



IFU

INVESTMENT FUND FOR
DEVELOPING COUNTRIES

OPERATING REPORT 2016

Record investment level of DKK 1,116m

48 investments in 2016

Investments **support SDGs**

Celebrating **50 years**

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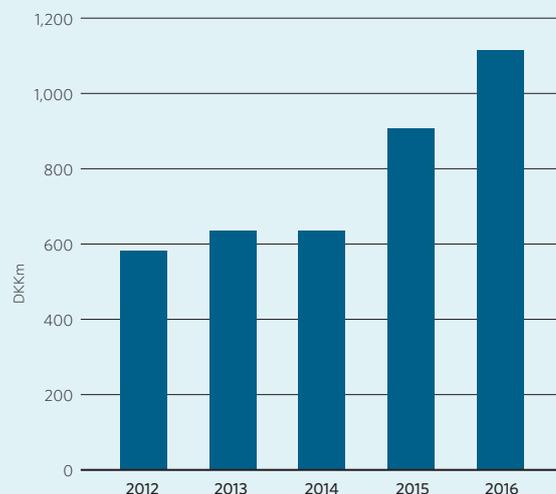
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CELEBRATING 50 YEARS



Annual contracted investments IFU and IFU managed funds

Back in 1967, the Danish Parliament voted in favour of establishing IFU.

The first capital injections were based on the annual revenue received from customs duty on coffee import to Denmark. Consequently, IFU was for many years better known as the Coffee Fund.

IFU's first investment was made in Turkey in 1969, and today IFU has supported more than 1,200 private sector investments in 100 countries in Africa, Asia, Latin America and Europe.

Our investments have been profitable, and a number of the project companies established in the 1970s are still operational contributing revenue to

their owners and positive development effects in the host countries such as jobs, useful products and services as well as corporate tax.

Our strategy is to increase our investments and positive development impact. In recent years, we have been successful in attracting additional funding from private and institutional investors. In 2016, IFU and IFU managed funds reached an all-time record investing DKK 1,116m. On a consolidated basis across IFU and IFU managed funds the net result was DKK 258m. Gross yield was 11.6 per cent on share capital and 8.8 per cent on loans.

Going forward, our prime ambition is to establish a Sustainable Development Goals Fund with a capital base from public and private investors. This initiative will place Denmark in a leading innovative role when it comes to creating public-private partnership solutions that can support the aspirations of the United Nations 17 Sustainable Development Goals.

Stepping into our 50th anniversary year, IFU is in good shape, and we look forward to continuing the journey for a better and more sustainable world.

INVESTMENTS 2016

In 2016, IFU and IFU managed funds invested DKK 1,116m in 48 commercially viable projects, which will generate solid development effects by means of jobs, training, technology transfer and tax revenue.



EXPECTED DIRECT
EMPLOYMENT IN
PROJECTS RECEIVING
FINANCE IN 2016 IS

6,822 PEOPLE

Karpatsky Wind Park, Ukraine



Karpatsky Wind Park will increase production of renewable energy in Ukraine and reduce CO₂ emission by one million tons.

- Total expected investment: DKK 254m
- IFU investment: DKK 78m
- Total capacity: 21 MW

CASE

8 PROJECTS
FINANCED
IN EUROPE

8 PROJECTS
FINANCED IN
LATIN AMERICA

Dynatest South America, Colombia



Dynatest, selling pavement engineering equipment, plans to expand their presence on the Latin American market.

- Total expected investment: DKK 37.5m
- IFU investment: DKK 16.8m
- Expected total employment: 56 people

CASE

Roserve ETP, India



Roserve ETP will assist industrial companies cleaning wastewater by installing industrial effluent treatment plants.

- Total expected investment: DKK 95m
- IFU investment: DKK 15.8m
- Expected total employment: 65 people

CASE



IFU AND IFU MANAGED FUNDS INVESTED A TOTAL OF

DKK **1,116m**
IN **48 PROJECTS**

12 PROJECTS
FINANCED
IN ASIA

15 PROJECTS
FINANCED
IN AFRICA

Nordic Microfinance Initiative (NMI)



NMI will assist poorer people in getting better access to risk capital, which can help to improve their livelihood.

- Total expected investment: DKK 571.6m
- IFU investment: DKK 169.1m
- Accumulated outreach: 7 million borrowers

CASE

Aller Aqua, Zambia



Aller Aqua Group is building a modern fish feed factory in Zambia with a capacity of 50,000 tons of feed annually.

- Total expected investment: DKK 65m
- IFU investment: DKK 46.8m
- Expected total employment: 50 people

CASE



5 PROJECTS
WITH A
GLOBAL FOCUS

IFU IN BRIEF

IFU provides risk capital and advice to companies wanting to do business in developing countries and emerging markets. Investments are made on commercial terms with the purpose of promoting economic and social development in investment countries.

IFU is a state-owned fund that has been engaged in direct commercial investments in developing countries for 50 years. Today, IFU also acts as a fund manager for a number of investment funds based on public or public-private capital, which target different regions or business sectors like climate and agri-business.

Total capital under management in the funds is DKK 6.0bn.

Being profitable is vital

IFU is a self-financing fund. In order to continue investing and having positive development effects, IFU needs to be profitable. In 2016, IFU and IFU managed funds reached an all-time record

Total number of projects distributed by region



■ Africa	260
■ Asia	405
■ Europe	447
■ Latin America	122
■ Global	11



SDG GOAL

The three new projects signed in 2016 under the Danish Climate Investment Fund are expected to reduce CO₂ emissions by approximately 12,500,000 tons during their lifetime.



Manager at Afro Farm, Tanzania.

investing DKK 1,116m. On a consolidated basis across IFU and IFU managed funds the net result was DKK 258m. Gross yield was 11.6 per cent on share capital and 8.8 per cent on loans.

Most experienced Danish investor

In total, IFU and IFU managed funds have invested in over 1,200 projects in 100 countries in Africa, Asia, Latin America and Europe. The total expected investment in these projects is almost DKK 173bn, with IFU and IFU managed funds contributing DKK 19bn in share capital and loans.

This makes IFU the most experienced Danish investor when it comes to direct investments in developing countries and emerging markets.

Investments create development

When investing, IFU is always focussed on the double bottom line: creating development and profitable business. IFU has a strong focus on sustainability, upholding fair conditions for employees, safeguarding the environment and promoting basic human rights while creating economic growth and jobs.

More than 200 active investments

Typically, IFU is engaged in an investment for 6-8 years. After a loan is repaid or IFU has sold its shares, the revenue is used for new investments. As per year-end 2016, IFU had an active portfolio of 212 investments.

The actual direct employment in these investments is close to 30,000 people.



IFU's and Dynatest's cooperation in Latin America will enhance the potential for success in the coming years, and we very much look forward to the journey together.

**Christian Lang Nielsen, CEO,
Dynatest South America**

2016 RESULT

Financial highlights 2016

Combined, IFU and IFU managed funds recorded a net income of DKK 258m in 2016. The result was due to a continued strong performance from both share capital investments and loans. Gross yield on share capital was 11.6 per cent, and on loans it was 8.8 per cent

The figures below are consolidated across IFU and IFU managed funds.

EXECUTIVE SUMMARY	DKKm
Gross contribution from projects	353
Operating income	259
Net income for the year	258
Total investment in projects at cost	3,333
Total equity capital	3,962
Total balance	4,138

KEY RATIOS

Gross yield from share capital investments	11.6%
Gross yield from project loans and guarantees	8.8%
Gross yield from projects (total)	10.9%
Net income of the year/ average total equity capital	6.8%
Average number of employees (no.)	78

WE PROVIDE **RISK CAPITAL** AND **PROFESSIONAL ADVICE**

IFU offers risk capital and professional advice and takes an active part in the business that is set up in a developing country.

If a company wants to do business in a developing country, IFU can assist in many ways. We provide different types of financing on commercial terms, including share capital, mezzanine

financing, loans and guarantees. IFU's investments range from DKK 1m - DKK 100m in a single project.

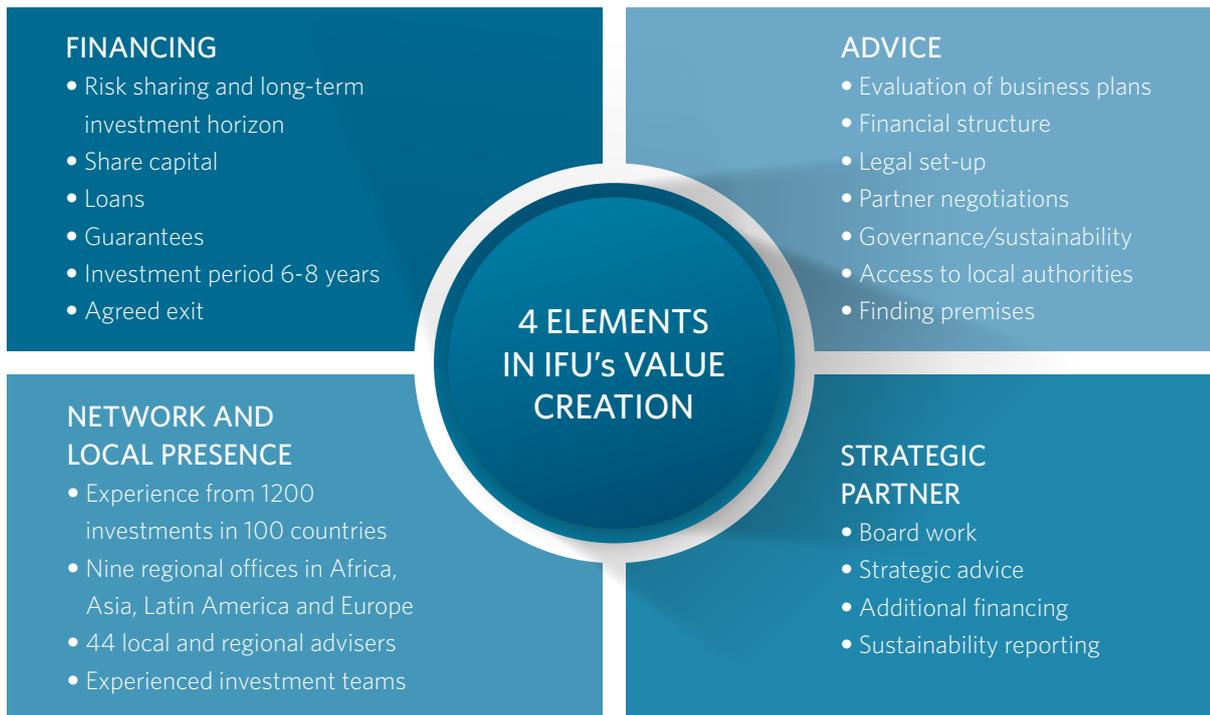
IFU has a long-term investment horizon and can participate in start-up companies, joint ventures, acquisitions and in projects with a Danish economic interest.

Professional advice all the way

Usually, IFU is involved from the initial considerations, during the establishment, and until the company is economically viable. Throughout the process, IFU offers professional advice on the business plan, financial structure, legal set-up, governance and sustainability as well as negotiations with local partners and au-

IFU 5 STEP INVESTMENT PROCESS

	FIRST CONTACT	DUE DILIGENCE	APPROVAL OF INVESTMENT	ACTIVE OWNERSHIP	AGREED EXIT
Project company /partner	Presentation of company and business idea/plan	Data collection and presentation of the final business plan	Signing the final agreement Obtaining legal opinion Developing sustainability policy	Appointment of competent management and board Execution of business plan	Prepare future ownership structure Possible purchase of IFU's shares
IFU	Assessment of company's business plan/idea Advice on next steps Approval in principle of partner, investment location and business idea	Evaluation of the business plan Discussion of market strategy, management, budget, finance and ESG Visit to the partner company etc.	Approval of the project by IFU's board of directors/investment committee Presentation of agreement	Using IFU's local knowledge and network Active participation in board work Additional funding	Valuation of company Retail price Exit agreement



thorities. Often, IFU is also represented on the board of the company that is set up in the developing country offering strategic advice on an ongoing basis.

Nine regional offices abroad

Professional advice is provided by 40 experienced investment professionals based in Copenhagen or at one of our nine regional offices covering Africa, Asia, Latin America and Eastern Europe. Moreover, IFU has an extensive network of external advisers with experience in business operations in developing countries.



Haldor Topsøe Catalyst, China.

Tailor-made solutions

Over the years, IFU has teamed up with more than 900 Danish companies. Among these are large Danish enterprises like A.P. Møller-Mærsk, Carlsberg and FLSmidth, but also a wide variety of small and medium-sized companies within numerous sectors.

Regardless of the size of the company, IFU always tries to create tailor-made solutions, which include financing, advisory service and exit agreements with all partners.

IFU IS DRIVING CHANGE

Poverty in developing countries is widespread, and more than 600 million jobs are needed by 2020 in order to maintain current employment levels. By providing risk capital to commercially viable companies, IFU is creating jobs and driving change towards more sustainable societies.

Job creation is one of the most important factors in eradicating poverty. Nine out of ten jobs in low and middle-income countries are created within the private sector. Consequently, traditional development aid cannot stand alone.

In order to create sustainable societies in the developing world, private capital and investments are vital. This is also the conclusion in the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals set forward by the UN in 2015.



Creating decent jobs and economic growth

For 50 years, IFU has contributed to private sector investments in developing countries. For every dollar IFU has invested, 8 - 9 dollars in additional capital have been attracted forming a solid basis to bring about change and improvement.



VALUABLE
GOODS AND
SERVICES



DIRECT
JOB CREATION



INVESTMENT



FINANCIAL
RETURN



TAX
PAYMENTS

IFU
PROJECT
COMPANY



INFRASTRUCTURE



HEALTH



EDUCATION



Besides the financing that IFU provides to the project, we are sure that we can benefit from IFU's experience on the African continent.

**Henrik Halcken, Group Vice President,
Aller Aqua**

IFU is addressing the effect on society in all our projects, and only if a project is deemed commercially viable and has a positive development impact, we decide to enter.

This combination ensures that the project company is creating decent jobs, producing valuable goods and services and paying taxes to the host country, which in turn creates more sustainable societies through public sector investments in education, healthcare and infrastructure.

IN 2016, **IFU PROJECT
COMPANIES PAID**
DKK **265m**
IN TAXES TO HOST COUNTRIES

IFU INVESTMENTS SUPPORT THE SDGs

When IFU invests in developing countries, we are supporting the Sustainable Development Goals. Creating jobs helps to reduce poverty, investing in agricultural projects reduces hunger, and erecting wind farms and producing solar energy tackles climate change. Moreover, the investments have a number of direct and indirect effects on a number of the 17 SDGs.



SDG GOAL 1

IFU's project companies create jobs, which is one of the most important development effects, because it provides an opportunity for people to **escape poverty** and improve their standard of living by increasing earnings.



SDG GOAL 5

Through investments in micro-finance, IFU is providing women with financial means and support to start their own businesses. These financial services help the women assert their economic power, which is key to promoting **gender equality**.



SDG GOAL 8

IFU's project companies create **decent jobs** as they must provide employment contracts and reasonable wages, comply with minimum age standards, not participating in or being connected with forced labour, etc.



SDG GOAL 2

IFU has invested in **agribusiness projects** for several years. In 2016, IFU launched the Danish Agribusiness Fund that focusses on agribusiness projects along the entire value chain from farm to fork as well as on **smallholder inclusion**.



SDG GOAL 7

The aim of the Danish Climate Investment Fund is to reduce **CO₂ emissions** in developing countries and emerging markets by investing in clean energy such as wind farms or solar power plants.



SDG GOAL 9

When IFU's project companies implement **modern technology** in developing countries, the businesses become more competitive and cost efficient, which also leads to higher incomes for individuals, companies and society.



Lake Turkana Wind Power, Kenya.



SDG GOAL 12

Through the implementation of high sustainability standards, IFU assists the project companies in using **responsible production methods** that safeguard the environment, the employees, society, etc.



SDG GOAL 13

The Danish Climate Investment Fund is providing risk capital for climate-related projects that **tackle climate change**, including mitigation through renewable energy and adaptation through the use of more efficient technologies.



SDG GOAL 16

IFU's work on good corporate governance is part of **building strong and transparent institutions**. Our efforts also include anti-corruption policy dialogue with our partners.



SDG GOAL 17

IFU's project companies pay **taxes** in the host country, which enables the public sector to invest in e.g. education, healthcare and infrastructure. Capital provided by IFU is in itself an important contribution to the **partnership for the goals**.

CASE DCIF

Danish Energy Efficiency Partners

In Malaysia, most large buildings consume too much energy due to historically low energy prices, a limited focus on energy savings and a lack of integrated technical and financial concepts to handle necessary energy renovations. Danish Energy Efficiency Partners (DEEP) has set up a one-stop shop that offers tailor-made solutions, including design, detailed planning, purchase and implementation as well as financing for energy renovation.

Customers, typically large property owners, are paying for the solution with part of the savings achieved once the building has been made energy efficient. The first projects have been completed, and the strategy is to expand in the Malaysian as well as the Asian market.



- **Danish partner:** Danish Energy Management & Esbensen
- **Investment year:** 2015
- **IFU investment:** DKK 11.5m
- **Expected total investment:** DKK 18.7m
- **Local direct employment:** 9 people

IFU AS A FUND MANAGER

IFU is operating as a fund manager for a number of investment funds based on public or public-private capital. Besides the funds described below, IFU has for several years been fund manager for the Investment Fund for Central and Eastern Europe that has made more than 400 investments. This fund is in the process of being wound down.



The Danish Climate Investment Fund

The Danish Climate Investment Fund (DCIF) offers risk capital and advice for climate-related projects in developing countries and emerging markets.

DCIF can co-invest with companies as well as developers wishing to supply, develop or operate businesses that reduce greenhouse gas emissions. DCIF can participate with equity or mezzanine financing in the range of typically DKK 15m – DKK 100m in a single project.

DCIF can invest in all 146 developing countries and in projects with a Danish investor or a Danish commercial interest.

Until mid-May 2017, DCIF has made 14 investments at a total of DKK 673m.

DCIF	
Committed capital	DKK 1.3bn
Starting year	2014
Invested capital	DKK 673m
Number of projects	14
Investors: PensionDanmark, PKA, PBU, Dansk Vækstkapital, Aage V. Jensen Charity Foundation, IFU and the Danish State	



The Danish Agribusiness Fund

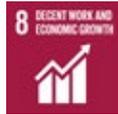
The Danish Agribusiness Fund (DAF) offers risk capital and advice for agribusiness projects in developing countries and emerging markets

DAF can co-invest with companies as well as developers wishing to supply, develop or operate businesses across the value chain from farm to fork. As a minority investor, DAF can participate with equity or mezzanine financing in the range of typically DKK 15m – DKK 100m in a single project.

DAF can invest in all 146 developing countries and in projects with a Danish investor or a Danish commercial interest.

Until mid-May 2017, DAF has made three investments at a total of DKK 193m.

DAF	
Committed capital	DKK 800m
Starting year	2016
Invested capital	DKK 193m
Number of projects	3
Investors: PensionDanmark, PKA, PFA, IFU and the Danish State	



SDG GOAL

New projects contracted by IFU and IFU managed funds in 2016 are estimated to generate more than 1,400 direct jobs once in full operation.



IFU Investment Partners

IFU Investment Partners (IIP) provides equity to larger projects where IFU is a co-investor. This allows Danish companies to gain access to additional equity funding in a one-step process reducing bureaucratic burdens and financial risk as well as increasing the potential for profitable projects to be realised.

IIP can invest in all 146 developing countries and in projects with a Danish investor or a Danish commercial interest

Until mid-May 2017, IIP has made four investments at a total of DKK 223m.

IIP	
Committed capital	DKK 500m
Starting year	2012
Invested capital	DKK 223m
Number of projects	4
Investors: PKA, PBU	



The Arab Investment Fund

The Arab Investment Fund (AIF) was set up in connection with the Arab Spring to contribute to the economic development of countries in North Africa and the Middle East.

AIF can invest in Morocco, Algeria, Tunisia, Libya, Egypt, Jordan and Iraq.

AIF can co-invest with companies as well as developers wishing to supply, develop or operate businesses across all sectors - except the few on IFU's exclusion list. As a minority investor, DAF can participate with equity, mezzanine or loan financing in projects with a Danish investor or a Danish commercial interest.

Until mid-May 2017, AIF has made five investments at a total of DKK 150m.

AIF	
Committed capital	DKK 150m
Starting year	2011
Invested capital	DKK 150m
Number of projects	5
Investors: IFU and the Danish State	

WORKING WITH SUSTAINABILITY

High sustainability standards add value to the company and enhance business opportunities in developing countries. IFU has extensive experience with sustainability issues and assists partners and project companies in finding the right solutions.

In developing countries, companies have a greater responsibility in upholding proper sustainability standards by creating e.g. decent jobs, following high environmental standards and promoting community engagement.

Sustainability throughout the investment process

IFU is a signatory to the UN Global Compact and has set up a process to identify and solve sustainability issues that need to be addressed.

The process consists of four phases; screening, due diligence, agreement and investment monitoring. In every investment, IFU and the company engage in a dialogue of relevant challenges and issues regarding a number of areas concerning the environment, health and safety as well as human rights and corporate governance.

Must comply with national legislation

The starting point is that project companies must comply with national legislation in the country in which they operate, and that they have to work towards implementing relevant international standards. If gaps are identified in the screening process, a written action plan will be required describing the

IFU'S **SUSTAINABILITY WORKFLOW** MODEL





SDGOAL

More than 70 per cent of the new projects contracted in 2016 are expected to implement world class technology, and close to 90 per cent have plans for running training programmes for their employees.

measures that need to be implemented within an agreed time frame.

Moreover, when entering into an investment agreement, IFU requires project companies to:

- Adopt a written sustainability policy
- Appoint a person with overall responsibility for sustainability
- Establish a system to ensure continuous improvements
- Promote sustainability to partners and suppliers
- Prepare an annual sustainability report

Sharing experience with partners

IFU has extensive experience in creating sustainable businesses and shares this knowledge with its partners on an ongoing basis. Moreover, IFU has launched a sustainability handbook and a handbook on board work and corporate governance, organises regional seminars on Environmental, Social and Governance topics and is able to provide economic support for training of local employees in handling sustainability issues.



Gustu Restaurant, Bolivia.

CASE *IFU*

African Coffee Roasters

For several years, Coop has made a targeted effort to introduce products from developing countries to the Danish consumers through the concept Savannah. Now the selection has been expanded with East African coffee directly from Coop's new state-of-the-art roasting facility "African Coffee Roasters" established in Nairobi, Kenya. The coffee is sold under the brand name Cirkel Coffee.

Coop's strategy is to buy directly from the individual coffee farmers, avoiding costly middlemen buying up coffee and selling it at a profit. Thereby the coffee farmers, who are organised in cooperatives, obtain a better price on their coffee as well as faster payment.



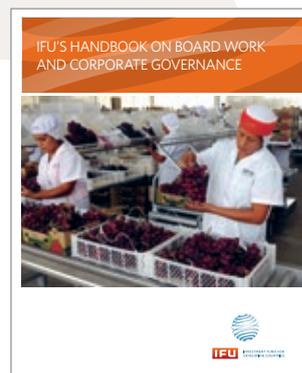
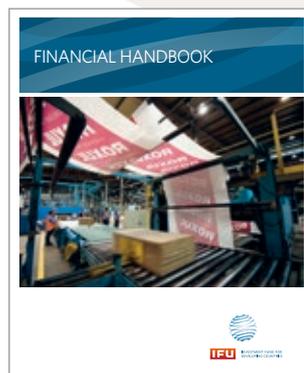
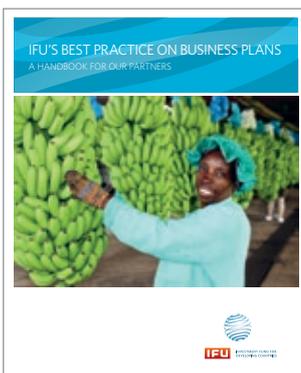
- ➔ Danish partner: Coop
- ➔ Investment year: 2015
- ➔ IFU investment: DKK 13.1m
- ➔ Expected total investment: DKK 22.5m
- ➔ Expected direct employment: 40 people

SEVEN INVESTMENT TIPS

Investing and doing business in developing countries is often a challenge. Solid and thorough preparation is crucial for success. Our seven investment tips will guide you in the right direction, and our handbooks on business plans, finance, board work and sustainability can help you avoid the worst blunders.



IFU HANDBOOKS



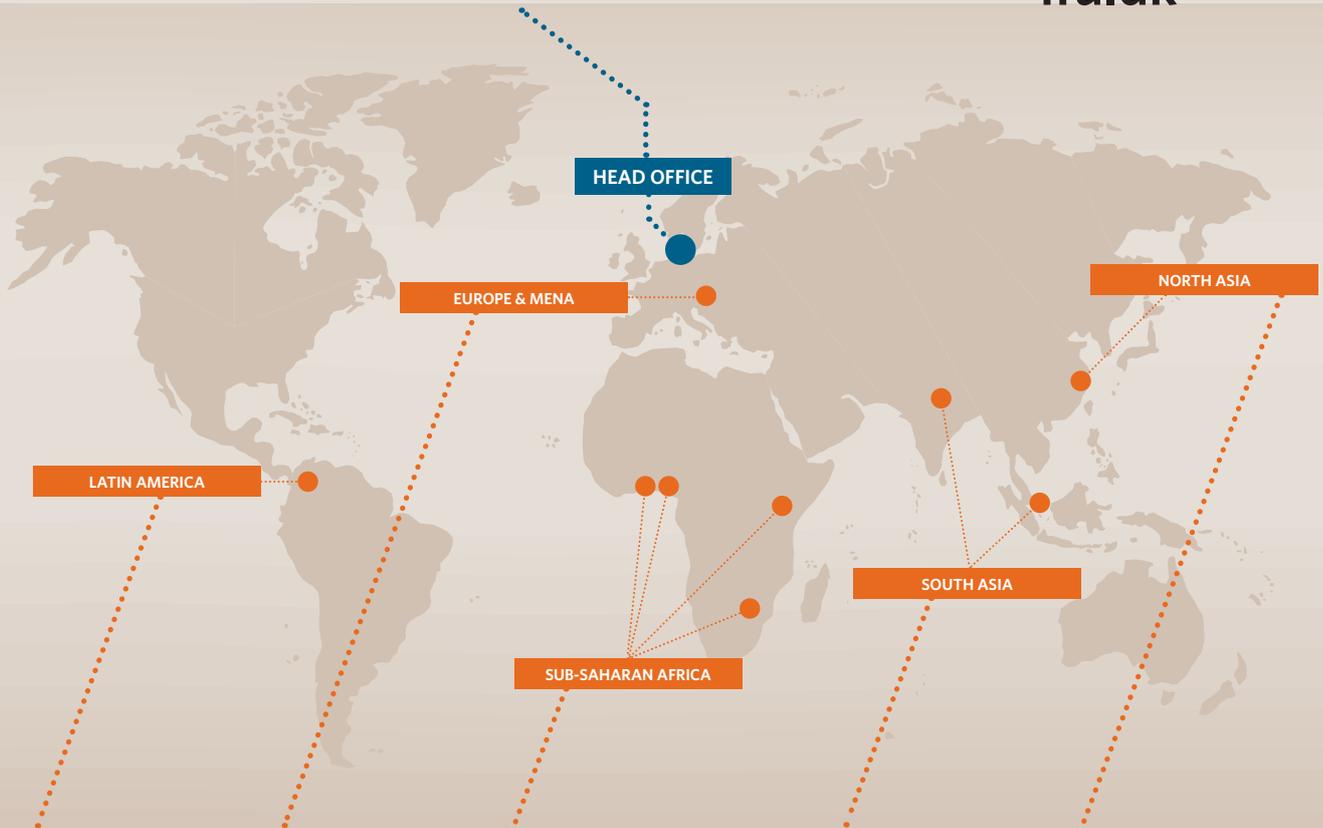
IFU'S GLOBAL PRESENCE



IFU INVESTMENT FUND FOR DEVELOPING COUNTRIES

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IFU LATIN AMERICA
Bogotá

IFU EUROPE & MENA
Kiev

IFU SOUTH ASIA, New Delhi
IFU SOUTH ASIA, Singapore

IFU EAST AFRICA, Nairobi
IFU WEST AFRICA, Accra
IFU WEST AFRICA, Lagos
IFU SOUTHERN AFRICA, Johannesburg

IFU CHINA, Shanghai



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IFU AND IFU MANAGED FUNDS CONTRIBUTE TO SUSTAINABLE GROWTH AND IMPROVED LIVING CONDITIONS



IFU MANAGED FUNDS

