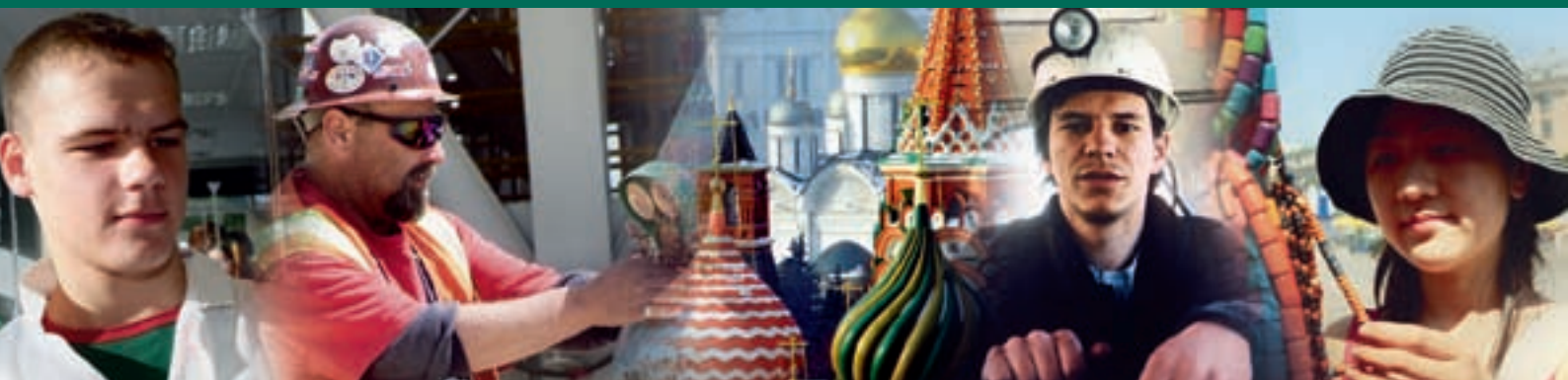


ANNUAL SUMMARY 2008

INVESTMENTS FOR DEVELOPMENT



THE INVESTMENT FUND FOR CENTRAL AND EASTERN EUROPE





INVESTMENTS FOR DEVELOPMENT

Legal mandate



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.

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WELCOME NOTE

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 an 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. As a provider of 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 the 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 incurred a loss of DKK 132m in 2008, 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, IØ signed up to the UN Global Compact and its ten principles, which IØ has already adhered to for a number of years, and we will continue to implement and advance these principles together with the project companies.

Finally, on a practical note, I would like to mention that as of 2008, only an **Annual Summary**, and not the full version of 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
March 2009*



EXECUTIVE BOARD

Changes to the Executive Board



Torben Huss
New Deputy Managing Director

On 1 January 2009, Torben Huss took up the position as Deputy Managing Director of IØ and its sister fund IFU (the Industrialisation Fund For Developing Countries). From 2002 to 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 assisted developing countries implement foreign direct investment policies.

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



Frank Norman Larsen
Former Deputy Managing Director

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

Summary 2008

- Seven new projects with an expected employment of 654 people
- Additional financing to five projects
- Net loss of DKK 132m
- Repaid 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)
- Signed up to 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%



HIGHLIGHTS

Financial and developmental highlights



Financial highlights

	2008 DKKm	2007 DKKm	2006 DKKm	2005 DKKm	2004 DKKm
INCOME STATEMENT					
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
BALANCE SHEET AT 31 DECEMBER					
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
ADDITIONAL DATA					
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
KEY RATIOS					
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 19.

² Operating income = gross contribution from projects less operating expenses.

Developmental and environmental highlights - ex ante¹

	2008	2007	2006	2005	2004
Environmental Investment Ratio (Range: 0 – 100%)	30%	29%	30%	33%	30%
Total fulfilment of Fund's success criteria (Range: 25 – 100%) ²	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%

¹ Weighted by invested amounts, new projects.

² 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.



DKK 200 million invested
in 12 project companies



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 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 incurred 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 caused by the financial crisis. It 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 financial results.

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

Main features 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 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 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 shall 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 several international conventions and declarations and therefore aims to set high standards for environment, occupational health and safety (OHS), 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 serving on the boards of the projects.



INVESTMENTS FOR DEVELOPMENT

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.

Investment overview 2008		
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	EUR 115.1m
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	

Project portfolio 2008

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 in figure 1, which shows that one third of all active projects are located in Ukraine, which together with Russia accounts for just over half the total number of active projects. The distribution of active investments by the size of the Danish partner (measured by number of employees) is illustrated in figure 2, which shows that more than 63% of the Danish partners are small (i.e. have less than 100 employees), while 24% are large (i.e. have at least 300 employees). The distribution of active investments by main sector is illustrated in figure 3, which shows a clear predominance within manufacturing (57%), with agriculture (17%) in second place.

Information about all projects, ongoing as well as exited, can be found in a separate publication entitled IØ Project portfolio list 2008.

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						Actual direct employment (persons)
8	Gangsø Ukraine	Ukraine		0.9	0.9	
9	DDCA Ukraine	Ukraine		2.2	2.2	95
10	Mineral Wool	Russian Federation	58.3		58.3	590
11	Danagrico Production	Hungary	2.9		2.9	11
12	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	

* Incl. overrun commitments.

** Incl. guarantees.

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



Fig. 1 Number of active projects distributed by country

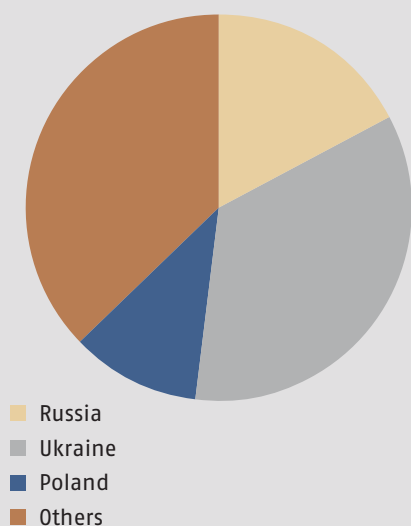


Fig. 2 Number of active projects distributed by size of Danish partner

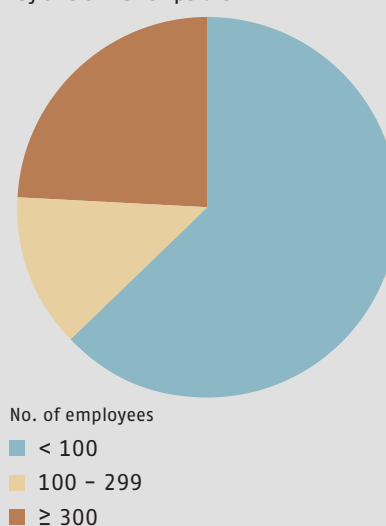
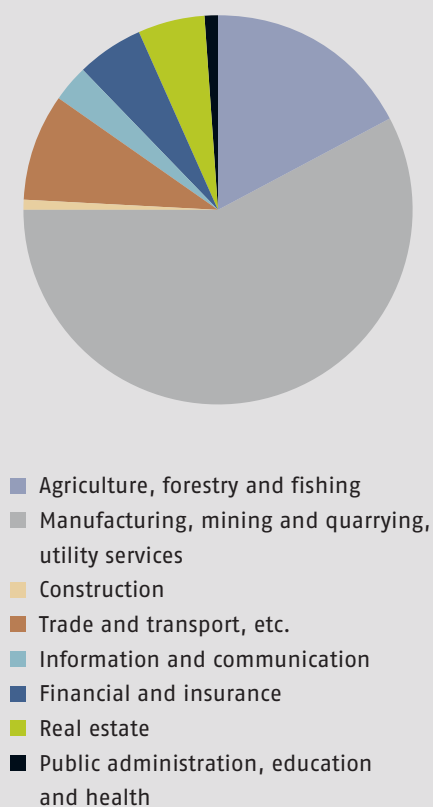
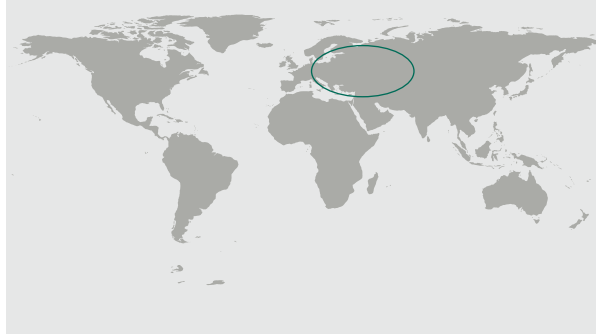


Fig. 3 Number of active projects distributed by sectors



IØ countries





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 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).



Danico, metal machine components, Ukraine.

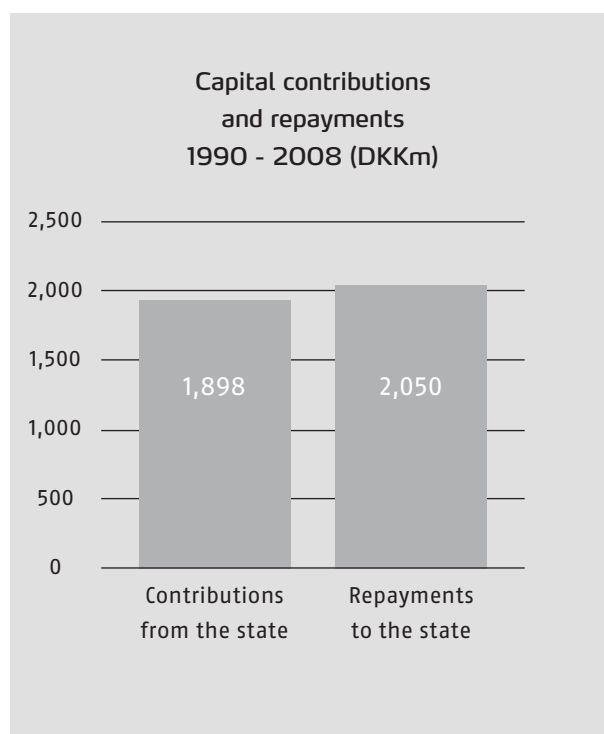
INVESTMENTS FOR DEVELOPMENT

- Currently, IØ is planning to exit its last project in those eight countries by 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 repaid an additional DKK 600m to the Danish state. This brought the total capital repayment made by IØ to the state since 2004 to DKK 2,050m, or approximately DKK 150m in excess of the total amount of the capital paid in during the period 1990–2001 of DKK 1,898m. Cumulated capital repayments 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 Trade Council of Denmark (TCD).

All of these institutions offer services and financing to Danish enterprises operating outside Denmark, including developing countries and countries in 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, resulting in a new strategy: "Facing New Challenges", which was approved by the Funds' 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 shall 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. Developments 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 of 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 efficiency and investments in the agriculture, farming and food processing sectors. The crisis also proved that there are still profits to be made in these areas.

IØ has 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, grain storage and feedmill.



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 investors 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 for animal feed, especially pig feed. During the past five years the company has expanded significantly. 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 local community by creating a market for other producers of grain and oilseeds and converting the resulting production into the best feed products in Ukraine for enhanced production of meat, egg and dairy products. In particular pig producers now have access to high quality feed, which yields faster and better breeding results and higher prices for the pigs.



Kyiv-Atlantic Ukraine, grain storage and feedmill.

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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 significant local consumption, which provides good opportunities for investing in food processing, healthcare, retail, transport, commercial property construction, etc. The Danish partners also tend to consider projects with local partners as co-investors. Therefore, IØ's 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, 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, district heating or methane gas recovery from landfills.

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, for instance, the JI mechanism. The NeCF invests in a wide range of greenhouse gas mitigation projects by providing carbon finance for the 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 by DONG Energy, the Danish Energy Agency, IØ (and IFU) 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 the Global Compact

In June 2008, IØ signed up to the UN Global Compact.

The 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. The Global Compact is the world's largest voluntary corporate citizen initiative.

IØ has adhered to the principles 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 as 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, IØ therefore found it appropriate 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

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farming projects on these issues by increasing the number of advisers with such competences. 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 categorises each project as level A, B+, B, C or FI. This categorisation reflects the need for assessing potential CSR impacts and risks for each project, the partners' CSR capacity and the host country's CSR regulations and enforcement.

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

The categorisation 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 category	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 into five categories, i.e. (1) excellent, (2) good, (3) fair,



Rockwool Russia, stone wool factory.



(4) poor and (5) critical. Projects with a “poor” or “critical” score are projects which IØ gives special attention, and where IØ and its partners consider all potential solutions to 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 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 (OHS) review

In 2008, occupational health and safety reviews were carried out for 76 projects. All 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 level of professional skills and ensure an efficient basis for teamwork and co-operation.

In 2008, a new performance management platform covering IØ (and IFU) worldwide was developed and implemented.



Rurik Russia, pig breeding.



"Results through dialogue" is the name of the platform, and it establishes a clear link between the Funds' and the individual's objectives and facilitates a focused dialogue on job satisfaction and development. The Funds wish 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 seminar on board work, 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 serving on the board of an IØ project company, as well as the added value provided by board members through their proactive development of the business, both short and long-term.



Aller Petfood, production of petfood, Russia.

INVESTMENTS FOR DEVELOPMENT

The seminar participants were investment managers acting as board members, as well as external advisers worldwide representing IØ on company boards.

Also, a seminar on climate investments was held. 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 employees worldwide were invited to the seminar.

STAFF FACTS (IØ and IFU)

January 2009			
Number of employees¹	73	Total number of advisers	40
Divided on regions:			
Europe (incl. head office 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 Incl. trainees, recalculated into full time equivalents.



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

Financial review 2008

As shown in the income statement above, IØ recorded a loss of DKK 132m in 2008 against a profit of DKK 328m in 2007. The financial 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.

The total contribution from projects was DKK (142)m in 2008. In 2007, the total contribution 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.

The contribution from share capital investments was 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. The 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, which was less than the level of DKK 24m achieved in 2007. 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 repaid 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 request by the government, IØ's Board has preliminarily approved a capital repayment to the state of DKK 100m in 2009.



INVESTMENTS FOR DEVELOPMENT

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.



Rockwool Russia, production of stone wool.



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 seven or eight 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 severe deepening of the economic crisis in central and eastern Europe, it cannot be ruled out that IØ might incur 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.



IØ signed up to the UN Global Compact

MANAGEMENT



Supervisory Board and Executive Board



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

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

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



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

MSc (Economics and Business Administration). Other board memberships:

IFU**, IFV**, Axcel IndustriInvestor 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.



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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.



Elsebeth 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, Ministry of Economic 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).

Staff and advisers

Executive Board



Finn Jønck
Managing Director



Torben Huss
Deputy Managing Director



Elsebeth H. Rasmussen
Executive Assistant

Communication



Rune Nørregaard
Head of Communication

HRD



Susanne M. Nielsen
HR Manager

Legal Unit



Jens Rixen
Senior Legal Adviser

Project Development Department (PDD)



Peter Schwalbe
Department Director



Ib Albertsen
Senior Investment Manager



Jens Bayer
Senior Investment Manager



Catherine I. Cax
Investment Manager



Jacob Klingemann
Senior Investment Manager



Martin Rømer
Senior Investment Manager



Kasper Sværre
Investment Manager



Natalia Sveigaard
Senior Investment Manager



Henning Wiesinger
Senior Investment Manager



Lone Jespersen
Project Secretary



Maria Monti
Project Secretary



Rina Wachsberg
Project Secretary

Investment Management Department (IMD)



Morten Christiansen
Department Director



Svend J. Heineke
Director



Rena Chen
Senior Investment Manager



Max Kruse
Senior Investment Manager



Peer Munkholt
Senior Investment Manager



Hans-Jørgen Nyegaard
Senior Investment Manager



Anders Paludan-Müller
Senior Investment Manager



Jens Lund Sørensen
Senior Investment Manager



Lis Bluhme
Project Secretary



Birthe Bræstrup
Project Secretary



Linda Wamsler
Project Secretary

CSR Unit



Birgitte Bang Nielsen
Head of CSR



Michael Wedel Sørensen
Environmental Adviser



Birgitte Waage ¹
Senior Administrator

Corporate Administration Department (CAD)

Archives

Secretariat

IT Unit



Henrik Jepsen
Department Director



Kirsten Sloth
Department Secretary



Birgitte Christensen
Chief Archivist



Niels Evendt ²
Head of Secretariat



Michael Stig Andersen
System Manager



Søren Heilmann
Senior System Manager

Finance Department (FIN)



Niels Gravgaard Laursen
Department Director



Alice Brøndum
Staff Manager



Lone Bjørn Hansen
Financial Accounts
Manager



Knud Lundgaard-Karlshøj ³
Finance Officer

¹⁾ Also works for Communication.

²⁾ Also works as Senior Investment Manager for PDD.

³⁾ Also works as Investment Manager for PDD.

IØ Offices (Reporting to IMD)



MOSCOW – RUSSIA
Alena Zimina
Head of Regional Office

IØ Adviser Offices (Reporting to IMD)



WARZAW – POLAND
Zbigniew Gluchowski
Senior Adviser



WARZAW – POLAND
Agnieszka Grous
Senior Adviser



WARZAW – POLAND
Piotr Lemieszek
Senior Adviser



WARZAW – POLAND
Marzena Malinowska
Secretary



KIEV – UKRAINE
Olexiy Parkhomczuk
Adviser

Advisers



GLOBAL
Helle Bechgaard
Denmark



GLOBAL
Uffe Bundgaard-Jørgensen
Denmark (Facilitator)



GLOBAL
Søren Guldberg
Denmark



GLOBAL
Ivan Høeg
Denmark (SME adviser)



GLOBAL
Henrik de Jonquières
Denmark (Facilitator)



GLOBAL
Rami Khoury
Jerusalem, Israel



GLOBAL
Jørgen Lindahl
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GLOBAL
Hans Jørgen Lorenzen
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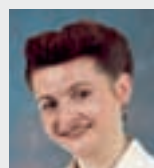
GLOBAL
Flemming Sehested
Denmark



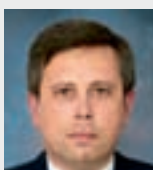
RUSSIA
Andrey Ibragimov
St. Petersburg



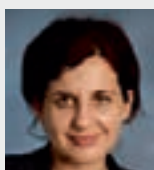
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Danish International Investment Funds

Danish International Investment Funds is the umbrella term for IØ and IFU

Each of the Funds operates in its specific geographical sphere:

- IØ in the Russian Federation, Ukraine and Belarus
- IFU in developing countries with a per capita income below 80% of the World Bank's upper limit for Lower Middle Income Countries (LMIC) (USD 2,964 in 2009) and South Africa, Botswana and Namibia

European cooperation

IØ and IFU are members of the European Development Finance Institutions (EDFI). In addition to the Danish Funds, there are 16 other members. They are all bilateral finance institutions offering capital for the development of the private sector in developing countries, and countries that are in a transition process towards a market economy. The objective of EDFI is to further cooperation and to safeguard common interests in relation to the European Commission and its institutions, including the European Investment Bank (EIB). EDFI website: www.edfi.be

Offices



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INVESTMENTS FOR DEVELOPMENT

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