

**The Industrialisation Fund for Developing  
Countries (IFU)**

**Annual Report 2008**

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## **Legal mandate**

“For the purpose of promoting economic activity in developing countries, IFU has been created to promote investments in these countries in collaboration with Danish trade and industry.”

The Act on International Development Cooperation,  
The Danish Parliament, 7 June 1967.

## **Mission, Vision & Strategy**

### **Mission:**

To enhance global economic growth, development and more equitable income distribution through increased global flow of socially and environmentally responsible, productive investments making optimal use of comparative advantages.

### **Vision:**

To contribute through information and advice in connection with co-investments to enhance Danish enterprises' active participation in the global flow of productive investments towards developing countries.

### **Strategy:**

To become known, recognised and used by all relevant Danish enterprises as a competent provider of know-how, experience and external financing as well as their most preferred investment partner in developing countries.

## Welcome note from the CEO

Dear Reader,

2008 will be remembered as the year of one of the worst economic crises ever, and here at the beginning of 2009 there are no signs of an early recovery. IFU has not been unaffected by the crisis. We have seen partner companies withdraw from planned investments or ask for extension of commitments. At the same time, we have been approached by financially solid companies determined to go ahead with planned investments, but faced with a shortage of capital.

Such difficult circumstances clearly demonstrate the usefulness of institutions like IFU. IFU can provide risk capital to companies with solid business plans, IFU is a flexible partner when it comes to financial solutions, and IFU can provide professional advice on steps ahead. It is too early to estimate the full effect of IFU's engagement in crisis-ridden companies, but I would not be surprised to see an increase in the demand for IFU's services.

Looking at IFU's own performance, there is no strong indication of a crisis. We contracted a higher number of investments in 2008 than in 2007, and the volume was approximately the same, DKK 451m. IFU's net income amounted to DKK 106m, corresponding to a return on assets of 4.7%. Taking the difficult economic conditions into account, I find the result satisfactory, but recognize that we have a difficult year ahead of us. As the financial crisis has now begun to hit the world's poorest countries, we will most likely face a negative pressure on our income in 2009.

IFU has put special focus on stimulating investments in Africa, and over the past ten years we have managed to contract an increasing number of investments in the continent. In 2008, we continued along that path with Africa making up a share of 39% of our total contracted investments.

Corporate social responsibility, CSR, remains an important pillar of IFU's co-investments with Danish companies, and we constantly strive to broaden the knowledge and implementation of the policy. In 2008, IFU signed up to the UN Global Compact and its ten principles, which IFU has already adhered to for a number of years, and we will continue to implement and advance these principles together with the project companies.

Finally, on a practical note, I would like to mention that as of 2008, only an **Annual Summary**, and not the full version of IFU's Annual Report, will be printed and published in hard copy. The Annual Summary is only half the length of the Annual Report and much easier to read. You can find the full Annual Report, including statements by the Management and the independent Auditors, on our website at [www.ifu.dk](http://www.ifu.dk).

I hope that you will appreciate this new format and find the contents of this publication informative and inspirational.

Finn Jønck  
Managing Director

## Changes to the Executive Board

### **Torben Huss** **New Deputy Managing Director**

**Profile** On 1 January 2009, Torben Huss took up the position as Deputy Managing Director of IFU and its sister fund IØ. From 2002-2008, he was Department Director of the Funds' Project Development Department, which is responsible for new project investments.

Torben Huss, 46, has a master's degree in Political Science from the University of Copenhagen and a PhD in business economics from Copenhagen Business School.

Torben Huss has been working for the Funds for the past 16 years. He began as an Investment Manager primarily dealing with Latin America. He was also head of IFU's regional office in Latin America.

Before he joined the Funds, he worked at United Nations Centre on Transnational Corporations (UNCTC) that helped developing countries implement foreign direct investment policies.

Torben Huss is a member of the Advisory Board of Center for Strategic Management and Globalization at Copenhagen Business School, where he is also an external examiner.

### **Frank Norman Larsen** **Former Deputy Managing Director**

At the end of 2008, Deputy Managing Director Frank Norman Larsen resigned from the Funds to take up a new job as Vice President at the Aalborg Portland Group being responsible for the Group's activities in Asia and the Middle East.

## **Statement by the Management on the Annual Report**

The Executive and Supervisory Boards have today considered and approved the Annual Report for the year ended 31 December 2008.

The Annual Report has been presented in accordance with the Danish Financial Statements Act.

We consider the accounting policies used appropriate and the accounting estimates made reasonable. To the best of our belief, the Annual Report includes the information which is relevant for an assessment of the Fund's financial position. Accordingly, it is our opinion that the Annual Report gives a true and fair view of the Fund's assets and liabilities, financial position, results of operations and cash flows for the year ended 31 December 2008.

Copenhagen, 5 March 2009

### **Executive Board:**

Finn Jønck, Managing Director

Torben Huss, Deputy Managing Director

### **Supervisory Board:**

Johannes Poulsen, Chairman

Michael Rasmussen, Deputy Chairman

Lars Andersen

Sigurd Ø. Andersen

Elsebeth Budolfson

Betina Hagerup

Ib Petersen

Christina Rasmussen

## **Independent Auditors' Report**

### **To the Supervisory Board of the Industrialisation Fund for Developing Countries (IFU)**

We have audited the Annual Report of IFU for the financial year ended 31 December 2008, which comprises the Statement of the Supervisory and Executive Boards on the Annual Report, the Management's Review, a summary of significant accounting policies, the income statement, balance sheet, statement of changes in equity, cash flow statement for the year then ended and notes. The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

### **The Supervisory and Executive Boards' Responsibility for the Annual Report**

The Supervisory and Executive Boards are responsible for the preparation and fair presentation of this Annual Report in accordance with the Danish Financial Statements Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an Annual Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility and Basis of Opinion**

Our responsibility is to express an opinion on this Annual Report based on our audit. We conducted our audit in accordance with Danish Standards on Auditing and agreement between the Minister for Foreign Affairs and Auditor General regarding the audit of IFU. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Annual Report, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Annual Report 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 entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Supervisory and Executive Boards, as well as evaluating the overall presentation of the Annual Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit did not result in any qualification.

### **Opinion**

In our opinion, the Annual Report gives a true and fair view of the Fund's financial position at 31 December 2008 and of the results of its operations and its cash flows for the financial year then ended in accordance with the Danish Financial Statements Act.

Copenhagen, 5 March 2009

### **Ernst & Young**

Statsautoriseret Revisionsaktieselskab

Svend Duelund Jensen  
State Authorised Public Accountant

Henrik Barner Christiansen  
State Authorised Public Accountant

## Summary 2008

- 36 new projects with an expected total employment of 4,045 people. 13 projects were located in Africa
- Additional financing for 21 projects
- Net profit of DKK 106m
- Restructuring of the regional office in Johannesburg, South Africa
- Paid back DKK 200m to the Danish state – the total accumulated repayments thus amounting to DKK 950m
- A new strategy for IFU: “Facing New Challenges” was approved by IFU’s Board
- An increased focus on climate-related investments, including joining the NEFCO Carbon Fund (NeCF)
- Joined the UN Global Compact and launched a revised CSR policy
- CSR review of IFU’s Chinese project portfolio
- A total fulfilment of IFU’s success criteria of 80%

## Financial and developmental highlights

	2008	2007	2006	2005	2004
	<u>DKKm</u>	<u>DKKm</u>	<u>DKKm</u>	<u>DKKm</u>	<u>DKKm</u>
<b>Financial highlights</b>					
<u>INCOME STATEMENT</u>					
Gross contribution from projects <sup>1</sup>	115	355	467	186	47
Operating income (loss) <sup>2</sup>	62	306	414	148	10
Net income for the year	106	332	425	154	31
<u>BALANCE SHEET AT 31 DECEMBER</u>					
Share capital investment in projects at cost	1.018	989	1.064	1.132	1.149
Project loans at cost	736	771	850	787	810
Total investment in projects at cost	1.754	1.759	1.914	1.919	1.959
Accumulated value adjustments	(293)	(318)	(470)	(796)	(930)
Investments in projects, net <sup>1</sup>	1.461	1.442	1.445	1.123	1.029
Cash and bonds	699	791	359	402	297
Repaid capital/paid-in capital during the year	(200)	0	0	0	(750)
Total equity capital	2.222	2.316	1.984	1.559	1.404
Total balance	2.253	2.341	2.015	1.588	1.436
<u>ADDITIONAL DATA</u>					
New projects contracted (no.)	36	33	34	26	30
Portfolio of projects (no.)	206	201	201	200	215
Investments contracted	451	464	498	364	444
Investments disbursed	369	260	372	282	374
<u>KEY RATIOS</u>					
Gross contribution from projects/Average investment in projects - value adjusted	7,9%	24,6%	36,4%	17,3%	4,8%
Operating income/Average total equity capital	2,8%	14,2%	23,4%	10,0%	0,6%
Net income for the year/Average total equity capital	4,7%	15,5%	24,0%	10,4%	1,7%
Accumulated value adjustments/Investment in projects at cost	-16,7%	-18,1%	-24,5%	-41,5%	-47,5%
Average number of full-time employees (all three funds)	73	76	75	74	75

<sup>1</sup> Information about composition of the contribution from projects including value adjustments can be found in "Financial review 2008" on page 26

<sup>2</sup> Operating income = gross contribution from projects less operating expenses

### Developmental and environmental highlights - ex ante <sup>1</sup>

Environmental Investment Ratio (Range: 0 - 100%)	31%	20%	45%	16%	19%
Total fulfilment of Fund's success criteria (Range: 25 - 100%) *	80%	81%	78%	76%	74%
Development impact	78%	83%	80%	82%	76%
Partner mobilisation	73%	69%	70%	62%	56%
Sustainability and profitability of projects	90%	87%	88%	75%	86%
Efficiency and effectiveness of Fund operation	81%	77%	68%	82%	79%

\* A minor correction of the figure for 2005 has been made in respect of total fulfilment of the Fund's success criteria. Detailed information about IFU's success criteria can be found on [www.ifu.dk](http://www.ifu.dk)

<sup>1</sup> Weighted by invested amounts, new projects.



## Management's review

### Main activities

IFU generated a net profit of DKK 106m in 2008 (DKK 332m in 2007). The performance was positive, but marked by the significant change in the global market conditions due to the financial crisis, which gained momentum especially in the second half of the year and had a negative impact on the valuation of the project companies and thereby on IFU's profit.

In 2008, IFU contracted investments of DKK 451m (464m in 2007) in 57 project companies (50 in 2007), of which DKK 323m (236m in 2007) was invested in 36 new project companies (33 in 2007). The expected direct employment in the 36 new projects was 4,045 (2,344 people in 2007). IFU provided additional financing in 21 ongoing projects employing 4,990 people.

In Africa, IFU's investment activities remained high, which is in line with IFU's focus on the poorer countries, and especially Africa. 13 of the new projects were related to Africa. When additional financing for four ongoing projects is added, Africa accounts for 39% of the total amount of IFU's contracted investments in 2008, thus remaining at the same high level as that of the previous year.

### Main features as at 31 December 2008

	Number	DKKm	EURm*
Net profit 2008		106.1	14.2
Total equity capital as at 31.12.2008		2,222.0	298.2
Investments contracted during 2008	57	451.4	60.6
Contracted investments for projects since establishment (1967-2008), of which	652	7,661.0	1,028.2
disbursed (1967-2008)**		5,652.9	758.7
payable at 31.12.2008		546.5	73.4
Number of countries that IFU has invested in (1967-2008)	79		

\*) Exchange rate: EUR 100 = DKK 745.06

\*\*) Disbursed investments are smaller than contracted investments primarily due to the following factors:

- A number of projects have not yet been implemented.
- Contracted investments in share capital normally include a commitment of a 25% overrun. Most often, this commitment is not disbursed.
- Part of the contracted investments is in the form of guarantees, which are normally not disbursed.

### Operational framework

IFU's legal mandate is to promote economic activity in developing countries by promoting investment in these countries in collaboration with Danish trade and industry. IFU was established by law in June 1967 as part of the Act on International Development Cooperation with the overall purpose to promote economic and social growth in developing countries.

IFU was established as a legally independent, self-governing entity, limited in its liability to the extent of its net worth only. IFU's Supervisory Board and the Managing Director are appointed by the Danish Minister for Development Cooperation.

IFU provides share capital participation, loans and guarantees on commercial terms for investments in production or service companies in developing countries. In 2005, the Danish government decided that only countries with a per capita income of less than USD 2,964 (2009) plus South Africa, Botswana and Namibia would be eligible for IFU financing. The Fund's revenues comprise interest income, dividends and profit from the sale of shares.

IFU operates on commercial terms and is self-financing.

As a pillar supporting IFU's investment activities, the Fund has implemented a corporate social responsibility (CSR) policy. The CSR policy is based on the principles of the UN Global Compact and seven international conventions and declarations and therefore aims to set high standards for environment, occupational health and safety, human rights and labour practices and overall business ethics.

By collaborating with IFU, partners gain access not only to financing, but also to the knowhow and experience from investments in more than 650 projects in 79 countries obtained by IFU since 1967, and to support from an extensive network of advisers and financial institutions. IFU is actively involved in both the start-up phase and the operations of a project, e.g. by sitting on the boards of the projects.

IFU continuously strives to further increase its investments in poor countries, particularly in Africa, and at the same time makes a targeted effort to improve the quality of the project portfolio with a view to remaining profitable and sustainable in its own right.

Africa continues to stand out as the region most in need of a strong and efficient strategy to overcome the many challenges and negative perceptions associated with investments on the continent, e.g. HIV/AIDS, corruption and inefficient infrastructure. The Fund constantly tries to identify new project opportunities in Africa as well as Danish companies with a specific or potential interest in Africa. For a more detailed description of IFU's Africa focus, see page 15.

Even though the focus on Africa is important to IFU, the Fund will also continue to play an active role in developing countries in other regions that meet the per capita income limit, for example in Asia, where poverty is also widespread.

### Investments in 2008 – an overview

With the establishment of 36 new projects in 2008, IFU experienced a continued high level of investment activity. The total investment in the new projects constituted DKK 323m. Three of the new projects were indirect projects, i.e. projects established as majority-owned subsidiaries of IFU's project companies. Additional financing in 21 ongoing projects amounted to DKK 129m. IFU's investments in new projects were aimed at 14 countries. In addition, three of the new projects had a regional African focus. The average amount invested in new projects was DKK 9.0m, which is 25% higher than the previous year.

67% of the new investments were made in the form of share capital and project loans with equity features.

Number of new projects	36	
Number of additional financing of ongoing projects	21	
<b>NEW PROJECTS</b>		
IFU's contracted investments	DKK 322.5m	EUR 43.3m
Expected total investments in projects	DKK 8,741.8m	EUR 1,173.3m
Investments in new and ongoing projects	DKK 451.4m	EUR 60.6m
Disbursement of share capital and loans	DKK 368.6m	EUR 49.5m
Paid-in from projects (dividends, interest, sale of shares and repayment of loans)	DKK 474.5m	EUR 63.9m
Expected direct employment in new projects	4,045 jobs	

The table below highlights climate-related investments in green.

INVESTMENTS CONTRACTED IN 2008		IFU's contracted investments in DKKm			EXPECTED EMPLOYMENT (PERSONS)	
Project name	Country	Shares *	Loans **	Total		
<b>New projects financed by IFU</b>						
<b>AFRICA</b>						
1	Micro Investment Facility (MyC4)	Africa (Regional)	5.0		5.0	50
2	Actis Africa 3 LP	Africa (Regional)	24.0		24.0	20
3	Merkur Development Loans*****	Africa (Regional)	7.5		7.5	40
4	Maersk Angola	Angola	11.7		11.7	561
5	Helnan Sharm	Egypt		6.0	6.0	37
6	Radisson Emerald	Ethiopia	6.7		6.7	250
7	Gam Wood Ghana	Ghana		6.0	6.0	60
8	Waste Recycling Ghana	Ghana	0.7	4.8	5.5	30
9	Rabai Power Plant	Kenya	51.0		51.0	50
10	Grundfos LIFELINK	Kenya	5.9		5.9	17
11	Radisson Bamako****	Mali				
12	Emperion Uganda	Uganda	1.5		1.5	24
13	Uganda Heavy Duty & Farm.	Uganda		5.0	5.0	30
	Subtotal Africa		<b>114.0</b>	<b>21.8</b>	<b>135.8</b>	<b>1.169</b>
<b>ASIA</b>						
14	NeCF	Asia (Regional)	18.7		18.7	0
15	Danasia Berry Corporation	China	1.9		1.9	57
16	7N Shenzhen	China	0.7		0.7	29
17	Jiangxi Daily Articles	China		9.6	9.6	1.300
18	Hebei Unitech Can	China	11.4	3.4	14.8	31
19	B2B Link China	China		3.7	3.7	15
20	Suzhou Migatronic	China		8.2	8.2	35
21	Maflow Dalian	China		14.6	14.6	151
22	Atlas Incinerators China	China	1.2		1.2	30
23	Bach Composite China	China	1.3		1.3	50
24	Agro Products	China		0.6	0.6	10
25	KK electronic China	China		8.0	8.0	150
26	Compact India	India	3.0		3.0	50
27	Nilpeter India Pvt. Ltd.	India	2.5		2.5	28
28	Ramboll IMI Soft	India	10.7		10.7	428
29	Rosti Tech Plastics India	India		18.7	18.7	150
30	SustainWater	Philippines	0.4	5.5	5.9	7
31	FMS Vietnam K/S	Vietnam	50.0		50.0	100
32	Polymax TLH	Vietnam	0.8		0.8	140
	Subtotal Asia		<b>102.6</b>	<b>72.3</b>	<b>174.9</b>	<b>2.761</b>
<b>LATIN AMERICA</b>						
33	Ingemann Honey	Nicaragua		2.0	2.0	50
34	Xoco Nicaragua****	Nicaragua				
	Subtotal Latin America		<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>50</b>
<b>EUROPE</b>						
35	Drvoart Bosnia	Bosnia Herzegovina		10.1	10.1	65
36	Carlsberg Montenegro****	Montenegro				
	Subtotal Europe		<b>0.0</b>	<b>10.1</b>	<b>10.1</b>	<b>65</b>
<b>Total, new projects***</b>			<b>216.6</b>	<b>106.2</b>	<b>322.5</b>	<b>4.045</b>

Additional financing of ongoing projects					ACTUAL DIRECT EMPLOYMENT
Project name	Country	Shares	Loans	Total	
<b>AFRICA</b>					
37 Finamark	Côte D'Ivoire	7.2		7.2	66
38 KBC (K)	Kenya		1.3	1.3	66
39 Ciments du Sahel	Senegal		29.8	29.8	1027
40 Masakhane Farming	South Africa		1.9	1.9	15
Subtotal Africa		<b>7.2</b>	<b>33.0</b>	<b>40.2</b>	<b>1.174</b>
<b>ASIA</b>					
41 Consumer Knitex	Bangladesh	1.8		1.8	963
42 Hindsgaul China	China		2.0	2.0	35
43 Hydra Tech	China		10.0	10.0	113
44 GPV (Suzhou) Co.	China	6.1#	8.0	14.1	252
45 Huhhot Hua Ou Starch	China	0.9		0.9	64
46 MBL China	China		7.5	7.5	746
47 Zhejiang Starco Huanmei	China		3.7	3.7	131
48 RM Group Ningbo	China	0.9		0.9	53
49 South Asia Breweries	India	8.7		8.7	749
50 Danish Steel Cluster	India		1.3	1.3	107
51 Roxul Asia	Malaysia	20.5#		20.5	150
52 Premier Dairy Food	Thailand	0.2		0.2	65
53 Porcelain Painting	Thailand		10.0	10.0	67
54 Zoma Thailand	Thailand	0.5		0.5	23
55 Flux International	Thailand		3.5	3.5	195
56 Orana Vietnam	Vietnam		2.4	2.4	83
57 Vidagis Co.	Vietnam		0.6	0.6	20
Subtotal Asia		<b>39.6</b>	<b>49.0</b>	<b>88.6</b>	<b>3.816</b>
<b>Total additional financing***</b>		<b>46.8</b>	<b>82.0</b>	<b>128.9</b>	<b>4.990</b>
<b>GRAND TOTAL ***</b>		<b>263.4</b>	<b>188.2</b>	<b>451.4</b>	<b>9.035</b>

\*) Incl. overrun commitments.

\*\*\*) Incl. guarantees.

\*\*\*\*) Totals may not add up due to rounded figures.

\*\*\*\*\*) Majority-owned subsidiaries of existing IFU projects. Financing for the subsidiary provided in full or part by the parent company and thus indirectly by IFU.

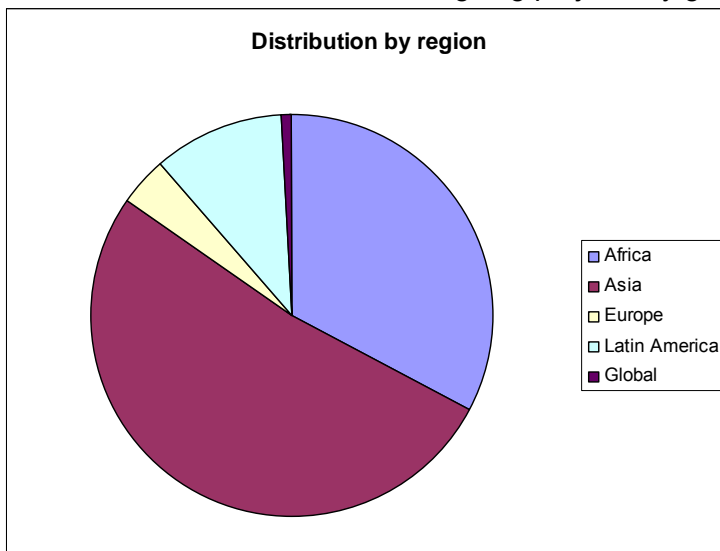
#####) Project can operate in all IFU eligible countries, but will primarily focus on Africa.

#) Loans converted into shares.

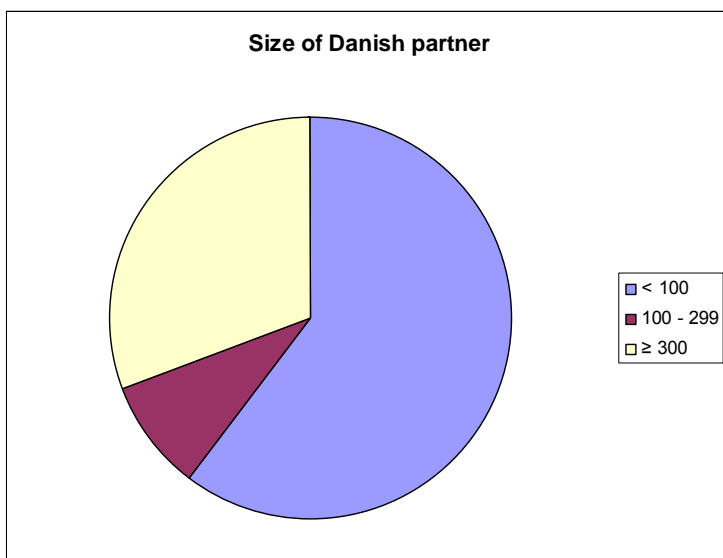
## Project investment portfolio

Up to the end of 2008, IFU had co-financed a total of 652 projects in 79 countries. Of these, 206 are ongoing investments, while IFU has exited 446 projects.

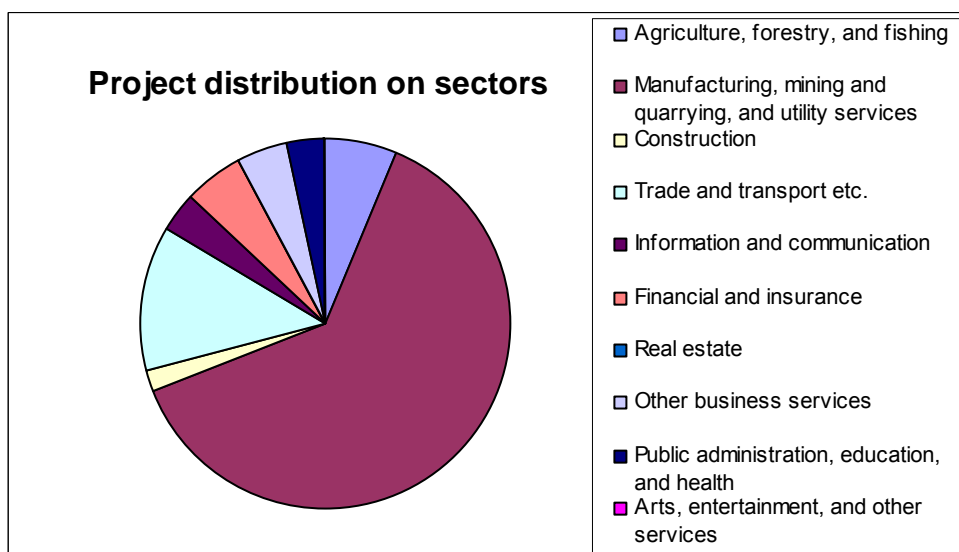
The distribution of the number of ongoing projects by geographic region is illustrated below:



The distribution of active investments by the size of the Danish partner (no. of employees) is illustrated below:



The distribution of active investments by main sector is illustrated below:



Information about all projects, ongoing as well as exited, can be found in a separate publication entitled IFU Portfolio List.

## Capital repayment

In 2008, IFU paid out DKK 200m to the Danish state, thereby bringing the total capital payment made by IFU to the state since 2004 to DKK 950m. Upon request from the government, IFU's Board has preliminarily accepted a further capital repayment of DKK 250m in 2009, which, when executed, will result in IFU having paid out approximately DKK 150m more than the total capital paid in since the Fund's establishment in 1967, DKK 1,051m.

## **Changes in eligible countries**

IFU's geographical area of operation has always been limited to developing countries below a certain level of per capita income, where the latter has been defined in relation to the Gross National Income (GNI) per capita. This measurement has been adjusted annually according to the latest annual statistics released by the World Bank. Since 2005, IFU's country limit has been defined as 80% of the upper limit for Lower Middle Income Countries (LMIC) according to the World Bank classification. In 2008, this was equivalent to USD 2,876, and for 2009, this figure has been adjusted slightly upwards to USD 2,964.

If a country's GNI per capita exceeds the limit for two consecutive years, it will no longer be eligible for new IFU investments. Each year, a number of countries have risen above the income ceiling limit. As of 1 January 2009, seven countries are no longer eligible for IFU investments. These are: Surinam, Algeria, the Islamic Republic of Iran, Thailand, Albania, Bosnia Herzegovina, and Peru. Over the years, IFU has participated in 38 projects in these countries, out of which 17 are still ongoing, primarily in Thailand (13).

In 2009, four countries have exceeded the IFU threshold limit for one year, and provided that this situation still persists at the time of the release of the next annual GNI statistics in mid-2009, those four countries will no longer be eligible as of 1 January 2010. They are: The Dominican Republic, Colombia, Ecuador and the Maldives.

Ongoing projects will continue until their planned exit.

## **GoGlobal cooperation**

The collaboration within the GoGlobal initiative continued in 2008. GoGlobal comprises IFU, the Export Credit Fund (EKF), the Ministry of Foreign Affairs (Danida), and the Trade Council of Denmark (TCD).

All of these institutions offer services and financing to Danish enterprises operating outside Denmark, including developing countries. The collaboration between the institutions aims to provide more specific information to interested companies and to offer additional knowledge to the GoGlobal employees. A total of eight of the new projects co-financed by IFU were established in close collaboration with Danida's B2B and PPP programme, primarily in Africa.

For further information about the GoGlobal initiative, go to [www.GoGlobal.dk](http://www.GoGlobal.dk).

## Strategy considerations

During 2008, extensive work was conducted with a view to elaborating a revised strategy for IFU and its sister fund IØ (the Investment Fund for Central and Eastern Europe), and it resulted in a new strategy titled: "Strategy for IFU/IØ. Facing New Challenges", which was approved by the Funds' board on 23 October 2008.

The new strategy identifies IFU's key challenges and describes how the Fund can fulfil its role as an important political and financial tool in the Danish development policy and – on a commercial basis – continue to contribute to strengthening the private sector's role in the Danish development policy in joint cooperation with other initiatives in this area.

The strategy approved by IFU's board confirms that investments in developing countries in collaboration with Danish trade and industry continue to be IFU's core business. Since IFU wishes to remain Danish companies' preferred partner when investing in developing countries, IFU will enhance its attractiveness and visibility in relation to current and potential future partners and assume a more proactive role when mapping and presenting project opportunities.

To meet the political priority for a sustained high investment level in Africa, special focus will be on projects in Africa. The establishment of an IFU representative office in West Africa forms an important part of this strategy. Furthermore, the strategy to focus on Africa will be further strengthened, if, as a supplement to its key activities, IFU is allowed to invest in Africa without always having a Danish partner. A proposal to this effect is expected to be submitted to the Danish parliament in 2009.

The strategy outlines the limitations that make it difficult to increase investment activities in Africa. An example hereof is that despite the improved investment climate in a number of African countries, many Danish companies still see Africa as a continent with high political and financial risks.

An important element in IFU's strategy is to mobilise an increased number of small and medium-sized Danish enterprises (SMEs) wanting to make investments in developing countries. IFU's SME strategy will entail an increase in the number of IFU's advisory services during the entire project cycle with a view to improving the quality of the projects and yielding a higher return.

IFU will endeavour to continue to be an attractive and flexible fund to all Danish enterprises and adjust its products to meet the requirements of the changing business environment. Larger companies usually have a higher development impact, but also a higher need for investment capital. IFU has therefore increased the indicative limit for IFU's participation per investment from DKK 50m to DKK 100m per project. The global financial crisis may also affect the demand for investment capital and the need for appropriate responses.

The strategy refers to the growing need for food in the developing countries, which calls for a strengthening of financial and technological measures in order to increase production and productivity in the full agricultural value chain. Where possible, IFU will exploit opportunities to contribute to an increased and more stable food production in the poorest countries, especially in Africa.

The strategy highlights climate as an area in which IFU will strengthen its measures in relation to all its activities, re the chapter on climate on page 19.

Within the CSR area, the strategy emphasizes IFU's continued commitment to maintain a strong focus on CSR and make the necessary adjustments to its guidelines.

## **Continued focus on Africa**

In 2008, IFU continued its efforts to increase its presence on the African continent resulting in the signing of 13 new investments committing a total amount of approximately DKK 135m, and another four additional investments in existing projects at a total amount of approximately DKK 40m.

### **Major achievements in Africa in 2008**

Four decades of experience in cooperating with Danish and African partners have given IFU a unique insight into the challenges and opportunities that potential investors face when venturing into the African continent. Examples of such challenges are insufficient energy supply, congested port terminals, poor internet infrastructure, inadequate access to water, risk-adverse investment funds not willing to invest in African companies with growth potential, and scarce financing for the poor and small and medium-sized enterprises.

IFU has made a concerted effort to meet these challenges by participating in investments together with Danish partners in important areas such as infrastructure, financial services and environmental improvements.

#### **Infrastructure projects**

In Kenya, years of commitment paid off as IFU, Burmeister Wain Scandinavian Contractors A/S, FMO and Aldwych Limited as joint shareholders invested in the construction and subsequent operation of a 90MW power plant. In Angola, IFU provided loan financing for APM Terminals' joint venture with Angolan pension funds for the modernisation and operation of Luanda's saturated port terminal.

Uganda's deficient internet infrastructure is addressed by Teleport East Africa Ltd, a joint venture between IFU, Emperion A/S and Datafundi Ltd, which will offer high-quality ICT solutions and services to companies and organisations in Uganda in the coming years.

In 2005, IFU, Norfund, Finnfund, Swedfund and Rezidor Hotels ApS launched Afrinord Hotel Investments to provide risk capital to business hotels in Africa. Apart from providing high quality service to a business community of great importance to the continent's continued economic development, the hotels qualifying for Afrinord financing also observe World Bank standards and guidelines on labour conditions and environmental management for the tourism industry. During 2008, IFU successfully assisted in the development of the new Radisson Hotel in Bamako, Mali, as well as its first investment in Ethiopia for more than twenty years, the establishment of the Radisson Emerald Addis Hotel in which IFU together with Swedfund as shareholder and DEG has provided the loan financing. Currently, several other initiatives throughout Africa are being developed, and more investments are therefore expected in the African hotel industry in the coming years.

#### **Financial services**

For many years, the lack of access to financing at almost all levels of the African economies has been a key issue of concern. During 2008, however, IFU successfully managed to strengthen relations with partners from the Danish financial sector.

Hence, IFU and PKA A/S have combined efforts in Actis' latest Africa Fund, which will provide vital equity financing to companies with growth potential throughout the continent.

The plight of African export-oriented small and medium-sized enterprises is the core focus of the partnership between IFU and Merkur Bank. The partnership aims to establish a SME Lending Fund to provide medium-term credit to companies with a strong CSR profile. In addition to this initiative, IFU has formed a joint venture with the founders of Kjær Group and Bestseller to provide vital small-scale financing to SMEs in Africa through the MyC4 micro and SME financing web-portal,



which - for two years - has been successful in financing the continent's supposedly un-bankable entrepreneurs.

### **Environmental focus**

In the future, IFU will increasingly focus on providing risk capital to commercially viable projects that seek to address the world's growing environmental and climatic challenges. This challenge especially applies to Africa, where projects of this nature require an extraordinary effort to ensure accomplishment. In 2008, we saw two successful results of these efforts.

Hoier Resources in Ghana was established as a modern waste management plant, and the environmental concern became the basis of a business model in which IFU and its partners focused on implementing the most energy-efficient and environmentally friendly solutions.

Another example is Grundfos LIFELINK established in Kenya to develop a new pump system designed to deliver water to people in rural areas with a large climate and development impact. The solar driven pumps will substitute the current use of fossil fuels as a means to gain water access. A pilot phase has been put into operation, and based on these experiences the system will be expanded globally.

As an additional part of this environmental focus, IFU undertook a three-month study of potential climate projects in East Africa with particular focus on renewable energy, including the opportunities, challenges and legal framework related thereto – and will be looking to pursue the opportunities unveiled by the study.

### **Restructuring in Johannesburg, South Africa**

IFU continued the implementation of its Africa strategy in 2008 with the re-organisation of the Regional Office in Johannesburg, which added to its presence on the continent following the opening of the Regional Office in Nairobi, Kenya, in 2007.

The Johannesburg office is headed by Kim Gredsted – an MBA from INSEAD and a former business lawyer. The office became operational in July 2008 and is located in premises shared with Norfund.

### **First full year of operation of representative office in Nairobi, Kenya**

The outburst of violence in Kenya following the presidential and parliamentary elections in late 2007 was a reminder of how quickly the general economic and political context can change in Africa and the devastating effects thereof on private enterprise. Nonetheless, the Kenyan economy has recovered remarkably well, and IFU's investments in 2008 are a tribute to our project partners' general strategic interest in the country and region as a whole.

IFU's Nairobi office contracted new investment agreements in Kenya, Uganda, Ethiopia and Angola. Sustained efforts have been made to broaden IFU's existing network in the region and to strengthen the support provided to Danish companies keen on investing in Africa.

Under the framework of the GoGlobal initiative, relations with Danida's B2B Programme have been strengthened and have allowed for a day-to-day cooperation with the Programme Coordinators at the Danish Embassies in the region.

### **2009 and beyond**

In 2009 and beyond, IFU will continue to work proactively with its partners to develop new and innovative projects promoting the economic development in Africa. Concerted efforts are underway to increase our ability to provide more financing to the bottom of the pyramid – both individuals and businesses – including micro and SME financing. Nonetheless, the core of our business will remain

direct investments in commercially sound businesses (start-up and existing), where IFU, in addition to financing, contributes with four decades of experience and knowledge.

## **Activities in Asia and Latin America**

Asia is the continent attracting most investments from Danish companies. Especially China, India, and Vietnam continue to be the preferred markets for investors. Despite the financial crisis, rising inflation and reductions in GDP growth, this interest remained unchanged throughout 2008.

China is still attracting the bulk of investments from Danish companies and investors. A total of 11 new projects were established in China with IFU participation in 2008. Also, additional financing for seven projects was supplied by IFU. Most of the projects relate to Danish SMEs with focus on investments in China. For Danish companies striving to remain competitive in export markets as well as in the Chinese domestic market, the tendency to outsource production to China continued in 2008.

During 2008, Vietnam, with its high GDP growth, low production costs and skilled and disciplined workforce, continued to attract the interest of Danish companies. On the other hand, rising inflation rates have generally given rise to concern amongst potential investors. In 2008, IFU co-financed two new and two existing projects in Vietnam. One of the new projects was established in cooperation with the B2B programme of the Danish Embassy. In 2009, inflation and interest rates are expected to fall in Vietnam, and, accordingly, the activity level of IFU and Danish investors is expected to increase.

In 2008, IFU co-financed four new projects in India and provided additional financing to two projects in India and one in Bangladesh. IFU's activities in the Indian Subcontinent, particularly in India and Bangladesh, are expected to develop at a steady pace in 2009. Despite the economic downturn, need for infrastructure development remains a high priority for this region leading to a demand for Danish expertise in this sector.

Furthermore, as the customers for Danish industrial and consumer products strengthen their presence in Asia, they are likely to demand that their suppliers establish local production facilities in the region. This trend was seen during 2008 especially for the sub-suppliers to the wind technology and marine sector in China and is expected to continue. Due to the tight liquidity conditions for commercial banks, opportunities for providing additional financing to current projects are also expected in 2009.

In Latin America, IFU co-financed two new projects in 2008, both in Nicaragua. Although only a few IFU eligible countries are left in the region, the pipeline of projects especially in Peru increased during 2008, and 2-3 new projects in Central and South America are envisaged in 2009.

## Strategic approach to climate projects

IFU wishes to be one of the leading Danish investment initiatives for climate investments in developing countries. By investing in economically feasible projects with global climate benefits, IFU in collaboration with Danish and international partners will contribute to resolving some of the global climate challenges by meeting the demand for funding.

Denmark has competitive advantages with respect to climate-related products and equipment, and in this field Danish exports have increased significantly over the past couple of years. IFU has also seen a significant increase in the number of inquiries for financing of climate projects from 2006 to 2008.

To meet the increasing demand for climate-related investments and consulting services, IFU has focused on developing competences relating to the carbon market situation, risks, and financial and economic analysis of Clean Development Mechanism (CDM) and Joint Implementation (JI) projects.

IFU has extensive experience in project financing, and in 2008, IFU offered to manage a Danish Fund for Climate Investments if the Danish government should decide to establish such a Fund. Irrespective hereof, IFU will continue to develop its investment facilities to meet the increasing climate-related investment demands from Danish companies and our host countries.

Climate projects in the IFU context are defined as investments that directly or indirectly contribute to the reduction of the greenhouse effect, e.g. production of renewable energy such as solar energy, wind energy, hydropower, wave power, biomass and geothermal heating, production of main components and other significant components to the production of renewable energy, investments with a significant energy efficiency effect and energy savings, energy consultancy, substitution of energy sources, biogas production and methane gas recovery from landfills or district heating.

*In 2008, IFU decided to invest in Sunmark, a project in Vietnam for the design, production and installation of solar collector systems. The company supplies high quality systems focusing on the Danish, Vietnamese and other selected markets especially with regard to large industrial systems. The company employs 50 people and experiences a very positive development in its market. The project will contribute to the reduction of fossil fuels wherever the solar collector systems are installed and will thereby reduce CO<sub>2</sub> emissions.*

## NEFCO Carbon Fund (NeCF)

In 2008, IFU invested EUR 2.5m in the NEFCO Carbon Fund (NeCF), which is a global carbon fund launched in April 2008. The fund is a means for purchasing greenhouse gas emission reductions under, among others, the CDM. The NeCF invests in a wide range of greenhouse gas mitigation projects by providing carbon finance to development of renewable energy (e.g. biomass, small-scale hydropower, wind energy, geothermal energy), energy efficiency, fuel switching, methane capture from landfill gas and other investments. The main target markets are China, South East Asia and India, although other regions are also considered.

The new fund is targeting private investors like corporate entities with compliance obligations under the EU Emissions Trading Scheme and other sovereign investors. The NeCF has a target capitalisation of EUR 50m. As of September 2008, EUR 42m had been committed by DONG Energy (DK), Danish Energy Agency, IFU/IØ and NEFCO.

The NeCF will invest in projects owned and operated by private enterprises, public utility companies and municipal, regional or governmental authorities. Priority will be given to large projects, and NeCF provides coverage of carbon-related project preparation costs. The NeCF acts

as buyer of Certified Emission Reductions on the basis of purchase agreements concluded with project owners.

## **Focus on corporate social responsibility (CSR)**

### **IFU has signed up to Global Compact**

In June 2008, IFU signed up to UN Global Compact, and it now officially participates in Global Compact's international network.

*Global Compact is an international initiative under the UN, through which companies and business organisations are committed to respect a number of universal principles for human rights, labour rights, environmental protection and anti-corruption. Global Compact is the world's largest voluntary corporate citizen initiative.*

IFU has adhered to the principle of Global Compact for a number of years, and we encourage our business partners to participate, because the ten principles of Global Compact express universal values that are based on internationally acknowledged norms and conventions.

As a signatory to Global Compact, IFU will be part of the International Network surrounding Global Compact; a network that IFU may influence and learn from, and through which IFU can identify new business opportunities and cooperation partners.

### **Revised CSR policy**

IFU adopted its first comprehensive CSR policy in 2005, and our experience in implementing the policy throughout our project portfolio is very encouraging. The policy has been positively received by our partners, and several of them have expressed that they regard the CSR policy a significant additionality from the cooperation with IFU.

CSR is a rapidly developing issue, and there is a constant need for adjusting the focus on CSR. In connection with the signing up to Global Compact, the Fund therefore found it natural to review and revise parts of its CSR policy in 2008 within the framework of the same high standards.

The target group for IFU's CSR policy is diverse, and the projects have different backgrounds for working with CSR issues. To meet the different project requests regarding interpretation of the policy and conversion of principles into daily practice at an operational level, the policy has been revised, which has resulted in new easy to read guidelines providing a better overview in general.

The new policy also focuses on supply chain management as well as contributions to resolving the climate change issues.

The Fund's CSR policy continues to emphasize the implementation of the CSR policy in the project companies to ensure that the local management and board are responsible for incorporating high CSR standards.

## CSR review of the Chinese project portfolio

In 2008, IFU's project portfolio in China was reviewed by the Danish consultancy firm CRECEA. At the time of the commissioning of the review, the active investment portfolio in China consisted of 23 project companies.

The scope of the review was to examine the overall commitment to improving CSR issues in the companies and the performance regarding occupational health and safety (OHS), environmental protection, labour rights and business ethics – thereby comprising the aspects set out in IFU's CSR policy.

The purpose of the review was to assess the companies' fulfilment of the Chinese legal requirements, international standards (World Bank/IFC) and EU/Danish regulations on key aspects. At the same time the project companies were given hands-on advice on how to improve issues of concern.

The reviews have been very useful in - systematically - drawing further attention to CSR issues in the project companies, and to increase the awareness of how such issues can be resolved.

It was assessed that the commitment to achieve good results and the preventive measures taken within OHS and environmental protection is generally good in IFU's China portfolio. The companies have received relevant hands-on advice, which has enabled them to correct the identified shortcomings.

There is, however, always room for improvements in some areas, and IFU will continue to focus on CSR and take any relevant issues into consideration in cooperation with the companies in their day-to-day operations.

## Compliance with CSR in 2008

In the CSR appraisal of projects, IFU categorizes each project as level A, B+, B, C or FI. This categorization reflects the need for assessing potential CSR impacts and risks for each project, the partners' CSR capacity and the host country's CSR regulations and enforcement.

Complex projects with risk of high impact are categorized as level A. Projects with low impact are categorized as level C. Projects with general medium impact are categorized as level B. B projects with any specific higher impact features are categorized as level B+. Financial institutions are categorized as FI. The rules of categorization are agreed upon among all members of European Development Finance Institutions (EDFI).

The categorization determines the necessary depth of the assessment (e.g. third party Environmental and Social Impact Assessments, site visits, etc.) and defines the CSR requirements to be fulfilled by the project.

At the end of 2008, IFU's active projects consisted of:

Project level	No. of projects	%
A	14	6%
B+	31	15%
B	114	56%
C	40	20%
FI	7	3%
Total	206	100%

The assessment is classified into five categories i.e. (1) excellent (2) good (3) fair (4) poor and (5) critical. Projects with a “poor” or “critical” score are projects which have IFU’s special attention, and where IFU and its partners consider all potential solutions to the problem.

The compliance assessment does not include 43 projects that are either in the process of being established (32), have no physical activities (9), or are under closing (2).

### **Labour and human rights review**

In 2008, labour and human rights reviews were carried out for 163 projects. 160 projects were classified as fair or better, which means that they complied with the labour and human rights issues relating to their specific project in the host country.

Three projects were classified as poor or critical, which means that they required special attention, and that action plans were prepared to improve their performance, and that they were working to overcome the challenges in a way satisfactory to IFU.

<b>Labour and human rights</b>	<b>No. of projects</b>	<b>%</b>
Excellent	56	34%
Good	55	34%
Fair	49	30%
Poor	2	1%
Critical	1	1%
<b>Total</b>	<b>163</b>	<b>100%</b>

### **Environmental review**

In 2008, environmental reviews were carried out for 163 projects. 161 projects were classified as fair or better, which means that they were in compliance with host country legislation, had already met international standards or were striving to meet international standards to an extent satisfactory to IFU.

Two projects were classified as poor or critical, which means that they required special attention, and that action plans were prepared to improve their performance.

<b>External environment</b>	<b>No. of projects</b>	<b>%</b>
Excellent	35	21%
Good	83	51%
Fair	43	26%
Poor	1	1%
Critical	1	1%
<b>Total</b>	<b>163</b>	<b>100%</b>

### Occupational health and safety review

In 2008, occupational health and safety reviews were carried out for 163 projects. 161 projects were classified as fair or better, which means that they were in compliance with host country legislation, had already met international standards, or were striving to meet international standards to an extent satisfactory to IFU.

Two projects were classified as poor, which means that they required special attention, and that action plans were prepared to improve their performance.

OHS	No. of projects	%
Excellent	28	17%
Good	88	54%
Fair	45	28%
Poor	2	1%
Critical	0	0%
Total	163	100%

## Human resources

IFU is an organisation with a true global outlook. The working platform covers nearly all continents which is also reflected in the wide range of nationalities working for and with IFU. The organisation is highly dependent on the knowledge and competences innate to each individual, as well as the ability to combine these across functions, people, borders and cultures. Hence, key HR focus areas are maintaining a high professional level and ensuring an efficient basis for teamwork and cooperation.

In 2008, a new performance management platform covering IFU Worldwide was developed and implemented.

'Results through dialogue' is the name of the platform, and it creates a clear link between the Fund's and the individual's objectives and facilitates a focused dialogue on job satisfaction and development. IFU wishes to promote continued development, professionally and personally; a development, where company and individual both take responsibility.

## Professional development

To maintain and develop professional competences, seminars were prepared and held in cooperation with external consultants/experts in 2008. Of these, the **Board of Directors seminar**, which took place in Copenhagen in mid-September, should be highlighted. The focus of the two-day seminar was the responsibilities and requirements of board members sitting on the board of an IFU project company, as well as board members' value adding through their proactive development of the business, both short and long-term. The seminar participants were investment managers acting as board members, as well as external advisers worldwide representing IFU on boards.

Also, a seminar on **climate investments** was conducted. The focus was to strengthen the abilities to conduct investments in relation to production of renewable energy, energy efficiency, biogas and other types of climate and energy-related investments as well as improving our ability to advise our partners about the CDM/JI mechanisms and calculate the financial implications.

Africa is a focus area for IFU, and for this reason a two-day **Africa seminar** was held at the beginning of the year. The objective of the seminar was to increase IFU's investment level in Africa. Participants were both IFU employees working with Africa as well as our external advisors in the region.



## Common platform

During 2008, we completed the work on a new business strategy for the Funds. The strategy aims to develop a common working platform, providing a starting point for further organisational development. Part of the strategy work took place during the staff seminar in 2008, which was dedicated to discussing and working with the strategy. All IFU employees world-wide were invited to the seminar.

## IFU PEOPLE FACTS

January 2009

<b>Number of employees<sup>1</sup></b>	73	<b>Total number of advisers</b>	40
<b>Divided on regions:</b>			
Europe (incl. HQ in Copenhagen)	56	Europe	13
Asia	11	Asia	13
Africa	5	Africa	6
Eastern Europe/Russia	1	Eastern Europe/Russia	6
Latin America	0	Latin America	2
<b>Educational level</b>			
Percentage of employees holding a master's degree as a minimum			62%
<b>Age, seniority and gender</b>			
Average age			43
Average seniority in years			9
Percentage male			51%
Percentage female			49%

<sup>1</sup> including trainees, recalculated into full time employees

## Financial review 2008

IFU recorded a profit of DKK 106m in 2008 as shown in the income statement below. This was substantially lower than the profit of DKK 332m realised in 2007, and also lower than expected a year ago, but still an encouraging result when taking the accelerating financial and economic crisis in 2008 into consideration. The accounting principles applied were unchanged from 2007.

IFU's 2008 result can be taken as an illustration that so far the developing countries, although impacted by the crisis, have been able to grow their economies.

There is great uncertainty about the economic outlook in emerging markets, but according to the latest forecasts from IMF, the growth will continue in Asia and Africa during 2009 and 2010, though at a lower level than previously expected.

### INCOME STATEMENT

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
Contribution from share capital investments	58,839	178,991
Contribution from project loans and guarantees	57,858	178,015
Other contributions from projects	<u>(1,605)</u>	<u>(2,067)</u>
<b>GROSS CONTRIBUTION FROM PROJECTS</b>	<b><u>115,092</u></b>	<b><u>354,939</u></b>
Operating expenses, net	<u>(52,631)</u>	<u>(49,114)</u>
<b>OPERATING INCOME</b>	<b><u>62,461</u></b>	<b><u>305,825</u></b>
Financial income, net	<u>43,629</u>	<u>26,374</u>
<b>NET INCOME FOR THE YEAR</b>	<b><u>106,090</u></b>	<b><u>332,199</u></b>

Total contributions from IFU's primary project-related activities amounted to DKK 115m against DKK 355m in 2007; the decline being equally attributable to share capital investments and project loans.

Share capital investments contributed DKK 59m in 2008 against DKK 179m in 2007. In 2008, dividends and divestment of investments contributed a total of DKK 112m, whereas value adjustments on investments still held at year-end contributed DKK (53)m. The net negative value adjustments reflect that very large dividends were paid out to IFU in 2008. Net cash flows related to share capital including dividends received were positive at DKK 36m after new disbursements of DKK 147m. The cash flow reflects the large dividends received, as no major share sales took place in 2008.

Project loans contributed DKK 58m in 2008 compared to DKK 178m in 2007. The much higher contribution for 2007 was primarily due to the reversal of provisions in connection with the successful exit of a number of loans previously considered distressed. In 2008, net value adjustments were modest at DKK (9)m, indicating that so far IFU has not seen any significant deterioration in the quality of the loan portfolio. Included in the contribution is also net interest and fee income at the amount of DKK 60m and a positive contribution of DKK 7m from exchange rate adjustments, net of hedging arrangements. Net cash flows related to loans including interest received were positive in 2008 at DKK 70m after disbursements of DKK 221m.

Other contributions from projects contributed negatively with DKK (2)m in 2008.

IFU's part of the overall operating expenses for 2008 covering the three funds managed by IFU, i.e. IFU, the Investment Fund for Central and Eastern Europe (IØ) and the Investment Fund for Emerging Markets (IFV), was DKK 53m compared to DKK 49m in 2007.

The overall net operating expenses were DKK 73m, compared to DKK 74m in 2007. The decrease in particular reflects lower expenses for regional offices and lower salary expenses for IFU's head office in Copenhagen. IFU's part of the overall expenses rose to 72% from 67% in 2007, primarily as a consequence of the continued divestment of IØ's portfolio. This trend is expected to continue in the coming years.

Financial income, net of financial expenses, was DKK 44m compared to DKK 26m in 2007. The higher income was due to a higher average level of liquidity during the year as well as higher deposit rates.

IFU ended the year with cash and bonds equalling DKK 699m after having paid out DKK 200m to the Danish state. Undisbursed commitments amounted to DKK 783m at year-end 2008. Based on an analysis of IFU's future cash flows, and on the request by the government, IFU's Board has preliminarily approved a capital repayment to the state of DKK 250m in 2009.

## **Risk management**

IFU invests in projects located in developing countries, where political and economic conditions may be turbulent. In addition, the commercial risk in the projects is often high.

As a consequence of this exposure and in particular because IFU measures its investments at estimated fair value in accordance with the prevailing accounting principles of the Danish Financial Statements Act IFU's net results may fluctuate considerably – in a positive or a negative direction – from year to year due to value adjustments on the investments.

To minimise the overall risk in IFU's investment portfolio, a set of risk policies have been implemented in the investment policy. These policies include guidelines for project, partner and country risk exposure as well as guidelines for managing the direct financial risk.

*Project risk* is managed by the indicative limit for IFU's participation in a single project, which is DKK 100m, whereas *Partner risk* is limited through the indicative limit that a partner (at group level) should not account for more than 20% of the Fund's total project engagement (the sum of outstanding investments at cost, remaining commitments and binding commitments). Furthermore, as a guideline, the total engagement in a single country should normally not exceed 30% of the Fund's total project engagement.

## **Financial risk**

At the end of 2008, IFU had a total of USD 37m (DKK 197m at year-end exchange rates) in USD-denominated loans outstanding, and the net profit is therefore sensitive to fluctuations in the USD/DKK exchange rate. A hedging policy is implemented in order to limit this sensitivity. According to the hedging policy, the USD-exposure must not exceed 15% of the Fund's equity capital plus value adjustments, and the hedged share of the total USD-exposure should normally not exceed 75%. IFU only hedges project loans with an estimated low risk of default. At the end of 2008, 58% of the USD exposure had been hedged. At the end of 2008, IFU's exposure to currencies other than USD, DKK and EUR was very low, at 1% of the loan portfolio at cost.

At year-end, 42% of IFU's total outstanding investments at cost were placed in project loans, including loans with equity features. The major part of the project loans are based on IFU's standard interest terms of CIBOR/LIBOR floating rate plus a risk premium. An increase in the CIBOR/LIBOR interest rates will therefore have a positive effect on IFU's interest income from project loans.

Liquidity is managed with the aim of always having a positive cash position. A DKK 300m credit facility shared with IØ is in place to cover unexpected negative short-term fluctuations in cash flows.

Distribution of project engagement as at 31 December 2008 – ten largest portfolios.

<b>Country</b>	<b>2008 %</b>	<b>2007 %</b>
China	14.5	13.9
Africa (regional)	10.2	6.9
Vietnam	6.3	4.3
Egypt	6.0	5.9
India	6.0	7.9
Serbia	5.3	5.3
Thailand	5.0	4.9
Malaysia	4.8	7.4
Kenya	3.0	2.3
Benin	2.5	2.6
<b>Total</b>	<b>63.6</b>	<b>61.4</b>

Note: Malaysia, Serbia and Thailand are no longer eligible for IFU investments.  
Africa (regional): projects included over more than one country.

### **Events after the balance sheet date**

No events materially affecting the financial position of IFU have occurred after the balance sheet date.

### **Outlook for 2009**

In 2009, IFU expects to enter into agreements for approximately 30 new projects. IFU expects total investments in the range of DKK 450-500m, including additional financing to an estimated 15 to 20 projects. Focus will continue to be on the poorer countries and especially on Africa.

Based on currently known expectations for the profit performance and value of the project companies, IFU expects to record a profit in 2009.

It is, however, inherently difficult to predict the development of the fair values of IFU's investments, including the effects of exchange rate fluctuations. Consequently, the expected net result is subject to considerable uncertainty. This is especially accentuated by the current financial and economic global crisis, and deviations will therefore most likely be on the downside.

## Accounting policies

This Annual Report has been prepared in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

### Accounting policies in general

The accounting principles applied are the same as those for last year.

#### **Presentation and classification**

IFU's income statement and balance sheet vary from the standard tables of the Danish Financial Statements Act, because they are presented on the basis of IFU's special character as an investment fund (long-term investments), and with a view to the best possible clarity of information to the reader of the accounts. The deviation is in concurrence with section 23 (4) of the Danish Financial Statements Act.

#### **Recognition and measurement**

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Fund, and provided that the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when the Fund has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Fund, and the value of the liabilities can be measured reliably.

On initial recognition assets and liabilities are measured at cost. Adjustment subsequent to initial recognition is effected as described below for each item.

Information brought to IFU's attention before the time of finalising the presentation of the Annual Report, and which confirms or invalidates affairs and conditions existing at the balance sheet date, is considered at recognition and measurement.

Income other than value adjustments is recognised in the income statement when earned, just as costs are recognised by the amounts attributable to this financial year. Value adjustments of financial assets and liabilities are recognised in the income statement as value adjustments.

#### ***Foreign currency adjustment***

Foreign currency transactions are initially recognised in DKK using the exchange rate at the transaction date. Loans, receivables, payables and other monetary items denominated in foreign currencies, which have not been settled at the balance sheet date, are converted into DKK using the exchange rate at the balance sheet date. All exchange rate adjustments, including those that arise at the payment date, are recognised in the income statement as value adjustments, financial income or financial expenses, depending on their nature.

#### ***Derivative financial instruments***

IFU has established a set of criteria for entering into forward exchange contracts and cross currency swaps (derivative financial instruments) to hedge future transactions concerning selected foreign currency loans and receivables from sale of shares (fair value hedge).

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently adjusted to fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments are recognised in the income statement as either "Contribution from project loans and guarantees", if related to hedging of

project loans, or “Other contributions from projects”, if related to hedging of receivables from sale of shares.

## **Income statement**

### *Contribution from share capital investments*

Contribution from share capital investments includes declared dividends (after tax), contributions from divested share capital investments and value adjustments in relation to the outstanding portfolio at year-end.

### *Contribution from project loans and guarantees*

Contribution from project loans and guarantees includes invoiced interest, value adjustments, including exchange rate adjustments in relation to the portfolio, the effect of derivatives and other value adjustments, principally of interest receivables.

### *Other contributions from projects*

Other contributions from projects include value adjustments, including exchange rate adjustments in relation to receivables, the effect of derivatives and interest from receivables.

### **Operating expenses, net**

IFU manages the administration and accounting of altogether three funds. This includes IFU, the Investment Fund for Central and Eastern Europe (IØ) and the Investment Fund for Emerging Markets (IFV). The total operating expenses incurred by IFU, net of income related to operating activities, are divided at year-end between IFU, IØ and IFV according to an activity dependent distribution key.

### **Financial income, net**

Financial income, net comprises interest income on cash and bonds, realised and unrealised capital gains and losses on bonds, interest expenses, exchange rate adjustments on cash and bank charges.

## **Balance sheet**

### **Investments in projects – general**

Investments are reported at the estimated fair value as at the reporting date. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

When estimating the fair value of an investment, IFU seeks to use a methodology which is appropriate in light of the nature, facts and circumstances relating to the investment and its materiality in the context of the total investment portfolio. Methodologies are applied consistently from period to period, except when a change would result in a better estimation of fair value.

Because of the uncertainties inherent in estimating fair value for unquoted investments, in particular when located in developing countries, a degree of caution is applied when exercising judgement and making the necessary estimates.

For all investments the value determined by using the methods described below will be adjusted, if considered necessary and appropriate, by taking the following factors into account:

- The financial status and most recent results of and expectations for the project company.
- Risk of remittance, if any.
- Specific circumstances relating to the partners, project, country, region and/or sector.
- Current market conditions.
- Tax issues.

**Share capital investment in projects, net**

Share capital investments in project companies are measured at fair value, i.e. net of or including value adjustments relative to cost in DKK.

If the Fund receives a binding offer in writing during the 12-month period prior to the reporting date, this offer is used as a starting point for the valuation of the investment.

**Quoted share capital investments**

All quoted share capital investments are valued according to the most recent market price listed on or before the reporting date. If the market is not considered liquid, i.e. that a sale of the investment may cause a significant movement in the stock price, an illiquidity discount is applied.

**Unquoted share capital investments**

Investments are valued at cost until IFU receives audited accounts covering a period of at least two years of operational activities of the project company following the first disbursement by IFU.

Unquoted share capital investments having met the two-year operational criteria (as defined above) are divided into two groups dependant on the size of IFU's outstanding investment.

In this context the larger investments are defined as those for which IFU's outstanding investment, measured either at cost or at intrinsic value, is above or equal to DKK 20m. These investments are initially valued by either the Discounted Cash Flow method (DCF), by an earnings multiple, if appropriate and reliable transaction/earnings multiples are available, or by the net assets methodology, if appropriate.

All other unquoted share capital investments having met the two-year operational criteria are initially valued at intrinsic value according to the most recent financial statement for the company received by IFU.

For all share capital investments, quoted as well as unquoted, formal exit agreements, if any, will be taken into account when performing the valuation.

**Project loans, net**

Fair value of project loans is measured net of or including value adjustments relative to cost in DKK.

Project loans based on variable interest terms are initially valued at the exchange rate adjusted cost.

Project loans with a fixed interest rate and an exchange rate adjusted outstanding balance below DKK 20m are initially valued at the exchange rate adjusted cost.

Project loans with a fixed interest rate and an exchange rate adjusted outstanding balance above DKK 20m are initially valued at the net present value of the future cash flow.

The initially estimated fair value is adjusted, if necessary and appropriate, by taking into account specific terms as agreed, if any, the expected sales value and accessibility of pledged assets, if any, and the historical record of debt service and actual defaults.

**Fixed assets and leasehold improvements**

Fixed assets and leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Straight-line depreciation is made on the basis of an estimated useful life of the fixed asset varying from 3 to 5 years. Depreciation is recognised in the income statement under operating expenses, net.

Fixed assets and leasehold improvements costing less than DKK 50,000 per unit are recognised as costs in the income statement at the time of acquisition.

**Interest receivable related to projects**

Interest receivable related to projects and other receivables are measured at fair value, i.e. at actual exchange rates and after adjustments for risk of loss.

**Other receivables**

Investments in projects where a formal liquidation procedure has been initiated are stated as "Receivables from projects in liquidation" under "Other receivables" in the balance sheet.

Included in other receivables are administrative receivables and other receivables from bonds, both measured at cost.

**Cash and bonds**

Bonds are stated at the official prices quoted on the balance sheet date except for called bonds, which are stated at par value. Realised and unrealised gains or losses on bonds are recognised in the income statement under financial income, net.

**Provision for losses**

Provision for losses comprises anticipated losses related to guarantee agreements. Adjustments of provision for losses related to guarantee agreements are recognised in the income statement as value adjustments, portfolio and receivables under "Contribution from project loans and guarantees".

**Lease commitments**

Lease commitments relating to assets held under finance leases are capitalised and recognised in the balance sheet under long-term debt or current liabilities and are measured at amortised cost, which in most cases corresponds to nominal value.

**Long-term debt**

Long-term debt is measured at amortised cost, which in most cases corresponds to nominal value.

**Current liabilities**

Current liabilities related to projects are measured at fair value. Other current liabilities are measured at amortised cost, which in most cases corresponds to nominal value.

**Cash flow statement**

The cash flow statement has been prepared in accordance with the direct method and shows IFU's cash flow from operating, investing and financing activities as well as IFU's cash position at the beginning and end of the year.

Cash comprises cash at hand less short-term bank debt.



## INCOME STATEMENT

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
NOTE		
1/ Contribution from share capital investments	58.839	178.991
2/ Contribution from project loans and guarantees	57.858	178.015
3/ Other contributions from projects	<u>(1.605)</u>	<u>(2.067)</u>
<b>GROSS CONTRIBUTION FROM PROJECTS</b>	<b><u>115.092</u></b>	<b><u>354.939</u></b>
4/ Operating expenses, net	<u>(52.631)</u>	<u>(49.114)</u>
<b>OPERATING INCOME</b>	<b><u>62.461</u></b>	<b><u>305.825</u></b>
5/ Financial income, net	<u>43.629</u>	<u>26.374</u>
<b>NET INCOME FOR THE YEAR</b>	<b><u><u>106.090</u></u></b>	<b><u><u>332.199</u></u></b>

The net income for the year has been transferred to the equity capital.

## BALANCE SHEET AT 31 DECEMBER

## ASSETS

NOTE	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
FIXED ASSETS		
	1.017.798	988.775
	Value adjustments <u>(171.862)</u>	<u>(168.931)</u>
6/	Share capital investment in projects, net 845.936	819.844
	736.333	770.641
	Value adjustments <u>(121.399)</u>	<u>(148.954)</u>
7/	Project loans, net 614.934	621.687
8/	Fixed assets and leasehold improvements <u>499</u>	<u>338</u>
	<b><u>1.461.369</u></b>	<b><u>1.441.869</u></b>
CURRENT ASSETS		
9/	Interest receivable related to projects 21.112	18.421
10/	Other receivables 71.524	89.660
	Bonds 354.802	635.206
	Cash <u>344.166</u>	<u>156.034</u>
	<b><u>791.604</u></b>	<b><u>899.321</u></b>
	<b><u>2.252.973</u></b>	<b><u>2.341.190</u></b>

**BALANCE SHEET AT 31 DECEMBER**

## LIABILITIES AND EQUITY CAPITAL

	2008	2007
	<u>DKK 1,000</u>	<u>DKK 1,000</u>
NOTE		
EQUITY CAPITAL		
Paid-in capital	1.050.936	1.050.936
Repaid capital	(950.000)	(750.000)
Accumulated reserves	<u>2.121.085</u>	<u>2.014.995</u>
11/ <b>Total equity capital</b>	<b><u>2.222.021</u></b>	<b><u>2.315.931</u></b>
PROVISION FOR LOSSES		
Guarantees	0	0
12/ LONG-TERM DEBT	<u>4.523</u>	<u>5.947</u>
<b>Total provisions and long-term debt</b>	<b><u>4.523</u></b>	<b><u>5.947</u></b>
13/ CURRENT LIABILITIES	<u>26.429</u>	<u>19.312</u>
<b>Total liabilities</b>	<b><u>26.429</u></b>	<b><u>19.312</u></b>
<b>TOTAL EQUITY CAPITAL, PROVISION FOR LOSSES AND LIABILITIES</b>	<b><u><u>2.252.973</u></u></b>	<b><u><u>2.341.190</u></u></b>
14/ FUNDS COMMITTED TO PROJECTS AND CLEARANCES IN PRINCIPLE		
15/ CONTINGENT LIABILITIES		
16/ PLEDGED ASSETS		
17/ RELATED PARTY DISCLOSURES		

## CASH FLOW STATEMENT

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Dividends from projects received	95.300	61.707
Interest from projects received	59.565	50.092
Other project related payments	4.318	3.516
Operating expenses, net	(50.031)	(52.679)
Net payments related to financial income and expenses	<u>48.875</u>	<u>18.521</u>
<b>Net cash from operating activities</b>	<b><u>158.027</u></b>	<b><u>81.157</u></b>
CASH FLOW FROM (TO) INVESTING ACTIVITIES		
Received from sale of shares	87.422	437.404
Received from project loans	223.391	169.565
Received from derivatives, loans	8.830	5.411
Paid-in share capital in projects	(147.066)	(141.528)
Disbursement of project loans	(221.496)	(118.056)
Received from (invested in) bonds	<u>280.404</u>	<u>(446.780)</u>
<b>Net cash from (to) investing activities</b>	<b><u>231.485</u></b>	<b><u>(93.984)</u></b>
CASH FLOW FROM (TO) FINANCING ACTIVITIES		
Repaid to EIB (ECFI III Facility)	(1.380)	(1.340)
Repaid capital during the year	<u>(200.000)</u>	<u>0</u>
<b>Net cash from (to) financing activities</b>	<b><u>(201.380)</u></b>	<b><u>(1.340)</u></b>
NET CHANGE IN CASH	188.132	(14.167)
<b>CASH BEGINNING OF YEAR</b>	<b><u>156.034</u></b>	<b><u>170.201</u></b>
<b>CASH END OF YEAR</b>	<b><u>344.166</u></b>	<b><u>156.034</u></b>

## NOTES

	2008	2007
	<u>DKK 1,000</u>	<u>DKK 1,000</u>
1 <u>Contribution from share capital investments</u>		
Dividends from projects	86.544	63.224
Contribution from divested share capital investments	25.627	68.855
Value adjustments, portfolio	<u>(53.332)</u>	<u>46.912</u>
Contribution from share capital investments	<b><u>58.839</u></b>	<b><u>178.991</u></b>
2 <u>Contribution from project loans and guarantees</u>		
Interest income and fees related to project loans and guarantees	84.563	62.227
Value adjustments excl. exchange rate adjustments, portfolio	(8.720)	133.611
Exchange rate adjustments, project loans	9.646	(21.180)
Exchange rate adjustments, derivatives	(2.751)	7.731
Other value adjustments excl. exchange rate adjustments	<u>(24.880)</u>	<u>(4.374)</u>
Contribution from project loans and guarantees	<b><u>57.858</u></b>	<b><u>178.015</u></b>
3 <u>Other contributions from projects</u>		
Value adjustments, receivables, excl. exchange rate adjustments	(9.711)	1.412
Exchange rate adjustments, receivables	3.667	(7.574)
Exchange rate adjustments, derivatives	0	2.344
Interest from receivables	4.604	406
Other income and expenses	<u>(165)</u>	<u>1.345</u>
Other contributions from projects	<b><u>(1.605)</u></b>	<b><u>(2.067)</u></b>

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
4 <u>Operating expenses, net</u>		
<u>Expenses</u> , (IFU, IØ and IFV)		
Salaries, Head Office	34.944	35.920
Rental expenses	3.874	4.068
Travelling expenses	4.868	4.448
Regional Office expenses	7.714	9.110
Fees for Supervisory Board	1.243	1.237
Fees for external assistance	10.605	9.946
IT expenses	3.108	3.242
Office expenses	1.708	1.655
Depreciation of fixed assets and leasehold improvements (note 8)	217	25
Various expenses	<u>5.268</u>	<u>4.623</u>
Total expenses	<u>73.549</u>	<u>74.274</u>
<u>Income</u> , (IFU, IØ and IFV)		
Management fees	(28)	0
Board member fees, net of tax	(371)	(507)
Various income	<u>(13)</u>	<u>(1)</u>
Total income	<u>(412)</u>	<u>(508)</u>
Total operating expenses, net (IFU, IØ and IFV)	<u>73.137</u>	<u>73.766</u>
Operating expenses, net charged to IØ	(20.146)	(24.240)
Operating expenses, net charged to IFV	<u>(360)</u>	<u>(412)</u>
IFU's part of operating expenses, net	<u><b>52.631</b></u>	<u><b>49.114</b></u>
Fee to the auditor of the funds included in "Fees for external assistance" and "Various expenses":	<u><b>1.142</b></u>	<u><b>1.566</b></u>
- Hereof audit fees	1.039	1.087
- Hereof non-audit fees	103	479

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
<u>Specification of personnel expenses (salaries etc.)*</u>		
Salaries, remunerations etc.	37.112	39.805
Pension contributions	3.288	3.036
Other expenses for social security	<u>192</u>	<u>210</u>
Personnel expenses in total	<b><u>40.592</u></b>	<b><u>43.051</u></b>
*) The figures are included in "Salaries, Head Office", "Travelling expenses", "Regional Office expenses" and "Fees for Supervisory Board".		
Total remuneration to the Supervisory Board	<u>1.243</u>	<u>1.237</u>
Remuneration to the Executive Board:		
Salaries and pension (figure for 2008 incl. paid-out vacation allowance)	2.901	2.518
Bonuses (figure for 2007 incl. special retention payment)	<u>344</u>	<u>1.201</u>
Total remuneration to the Executive Board	<u>3.245</u>	<u>3.719</u>
Total remuneration to the Supervisory Board and Executive Board	<b><u>4.488</u></b>	<b><u>4.956</u></b>
Average number of employees, Head Office (all three funds)	57	59
Average number of employees, Regional Offices (all three funds)	<u>16</u>	<u>17</u>
	<b><u>73</u></b>	<b><u>76</u></b>
5 <u>Financial income, net</u>		
<u>Financial income</u>		
Interest income, cash and bonds	38.584	25.048
Gain on bonds, net	<u>3.591</u>	<u>527</u>
Financial income	<b><u>42.175</u></b>	<b><u>25.575</u></b>
<u>Financial expenses</u>		
Interest expenses, bank charges and exchange rate adjustments	1.454	799
Loss on bonds	<u>0</u>	<u>0</u>
Financial expenses	<b><u>1.454</u></b>	<b><u>799</u></b>
Financial income, net	<b><u>43.629</u></b>	<b><u>26.374</u></b>

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
6 <u>Share capital investment in projects, net</u>		
Share capital investment in projects beginning of year at cost	988.775	1.063.942
Paid-in share capital in projects during the year	147.066	141.528
Project loans or interest converted into share capital during the year	25.736	1.304
Proceeds from divestment of shares	(99.403)	(322.713)
Income from divestment of shares relative to cost, net	(44.376)	102.918
Share capital transferred to other receivables	<u>0</u>	<u>1.796</u>
Share capital investment in projects end of year at cost	<b><u>1.017.798</u></b>	<b><u>988.775</u></b>
Accumulated value adjustments beginning of year	(168.931)	(179.658)
Reversed value adjustments, divested share capital investments	70.003	(34.063)
Value adjustments, portfolio during the year (note 1)	(53.332)	46.912
Value adjustments related to transfer to other receivables during the year	0	(1.796)
Value adjustments related to conversions during the year	<u>(19.602)</u>	<u>(326)</u>
Accumulated value adjustments end of year	<b><u>(171.862)</u></b>	<b><u>(168.931)</u></b>
Share capital investment in projects, net end of year	<b><u>845.936</u></b>	<b><u>819.844</u></b>
Accumulated value adjustments end of year are comprised of:		
Plus values	151.619	172.310
Value adjustments excl. plus values	<u>(323.481)</u>	<u>(341.241)</u>
	<b><u>(171.862)</u></b>	<b><u>(168.931)</u></b>

Share capital investments acquired by IFU by means of syndicated capital are not included in the above figures and amount to DKK 0m (DKK 15.1m in 2007), measured at fair value.

Syndicated capital is investment capital received from third parties and invested in projects, in principle on their own account and risk, and syndicated capital therefore only becomes due to the extent that IFU receives payment from these projects.



	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
7 <u>Project loans, net</u>		
Project loans beginning of year at cost	770.641	850.410
Disbursements during the year	221.496	118.056
Interest converted into project loans during the year	351	964
Repayments during the year	(223.391)	(169.565)
Project loans converted into share capital during the year	(21.982)	(1.304)
Exchange rate adjustments during the year relative to cost	(10.425)	(26.516)
Project loans transferred to other receivables during the year	0	7.838
Write-offs during the year	<u>(357)</u>	<u>(9.242)</u>
Project loans end of year at cost *	<b><u>736.333</u></b>	<b><u>770.641</u></b>
Accumulated value adjustments beginning of year	(148.954)	(290.056)
Reversed value adjustments, loans written off	357	9.242
Exchange rate adjustments realised	10.425	26.516
Value adjustments incl. exchange rate adjustments, during the year (note 2)	926	112.431
Value adjustments related to transfer to other receivables during the year	0	(8.016)
Value adjustments related to conversions during the year	<u>15.847</u>	<u>929</u>
Accumulated value adjustments end of year	<b><u>(121.399)</u></b>	<b><u>(148.954)</u></b>
Project loans, net end of year	<b><u>614.934</u></b>	<b><u>621.687</u></b>
Accumulated value adjustments end of year are comprised of:		
Exchange rate adjustments relative to cost	(18.099)	(38.170)
Value adjustments excl. exchange rate adjustment	<u>(103.300)</u>	<u>(110.784)</u>
	<b><u>(121.399)</u></b>	<b><u>(148.954)</u></b>
*) Project loans end of year at cost are comprised of:		
Senior project loans	707.751	711.273
Subordinated loans	23.949	58.413
Equity loans	<u>4.633</u>	<u>955</u>
	<b><u>736.333</u></b>	<b><u>770.641</u></b>

	2008	2007
	<u>DKK 1,000</u>	<u>DKK 1,000</u>

\*) Project loans end of year at cost in DKK distributed according to currency denomination:

	<u>2008</u>	<u>2007</u>		
	Currency	Currency		
DKK			135.533	112.178
USD <sup>1</sup>	37.312	30.609	215.601	193.575
EUR	50.407	61.201	376.052	456.009
Other currencies			<u>9.147</u>	<u>8.879</u>
			<b><u>736.333</u></b>	<b><u>770.641</u></b>

<sup>1)</sup> USD 21.5m is hedged against DKK (USD 12.7m in 2007)

Project loans provided by IFU by means of syndicated capital are not included in the above figures and amount to DKK 2.0m (DKK 2.2m in 2007), measured at fair value.

#### 8 Fixed assets and leasehold improvements

Cost beginning of year	1.584	1.584
Additions during the year	378	0
Disposals during the year	<u>(64)</u>	<u>0</u>
Cost end of year	<b><u>1.898</u></b>	<b><u>1.584</u></b>
Depreciation beginning of year	1.246	1.221
Depreciation for the year (note 4)	217	25
Depreciation for disposal of the year	<u>(64)</u>	<u>0</u>
Depreciation end of year	<b><u>1.399</u></b>	<b><u>1.246</u></b>
Book value end of year	<b><u>499</u></b>	<b><u>338</u></b>
The carrying amount end of year includes:		
Recognised leased assets	<u>0</u>	<u>0</u>

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
9 <u>Interest receivable related to projects</u>		
Interest receivable related to projects before value adjustments	55.602	36.023
Value adjustments	<u>(34.490)</u>	<u>(17.602)</u>
Interest receivable related to projects	<u><b>21.112</b></u>	<u><b>18.421</b></u>
10 <u>Other receivables</u>		
Dividend receivables	4.945	10.490
Receivables from sale of shares	60.619	47.237
Receivable front-end fees	1.210	1.637
Receivables from projects in liquidation	23.462	23.391
Other project-related receivables	<u>1.471</u>	<u>635</u>
	91.707	83.390
Value adjustments	<u>(33.589)</u>	<u>(24.050)</u>
	58.118	59.340
Derivatives *	(201)	11.380
Administrative receivables	3.495	3.184
Current accounts	0	60
Accrued interest receivables from bonds	9.466	15.074
Rental deposits	<u>646</u>	<u>622</u>
	<u><b>71.524</b></u>	<u><b>89.660</b></u>

\*) Stated amount for 2008 concerns a hedged amount of USD 22.3m with term from 2009 to 2014.

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
11 <u>Total equity capital</u>		
Paid-in capital beginning of year	1.050.936	1.050.936
Paid-in capital during the year	<u>0</u>	<u>0</u>
Paid-in capital end of year	<u><b>1.050.936</b></u>	<u><b>1.050.936</b></u>
Repaid capital beginning of year	(750.000)	(750.000)
Repaid capital during the year	<u>(200.000)</u>	<u>0</u>
Repaid capital end of year *	<u><b>(950.000)</b></u>	<u><b>(750.000)</b></u>
Accumulated reserves beginning of year	2.014.995	1.682.796
Net income for the year	<u>106.090</u>	<u>332.199</u>
Accumulated reserves end of year	<u><b>2.121.085</b></u>	<u><b>2.014.995</b></u>
Total equity capital end of year	<u><b>2.222.021</b></u>	<u><b>2.315.931</b></u>
* ) IFU's Board has approved that a capital extraction by the Danish government of DKK 250m in 2009 may take place.		
12 <u>Long-term debt</u>		
EIB (ECFI III facility) *	<u>4.523</u>	<u>5.947</u>
	<u><b>4.523</b></u>	<u><b>5.947</b></u>
* ) hereof payable after five years: DKK 0		
13 <u>Current liabilities</u>		
EIB (ECFI III facility)	1.420	1.380
Other project-related debt	<u>7.322</u>	<u>2.491</u>
	8.742	3.871
Administrative debt	14.400	15.100
Current accounts	3.502	507
Deferred income	<u>(215)</u>	<u>(166)</u>
	<u><b>26.429</b></u>	<u><b>19.312</b></u>

	2008	2007
	<u>DKK 1,000</u>	<u>DKK 1,000</u>

14 Funds committed to projects and clearances in principle

Funds committed to projects are comprised of undisbursed contractual commitments allocated for investments. The stated amount of guarantees is net of provision for losses, if any.

Amounts payable on project agreements	484.750	483.111
Guarantees, net *	81.758	81.289
Binding commitments	<u>216.209</u>	<u>226.599</u>
 Funds committed to projects	 <u><u>782.717</u></u>	 <u><u>790.999</u></u>
 Clearances in principle for new projects amount to	 <u><u>590.192</u></u>	 <u><u>298.546</u></u>

\*) Gross outstanding guarantees amount to DKK 81,758 (DKK 81,289 in 2007)

15 Contingent liabilities

The total lease and rental commitments amount to DKK 3.4m (DKK 3.1m in 2007)  
- hereof due within the following year DKK 0m (DKK 0m in 2007).

16 Pledged assets

On 31 December 2008 IFU had pledged bonds and cash amounting to DKK 8.9m as security for long-term debt to EIB.

17 Related party disclosures

**IFU project investments - shares and loans**

IFU's percentage interests in project investments often exceed 20%, but always remain below 50%. The project companies are not considered related parties, as no controlling or significant influence is exercised over them.

It should be noted that transactions conducted during the year with the project companies include dividends, interest income and fees and directors' fees from the companies in which IFU employees are board members.

**Supervisory and Executive Boards**

IFU's other related parties are the members of the Supervisory and Executive Boards.

During the year there were no transactions other than remuneration paid to the Supervisory and Executive Board members.

## Management:

### Supervisory Board

The Danish Minister for Development Cooperation appoints the Chairman, the Deputy Chairman and the other members of the Supervisory Board for a three-year period. Each appointment is personal. The current Supervisory Board was appointed for the three-year period beginning 1 August 2006, except for Christina Rasmussen who replaced Agnete Raaschou-Nielsen on the Board in 2008.

The Supervisory Board usually convenes nine to ten times during a year. On the recommendation of the Executive Board, it makes decisions about investments and key issues. The rules of disqualification follow the provisions of the Public Administration Act (Act No. 571 of 19 December 1985, sections 3–6). As a principle, a member of the Supervisory Board or an employee cannot discuss a matter involving a company in which that particular person has a special interest.

Members of the Supervisory Board may not buy or sell shares or other securities issued by companies of which they have obtained special knowledge through their work as board members. To prevent insider trading, at each meeting the Supervisory Board authorises an updated list of the listed companies of which the Supervisory Board believes it holds inside information; however, it applies in general that applying knowledge obtained from board work is not allowed.

All information received by members of the Supervisory Board, orally or in writing, shall be treated as confidential.

#### **Johannes Poulsen, Chairman (1942), member since 1997.**

MSc (Economics and Business Administration). Other board memberships: IØ\*\*, IFV\*\*, Axcel IndustrilInvestor A/S, Axcel II A/S, Buur Invest A/S\*\*, Bernhard Lauritsen Tarm A/S, VM Tarm A/S, Haar Holdings A/S, Bukkehave Corporation A/S, Etronic A/S, Frandsen Lighting Holding A/S, Frandsen Lighting A/S, Global Wind Power Holding A/S\*\*, Global Wind Power Invest A/S\*\*, Global Wind Power A/S\*\*, JP/Politikens Hus A/S, S.P.Holding Skjern A/S, Skjern Papirfabrik A/S.

#### **Michael Rasmussen, Deputy Chairman (1964), member since 2000.**

MSc (Economics). Member of the Executive Management, Nordea Bank Denmark A/S. Other board memberships: IØ\*, IFV\*, Nordea Kredit A/S, Nordea Finance, PBS A/S, Multidata A/S, LR Realkredit A/S, Karl Pedersens & Hustrus Industrifond, Danmarks Skibskredit A/S.

#### **Lars Andersen (1958), member since 1994.**

MSc (Economics). Managing Director, The Economic Council of the Labour Movement. Other board memberships: IØ, IFV, DSB, Industripension Holding A/S, Industriens Pensionsforsikring A/S, Naesborg A/S, CAT Science Park A/S.

#### **Sigurd Ø. Andersen (1951), member since 2000.**

MSc (Engineering). Managing Director, Burmeister & Wain Scandinavian Contractor A/S. Other board memberships: IØ, IFV, Pedregal S. de R.L., BWSC A/S, BWSC Mindanao Inc., BWSC Panama S.A., Brancheforeningen for Biogas, DI Hovedbestyrelse, DI Energibranchen, Center for Bioenergi og Miljøteknisk Innovation.

#### **Elsbeth Budolfson (1947), member since 2000.**

MSc (Pharm). Chairman. Other board memberships: IØ, IFV, Fertin Pharma A/S, Contura A/S, Contura International A/S, Contura Properties A/S, NSGene A/S, Persona A/S, DDS Ltd.\*\*, Jacobsen Pharma A/S\*\*. Member of the Advisory Board, Danske Bank A/S.

#### **Betina Hagerup (1961), member since 2006.**

MSc (Business Affairs). Deputy Permanent Secretary, Ministry of Economic and Business Affairs. Other board memberships: IØ, IFV, VisitDenmark, Eksport Kredit Fonden.

#### **Ib Petersen (1960), member since 2005.**

MSc (Political Science). State Secretary, Ministry of Foreign Affairs. Other board memberships: IØ, IFV.

**Christina Rasmussen (1967), member since 2008.**

MSc (Business Economics and Auditing). State-authorized public accountant. CFO, Toms Gruppen A/S. Other board memberships: IØ, IFV, Toms Webes AB.

\*\* Chairman

\* Deputy Chairman

**Executive Board**

The Danish Minister for Development Cooperation appoints the Managing Director. The rules applying to the Supervisory Board with respect to selling or buying shares or other securities issued by companies of which they have obtained special knowledge also apply to the Managing Director and the Deputy Managing Director in their capacities as members of the Executive Board.

**Finn Jønck (1948), Managing Director since 2006.**

MSc (Economics).

**Torben Huss (1962), Deputy Managing Director since 2009.**

MSc (Political Science), PhD (Business Economics)