
Total salaries and bonuses (EUR thousand)	9,552	8,254	7,827

The final accounts include a provision of 1,300,977.06 euros for incentive bonuses earned in 2023, amounting to 13.62 per cent of payroll expenses (14.35 per cent). In 2023, the amount of incentives was partly based on the achievement of common targets and partly based on individual performance.

The Board of Directors decides on the incentive system and its key criteria annually. The company's remuneration follows the remuneration guidelines applying to state-owned companies.

Outlook and strategic direction for 2024

In 2023, Finnfund continued to implement its current strategy reflecting our operating philosophy. Our vision is to put people and the planet at the heart of investment decisions. We will double the positive development impacts of our operations from 2020 to 2025. We will increase the share of private money in our investments to 50 per cent by 2030, and keep our investment portfolio carbon net negative. We build a sustainable future and generate lasting impact by investing in businesses that solve global development challenges.

In our project preparation, we have prioritised investments that are expected to have very positive development impacts, including those that are known to be challenging. We have emphasised three global impact themes: climate action, diversity and inclusion, and digitalisation. In addition to these, the geographical focus has been on Africa. Finnfund's focal areas are renewable energy, the financial sector, sustainable agriculture, sustainable forestry, and digital infrastructure and solutions.

The year 2024 will bring changes to the strategy. At the end of 2023, we received a new ownership steering memorandum, which focuses specifically on the share of Finnish companies in development funding and the allocation of funding to rebuild Ukraine. There are remarkable risks associated with investing in a country currently at war, but we are working to find commercially viable projects and protect investments through the risk-sharing mechanisms in place.

In the current year, we will emphasise the role of risk management in the Investment Committee's decision-making to further ensure and strengthen sustainably profitable business in every market situation. However, we recognise that, as a development financier and impact investor, our role is to take more risk than commercial actors and to act as a market developer for less risk-seeking private investors. Finnfund's finances and liquidity are on a sound footing with a successful year 2023 and the issuance of a private placement bond.

From a risk management point of view, it is important that during 2024 we use the European Commission's guarantee mechanisms for new investment decisions, the management of which is possible for Finnfund through the pillar assessment conducted earlier. These guarantees are highlighted in Finnfund's operations, especially because it is not possible to allocate new projects after 2024 to the special risk financing granted by the Ministry for Foreign Affairs. We can also distribute the European Commission's guarantees to co-investors' shares if we wish, and we believe this will make it easier to attract private capital to our investments.

In terms of impact, 2024 has also got off to a good start. Several high-impact projects are in preparation, which, if implemented, will support the realisation of Finnfund's strategy. The effects of climate change and biodiversity loss, as well as the effects of Russia's military aggression on, for example, food security and value chains, are visible strongly in many of Finnfund's target countries. On the one hand, this creates opportunities for investments with exceptionally significant impacts, but at the same time also highlights the importance of assessing and managing financial and sustainability-related risks. Finnfund will further deepen the identification of, for example, biodiversity loss and the impacts and opportunities created by climate change from the perspective of both climate change mitigation and adaptation. The assessment and management of human rights risks, especially for the whole value chain, will also be further strengthened in 2024.

Our Nairobi office is well established as part of our operations. We expect it to further raise awareness of Finnfund and benefit the preparation of new investments. In line with the strategy, Finnfund aims to increase its visibility in the target market, and the Nairobi office plays a major strategic and operational role in achieving this goal.

The earnings prospects for 2024 are positive. The year 2023 was the second consecutive profitable year after the difficult years of the COVID-19 pandemic, and we believe that the positive earnings development will strengthen during the current year. At the time of writing this report, the long-awaited major exit from the Lake Turkana Wind Power investment has taken place in February 2024. In addition, we will seek to focus new investment decisions in 2024 on projects that generate ongoing cash flow, which will help to strengthen predictability of performance.

At the same time, it should be noted that due to the Russian aggression and growing global uncertainty, it is difficult to predict the challenges we will face in our target markets over the current year. Many poor countries, especially in Africa, have become significantly indebted over the past few years, and in the current economic climate, refinancing debt is difficult. While Finnfund only funds the private sector, financial problems in the public sector have direct and indirect effects on the private sector as well. We nevertheless expect a positive result in 2024.

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

The company recorded a profit of 3,803,000 euros in 2023. The Board of Directors proposes that the profit be transferred to the retained earnings account for previous financial years.

Electric vehichles are good for climate but crucial for health. Today, India leads the world in pollution-linked deaths. Fortum Charge and Drive India, a Finnfund investee since 2020, is developing a network of charging points in major cities in India. *Photo: Finnfund*
Watch a video.

Profit and loss account

EUR 1,000

	Note	1 Jan. - 31 Dec. 2023	1 Jan. - 31 Dec. 2022
Other operating income	1	2,087	1,800
Staff expenses	2		
Wages and salaries	3	-10,276	-8,582
Social security expenses			
Pension expenses		-1,739	-1,510
Other social security expenses		-366	-503
Social security expenses		-2,105	-2,013
Staff expenses		-12,380	-10,594
Depreciation according to plan	4	-492	-485
Other operating expenses	5 6	-7,567	-6,200
OPERATING LOSS		**-18,352**	**-15,480**

	Note	1 Jan. - 31 Dec. 2023	1 Jan. - 31 Dec. 2022
Financial income			
Income from participating interests		6,268	1,670
Income from other investments		5,125	1,491
Other interest and financial income		57,261	68,173
Financial income, total		68,654	71,334
Reduction in value of investments		6,910	19,548
Financial expenses			
Interest and other financial expenses		-53,368	-75,036
Financial income and expenses	7	22,196	15,846
PROFIT / LOSS BEFORE TAXES		**3,844**	**365**
Income taxes	8	-41	-41
PROFIT / LOSS FOR THE FINANCIAL YEAR		**3,803**	**324**

Balance sheet

EUR 1,000

	Note	31 Dec. 2023	31 Dec. 2022
ASSETS			
NON-CURRENT ASSETS			
Intangible and tangible assets	9		
Other capitalised long-term expenditure		764	1,125
Machinery and equipment		24	126
Intangible and tangible assets, total		787	1,251
Investments	10		
Participating interests		114,658	86,311
Receivables from participating interest	11	5,366	5,657
Other shares and similar rights of ownership		242,375	225,896
Other receivables	11	359,877	379,730
Investments, total		722,275	697,593
TOTAL NON-CURRENT ASSETS		**723,062**	**698,844**
CURRENT ASSETS			
Receivables			
Long-term	12		
Other long-term receivables		5,866	2,983
Short-term			
Amounts owned by participating interest undertakings	13	6	202
Other receivables	14	4,855	10,758
Prepayments and accrued income	15	8,311	6,581
Short-term, total		13,172	17,541
Receivables, total		19,037	20,524

	Note	31 Dec. 2023	31 Dec. 2022
Financial securities	16		
Marketable securities		95,700	47,545
Cash in hand and at banks		43,174	6,407
TOTAL CURRENT ASSETS		**157,911**	**74,477**
TOTAL ASSETS		**880,973**	**773,321**

	Note	31 Dec. 2023	31 Dec. 2022
LIABILITIES			
EQUITY	17		
Share capital		286,988	276,988
Retained earnings		24,437	24,112
Profit / loss for the financial year		3,803	324
TOTAL EQUITY		**315,228**	**301,425**
PAYABLES			
Long-term	18 19		
Private placements		170,320	74,869
Convertible loans		340,000	340,000
Loans from credit institutions		26,546	37,502
Other long-term payables		603	536
Long-term, total		537,470	452,907
Short-term	20		
Loans from credit institutions		9,653	12,001
Advances received		2,454	0
Trade payables		640	479
Other payables		8,537	337
Accruals and deferred income	21	6,991	6,172
Short-term, total		28,275	18,988
TOTAL PAYABLES		**565,745**	**471,895**
TOTAL LIABILITIES		**880,973**	**773,321**

Cash flow statement

EUR 1,000

	2023	2022
CASH FLOW FROM OPERATIONS		
Payments received from operations	86,773	90,829
Disbursements to operations	-108,551	-139,952
Dividends received	1,830	719
Interest received	30,800	21,975
Interest paid	-11,986	-6,796
Payments received on other operating income	15,409	5,373
Payments of operating expenses	-23,561	-21,751
TOTAL CASH FLOW FROM OPERATIONS (A)	**-9,286**	**-49,603**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-28	-463
TOTAL CASH FLOW FROM INVESTMENTS (B)	**-28**	**-463**

	2023	2022
CASH FLOW FROM FINANCING		
Short-term loans drawn	0	2,000
Short-term loans repaid	-2,000	0
Long-term loans drawn	95,377	74,869
Long-term loans repaid	-9,953	-110,203
New share issue	10,000	10,000
TOTAL CASH FLOW FROM FINANCING (C)	93,424	-23,334
CHANGE IN LIQUID ASSETS (A+B+C) increase (+) decrease (-)	84,110	-73,400
LIQUID ASSETS AT THE START OF THE FINANCIAL YEAR (1 Jan.)	53,028	126,428
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	137,138	53,028
NONMONETARY CHANGES IN LIQUID ASSETS	1,735	924
LIQUID ASSETS AT THE END OF THE FINANCIAL YEAR (31 Dec.)	138,873	53,952

Notes to financial statements

Accounting policy

Portfolio

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

The Islamic form of financing Murabaha has been treated according to the same principles as other loan receivables in both the balance sheet and the income statement. The value of loan receivables at the exchange rate on the balance sheet date is EUR 7,829,334.85. Income of EUR 892,500.00 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 2023, the sales transactions referred to in the Islamic financing agreement were EUR 1,353,445.53 and the purchase transactions EUR 1,353,445.53. Income from the purchase transaction was EUR 851,663.37 in 2023.

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

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

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

Special risk finance

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

Projects with the company's risk classification of C, CC or CCC are eligible for special risk finance. The corresponding level of losses indemnified by the government will be 40%, 50% and 60%. The investment risk is carried partly by Finnfund and partly by the government. The company's Board of Directors ensures that the maximum risk to the state of the entire special risk financing portfolio for projects approved for special risk financing does not exceed 50% of the total risk. The government's share of the risk is a percentage of the disbursed investments deducted by repayments. Annual 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 payables. Although its derivatives are acquired for the purpose of hedging, Finnfund does not practice hedge accounting under IFRS.

Items denominated in foreign currencies

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

Intangible and tangible assets

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

Planned depreciations

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

Pensions

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

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

Notes to the profit and loss account
EUR 1,000

1. Other operating income

	2023	2022
Operating income from participating interests	196	384
Consultancy revenues	1,042	910
Other operating income	849	506
	2,087	**1,800**

2. Average number of staff employed

	2023	2022
Employees	101	90

3. Wages and salaries

	2023	2022
Managing Director and his alternate	486	459
The Board of Directors and the Supervisory Board	136	131
The Board of Directors		
Chair's monthly compensation	1,100 €	
Vice chair's monthly compensation	700 €	
Board members' monthly compensation	600 €	
Compensation per meeting of Board of Directors and Audit Committee	300 €	
Supervisory Board		
Chair's compensation per meeting	800 €	
Vice chair's compensation per meeting	600 €	
Board member's compensation per meeting	500 €	
Managing Director has the right to retire at the age of 63. Retirement age is based on the contract renewed in 2012.		

4. Depreciation

	2023	2022
Other capitalised long-term expenses	373	371
Machinery and equipment	118	114
	492	**485**

5. Other operating charges

	2023	2022
Voluntary staff expenses	757	818
Office	972	918
ICT	1,234	1,055
Travel and negotiation expenses	1,466	990
Entertainment and PR expenses	272	145
External services	2,151	1,914
Other expenses	715	361
	7,567	**6,200**

6. Auditor's remuneration

	2023	2022
Audit fee	30	28
Non-audit fee	0	2
	30	**30**

7. Financial income and expenses

	2023	2022
Financial income		
Income from participating interests		
Dividends	1,459	0
Income from funds	864	767
Profit from sales of assets	3,906	903
Other income	39	0
Income from participating interests	6,268	1,670
Income from other investments		
Dividends	421	729
From funds	4,703	763
Income from other investments	5,125	1,491
Other interest and financial income		
Interest income	33,739	24,027
Interest income from participating interests	0	135
Financial income	2,019	1,323
Exchange rate gain	21,503	42,688
Other interest and financial income	**57,261**	**68,173**
Financial income total	**68,654**	**71,334**
Permanent write-offs of investments and their reversals		
Equity and funds	-7,899	-13,513
Loans and other receivables	-9,019	-287
Reversal of write-offs on shares and fund investments	8,547	32,909
Reversal of write-offs on loans	15,280	438
Write-offs of investments and their reversals	**6,910**	**19,548**

	2023	2022
Interest and other financial expenses		
Interest expenses to others	-12,122	-8,441
Other financial expenses	-5,021	-5,026
Loss from investments, funds and sales of assets	-15,532	-20,791
Exchange rate loss	-20,693	-40,779
Interest and other financial expenses total	**-53,368**	**-75,036**
Financial income and expenses total	**22,196**	**15,846**
The item Financing income and expenses includes exchange rate (net)	**810**	**1,909**

Income from financing operations by income level

(does not include income from liquidity and funding)

	2023	2022
Least developed countries (LDC)	14,096	17,004
Other low-income countries (LIC)	130	314
Lower-middle-income countries (LMIC)	27,070	27,228
Upper-middle-income countries (UMIC)	4,280	5,679
Russia	0	14
	45,577	**50,239**

8. Income taxes

	2023	2022
Stamp duty	0	1
Withholding taxes on dividends	1	9
Tax on corporate income	56	0
Withholding taxes on payrolls	-16	31
	41	**41**

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. 2023	3,173	2,648	5,821
Increases	12	16	28
Acquisition cost 31 Dec. 2023	3,186	2,664	5,849
Accumulated depreciations 1 Jan. 2023	-2,049	-2,522	-4,570
Depreciation of the accounting period	-373	-118	-492
Accumulated depreciations 31 Dec. 2023	-2,422	-2,640	-5,062
Book value 31 Dec. 2023	**764**	**24**	**787**
Book value 31 Dec. 2022	1,125	126	1,251

10. Investments / Shares and funds

	Participating interests	Others	Total
Acquisition cost 1 Jan. 2023	110,795	257,954	368,749
Increases	52,606	47,315	99,921
Transfer between items	4,482	-4,482	0
Decreases	-34,826	-17,596	-52,422
Acquisition cost 31 Dec. 2023	133,056	283,192	416,248
Individual write-offs accumulated as of 1 Jan. 2023	-24,484	-32,058	-56,542
Reversal of write-offs	6,288	1,931	8,218
Write-offs during the financial year	-202	-10,690	-10,891
Individual write-offs accumulated as of 31 Dec. 2023	-18,398	-40,818	-59,215
Book value 31 Dec. 2023	**114,658**	**242,375**	**357,033**

Investments / Loans

	Participating interests	Others	Total
Acquisition cost 1 Jan. 2023	7,213	422,197	429,410
Increases	0	76,896	76,896
Capitalised interest	0	658	658
Decreases	-292	-103,411	-103,702
Acquisition cost 31 Dec. 2023	6,921	396,340	403,261
Individual write-offs accumulated as of 1 Jan. 2023	-1,555	-42,468	-44,023
Reversal of write-offs	0	15,475	15,475
Write-offs during the financial year	0	-9,471	-9,471
Individual write-offs accumulated as of 31 Dec. 2023	-1,555	-36,463	-38,019
Book value 31 Dec. 2023	**5,366**	**359,877**	**365,242**

11. Subordinated receivables

	2023	2022
Capital loans to participating interests	5,366	5,657
Capital loans to others	122,170	111,108
	127,536	**116,765**

12. Other long-term receivables

	2023	2022
Derivative receivables	5,850	2,963
Rent security deposit	15	20
	5,866	**2,983**

13. Receivables from participating interests

	2023	2022
Legal expenses	6	172
Other	0	30
	6	**202**

14. Other receivables

	2023	2022
Derivative receivables	4,855	10,715
Other	0	43
	4,855	**10,758**

15. Accrued income

	2023	2022
Interests	6,619	5,180
Other	1,692	1,401
	8,311	**6,581**

16. Marketable securities

	2023	2022
Fair value	95,862	47,545
Book value	95,700	47,545
Difference	**162**	**0**

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.

	2023	2022
Restricted equity		
Share capital 1 Jan.	276,988	266,989
Increase of share capital	10,000	10,000
Share capital as of 31 Dec.	286,988	276,988
Unrestricted equity		
Profit from previous financial years 1 Jan.	24,437	24,112
Retained earnings 31 Dec.	24,437	24,112
Profit/loss for the financial year	3,803	324
Total unrestricted equity	28,240	24,437
Total equity	**315,228**	**301,425**

Share capital

	2023	2022
Number of shares	1,688,167	1,629,344
Nominal value, EUR	170,00	170,00

18. Loans with maturity more than 5 years

	2023	2022
Private placement	100,000	0
Loans from credit institutions	2,413	7,500
Loans from government	331,613	335,806
	434,026	**343,307**

19. Private placements

	2023	2022
Sustainability Bond 2022/2025 Bullet 6m Euribor + 125bps 0% floor	75,000	75,000
Private Placement Green Bond 2023/2033 Bullet Fixed 3,5%	100,000	0
	175,000	75,000

20. Other short-term debt

	2023	2022
Loans from financial institutions	9,653	12,001
Advances received	2,454	0
Derivative liabilities	0	29
Accounts payable	640	479
Other	8,537	308
	21,285	**12,817**

21. Accruals and prepaid income

	2023	2022
Deferral of personnel expensed	4,549	3,866
Interest	2,430	2,293
Other	12	12
	6,991	**6,172**

Other supplementary information

EUR 1,000

Other contingent liabilities

The company has a non-fixed-term lease on its office premises. The lease period and the tenure began on 1 March 2019 and may be terminated for the first time on 31 May 2025 with a 12 month notice period. Monthly rent excluding VAT is EUR 49,341.00, from 1 March 2021 EUR 50,775.20, from 1 March 2022 EUR 52,504.77, from 1 March 2023 EUR 55,458.17. 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 began on 1 April 2022. The monthly rent excluding VAT is approximately EUR 3,200, including the service charge and parking costs.

	2023	2022
Payable in the next financial period	704	668
Payable later	1,053	1,679

Other commitments

	2023	2022
Undisbursed commitments		
Contractual commitments	258,000	234,000
Special risk finance (cumulative)		
Decisions of the Board of Directors	279,593	271,099
Government's indemnity	138,247	132,212
Government's indemnity, %	49%	49%
Disbursements	197,413	183,152

Derivative contracts

Fair values of derivatives in financial assets and liabilities

	2023			2022		
Receivables	Short-term	Long-term	Total	Short-term	Long-term	Total
Forward exchange agreements	4,784	–	4,784	10,526	–	10,526
Interest rate swaps	70	1,744	1,814	189	2,963	3,152
Currency and interest rate swaps	–	4,106	4,106	–	–	–
Total	4,855	5,850	**10,705**	10,715	2,963	**13,678**

	2023			2022		
Liabilities	Short-term	Long-term	Total	Short-term	Long-term	Total
Forward exchange agreements	–	–	–	29	–	29
Interest rate swaps	–	1	1	–	–	–
Currency and interest rate swaps	–	–	–	–	–	–
Total	0	1	**1**	29	0	**29**

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.

	2023				2022			
Receivables	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Forward exchange agreements	–	4,784,	–	4,784	–	10,526	–	10,526
Interest rate swaps	–	1,814	–	1,814	–	3,152	–	3,152
Currency and interest rate swaps	–	4,106	–	4,106	–	–	–	–
Total	0	10,705	0	**10,705**	0	13,678	0	**13,678**

	2023				2022			
Liabilities	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Forward exchange agreements	–	–	–	–	–	29	–	29
Interest rate swaps	–	1	–	1	–	–	–	–
Currency and interest rate swaps	–	–	–	–	–	–	–	–
Total	0	1	0	**1**	0	29	0	**29**

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 Sofr/Libor interest rates. The EUR/USD exchange rate change 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	2023	2022
Change of +/- 1% in EURIBOR interest	0 / 0	0 / 0
Change of +/- 1% in LIBOR interest	730 / -730	352 / -352
Change of +/- 10% in EUR-USD exchange rate	11,990 / -11,990	284 / -284

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 2023.

Undiscounted cash flow resulting from derivatives

	2023				2022			
Receivables	Under 1 year	1 - 5 years	Over 5 years	**Total**	Under 1 year	1 - 5 years	Over 5 years	**Total**
Forward exchange agreements	169,009	–	–	169,009	384,094	–	–	384,094
Interest rate swaps	1,559	1,734	35	3,327	1,690	2,212	–	3,903
Currency and interest rate swaps	4,492	28,843	117,500	150,835	–	–	–	–
Total	175,060	30,576	117,535	**323,171**	385,784	2,212	0	**387,997**

	2023				2022			
Liabilities	Under 1 year	1 - 5 years	Over 5 years	**Total**	Under 1 year	1 - 5 years	Over 5 years	**Total**
Forward exchange agreements	164,819	–	–	164,819	376,069	–	–	376,069
Interest rate swaps	299	393	23	715	490	719	–	1,209
Currency and interest rate swaps	7,765	40,924	130,156	178,845	–	–	–	–
Total	172,883	41,317	130,179	**344,380**	376,559	719	0	**377,277**

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 2023	EUR/USD	1,105

BOPA, a Finnfund's investee since 2017, is specialised in funding and developing small and midsize microfinance institutions in Asia. These microfinance institutions currently serve over 600,000 clients of which many are female entrepreneurs in rural areas. Read more on our website. *Photo: BOPA*

Signatures of Board of Directors' report and financial statements

Helsinki, 4 April 2024

Robert Wihtol
Chair

Nicholas Andersson
Member of the Board

Anu Hämäläinen
Member of the Board

Jari Salokoski
Member of the Board

Helena Airaksinen
Member of the Board

Jussi Haarasilta
Member of the Board

Sari Nikka
Member of the Board

Jaakko Kangasniemi
Managing Director, CEO

Auditor's note

Our Auditor's report has been issued today.

Helsinki, 4 April 2024

Deloitte Oy
Audit Firm

Aleksi Martamo
APA

Auditor's report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of The Finnish Fund for Industrial Cooperation (business identity code 0356880-6) for the year ended 31 December, 2023. 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 4, 2024

Deloitte Oy
Audit Firm

Aleksi Martamo
KHT (APA)

Statement of the Supervisory Board

At the meeting held today, the Supervisory Board of the Finnish Fund for Industrial Cooperation Ltd. examined the report of the Board of Directors and the corporation's financial statements prepared by the Board of Directors and the Managing Director, and the Auditors' Report for 2023. 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, 10 April 2024

Johannes Koskinen

Eva Biaudet	**Jarkko Eloranta**
Noora Fagerström	**Veronika Honkasalo**
Anne Kalmari	**Juha-Erkki Mäntyniemi**
Mikko Polvinen	**Sakari Puisto**
Nasima Razmyar	**Juha Ruippo**
Ville Valkonen	**Petri Vuorio**

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For more information,
please visit
www.finnfund.fi