

**The Investment Fund for Central and
Eastern Europe (IØ)
Annual Report 2008**

Legal mandate

“The purpose of IØ is to promote Danish investments in Central and Eastern Europe and thereby support the reformist countries in their efforts to achieve an increased economic, commercial and industrial development; and to enhance the possibilities for closer economic cooperation between Denmark and Central and Eastern Europe resulting in generally improved East/West relations to the benefit of Danish trade and industry, as well as the employment situation in Denmark.”

The Act on Support to Danish Investments in Central and Eastern Europe,
The Danish Parliament, 14 December 1989.

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. IØ 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 liquidity.

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

Looking at IØ's own performance, it reflects the fact that the eastern European countries have been hit very hard by the financial crisis. We contracted a smaller number of investments in 2008 than in 2007, but the volume was DKK 34m higher. IØ's net income in 2008 was negative in the amount of DKK 132m, first of all due to large negative value adjustments to our portfolio. In 2007, IØ came out with a profit of DKK 328m.

We recognize that we have a difficult year ahead of us, but we do think there is a fair chance of turning the red figures for 2008 into black figures in 2009.

Corporate social responsibility, CSR, remains an important pillar of IØ's co-investments with Danish companies, and we constantly strive to broaden the knowledge and implementation of the policy. In 2008, IFU/IØ signed up to the UN Global Compact and its ten principles, which the Funds have 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 IØ'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.ioe.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. 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 for 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, 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 governing large class C enterprises.

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 Investment Fund for Central and Eastern Europe (IØ)

We have audited the Annual Report of IØ 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 IØ. 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

- Seven new projects with an expected employment of 654 people
- Additional financing to five projects
- Net loss of DKK 132m
- Paid back DKK 600m to the Danish state – the total accumulated repayments amounting to DKK 2,050m
- 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
- Continued focus on animal welfare and veterinarian medicine
- A total fulfilment of IØ's success criteria of 78%

Financial and developmental highlights

	2008	2007	2006	2005	2004
	<u>DKKm</u>	<u>DKKm</u>	<u>DKKm</u>	<u>DKKm</u>	<u>DKKm</u>
Financial highlights					
<u>INCOME STATEMENT</u>					
Gross contribution from projects ¹	(142)	314	697	294	89
Operating income (loss) ²	(162)	290	674	265	61
Net income for the year	(132)	328	696	274	82
<u>BALANCE SHEET AT 31 DECEMBER</u>					
Share capital investment in projects at cost	482	513	617	835	947
Project loans at cost	437	494	562	519	627
Total investment in projects at cost	919	1.007	1.179	1.355	1.574
Accumulated value adjustments	22	333	161	(304)	(465)
Investments in projects, net	941	1.339	1.341	1.051	1.108
Cash and bonds	232	563	730	624	316
Repaid capital/paid-in capital during the year	(600)	(500)	(300)	0	(650)
Total equity capital	1.197	1.929	2.102	1.706	1.432
Total balance	1.198	1.938	2.102	1.707	1.464
<u>ADDITIONAL DATA</u>					
New projects contracted (no.)	7	9	10	26	15
Portfolio of projects (no.)	92	106	121	151	165
Investments contracted	203	169	156	216	539
Investments disbursed	118	62	330	151	401
<u>KEY RATIOS</u>					
Gross contribution from projects/Average investment in projects - value adjusted	-12,5%	23,4%	58,3%	27,2%	8,5%
Operating income/Average total equity capital	-10,4%	14,4%	35,4%	16,9%	3,5%
Net income for the year/Average total equity capital	-8,4%	16,3%	36,6%	17,4%	4,8%
Accumulated value adjustments/Investment in projects at cost	2,4%	33,1%	13,7%	-22,4%	-29,6%

¹ Information about composition of the contribution from projects including value adjustments can be found in "Financial review 2008" on page 22

² Operating income = gross contribution from projects less operating expenses

Developmental and environmental highlights - ex ante ¹

Environmental Investment Ratio (Range: 0 - 100%)	30%	29%	30%	33%	30%
Total fulfilment of Fund's success criteria (Range: 25 - 100%)*	78%	78%	70%	77%	79%
Development impact	70%	72%	65%	75%	87%
Partner mobilisation	77%	80%	66%	78%	67%
Sustainability and profitability of projects	96%	90%	88%	81%	84%
Efficiency and effectiveness of Fund operation	83%	74%	70%	78%	83%

* 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 IØ's success criteria can be found on www.ioe.dk

¹ Weighted by invested amounts, new projects.

Management's review

Main activities

In 2008, IØ contracted investments of DKK 203m in 12 projects, including DKK 137m in seven new projects. The expected direct employment in the seven new projects was 654. The Fund also made additional investments of DKK 66m in five ongoing projects employing 810 people.

Since 2006, IØ's target countries have included the Russian Federation, Ukraine and Belarus only, but the portfolio still includes project companies in central and eastern Europe, which IØ has not yet exited.

IØ realized a net loss of DKK 132m in 2008 (against a net profit of DKK 328m in 2007). The 2008 performance was marked by the significant change in market conditions in central and eastern Europe 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 IØ's result.

IØ paid back DKK 600m to the Danish state in 2008. Consequently, as at 31 December 2008, IØ had paid back nearly DKK 2.1bn to the state.

Main features as at 31 December 2008

	Number	DKKm	EURm*
Net loss 2008		(131.9)	(17.7)
Total equity capital as at 31.12.2008		1,197.4	160.7
Investments contracted during 2008	12	202.6	27.2
Contracted investments in projects since establishment (1989-2008), of which	424	5,285.2	709.4
disbursed (1989-2008)**		3,954.6	530.8
payable as at 31.12.2008		294.6	39.5
Number of countries that IØ has invested in (1989-2008)	18		

*) 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

IØ's legal mandate is to promote Danish investments in central and eastern Europe and thereby support the reformist forces in these countries in their efforts to achieve increased economic, commercial and industrial development; and to enhance the possibilities of a closer economic cooperation between Denmark and central and eastern Europe resulting in generally improved East/West relations to the benefit of Danish trade and industry and employment in Denmark.

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

IØ provides share capital participation, loans and guarantees on commercial terms for investments in production or service companies in central and eastern Europe. The Fund's revenues consist of interest, dividends and profits from the sale of shares.

IØ operates on commercial terms and is self-financing.

In 2005, the Danish government decided that as of 2012 IØ will no longer make new investments, and that IØ will gradually phase out its investment portfolio.

As a pillar supporting IØ'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 IØ, partners gain access not only to financing, but also to the know-how and experience from investments in more than 420 projects in central and eastern Europe obtained by IØ since 1989, including support from a network of advisers and financial institutions. IØ 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.

Investments in 2008 – an overview

Investments in new projects were directed at only two countries, namely Russia and Ukraine. Five of the projects were in Ukraine, one in Russia, and one project covers both countries. IØ's average investment in new projects was DKK 19.6m.

69% of the new investments were in the form of share capital or project loans with equity features.

Number of new projects	7	
Number of additional financing of ongoing projects	5	
NEW PROJECTS		
IØ's contracted investments	DKK 137.0m	EUR 18.4m
Expected total investments in projects	DKK 857.9m	EUR115.1m
Investments in new and ongoing projects	DKK 202.6m	EUR 27.2m
Disbursement of share capital and loans	DKK 118.2m	EUR 15.9m
Paid-in from projects (dividends, interest, sale of shares and repayment of loans)	DKK 374.6m	EUR 50.3m
Expected direct employment in new projects	654 jobs	

INVESTMENTS CONTRACTED IN 2008		IØ's contracted investments (DKKm)			EXPECTED EMPLOYMENT (PERSONS)
Project name	Country	Shares*	Loans**	Total	
New projects financed by IØ					
1 Dukas Ukraine	Ukraine	3.1	10.5	13.6	20
2 AgriFinance	Ukraine	8.0	8.0	16.0	2
3 Danico	Ukraine		4.0	4.0	52
4 Dolle Ukraine	Ukraine	2.3		2.3	97
5 ADR Ukraine	Ukraine	5.7	20.5	26.2	5
6 NeCF Fund	Ukraine and Russia	18.7		18.7	0
7 Emborg Russia	Russian Federation	56.3		56.3	478
Total, new projects***		94.1	42.9	137.0	654
Additional financing of ongoing projects					
Project name	Country	Shares	Loans	Total	ACTUAL DIRECT EMPLOYMENT
1 Gangsø Ukraine	Ukraine		0.9	0.9	90
2 DDCA Ukraine	Ukraine		2.2	2.2	95
3 Mineral Wool	Russian Federation	58.3		58.3	590
4 Danagrigo Production	Hungary	2.9		2.9	11
5 Dan-Farm Hungary Kft.	Hungary	1.2		1.2	24
Total additional financing***		62.4	3.2	65.6	810
Grand Total***		156.5	46.1	202.6	1.464

*) Incl. overrun commitments.

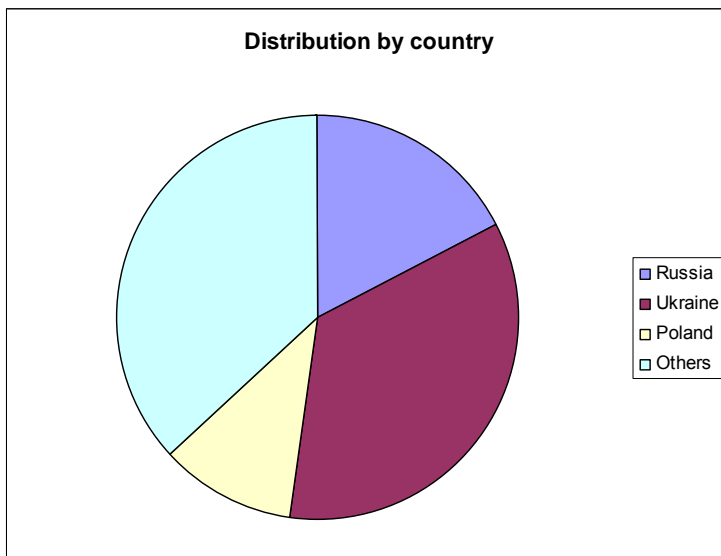
**) Incl. guarantees.

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

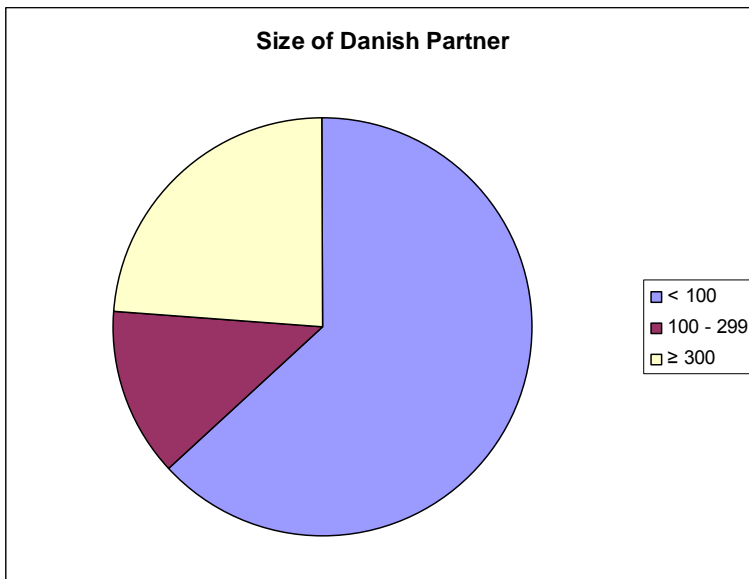
Project portfolio

Up to the end of 2008, IØ had co-financed a total of 424 projects in 18 countries. Of these, 92 are ongoing investments, while IØ has exited 332 projects.

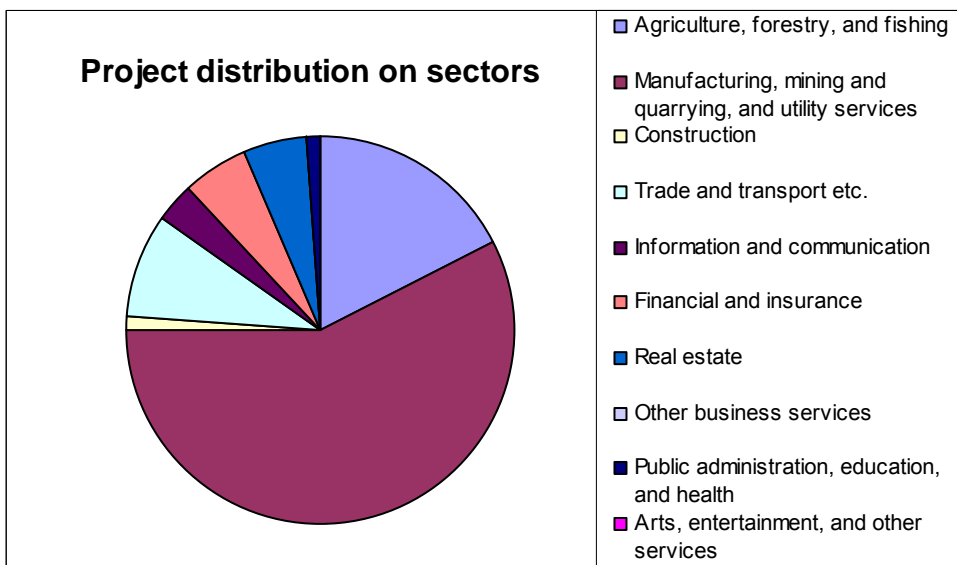
The distribution of the number of ongoing projects by geographic region is illustrated below:



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 IØ Portfolio List.

Exit from central and eastern Europe

In 2003, IØ's Board approved a plan for IØ's exit from the existing projects in the eight eastern European countries that joined the EU on 1 May 2004. Following Bulgaria's and Romania's accession to the EU on 1 January 2007, the plan for further exits from the ten accession countries was revised.

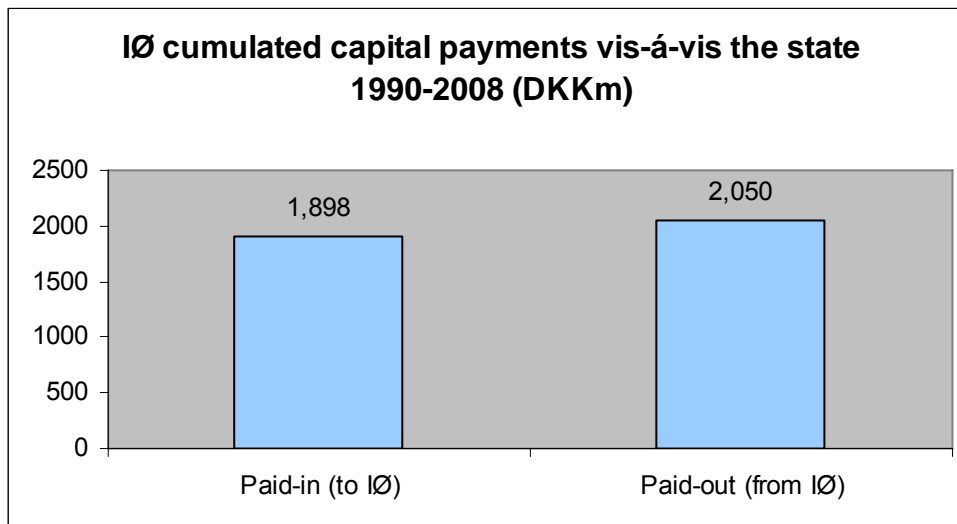
The process of exiting projects in the accession countries has continued to be on track and in fact at a slightly faster pace than projected in April 2003. This can be summarized as follows:

- In 2003, it was assumed that by the end of 2008, IØ would be actively involved in 29 projects in the first eight accession countries with a total outstanding amount at cost of more than DKK 500m. However, at the end of 2008, IØ was involved in only 23 projects in those countries, with an aggregate outstanding amount at cost of DKK 284m.
- The number of projects in these countries, for which IØ has not secured an exit agreement, has been reduced to three (from nine expected in 2003).
- Currently, IØ is planning to exit its last project in those eight countries before the end of 2015.

This development is in line with the strategy adopted in 2003 according to which the Fund will exit projects in all of the accession countries in an orderly and timely manner and without any loss of return.

Capital repayment

In 2008, IØ paid out an additional DKK 600m to the Danish state. This brought the total capital payment made by IØ to the state to DKK 2,050m since 2004, or approximately DKK 150m in excess of the amount of the total paid-in capital during the period 1990-2001, DKK 1,898m. Cumulated capital payments to the Danish state are shown in the figure below.



For 2009, IØ's Board has preliminarily approved a capital repayment of DKK 100m.

GoGlobal cooperation

The collaboration within the GoGlobal initiative continued in 2008. GoGlobal comprises IØ, Eksport Kredit Fonden (The Export Credit Fund), Danish International Development Assistance (Danida) and the Danish Trade Council.

All of these institutions offer services and financing to Danish enterprises operating outside Denmark, including developing countries and eastern Europe. The collaboration between the institutions aims to provide more specific information to interested companies, and to offer additional knowledge to the employees of the GoGlobal institutions.

For further information about the GoGlobal initiative, go to www.GoGlobal.dk.

Strategy considerations

During 2008, extensive work was conducted with a view to elaborating a revised strategy for IØ and its sister fund IFU, and it resulted in a new strategy for IØ: "Facing New Challenges" which was approved by IØ's board on 23 October 2008.

The present strategy for IØ is based on the Danish government's decision made in 2005 that after 2012 IØ can no longer invest in new projects and will gradually phase out its project portfolio.

However, the strategy also considers the option of a geographical reorientation of IØ instead of a phasing out by 2012. The development in the Caucasus region and Ukraine in 2008 created a new political situation different from the one existing when the decision to phase out IØ was made. Against this background, an option might therefore be to enhance stability in the countries along EU's south eastern border by strengthening and supporting economic development in these countries - primarily in the Balkans and the countries in the Caucasus region. A reorientation of IØ requires a reconsideration of the government's political decision of 2005.

Food crisis

The food crisis in 2008 demonstrated that there is a need for increasing the efficiency, and investments in agriculture, farming and the food processing sectors. The crisis also proved that there are still profits to be made in these markets.

IØ has a vast experience in this line of business. Since 1991, IØ has been involved in 85 projects with contracted investments totalling close to DKK 1.1bn in agriculture, food processing and related sectors. In 2008, the investments contracted by IØ within these sectors in Russia and Ukraine accounted for DKK 70m or nearly 30% of the total investments in these two countries.

Since the collapse of the Soviet Union, Russia and Ukraine have experienced a significant drop in the output from agriculture and farming, which has never been restored. These sectors therefore still represent an enormous potential in both countries.

Kyiv-Atlantic Ukraine (KAU) is an excellent example of an investment that yields good results and is beneficial to many people in an emerging economy.

In 2006, three Danish agribusiness families became involved in the company, and IØ facilitated a EUR 3.9m loan. The Danish participation and additional capital allowed for new investments in production facilities and modern technology and hence an expansion of the company's production.

Today, KAU is a leader in its market. It buys, grinds and sells peas as animal feed, especially pig feed. Basically, during the past five years the company has more than doubled every year. Its growth is partly due to the company's use of Multigain which is acknowledged for its high quality and consistency, and which customers are therefore willing to pay a premium for.

The KAU business has also had an impact on the community by creating a market for other producers of grain and oilseeds in different sizes and converting the production hereof into the best

feed products in Ukraine for further meat, egg and dairy consumption. Especially pig producers now have access to high quality feed, which yields faster and better breeding results and higher prices for the pigs.

Focus on Ukraine

Until year-end 2007, the majority of IØ's projects in Ukraine primarily focused on export processing, e.g. wood processing, machine components and textiles. For most projects, the entire production was exported to the EU. The only investments aimed for the local market involved farming and pig breeding.

Currently, the trend is changing: Increasingly, Danish companies have recognised that Ukraine has a big domestic market with a significant local consumption which provides good opportunities for investing in food processing, health-care, retail, transport, commercial property construction, etc. The Danish partners also tend to consider projects where local partners are co-investors. Therefore, the adviser office in Kiev has been instrumental in evaluating local partners, banks, etc and establishing contact to them.

Development of the necessary political and economic reforms is a slow process; however, Ukraine is gradually becoming more open to foreign investments and moving closer to European business standards. In May 2008, the country obtained WTO membership. One of the concerns in local and international business communities is the level of bureaucracy and corruption which needs to be more vigorously addressed by the Ukrainian government and society.

The financial crisis caused a hard landing for the Ukrainian economy which has grown by 5-6% per annum over the recent years, and it will take strong efforts by Ukraine to restore economic growth to this level. The crisis has also demonstrated that Ukraine is vulnerable to fluctuating prices for its commodity-based exports. Despite the slowdown of the Ukrainian economy, it is still a country representing many untapped opportunities.

With the expected privatisation of agricultural land, railways, telecom, machine-building enterprises, municipal infrastructure, airports, etc., the next couple of years will see good business opportunities and a significant need for investments in the country. The UEFA Euro 2012 football championships, which will be jointly hosted by Ukraine and Poland, have also caused a growing demand for hotels, stadiums, roads and other necessary infrastructure.

Furthermore, Ukraine's dependence on Russian gas supplies calls for efforts in implementation of energy efficiency and renewable energy generation technologies.

Strategic approach to climate projects

By meeting the demand for funding and investing in economically feasible projects with global climate benefits, IØ can - together with Danish and international partners - contribute to alleviating some of the global climate challenges.

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. IØ has also seen an increase in the number of inquiries for financing and consultation in relation to climate projects. To meet this demand, IØ has focused on the development of competences in relation to the carbon market situation, risks, and the financial and economic analysis of JI (Joint Implementation) projects.

Climate projects in the IØ context are 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 for the production of renewable energy, investments with a significant energy efficiency effect and energy savings, energy consultancy, substitution of energy source, biogas production and methane gas recovery from landfills or district heating.

NEFCO Carbon Fund (NeCF)

IØ has 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 JI mechanism. 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. Some of the main target markets are Russia and Ukraine, although other regions are also considered.

The new fund - which is co-financed by IØ (and IFU) and targeted to operate in IØ (and IFU) countries - is aiming at private investors such as 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 from 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)

IØ has signed up to Global Compact

In June 2008, IØ signed up to the 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 committing 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.

IØ 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 express universal values that are based on internationally acknowledged norms and conventions.

As a signatory to Global Compact, IØ will be part of the international network surrounding Global Compact.

Revised CSR policy

IØ 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 IØ.

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 IØ's CSR policy is diverse, and the projects have different backgrounds for working with CSR issues. To meet the different project requests regarding the 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.

Assistance on animal welfare and veterinarian medicine

In 2007, IØ increased its focus on animal welfare and veterinarian medicine, and continued to do so in 2008. IØ has strengthened its potential for providing assistance to our farming projects on these issues by increasing the number of advisers with such competencies. The Danish advisers have been well received at the farms, because – in relation to certain issues – they can provide guidance that the farmers might otherwise find it hard to obtain. In many cases such visits have resulted in a much higher awareness about animal welfare amongst the employees and the local veterinarians, including knowledge sharing.

In 2008, IØ's veterinarian adviser continued his routine visits to the pig projects with active IØ participation.

Compliance with CSR in 2008

In the CSR appraisal of projects, IØ categorizes each project as level A, B+, B, C or FI.

Complex projects with risk of high impact are categorized as level A. Projects with low impact are categorized as level C. Projects with a 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 have been agreed upon among all European Development Finance Institutions (EDFI) members.

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, IØ's ongoing projects consisted of:

Project level	No. of projects	%
A	15	16%
B+	15	16%
B	43	47%
C	13	14%
FI	6	7%
Total	92	100%

The assessment of compliance with IØ's CSR policy is classified in five categories, i.e. (1) excellent, (2) good, (3) fair, (4) poor and (5) critical. Projects with a "poor" or "critical" score are projects given IØ's special attention, and where IØ and its partners consider all potential solutions to solve the problem.

The compliance assessment does not include 16 projects that are either in the process of being established (9), have no physical activities (4), or are under closing (3).

Labour and human rights review

In 2008, labour and human rights reviews were carried out for 76 projects. All 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.

Labour and human rights	No. of projects	%
Excellent	30	39%
Good	25	33%
Fair	21	28%
Poor	0	0%
Critical	0	0%
Total	76	100%

Environmental review

In 2008, environmental reviews were carried out for 76 projects. All 76 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 IØ.

External environment	No. of projects	%
Excellent	18	24%
Good	37	49%
Fair	21	27%
Poor	0	0%
Critical	0	0%
Total	76	100%

Occupational health and safety review

In 2008, occupational health and safety reviews were carried out for 76 projects. All 76 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 IØ.

OHS	No. of projects	%
Excellent	20	26%
Good	36	47%
Fair	20	27%
Poor	0	0%
Critical	0	0%
Total	76	100%

Human resources

IØ and its sister fund IFU are organisations 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 IØ and 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, professions, borders and cultures. Hence, key HR focus areas are to maintain a high professional level and ensure an efficient basis for teamwork and cooperation.

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

"Results through dialogue" is the name of the platform, and it creates a clear link between the Funds' and the individual's objectives and facilitates a focused dialogue on job satisfaction and development. IØ/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 delivered 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 IØ/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 IØ/IFU employees acting as board members as well as all advisers worldwide representing IØ/IFU on boards.

Also, a seminar on **climate investments** was conducted. The focus was to strengthen our 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 improve our ability to advise our partners about the CDM/JI mechanisms and calculate the financial implications.

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 an excellent starting point for further organisational development. Part of the strategy work took place during the 2008 staff seminar, which was dedicated to discussing and working with the strategy. All IØ/IFU employees worldwide were invited to the seminar.

IØ/IFU PEOPLE FACTS

January 2009

Number of employees¹	73	Total number of advisers	40
Divided on regions:			
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

Educational level

Percentage of employees holding a master's degree as a minimum 62%

Age, seniority and gender

Average age	43
Average seniority in years	9
Percentage male	51%
Percentage female	49%

¹ including trainees, recalculated into full time employees

Financial review 2008

As shown in the income statement below, IØ recorded a loss of DKK 132m in 2008 against a profit of DKK 328m in 2007. The result was much lower than expected a year ago and reflects that most of the economies in central and eastern Europe are heavily affected by the current financial and economic crisis, which, again, influences the valuation of IØ's investments negatively. The accounting principles applied were unchanged from 2007.

	2008	2007
	<u>DKK 1,000</u>	<u>DKK 1,000</u>
Contribution from share capital investments	(185,114)	254,500
Contribution from project loans and guarantees	42,198	59,205
Other contributions from projects	<u>726</u>	<u>328</u>
GROSS CONTRIBUTION FROM PROJECTS	<u>(142,190)</u>	<u>314,033</u>
Operating expenses, net	<u>(20,146)</u>	<u>(24,240)</u>
OPERATING INCOME	<u>(162,336)</u>	<u>289,793</u>
Financial income, net	<u>30,479</u>	<u>37,813</u>
NET INCOME FOR THE YEAR	<u><u>(131,857)</u></u>	<u><u>327,606</u></u>

Total contributions from projects were DKK (142)m in 2008. In 2007, total contributions from projects amounted to DKK 314m. The negative development is almost entirely due to the development in the contribution from IØ's share capital investments.

Contributions from share capital investments were DKK (185)m in 2008 against DKK 255m in 2007. In 2008, value adjustments on investments still in the portfolio at year-end were DKK (233)m, which, in part, was mitigated by DKK 60m in dividend income. Contribution from divested investments during the year was DKK (12)m. Net cash flows related to share capital investments were positive at DKK 164m, as IØ continued to divest its investments in the former EU accession countries.

Project loans contributed DKK 42m in 2008 compared to DKK 59m in 2007. So far, IØ has not seen any significant deterioration in the quality of the loan portfolio. Net cash flows related to project loans were positive at DKK 93m.

IØ's part of the overall operating expenses for 2008 covering the three funds managed by the Industrialisation Fund for Developing Countries (IFU), i.e. IFU, IØ and the Investment Fund for Emerging Markets (IFV), was DKK 20m, lower than the level realised in 2007, DKK 24m. The reduction primarily reflects that a smaller part of the overall expenses are charged to IØ, which, again is a consequence of the gradual reduction of the activities in IØ.

Financial income, net of financial expenses was DKK 30m compared to DKK 38m in 2007. The lower level reflects a lower average level of liquidity during the year.

IØ ended the year with cash equalling DKK 232m after having paid out DKK 600m to the Danish state. Undisbursed commitments amounted to DKK 412m at year-end 2008. Based on an analysis of IØ's future cash flows, and on the request by the government, IØ's Board has approved preliminarily a capital repayment to the state of DKK 100m in 2009.

Risk management

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

As a consequence of this exposure and in particular because IØ measures its investments at estimated fair value in accordance with the prevailing accounting principles of the Danish Financial Statements Act, the Fund'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 IØ'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. As IØ now only invests in three countries, no specific guidelines have been set up for country risk exposure.

Project risk is managed by the indicative limit for IØ's participation in a single project, which is DKK 50m, 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).

Financial risk

At the end of 2008, only a small part of IØ's loan portfolio was denominated in currencies other than DKK or EUR, implying only limited direct exposure to currency fluctuations for IØ's financial results.

At year-end, 48% of IØ'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 IØ'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 IØ'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 IFU 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

Country	2008 %	2007 %
Russian Federation	35.1	33.4
Ukraine	26.4	18.8
Croatia	9.7	10.3
Bulgaria	6.5	6.7
Lithuania	5.2	5.3
Poland	4.9	7.7
Slovakia	4.3	5.8
Czech Republic	2.5	3.0
Romania	2.0	3.6
Ukraine and Russia (regional)	1.4	-
Total	98.0	94.6

Note: Only Russia, Ukraine and Belarus are now eligible for IØ investments. Minor corrections have been made to 2007 figures.

Events after the balance sheet date

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

Outlook for 2009

In 2009, IØ expects to enter into agreements for 7-8 new projects. Total IØ investment is expected to amount to DKK 120m.

Based on currently known expectations for the profit performance and value of the project companies, IØ would expect to record a profit in 2009. Taking into account, however, the recent very marked deepening of the economic crisis in central and eastern Europe, it cannot be ruled out that IØ will come close to another loss in 2009.

It is, however, inherently difficult to predict the development of the fair values of IØ's investments, including the effects of exchange rate fluctuations. Consequently, the expected net result is subject to considerable uncertainty.

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

IØ'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 IØ'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 IØ'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

IØ 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), contribution 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

The Industrialisation Fund for Developing Countries (IFU) manages the administration and accounting of altogether three funds. This includes IFU, IØ and the Investment Fund for Emerging Markets (IFV). The total operating expenses incurred by IØ, 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, IØ 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, 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 IØ receives audited accounts covering a period of at least two years of operational activities of the project company following the first disbursement by IØ.

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

In this context the larger investments are defined as those for which IØ'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 IØ.

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.

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".

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 IØ's cash flow from operating, investing and financing activities as well as IØ'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	(185.114)	254.500
2/ Contribution from project loans and guarantees	42.198	59.205
3/ Other contributions from projects	<u>726</u>	<u>328</u>
GROSS CONTRIBUTION FROM PROJECTS	<u>(142.190)</u>	<u>314.033</u>
Operating expenses, net	<u>(20.146)</u>	<u>(24.240)</u>
OPERATING INCOME	<u>(162.336)</u>	<u>289.793</u>
4/ Financial income, net	<u>30.479</u>	<u>37.813</u>
NET INCOME FOR THE YEAR	<u>(131.857)</u>	<u>327.606</u>
Distribution of net income for the year:		
Transferred to accumulated reserves	178.858	155.855
Transferred to accumulated reserves related to net positive value adjustments on project investments	<u>(310.715)</u>	<u>171.751</u>
	<u>(131.857)</u>	<u>327.606</u>

BALANCE SHEET AT 31 DECEMBER

ASSETS

NOTE	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
FIXED ASSETS		
	481.883	512.817
	113.494	430.016
5/ Share capital investment in projects, net	<u>595.377</u>	<u>942.833</u>
	436.964	493.725
	(91.354)	(97.161)
6/ Project loans, net	<u>345.610</u>	<u>396.564</u>
Total fixed assets	<u>940.987</u>	<u>1.339.397</u>
CURRENT ASSETS		
7/ Interest receivable related to projects	13.382	11.185
8/ Other receivables	12.057	23.755
Bonds	0	225.321
Cash	<u>231.762</u>	<u>338.100</u>
Total current assets	<u>257.201</u>	<u>598.361</u>
TOTAL ASSETS	<u>1.198.188</u>	<u>1.937.758</u>

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	1.897.800	1.897.800
Repaid capital	(2.050.000)	(1.450.000)
Accumulated reserves related to net positive value adjustment on project investments	22.140	332.855
Accumulated reserves	<u>1.327.442</u>	<u>1.148.584</u>
9/ Total equity capital	<u>1.197.382</u>	<u>1.929.239</u>
PROVISION FOR LOSSES		
Guarantees	<u>0</u>	<u>0</u>
Total provisions	<u>0</u>	<u>0</u>
10/ CURRENT LIABILITIES	<u>806</u>	<u>8.519</u>
Total liabilities	<u>806</u>	<u>8.519</u>
TOTAL EQUITY CAPITAL, PROVISION FOR LOSSES AND LIABILITIES	<u>1.198.188</u>	<u>1.937.758</u>

11/ FUNDS COMMITTED TO PROJECTS AND CLEARANCES IN PRINCIPLE

12/ CONTINGENT LIABILITIES

13/ 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	60.131	32.245
Interest from projects received	39.364	26.077
Other project related payments	1.762	10.124
Operating expenses, net	(23.370)	(20.979)
Net payments related to financial income and expenses	<u>33.565</u>	<u>42.181</u>
Net cash from operating activities	<u>111.452</u>	<u>89.648</u>
CASH FLOW FROM (TO) INVESTING ACTIVITIES		
Received from sale of shares	148.128	190.750
Received from project loans	124.504	112.565
Received from derivatives, loans	2.496	1.617
Paid-in share capital in projects	(44.717)	(6.209)
Disbursement of project loans	(73.522)	(55.381)
Received from (invested in) bonds	<u>225.321</u>	<u>111.582</u>
Net cash from (to) investing activities	<u>382.210</u>	<u>354.924</u>
CASH FLOW FROM (TO) FINANCING ACTIVITIES		
Repaid capital during the year	<u>(600.000)</u>	<u>(500.000)</u>
Net cash from (to) financing activities	<u>(600.000)</u>	<u>(500.000)</u>
NET CHANGE IN CASH	(106.338)	(55.428)
CASH BEGINNING OF YEAR	<u>338.100</u>	<u>393.528</u>
CASH END OF YEAR	<u><u>231.762</u></u>	<u><u>338.100</u></u>

NOTES

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
1 <u>Contribution from share capital investments</u>		
Dividends from projects	60.253	32.209
Contribution from divested share capital investments	(12.472)	36.620
Value adjustments, portfolio	<u>(232.895)</u>	<u>185.671</u>
Contribution from share capital investments	<u>(185.114)</u>	<u>254.500</u>
2 <u>Contribution from project loans and guarantees</u>		
Interest income and fees related to project loans and guarantees	48.488	40.474
Value adjustments excl. exchange rate adjustments, portfolio	(4.363)	13.245
Exchange rate adjustments, project loans	305	(1.417)
Exchange rate adjustments, derivatives	85	997
Other value adjustments excl. exchange rate adjustments	<u>(2.317)</u>	<u>5.906</u>
Contribution from project loans and guarantees	<u>42.198</u>	<u>59.205</u>
3 <u>Other contributions from projects</u>		
Value adjustments, receivables, excl. exchange rate adjustments	193	235
Exchange rate adjustments, receivables	(68)	(140)
Interest from receivables	596	233
Other income and expenses	<u>5</u>	<u>0</u>
Other contributions from projects	<u>726</u>	<u>328</u>

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
4 <u>Financial income and expenses</u>		
<u>Financial income</u>		
Interest income, cash and bonds	32.415	35.724
Gain on bonds, net	<u>(1.338)</u>	<u>2.430</u>
Financial income	<u>31.077</u>	<u>38.154</u>
<u>Financial expenses</u>		
Interest expenses, bank charges and exchange rate adjustments	<u>(598)</u>	<u>(341)</u>
Financial expenses	<u>(598)</u>	<u>(341)</u>
Financial income, net	<u>30.479</u>	<u>37.813</u>

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
5 <u>Share capital investment in projects, net</u>		
Share capital investment in projects beginning of year at cost	512.817	617.302
Paid-in share capital in projects during the year	44.717	6.209
Project loans or interest converted into share capital during the year	0	4.209
Proceeds from divestment of shares	(146.806)	(188.457)
Income from divestment of shares relative to cost, net	68.856	71.427
Share capital transferred to other receivables during the year, net	<u>2.299</u>	<u>2.127</u>
Share capital investment in projects end of year at cost	<u>481.883</u>	<u>512.817</u>
Accumulated value adjustment beginning of year	430.016	284.731
Reversed value adjustments, divested share capital investments	(81.328)	(34.807)
Value adjustments, portfolio during the year (note 1)	(232.895)	185.671
Value adjustments related to transfer to other receivables during the year	(2.299)	(2.127)
Value adjustments related to conversions during the year	<u>0</u>	<u>(3.452)</u>
Accumulated value adjustment end of year	<u>113.494</u>	<u>430.016</u>
Share capital investment in projects, net end of year	<u>595.377</u>	<u>942.833</u>
Accumulated value adjustments end of year are comprised of:		
Plus values	242.783	491.724
Value adjustments excl. plus values	<u>(129.289)</u>	<u>(61.708)</u>
	<u>113.494</u>	<u>430.016</u>

	<u>2008</u> <u>DKK 1,000</u>	<u>2007</u> <u>DKK 1,000</u>	
6 Project loans, net			
Project loans beginning of year at cost	493.725	562.179	
Disbursements during the year	73.522	55.381	
Interest converted into project loans during the year	3.852	9.084	
Repayments during the year	(124.504)	(112.565)	
Project loans converted into share capital during the year	0	(4.171)	
Exchange rate adjustments during the year relative to cost	(2.064)	(4.345)	
Project loans transferred to other receivables during the year	0	(1.700)	
Write-offs during the year	(7.567)	(10.138)	
Project loans end of year at cost *	<u>436.964</u>	<u>493.725</u>	
Accumulated value adjustments beginning of year	(97.161)	(123.627)	
Reversed value adjustments, loans written off	7.567	8.875	
Exchange rate adjustments realised	2.064	4.345	
Value adjustments incl. exchange rate adjustments, during the year (note 2)	(4.058)	13.091	
Value adjustments related to transfer to other receivables during the year	0	(6.700)	
Value adjustments related to conversions during the year	234	6.855	
Accumulated value adjustments end of year	<u>(91.354)</u>	<u>(97.161)</u>	
Project loans, net end of year	<u>345.610</u>	<u>396.564</u>	
Accumulated value adjustments end of year are comprised of:			
Exchange rate adjustments relative to cost	(1.855)	(4.223)	
Value adjustments excl. exchange rate adjustments	(89.499)	(92.938)	
	<u>(91.354)</u>	<u>(97.161)</u>	
*) Project loans end of year at cost are comprised of:			
Senior project loans	293.811	334.202	
Subordinated loans	143.153	159.523	
	<u>436.964</u>	<u>493.725</u>	
*) Project loans end of year at cost in DKK distributed according to currency denomination:			
	<u>2008</u>	<u>2007</u>	
	Currency	Currency	
DKK			149.973
USD ¹⁾	1.426	2.270	9.465
EUR	37.297	43.568	277.526
			<u>436.964</u>
			<u>493.725</u>

¹⁾ USD 1.3m is hedged against DKK (USD 2.1m in 2007)

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

Project loans provided by IØ by means of syndicated capital are not included in the above figures and amount to DKK 1.0m (DKK 1.5m 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 IØ receives payment from these projects.

7 Interest receivable related to projects

Interest receivable related to projects before value adjustments	17.726	15.065
Value adjustments	<u>(4.344)</u>	<u>(3.880)</u>
Interest receivable related to projects	<u>13.382</u>	<u>11.185</u>

8 Other receivables

Receivables from sale of shares	4.642	13.254
Receivable front-end fees	1.486	2.150
Receivables from projects in liquidation	<u>0</u>	<u>2.299</u>
	6.178	17.703
Value adjustments	<u>(294)</u>	<u>(2.789)</u>
	5.884	14.914
Derivatives *	2.698	5.110
Accrued interest receivables from bonds	0	3.224
Current accounts	<u>3.475</u>	<u>507</u>
	<u>12.057</u>	<u>23.755</u>

*) Stated amount for 2008 concerns a hedged amount of USD 1.7m with term from 2009 to 2010.

	2008 <u>DKK 1.000</u>	2007 <u>DKK 1.000</u>
9 <u>Total equity capital</u>		
Paid-in capital beginning of year	1.897.800	1.897.800
Paid-in capital during the year	<u>0</u>	<u>0</u>
Paid-in capital end of year	<u>1.897.800</u>	<u>1.897.800</u>
Repaid capital beginning of year	(1.450.000)	(950.000)
Repaid capital during the year	<u>(600.000)</u>	<u>(500.000)</u>
Repaid capital end of year *	<u>(2.050.000)</u>	<u>(1.450.000)</u>
Accumulated reserves related to net positive value adjustments on project investments beginning of year	332.855	161.104
Transferred from net income for the year	<u>(310.715)</u>	<u>171.751</u>
Accumulated reserves related to net positive value adjustments on project investments end of year	<u>22.140</u>	<u>332.855</u>
Accumulated reserves beginning of year	1.148.584	992.729
Transferred from net income for the year	<u>178.858</u>	<u>155.855</u>
Accumulated reserves end of year	<u>1.327.442</u>	<u>1.148.584</u>
Total equity capital end of year	<u>1.197.382</u>	<u>1.929.239</u>

*) IØ's Board has approved that a capital extraction by the Danish government of DKK 100m in 2009 may take place.

	2008 <u>DKK 1,000</u>	2007 <u>DKK 1,000</u>
10 <u>Current liabilities</u>		
Other project-related debt	806	8.512
Deferred income	<u>0</u>	<u>7</u>
	<u>806</u>	<u>8.519</u>

11 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	294.298	267.862
Guarantees, net *	0	8.500
Binding commitments	<u>117.354</u>	<u>37.541</u>
Funds committed to projects	<u>411.652</u>	<u>313.903</u>
Clearances in principle for new projects amount to	<u>223.222</u>	<u>293.786</u>

*) Gross outstanding guarantees amount to DKK 0 (DKK 8,5 in 2007)

12 Contingent liabilities

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

13 Related party disclosures**IØ project investments - shares and loans**

IØ'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 IØ employees are board members.

Supervisory and Executive Boards

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

Management

Supervisory Board

The Danish Minister for Foreign Affairs 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 on a monthly basis. 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 from board work is not allowed.

All information received by the 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: IFU**, 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: IFU*, 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: IFU, 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: IFU, 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: IFU, 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, The Ministry of Economics and Business Affairs. Other board memberships: IFU, IFV, VisitDenmark, Eksport Kredit Fonden.

Ib Petersen (1960), member since 2005.

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

Christina Rasmussen (1967), member since 2008.

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

** Chairman

* Deputy Chairman

Executive Board

The Danish Minister for Foreign Affairs appoints the Managing Director. The rules applying to the Supervisory Board with respect to selling or buying of 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)