finnfund

4.6.2025

Disclosure Statement

Operating Principles for Impact Management

Finnfund (the “Signatory”) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the “Impact Principles”).

This Disclosure Statement applies to the following assets (the “Covered Assets”): Finnfund’s total portfolio.

The total assets under management in alignment with the Impact Principles is US$807.7 million as of 31 December 2024.

4 June 2025

Finnfund
Jaakko Kangasniemi
Managing Director, CEO

IMPACT STATEMENT, IMPACT MANUAL

Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives[1] for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio. .

Finnfund was founded in 1980 to promote social and economic development in developing countries.

- According to the Finnfund Act (291/79): "The Company (Finnfund) shall promote the economic and social development of countries which the OECD DAC has classified as developing countries by directing human and material resources to the development of the industrial and other economic corporate activity of these countries."

- The Finnish State owns 96.6% of Finnfund and the Ministry for Foreign Affairs of Finland is charged with steering Finnfund. The Ministry for Foreign Affairs of Finland issues a *Government Ownership Steering Memorandum*, in which it sets Finnfund's development policy and operational goals. Finnfund's Board of Directors monitors the achievement of these objectives.

- In 2023, an *Ownership Steering Memorandum* was issued for the period 2024-2027, coinciding with the Government's expected tenure. The Memorandum encourages Finnfund to prioritise digital infrastructure and solutions, sustainable forestry, and Ukraine. Finnfund is expected to strengthen its role in financing green transition and promote gender equality through its investments. The Memorandum also reinstates the Government's wish that Finnfund should work more with Finnish companies. The new priorities outlined in the *Memorandum* for 2024 -2027 were immediately taken into account in operational guidance for 2024.

- With the new *Memorandum* in place, a review of our strategy was launched in 2024, based also on inputs received through stakeholder surveys. In December 2024 Finnfund's Board of Directors approved an updated Strategy 2024-2027 for the company. Finnfund's mission is to build a sustainable future and generate lasting impact by investing in businesses that solve global development challenges with Finnish added value. Our vision is that people and the planet are at the core of every investment decision. As a development financier, we drive sustainable and profitable growth in emerging and developing economies. This strategy emphasises the opportunities of digitalisation and technology as catalysts for positive change and development, climate change mitigation and adaptation, the significantly changed geopolitical landscape, and the reconstruction of Ukraine.

- Finnfund's strategy guides investments towards businesses that contribute to the Sustainable Development Goals (SDGs). When making investment decisions Finnfund assesses each investment against the SDGs. For each new investment, two SDGs and targets are chosen to describe the investment's contribution towards the SDGs. Our theories of change (see also Impact Principle 4) link our investments to SDG 1, 2, 3, 4, 5, 7, 8, 9, 10, 12, 13 and 15. Investments not covered by our ToCs also link to SDGs 11, 14 and 17.

- To achieve our goals, Finnfund will focus on three key areas and three enablers to fortify our impact globally:

[1] Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC (www.oecd.org/dac/).

- Established role as a technology-driven impact investor
  - Double investments in digital technology
- Climate and nature driving Finnfund's investments
  - Allocate half of all new investments to climate and nature
- Spur growth, decent jobs and livelihoods
  - Grow local impact by one-third

- In August 2024 Finnfund's Board adopted Finnfund's Nature and Biodiversity Statement, bringing together our guiding principles and goals based on which Finnfund strives to strengthen the well-being and diversity of nature and to mitigate possible nature and biodiversity risks in our investment activities. The policy statement is built on three key targets: ensuring there is no net loss of biodiversity in our investments; developing and fostering nature and biodiversity net gains; and promoting more systematic, harmonised and transparent nature-related financial disclosures and reporting. Gender equality also continues to be an important objective for Finnfund as detailed in Finnfund's Gender Statement. Our commitment to align all new investments with the Paris Agreement and make EUR 1 billion worth of new investments in climate finance by 2030, as outlined in Finnfund's Climate and energy statement, also continue to be applied. In line with our updated strategy for the period 2024–2027, we will be assessing the need to refine parts of our climate and energy statement in spring 2025.

Principle 2: Manage strategic impact on a portfolio basis

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

- Strategic impact is at the core of Finnfund's incentive structure. Finnfund's Board annually sets company-level KPIs, which are used to define staff bonuses for the subsequent year. While some company-level KPIs are based on commercial considerations, 60% of company-level KPIs are derived from project points awarded to each investment. Project points, in turn, are calculated in part based on how an investment addresses Finnfund's strategic priorities related to climate, gender, local jobs and growth, biodiversity and additionality in impact or sustainability.

- Development impact scoring is completed for every new investment with Finnfund's bespoke Development Effect Assessment Tool (DEAT). This *ex ante* scoring is done twice: first for the investment committee meeting to obtain Clearance in Principle to continue preparation of an investment; and second for the Board meeting for the approval of the investment.

- DEAT is comprised of three sections: strategic relevance (40%), market impact (40%) and additionality (20%). The strategic relevance section seeks to assess the proposed investment's alignment with Finnfund's strategic objectives. The specific questions in the section relate to the ODA status of the project country, sector of activity, inclusivity of the business model, gender, climate change, biodiversity and breadth and depth of CSR activities. The market impact section seeks to assess the availability, reliability and affordability of investees' products and services, the effects on local producers and suppliers, the effects on local competition and markets, impacts on exports / balance of payments, payments to governments as well as direct job creation. The additionality section seeks to assess Finnfund's role both from a financial additionality and value additionality perspective.

- To monitor the overall development impact of Finnfund's portfolio, Finnfund developed a bespoke portfolio impact index. In the index, each sector is assigned a key impact indicator that captures both portfolio growth and investee level impact growth. The values in the index are attributed, take into account Finnfund's financing share of the investee company, and relative size of each sector in Finnfund's portfolio. For the strategy period 2024 – 2027 the baseline was set at 2023, with a target to increase the index by 30% by 2027, reflecting also an increase in our portfolio size.

- Sector specific impact key performance indicators (KPIs) are:
  - **Sustainable forestry:** Sequestered CO_2. While forestry investments have multiple impact pathways, a key reason to invest in forestry is the carbon that they sequester from the atmosphere, thereby contributing to climate change mitigation.
  - **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. It also avoids greenhouse gas emissions from more polluting forms of energy.
  - **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. This is especially important in developing countries in which Finnfund invests.
  - **Financial institutions**: Number of loans to micro-, small- and medium-sized enterprises (MSMEs). While MSMEs form the backbone of developing countries' economies, limited access to financial services remains a fundamental constraint to 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).

  In addition, Finnfund tracks progress against its three key strategic goals from the strategy 2024 – 2027, as shown below (please see Finnfund's Annual Report 2024 for more details):

Principle 3: Establish the Manager's contribution to the achievement of impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial *and/or non-financial channels.[2] The narrative should be stated in clear terms and supported, as much as possible, by evidence.*

- In consonance with SDG 17, Finnfund's niche and task is to provide additional financing to underserved markets and companies. In many developing countries, especially in the poorest ones, small and medium-sized businesses struggle to find risk-tolerant long-term finance[3].

- All Finnfund's investments are assessed on the basis of their additionality, and additionality is one of the three sections in Finnfund's DEAT. Additionality is also a central tenet of Finnfund's company level KPIs (see above).

- For Finnfund, financial additionality means providing financing to underserved geographies, economic sectors or segments, accepting higher risk and providing longer tenors. As a proxy for additionality in its DEAT assessment, Finnfund uses an average of three indicators addressing different dimensions of additionality, as measured by the scarcity of financing with regard to each investment. The first proxy is participation of other financiers in a transaction, where the highest score for financial additionality is awarded for investments in which Finnfund is the sole financier in addition to the sponsors, and the lowest score for additionality is awarded for investments where also private finance is available. The second proxy is Domestic credit to private sector (% of GDP). This World Bank indicator refers to domestic financial resources provided to the private sector by financial corporations. The third proxy for financial additionality is the country risk rating set by Finland's export credit agency Finnvera. In addition, each investment includes consideration if Finnfund has had a catalytic role by mobilising additional financing for the project from third parties, which leads to an additional point in scoring.

- For Finnfund, value additionality is a qualitative measure, brought through Finnfund's organisational experience with respect to a specific sector, country, or project type, that can contribute in a demonstrable and significant manner to the successful completion and realisation of an investment. Examples include expertise and advice in environmental, social or corporate governance issues, in climate change mitigation and adaptation, carbon accounting, or development impact. Supporting an investee with a broad range of impact surveys or other assistance are examples of value additionality that Finnfund can bring to an investee, providing first-hand information on customer experiences, employee concerns or value chain related information.

Principle 4: Assess the expected impact of each investment, based on a systematic approach

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact[4] potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?[5] The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider

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[2] For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.
[3] Enterprise surveys clearly show that lack finance is the biggest challenge for companies in emerging markets.
[4] Impact is considered the material effect/s on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
[5] Adapted from the Impact Management Project (www.impactmanagementproject.com).

opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards[6] and follow best practice.[7]

- Finnfund has developed Theories of Change (ToC) for our five priority sectors. The ToCs were developed based on existing literature of academic and non-academic research, expert opinions and analytical thinking. ToCs are causality frameworks comprising three spheres of impact (company/economy, people/society, environment/climate) and three dimensions of impact (direct, indirect, wider/systemic). ToCs guide our *ex ante* assessments to link the direct impact of our investment to the SDGs. They are also a tool in selecting, together with our investees, development impact KPIs for which baselines and predictions are established at investee level.

- *Ex-ante* assessments also include a summary table highlighting 1) what are the main outcomes of the investment; 2) who are the main beneficiaries of the outcomes and how are they underserved; 3) what is the scale, depth and duration of the outcome?; 4) what is Finnfund's contribution to the achievement of the outcomes; and 5) what is the most important risk for the achievement of the impact, its likelihood to materialise and mitigation measures?

- In selecting suitable indicators, Finnfund uses HIPSO and EDFI harmonised indicators when applicable.

Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG)[8] risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice.[9] As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

- Finnfund has adopted a Sustainability Policy that outlines Finnfund's commitment to sustainable development and responsible business practices. The Policy covers environmental, social and governance issues including human rights and development impact created through sustainable business practices.

- In all investments, Finnfund requires its investees to comply with applicable host country laws and regulations as well as relevant international obligations. All Finnfund's investments associated with medium to high inherent environmental and social risks and adverse impacts are, over a reasonable period of time, required to achieve compliance with international standards on environmental and social management and performance. The investment and the associated

[6] Industry indicator standards include HIPSO (https://indicators.ifipartnership.org/about/); IRIS (iris.thegiin.org); GIIRS (http://b-analytics.net/giirs-funds); GRI (www.globalreporting.org/Pages/default.aspx); and SASB (www.sasb.org), among others.
[7] International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.
[8] The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6
[9] Examples of good international industry practice include: IFC's Performance Standards (www.ifc.org/performancestandards); IFC's Corporate Governance Methodology (www.ifc.org/cgmethodology), the United Nations Guiding Principles for Business and Human Rights (www.unglobalcompact.org/library/2); and the OECD Guidelines for Multinational Enterprises (http://mneguidelines.oecd.org/ themes/human-rights.htm).

impacts and risks define the standards to be applied but overall, the principal environmental and social risk management framework adopted consist of the IFC Performance Standards on Environmental and Social Sustainability, and the associated WB Group general and industry specific Environmental, Health and Safety Guidelines.

- Finnfund has prepared a Human Rights Statement to actively and continuously identify, avoid, mitigate and manage potential and actual adverse human right impacts related to its transactions, and take actions to address them using the UN Guiding Principles for Business and Human Rights (UNGPs) as a practical framework.

- Finnfund has developed specific procedures for environmental, social and human rights risk due diligence, management and monitoring as well as corporate governance, corruption and taxation matters. All these are integrated into the investment process and codified in Finnfund's internal guidelines and handbooks. Different procedures are applied for direct and indirect investments as well as for different financing instruments. Finnfund focuses on the key ESG and human rights impacts, benefits, risks and opportunities relevant for each project. The higher the risks are, the more stringent the requirements become.

- Finnfund, together with investees, often develops a project-specific Environmental and Social Action Plan (ESAP) based on the gaps identified during the environmental and social due diligence process. Finnfund supports the investees in meeting the requirements of the ESAPs and monitors compliance through regular communications and on monitoring visits.

- Finnfund identifies and analyses physical and transition climate risks and adaptation opportunities as part of the investment process. Finnfund's investment teams use various climate risk assessment tools, including some developed in-house, to identify location and sector specific climate hazards and exposure to these risks, and to assess the potential contribution of an economic activity to adapt to climate change and increase climate resilience. If an investee is exposed to physical climate risks based on country and sector context, further climate risk and adaptive capacity analysis is required. The residual climate risk rating of an investment may impact an investments credit rating.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action.[10] The Manager shall also seek to use the results framework to capture investment outcomes.[11]

- Finnfund operates a layered monitoring system using quantitative and qualitative data collection and analysis methods. The aim of the system is to serve as a cost-efficient method for analysing

[10] Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio's expected impact performance.
[11] Outcomes are the short-term and medium-term effects of an investment's outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).

the direct, indirect and wider development impacts of the investments. At an annual level we aim to use our various impact monitoring tools as per the below table.

METHOD	ANNUAL SAMPLE	QUALITATIVE / QUANTITATIVE	IMPACT DIMENSION	WHO CONDUCTS?
Annual monitoring	100+	Quantitative	Direct	Self
Portfolio Management Committees	100+	Quantitative / qualitative	Direct	Self
Client insight and impact surveys	10	Quantitative / qualitative	Direct/indirect	3rd party
Job decency surveys	5	Quantitative / qualitative	Direct/indirect	3rd party
Impact studies	1-3	Quantitative / qualitative	Indirect/wider	3rd party
Gender assessments	3	Qualitative	Direct/indirect	3rd party
Paris alignment assessments	2	Quantitative / qualitative	Direct/indirect	3rd party

- Investee level impact monitoring takes place annually. The relevant indicators and timing of the reporting cycle are included in funding agreements. Since 2019 Finnfund has requested annual development impact data from investees through an online system. The results are published annually in Finnfund's Annual Report that presents the findings at aggregate, sector and portfolio level. Since 2021, together with investees, Finnfund has set two specific development impact key performance indicators for each investee, together with anticipated annual results / targets. The indicators and targets are set with a view to integrate impact management at the investee level.

- Annually, each investment is presented internally in Finnfund to the Portfolio Management Committee, which is responsible for monitoring the progress of investments against set commercial, environmental and social, and impact targets. In case deviations from the original targets or predictions are detected, the responsible portfolio manager seeks reasons for the deviation and decides on subsequent actions. Typically, the deviations are due to worse than expected business performance of the company, caused by internal or external (market) factors, which often commercial, ES and development impact indicators. In case the reason is deemed to be an internal management issue, corrective measures are sought. If the less-than-expected performance is due to changes in the wider market situation, possibilities for corrective measures are limited.

- In addition to annual monitoring, Finnfund commissions impact publications and reports to better understand the indirect and wider impacts of its investments and the context in which they operate. Since 2021, Finnfund has commissioned regular rapid surveys to collect outcome level data on the impacts on Finnfund's investees' employees, clients and other stakeholders. We also raise awareness of our work through impact stories we publish on our investees' work.

Principle 7: Conduct exits considering the effect on sustained impact.

When conducting an exit,[12] the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

[12] This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.

- When conducting an exit from an equity investment, the transaction team completes an exit memo. The memo includes a reflection of the achievements against set targets.

- The exit memo includes a specific section for development impact where key impacts are presented and compared to the impacts anticipated at the time of the investment. The memo also explores progress regarding environmental and social matters and possible negative impacts. The exit memo places emphasis on how to best to ensure sustained impact after exit. This includes an analysis of the capacity and commitment of the management, exit partners' commitment and track record, and a discussion on future of extension plans and commitments made to local communities or other stakeholders possibly at risk.

Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

- The Portfolio Management Committee process described above and the standardisation of impact assessment in that process generates useful information for decision-making. The Portfolio Management Committee systematically reviews the commercial, ES and impact performance of each investment annually. The development impact assessment presented to the Committee addresses progress against the agree development impact KPIs, as well as an assessment of climate, gender and additionality dimensions of each investment.

- Another highly useful tool to provide information to improve decision making are the diverse rapid surveys that provide valuable information on investees' performance from the perspective of its employees, clients and other stakeholders. Standardised surveys include sections on respondents' socio-economic status benchmarked to Poverty Probability Indices, the impact of investees' products or services on customers, or qualitative input or perceptions on job decency Surveys often also provide additional insights for improving an investee's performance.

Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification[13] of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

- This statement serves as Finnfund's testimony of its continued alignment to the Impact Principles. Finnfund's statement and information contained therein was independently verified in February - March 2021 by BlueMark, which is a leading provider of independent impact verification and intelligence for the impact and sustainable investing market. BlueMark is headquartered at 915 Battery Street, San Francisco, CA 84111, USA.

- The independent verification report can be found here.

- Finnfund intends to commission the next independent verification in 2025.

[13] The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality

Disclaimer:

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