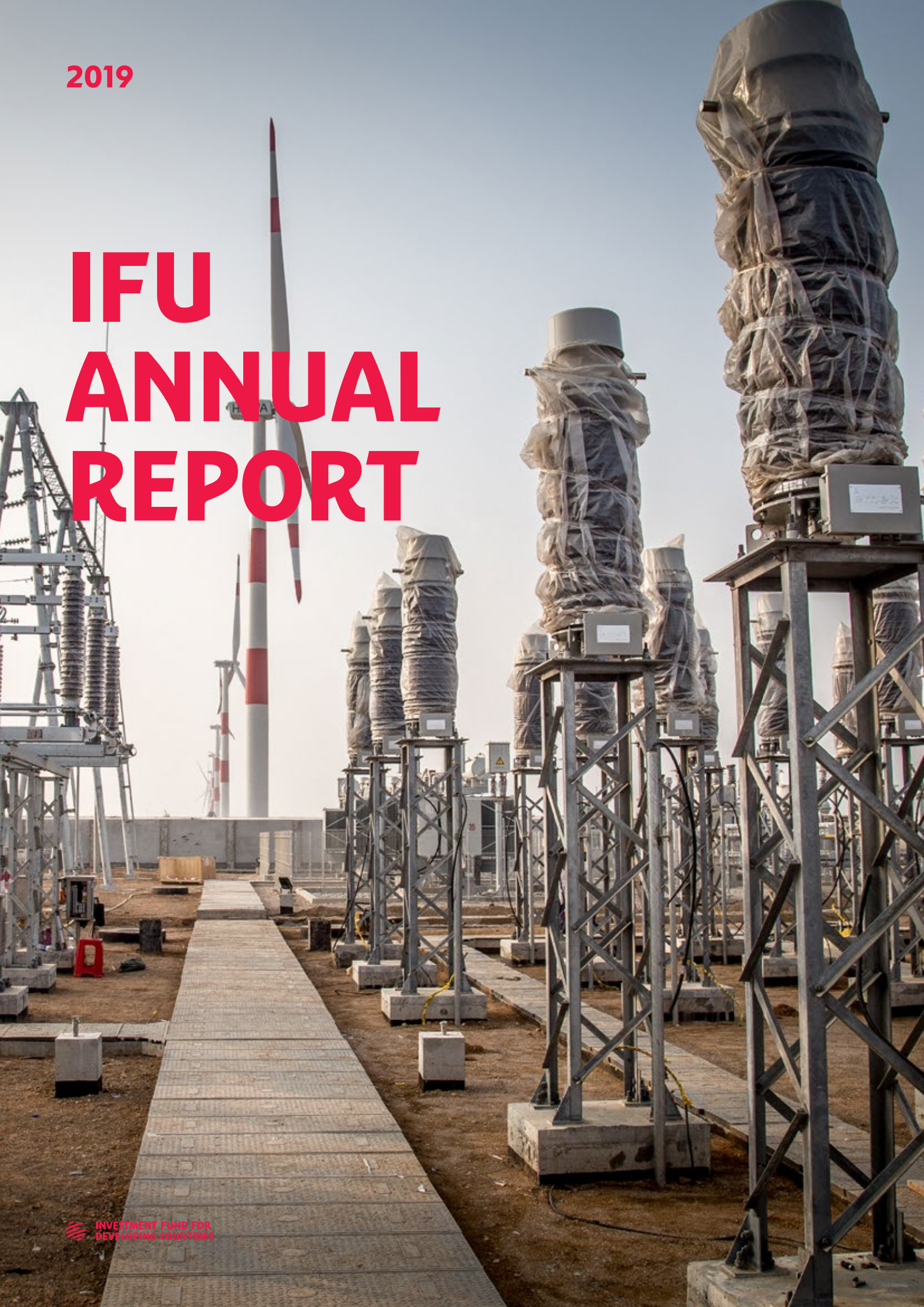
2019

IFU ANNUAL REPORT



INVESTMENT FUND FOR DEVELOPING COUNTRIES

CONTENTS

The annual report represents our statutory statement on corporate social responsibility and gender diversity at management level, in accordance with section 99 a and b of the Danish Financial Statements Act. The statement is a recap of IFU's Sustainability and Impact Report 2019, available at www.ifu.dk that serves as our Communication on Progress to the UN Global Compact.

LETTER FROM THE CEO

IFU's primary objective is to create impact and support the Sustainable Development Goals (SDGs) in developing countries. All investments are based on the concept of being commercially viable and having a positive effect on host countries through e.g. job creation, increased renewable energy production and improved opportunities for young people as well as women.

IFU'S STRATEGY IS TO CONTINUE THE GROWTH TRAJECTORY, REACHING AN ANNUAL INVESTMENT VOLUME OF DKK 2.1 – 2.3 BILLION IN 2021

We continuously strive to improve our effort. In 2019, we updated IFU's strategy to increase focus on value and impact. By including a value and impact creation plan in all new projects, we believe that we can be more additional, strengthen our active ownership and enhance the potential for our investments to produce even better results.

In addition, IFU has made a new Sustainability Policy that highlights 12 sustainability issues, which are particularly important for supporting the SDGs. The policy includes a clearer commitment to the UN Guiding Principles on Business and Human Rights as well as more elaborate references to key international standards and frameworks relevant for private sector investments.

The Sustainability Policy is supplemented by several separate policies related to specific issues. In 2019, IFU made new policies on human rights, gender and climate. The latter emphasises that IFU aims to be at the forefront in mobilising private investments supporting the green transition in developing countries aligned with the Paris Agreement.

During the year, IFU and IFU managed funds made 25 investments. Investments in renewable energy continued with three new investments covering Pakistan, Ukraine and a global platform. To support financial inclusion, IFU made four new investments within the financial sector. Two investments were made in microfinance institutions, and two were made in banks in Africa providing finance for small and medium-sized local companies and people in rural areas.

To meet the SDGs by 2030, more private investments in developing countries are essential. In recent years, IFU has been able to increase funding. Most significant was the establishment of the Danish SDG Investment Fund in 2018 with total committed capital of DKK 4.86bn.

In 2019, the Ministry of Foreign Affairs allocated DKK 200m for IFU to invest in projects with a high risk-high impact profile in the least developed countries in Africa. Moreover, the government has provided a state guarantee for IFU through "Denmark's Green Future Fund" to loan finance additional funding of DKK 1 billion for investing in projects supporting the green transition in developing countries.

The increased funding has enabled IFU to more than double annual investments in recent years. In 2019, however, IFU invested DKK 1.1 billion, which was below expectation. The shortfall was mainly related to a number of investments that were delayed or cancelled due to external circumstances.

Going forward, the strategy is to continue the growth trajectory, reaching an annual investment volume for IFU and IFU managed funds of DKK 2.1 - 2.3 billion in 2021.

The financial net result of IFU was a profit of DKK 28m. This was below expectation, but still a substantial improvement compared to the loss in 2018. ▪

Torben Huss, CEO

IFU IN BRIEF

The Investment Fund for Developing Countries (IFU) offers risk capital and advice to companies wishing to set up business in developing countries and emerging markets. Investments are made on commercial terms in the form of share capital, loans and guarantees. The purpose is to promote economic and social development in the investment countries.

WHEN INVESTING, IFU IS ALWAYS FOCUSED ON THE DOUBLE BOTTOM LINE

Investments create development
When investing, IFU is always focused on the double bottom line, creating development and profitable business, as this approach creates the best basis for a lasting positive impact in the investment countries.

To support project companies in reducing sustainability risks, contributing to sustainable development and achieving high sustainability standards, IFU has developed a comprehensive sustainability policy, which sets the standards for project companies and investments in funds.

In all investments, IFU strives to support the targets for a better world towards 2030 as set out in the Sustainable Development Goals.

IFU as a fund manager
IFU acts as fund manager for several investment funds based on public and private capital: the Danish SDG Investment Fund, the Danish Climate Investment Fund (DCIF), the Danish Agribusiness Fund (DAF), IFU Investment Partners (IIP) and the Investment Fund for Central and Eastern Europe (IØ). Moreover, IFU manages Danida Sustainable Infrastructure Finance (DSIF).

IFU's five-step investment process

	FIRST CONTACT	DUE DILIGENCE	APPROVAL OF INVESTMENT	ACTIVE OWNERSHIP	AGREED EXIT
PROJECT COMPANY/ PARTNER	▪ Presentation of company and business idea/plan	▪ Data collection and presentation of the final business plan	▪ Signature of the final agreement ▪ Obtaining legal opinion ▪ Develop Sustainability Policy	▪ Appointment of competent Management and Board ▪ Execution of business plan	▪ Prepare future ownership structure ▪ Possible purchase of IFU's shares
IFU	▪ Assessment of company's business idea/plan ▪ Advice on next steps ▪ Principle Approval of partner, investment location and business idea	▪ Evaluation of the business plan ▪ Discussion of market strategy, management, budget, finance and ESG ▪ Visit to the partner company etc.	▪ Approval of the project by IFU's Board of Directors/ Investment Committee ▪ Preparation of agreement	▪ Using IFU's local knowledge and network ▪ Active participation in board work ▪ Additional funding	▪ Valuation of company ▪ Retail price ▪ Exit agreement

Aller Aqua (Qingdao), China – production of fish feed.

Over time, IFU and IFU managed funds have invested in 1,300 projects covering over 100 different countries in Africa, Asia, Latin America and Europe. The total expected investment in these projects is close to DKK 209bn, with IFU and IFU managed funds contributing almost DKK 23bn.

This makes IFU the most experienced Danish investor in developing countries and emerging markets.

OVER TIME, IFU AND IFU MANAGED FUNDS HAVE INVESTED IN 1,300 PROJECTS

A five-step investment process

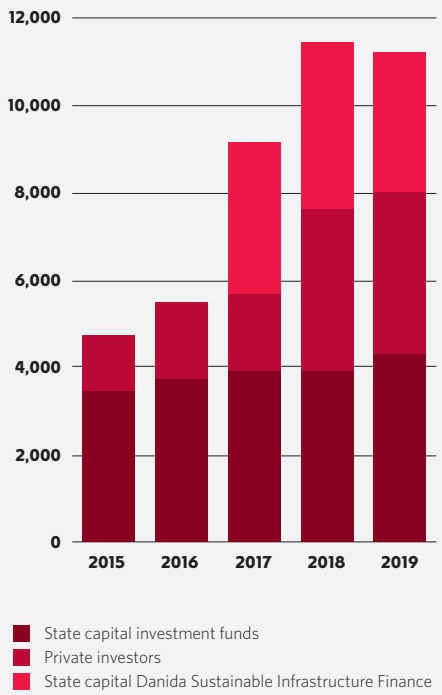
To achieve an efficient and proper process with our partners and the best possible result of our investments, IFU has set up a five-step investment process that guides our work throughout the lifetime of all projects. More information on the process is available on our website www.ifu.dk.

Statutory framework

IFU was established by the Danish State in 1967 and is governed by the Danish Act on International Development Cooperation. The fund is self-financed, and its revenues are comprised of income from interest, dividends and capital gains.

As per 2019, total capital under management by IFU was DKK 11.2bn. Capital under management is comprised by IFU's equity of DKK 4.2bn, IØ's equity of DKK 131m, committed capital from institutional and private investors in the Danish SDG Investment Fund, DCIF, DAF and IIP of DKK 3.7bn and outstanding DSIF guarantees of DKK 3.2bn. ▪

Development in capital under management in DKKm



Comprised by i) equity in IFU and IØ, ii) for the PPP funds (SDG, DCIF, DAF and IIP) either committed capital from private investors (investment period) or private investor's share of project commitments (holding period) and iii) guarantees outstanding for DSIF.

EXECUTIVE SUMMARY 2019

IFU AND IFU MANAGED FUNDS

- IFU and IFU managed funds contracted 25 investments totalling DKK 1.1bn
- At year-end 2019, the funds had an active portfolio of 196 project companies
- A new IFU sustainability policy was adopted
- IFU's new climate policy aligns new projects with the Paris Agreement
- New policies on human rights and gender were introduced
- Projects in the active portfolio employed close to 255,000 people
- Companies in the active portfolio reported DKK 3.1bn in annual local corporate taxes
- Investments in renewable energy reached a total of more than 1,150 megawatts
- Microfinance investments serviced 25 million clients
- Danida Business Finance was renamed Danida Sustainable Infrastructure Finance
- Total capital under management was DKK 11.2bn

IFU

- Nine new projects signed with a total of DKK 527m in contracted investments
- Additional financing of DKK 143m contracted in nine ongoing projects
- A state guarantee of DKK 1bn to finance the green transition in developing countries
- State capital of DKK 200m for high risk-high impact projects in Africa
- An EUR 50m loan agreement with Nordic Investment Bank was signed
- Net income of DKK 28m
- Average ten-year return on share capital is 7.9 per cent
- Average ten-year return on loans is 4.7 per cent

FINANCIAL HIGHLIGHTS 2015 - 2019

	2019 DKKm	2018[4] DKKm	2017 DKKm	2016 DKKm	2015 DKKm
INCOME STATEMENT					
Contribution from projects[1]	46	(121)	200	269	249
Operating income[2]	31	(155)	141	220	194
Net income for the year	28	(161)	141	218	194
BALANCE SHEET AT 31 DECEMBER					
Share capital investment in projects at cost	2,829	2,332	1,765	1,621	1,565
Project loans at cost	1,053	1,002	923	1,102	1,018
Total investment in projects at cost	3,883	3,334	2,688	2,723	2,583
Accumulated value adjustments	(87)	(29)	133	82	(3)
Investments in projects, net[1]	3,796	3,306	2,821	2,805	2,580
Cash and bonds, net	518	538	406	191	202
Paid-in capital during the year	337	306	217	14	0
Repaid capital/Paid-out dividend during the year	(50)	(50)	(50)	0	0
Total equity capital	4,161	3,802	3,288	2,984	2,802
Total balance	4,416	3,970	3,410	3,125	2,892
ADDITIONAL DATA					
New projects contracted (no.)	9	25	13	25	16
Portfolio of projects end of year (no.)	170	178	177	184	188
Investments contracted	670	3,070	640	1,103	660
Investments disbursed	903	849	478	667	499
Undisbursed contracted investments incl. guarantees	2,977	3,645	1,264	1,395	1,012
Binding commitments not yet contracted	460	765	410	347	581
KEY RATIOS					
Yield from share capital investments[3]	1.1%	(7.6%)	6.2%	11.1%	12.7%
Yield from project loans and guarantees[3]	2.2%	5.4%	6.6%	7.9%	7.7%
Yield from projects (total)[3]	1.3%	(3.9%)	7.1%	10.0%	10.3%
Net income for the year/Average total equity capital	0.7%	(4.3%)	4.5%	7.5%	7.2%
Solidity ratio	94.2%	95.8%	96.4%	95.5%	96.9%
Average number of full-time employees	88	89	84	78	72

Totals may not add up due to rounded figures.

[1] Information about composition of the contribution from projects including value adjustments can be found in "Financial review 2019" on page 30. Investments are valued at fair market value in accordance with the Danish Financial Statemants Act.

[2] Operating income = contribution from projects less management fees, other income and operating expenses.

[3] Contribution from projects/Average investment in projects - value adjusted.
Contribution from share capital investments/Average share capital in projects - value adjusted.
Contribution from project loans and guarantees/Average project loans - value adjusted.

[4] Figures as per 01.01.2018 have been adjusted due to integration of facilities.

PROJECTS IN THE ACTIVE PORTFOLIO EMPLOY CLOSE TO 255,000 PEOPLE

MANAGEMENT'S REVIEW

INVESTMENTS IN 2019

IFU and IFU managed funds contracted investments at a total of DKK 1.1bn in 2019.

The Danish SDG Investment Fund continued to increase its investments and contracted six new investments at DKK 482m. One of the investments was an African hospital platform, which was made by IFU in 2018 and transferred to the Danish SDG Investment Fund in 2019. The investments were distributed across university education, renewable energy, healthcare, agriculture and IT.

IFU'S PORTFOLIO OF RENEWABLES HAS NOW PASSED 1,150 MEGAWATTS

IFU itself contracted nine new investments at a total of DKK 527m. IFU also provided additional financing to seven ongoing project companies at a total amount of DKK 143m.

The projects will support the Sustainable Development Goals, e.g. by generating jobs, expanding renewable energy production, extending financial services to more people in developing countries and reducing food loss.

For several years, IFU has invested in microfinance funds and institutions. In 2019, IFU continued its engagement and made two new investments and two additional investments in microfinance. Moreover, IFU has started investing in the banking sector focusing on banks targeting local small and medium-sized companies and financial services in rural areas, for example. In 2019, IFU invested in two banks in East Africa.

In 2019, IFU and the Danish SDG Investment Fund invested in three new renewable energy projects and made one additional financing for phase two in an ongoing project. The investments will add to the already large portfolio of renewables, which now has passed 1,150 megawatts.

Across funds, investments in Africa, excluding the hospital platform, were DKK 323m, which corresponds to almost 30 per cent of total investments. Asia represents approximately the same share of total investments, while the remaining part was invested in Latin America, Europe and in projects with a global focus.

The new investments are expected to directly employ more than 8,500 people once full capacity is reached. But the actual direct employment effect from the investments is anticipated to be considerably higher. This is because for some of the new investments, e.g. investment funds and platform companies, IFU cannot estimate the expected direct employment at the appraisal stage, as jobs are sustained and created in portfolio companies, which have not yet been established or acquired.

Actual direct employment in the projects receiving additional financing adds up to more than 13,000 people.

One important aspect of the investments is to use IFU and IFU managed funds' own resources as leverage for attracting additional capital to the project companies, as this leads to an overall higher development impact. Measured against the total expected investment in new projects, IFU's share of the investments had a leverage factor across funds of 7.9 in 2019.

Over a rolling period of three years, at least 50 per cent of IFU's investments must be made in poorer developing countries, i.e. countries with a maximum GNI per capita of USD 3,116 in 2019. The threshold is calculated as 80 per cent of the upper limit for Lower Middle-Income Countries, according to the World Bank's classification. ▸

In 2019, 84 per cent of the investments were below the threshold. Investments in projects with a regional focus, typically fund investments, covering countries above as well as below the threshold, where the actual distribution is not yet known, are included partially in the calculation based on an annually updated weighted actual distribution for similar regional investments entered into in the period 2008-17. Seen over the three-year period 2017-2019, the share of investments below the threshold is 67 per cent. ▪

IFU MANAGED FUNDS

IN 2019, THE DANISH SDG INVESTMENT FUND MADE SIX NEW INVESTMENTS AT A TOTAL OF DKK 482M

IFU is fund manager of several investment funds based on public or public-private capital. These are the Danish SDG Investment Fund, the Danish Climate Investment Fund, the Danish Agribusiness Fund, IFU Investment Partners and the Investment Fund for Central and Eastern Europe. IFU also manages Danida Sustainable Infrastructure Finance and the Project Development Programme set up in cooperation with Danida.

The Danish SDG Investment Fund

The Danish SDG Investment Fund is a 11-year closed-end fund based on a public-private partnership, which includes the Danish State, IFU and the institutional and private investors PKA, PensionDanmark, PFA, ATP, P+, Pensam, Navest, SEB Life & Pension, Secure SDG Fund and Chr. Augustinus Fabrikker Akts. The fund was established in 2018 with the purpose of investing in projects in developing countries supporting the Sustainable Development Goals. Total committed capital is DKK 4.86bn.

In 2019, the Danish SDG Investment Fund made six new investments at a total of DKK 482m.

Two of the investments were made within renewable energy covering a renewable energy project in Pakistan and a global platform developing and operating wind and solar parks in developing countries.

Moreover, the fund invested in health and university education in Africa, internet connectivity in Myanmar and an Indian company that by building and operating modern grain storage facilities will contribute to reducing the large loss of grain in the country and improve the Indian government's programme for providing grain to low income families faced by undernourishment.

Ektos, Ukraine – hardware/software solutions.

Danida Sustainable Infrastructure Finance

Since 2017, IFU has managed Danida Business Finance, which in January 2020 changed its name to Danida Sustainable Infrastructure Finance (DSIF). DSIF is financed by the Danish State and offers financing on concessional terms to infrastructure projects in developing countries.

During the year, DSIF continued to expand the pipeline, but no new projects reached financial close.

Read more about Danida Sustainable Infrastructure Finance on page 18.

The Danish Climate Investment Fund

The Danish Climate Investment Fund (DCIF) is a 10-year closed-end fund, based on a public-private partnership, which includes the Danish State, IFU and

five institutional and private investors: PensionDanmark, PKA, PBU, Dansk Vækstkapital and Aage V. Jensen Charity Foundation. The fund was established in 2014 with the purpose of investing in climate-related projects in developing countries. Total committed capital is DKK 1.3bn.

DCIF's investment period ended in early 2018. Between 2014 and 2018, DCIF made 18 investments at a total of DKK 1,063m. In 2019, DCIF divested two projects, and end of year the active portfolio included 13 projects.

The Danish Agribusiness Fund
The Danish Agribusiness Fund (DAF) is an 11-year closed-end fund based on a public-private partnership, which includes the Danish State, IFU, PensionDanmark, PKA and PFA as investors.

The fund was established in 2016 with the purpose of investing in agribusiness projects in developing countries across the value chain from farm to fork. Total committed capital was DKK 800m.

AT YEAR-END, THE ACTIVE PORTFOLIO COVERING ALL FUNDS CONTAINED 196 PROJECT COMPANIES

Due to the establishment of the Danish SDG Investment Fund, it was decided with the investors to end DAF's investment period ahead of schedule and reduce the capital commitment to DKK 450m. Consequently, DAF will not engage in new investments.

In 2019, DAF made additional investments of DKK 14m in three ongoing projects in China and India. At year-end, the fund had contracted investments at a total of DKK 395m in seven projects, of which five are still included in the fund's active portfolio.

IFU Investment Partners
IFU Investment Partners (IIP) is managed by IFU and capitalised by the two pension funds PKA and PBU. The total commitment from the two pension funds is DKK 500m. The fund was established in 2012 and served as a co-investor in large IFU projects and as a tool for Danish companies to raise additional equity funding in a one-stop process. IIP's investment period ended on 31 December 2017.

During the years, IIP has contracted investments at a total of DKK 255m.

The Investment Fund for Central and Eastern Europe
Due to the decision in 2010 to wind down the Investment Fund for Central and Eastern Europe (IØ), the fund continued its divestments in 2019. At year-end, IØ had a remaining active portfolio of seven investments.

Since its inception in 1989, IØ has invested in 408 project companies. The total invested amount is close to DKK 37bn with an IØ contribution of almost DKK 5.5bn.

IØ received a total of DKK 1,898m[1] from the Danish State during the period 1990-2001. Since 2004, IØ has repaid capital to the state at a total of DKK 3,710m. As at 31 December 2019, IØ had equity amounting to DKK 131m.

The Project Development Programme
In 2016, Danida allocated DKK 50m for IFU to create the Project Development Programme (PDP) that can co-finance the costs of developing projects. The aim is to reduce the financial risk for Danish partners and developers who want to launch commercial projects in developing countries and emerging markets. Since inception, six projects have been made for a total amount of DKK 21m.

IFU and IFU managed funds overall
Counting the nine new investments, IFU has now engaged in a total of 873 projects.

IFU's total contracted investment in these projects is DKK 18bn, including IFU's own investments in IFU managed funds.

Total contracted investments by IFU and IFU managed funds amounted to DKK 1.1bn in 25 projects in 2019.

At year-end, the active portfolio covering all funds contained 196 project companies.

In total, IFU and IFU managed funds have contracted investments in 1,300 projects over the years, excluding inter-fund investments. ▪

Active portfolio at 31 December 2019 (no. of projects)	
IFU	170
SDG	8
DCIF	13
DAF	5
IIP	3
IØ	7
Total	**206**
Eliminations*	(10)
Consolidated total	**196**

* Ten projects are eliminated due to inter-fund investments, or because they have received financing from more than one fund.

1) Figures are in nominal prices.

INVESTMENTS CONTRACTED IN 2019

	PROJECT NAME	COUNTRY	FUND	IFU'S CONTRACTED INVESTMENTS IN DKKM			EXPECTED DIRECT EMPLOYMENT (PEOPLE)
				SHARES*	LOANS**	TOTAL	
	NEW PROJECTS						
	AFRICA						
1	Africa Education Holdings	Africa (Regional)	SDG	45.9		45.9	
2	Hospital Holdings Investment	Africa (Regional)	SDG	62.5		62.5	
3	Kjaer Group	Africa (Regional)	IFU	19.6		19.6	321
4	TDB Bank	Africa (Regional)	IFU	136.1		136.1	180
5	DFCU Bank Uganda	Uganda	IFU	92.1		92.1	1,145
6	Lifeshelter	Uganda	IFU		2.9	2.9	33
	Subtotal Africa			**356.2**	**2.9**	**359.0**	**1,679**
	ASIA						
7	Sathapana Cambodia	Cambodia	IFU		40.2	40.2	4,473
8	Leap India	India	SDG		94.9	94.9	700
9	Satin Housing Finance	India	IFU		19.0	19.0	130
10	Frontiir Myanmar	Myanmar	SDG	25.1		25.1	1,500
11	Pakistan Clean Energy	Pakistan	SDG	83.3		83.3	42
	Subtotal Asia			**108.5**	**154.0**	**262.5**	**6,845**
	EUROPE						
12	Syvash	Ukraine	IFU		112.0	112.0	50
	of which financed by NEIF				25.0	25.0	
13	TECHTO	Ukraine	IFU		5.0	5.0	30
	Subtotal Europe				**117.0**	**117.0**	**80**
	GLOBAL						
14	JCM Power Corporation	Dac Developing Countries	SDG	170.1		170.1	
	Subtotal Global			**170.1**		**170.1**	
	LATIN AMERICA						
15	AC CAP INFRA FUND II [1]	Latin America (Regional)	IFU	100.5		100.5	
	Subtotal Latin America			**100.5**		**100.5**	
	TOTAL NEW PROJECTS			**735.2**	**273.9**	**1,009.1**	**8,604**

ADDITIONAL FINANCING OF ONGOING PROJECTS

	PROJECT NAME	COUNTRY	FUND	IFU'S CONTRACTED INVESTMENTS IN DKKM			ACTUAL DIRECT EMPLOYMENT (PEOPLE)
				SHARES*	LOANS**	TOTAL	
	AFRICA						
16	ICPS	Ghana	IFU		23.8	23.8	131
17	COOP Kenya	Kenya	IFU	3.1		3.1	36
	Subtotal Africa			**3.1**	**23.8**	**26.9**	**167**

	ASIA						
18	Scandinavian Farms Pig Industry	China	IFU		9.3	9.3	377
	Scandinavian Farms Pig Industry	China	DAF		9.3	9.3	
19	Saraf Foods	India	DAF	3.2		3.2	191
20	Satin Creditcare Network	India	IFU		28.5	28.5	10,419
21	Alliance Myanmar	Myanmar	IFU	8.9		8.9	793
22	Topas Eco Lodge	Vietnam	IFU		15.0	15.0	105
	Subtotal Asia			**12.2**	**62.0**	**74.1**	**11,885**
	EUROPE						
23	Yavoriv Solar	Ukraine	IFU		20.2	20.2	
	Subtotal Europe				**20.2**	**20.2**	
	LATIN AMERICA						
24	Maria Elena	Argentina	IFU		22.4	22.4	
25	Coexca	Chile	DAF	1.0		1.0	596
26	Danper Agricola La Venturosa	Peru	IFU	12.1		12.1	458
	Subtotal Latin America			**13.1**	**22.4**	**35.5**	**1,054**
	TOTAL ADDITIONAL FINANCING			**28.3**	**128.3**	**156.6**	**13,106**
	TOTAL IFU						
	Total new projects			348.3	179.0	527.3	6,362
	Total additional financing			24.1	119.1	143.2	12,319
	TOTAL			**372.3**	**298.1**	**670.4**	
	TOTAL SDG						
	Total new projects			386.9	94.9	481.8	2,242
	Total additional financing						
	TOTAL			**386.9**	**94.9**	**481.8**	**2,242**
	TOTAL DAF						
	Total new projects						
	Total additional financing			4.2	9.3	13.5	1,164
	TOTAL			**4.2**	**9.3**	**13.5**	**1,164**

TOTAL IFU + SDG + DAF

	PROJECT NAME	COUNTRY	FUND	IFU'S CONTRACTED INVESTMENTS IN DKKM			
				SHARES*	LOANS**	TOTAL	
15	**Total new projects**			**735.2**	**273.9**	**1,009.1**	**8,604**
11	**Total additional financing**			**28.3**	**128.3**	**156.6**	**13,106**
	GRAND TOTAL IFU AND IFU MANAGED FUNDS			**763.5**	**402.3**	**1,165.7**	
	Interfund financing						
(1)	**Hospital Holdings Investment**	**Transferred from IFU to SDG**		**(62.5)**		**(62.5)**	
25	**GRAND TOTAL CONSOLIDATED**			**701.0**	**402.3**	**1,103.2**	

Totals may not add up due to rounded figures.

*) Including overrun commitments

**) Including guarantees

1) Co-financed 50/50 with PKA

NEW INITIATIVES IN 2019

LAUNCHING NEW SUSTAINABILITY POLICIES

IFU'S NEW SUSTAINABILITY POLICY WILL SUPPORT THE SUSTAINABLE DEVELOPMENT GOALS

In February 2019, IFU's board of directors approved a new Sustainability Policy that sets out IFU's commitment to invest in sustainable development and to contribute to the realisation of the Sustainable Development Goals (SDGs). The new policy highlights 12 sustainability issues that IFU considers particularly relevant in order for investments to contribute to the SDGs. The policy also includes a clearer commitment to the UN Guiding Principles on Business and Human Rights as well as more elaborate references to key international standards and frameworks relevant for private sector investments.

Furthermore, the policy has annexes with specific sustainability requirements for IFU's direct investments in the form of equity and loans to project companies, as well as investments in private equity funds, financial institutions and other financial intermediaries.

During 2019, IFU has also developed and launched supplementary policies on climate, human rights and gender equality. These policies are part of IFU's Sustainability Policy framework with seven underlying policies that specify IFU's commitments and further explain how IFU implements responsible business conduct measures in relation to global sustainability challenges. All IFU's policies are based upon and aligned with international UN, ILO and OECD conventions, declarations, agreements and principles for sustainable development.

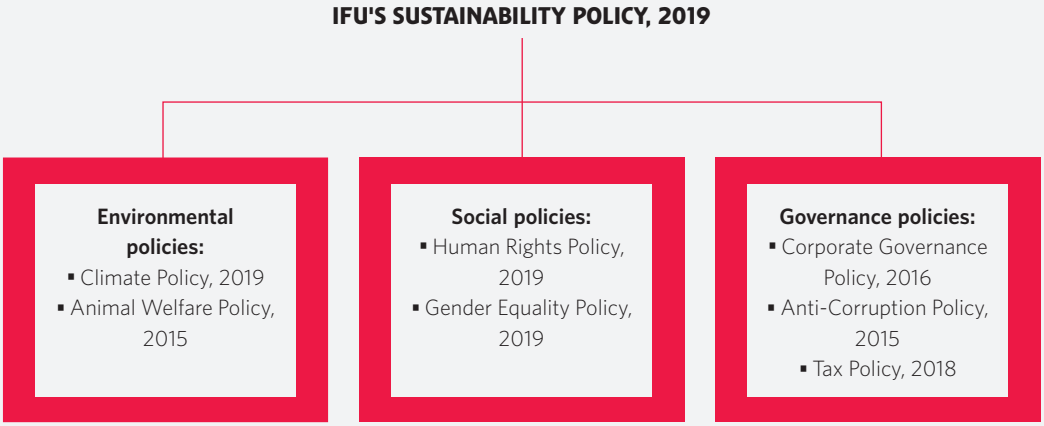
Valuable input from stakeholders

The extensive process of preparing the new policies has included public hearings and dialogue meetings with Danish civil society organisations and other external stakeholders, who have provided valuable input. Furthermore, the policies have been discussed with IFU's Sustainability Advisory Board, which has provided constructive feedback in the drafting of the policies.

Assessing the climate impacts of all investments

With the new Climate Policy, IFU wants to be at the forefront when it comes to mobilising climate-relevant

Sustainability policy framework



IFU's Sustainability Policy framework consists of a Sustainability Policy and seven underlying policies. All policies are available at www.ifu.dk.

INTERNATIONAL COMMITMENTS

IFU's policies are based upon and aligned with the following international conventions, declarations, agreements and principles for sustainable development:

- UN Sustainable Development Goals
- UNFCCC Paris Declaration
- Addis Ababa Action Agenda on Finance for Development
- UN Global Compact
- UN Guiding Principles on Business and Human Rights (UNGPs)
- OECD Guidelines for Multinational Enterprises
- Rio Declaration on Environment and Development
- Paris Agreement on Climate Change
- UN Convention Against Corruption
- UN Principles for Responsible Investment (UNPRI)
- Climate Action in Financial Institutions

private investments to support developing countries' transformation to low-carbon and climate-resilient societies.

NEW INVESTMENTS WILL BE ALIGNED WITH THE PARIS AGREEMENT

From 2020, IFU will no longer make new investments in fossil fuel-based power production to the grid. IFU can, however, in a transition period until 2023, invest in transitional hybrid technologies for power production, if strong development impact criteria are met. Aligned with the Paris Agreement such criteria could be that the investment is in a low-income country, is in accordance with the country's national long-term energy plans, and that it meets an acute energy need or secures broader access to energy.

The aim is to increase the share of climate-relevant projects like renewable energy, energy efficiency and climate adaptation to at least 40 per cent of IFU's portfolio by 2030. IFU will assess the climate impacts of its investments by calculating the GHG emissions they cause and by identifying climate change resilient technologies and adaptation measures to be put in place as part of the investment.

Integrating gender lens decision-making

IFU's new Gender Equality Policy states IFU's ambition to integrate a gender lens when making decisions in its investment processes and to demonstrate that this approach will reap business returns in addition to social returns. This will maintain IFU's position as a front-runner in gender equality in private sector investments in developing countries and thereby attract other investors to follow suit.

IFU believes that opportunities exist to create value in companies and communities by integrating gender equality in company leadership and corporate culture as well as in workplace policies and health initiatives. By promoting gender equality and women's empowerment in the private sector, IFU will contribute to unlocking business opportunities for female entrepreneurs and advancing women as business leaders, employees and consumers.

Exercising human rights due diligence

The new Human Rights Policy explains how IFU is implementing the UN Guiding Principles on Business and Human Rights. IFU has strengthened the assessment of actual and potential human rights impacts of its direct investments. This includes actions to identify, prevent or mitigate impacts in IFU's projects and their value chains.

IFU considers respect for human rights to be a minimum standard applied in its own operations both as a DFI and through IFU's projects and expects its employees and its projects to actively encourage those involved in their business activities to adopt the same or similar standards.

IFU is committed to maintaining a grievance mechanism through which external stakeholders can report alleged breaches of this policy and to addressing such grievances in a manner that is fair, objective and constructive. IFU will also use its leverage as an investor to ensure that projects establish grievance mechanisms and provide access to appropriate remedy.

IFU recognises the need to protect environmental and human rights defenders and does not tolerate any violation of the human rights of those who voice their opinion in relation to IFU activities and the activities of its projects. ▪

HIGH RISK-HIGH IMPACT INVESTMENTS

Private sector investments are vital for development. However, investors are generally reluctant to invest in the poorest developing countries due to high political and commercial risk. To deal with this, the Danish Ministry of Foreign Affairs has allocated DKK 200m to IFU for investments in projects with high impact in the least developed countries and fragile states in Africa.

DKK 200M ALLOCATED TO INVEST IN THE LEAST DEVELOPED COUNTRIES IN AFRICA

Jobs are created in the private sector
One of the major challenges in Africa is the lack of jobs, especially for young people. Every year, around 12 million young people are entering the job market, but as only around three million jobs are created, nine million young people are in risk of facing unemployment, underemployment or forced self-employment.

In Africa, around nine out of ten jobs are created in the private sector, indicating a high need for increasing the access to risk capital for private companies to grow. This is not least the case in the least developed countries, where Foreign Direct Investments (FDI) are low.

Supporting the Sustainable Development Goals
The new programme for investments in high risk-high impact projects is a two to three-year pilot project. Focus is on African countries with a maximum GNI per capita of USD 1,598. This includes countries like Benin, Burkina Faso, Malawi and Uganda. Special thematic focus is on creating decent jobs, installing renewable energy, supporting smallholders within agribusiness and increasing access to clean water, for example.

Developing new financing models
A constraint for investing in the least developed countries is a challenging risk-return balance. Consequently, the new programme includes a flexibility in structuring individual investments, which gives IFU the opportunity to blend different types of financing, e.g. on commercial and concessional terms. It is expected that IFU will supplement the new programme by investing 30 per cent of its own capital in the eligible countries.

Going forward, IFU will develop and test different tools and models to get experience on how to promote investments in high risk-high impact projects.

As a part of the documentation and evaluation of the programme, IFU will make in-depth analysis of selected investments. Studies and ongoing reporting will be published as part of IFU's annual report. ▪

DKK 1 BILLION FOR SUPPORTING THE GREEN TRANSITION

As part of the state budget for 2020, the Danish Government has launched "Denmark's Green Future Fund" with the aim of supporting the green transition in Denmark and abroad. The allocation includes DKK 1 billion for IFU to invest in climate-related projects in developing countries.

Sainshand Salkhin Park, Mongolia.

The DKK 1 billion is based on a state guarantee, giving IFU the opportunity to increase investments based on external loan financing.

In general, IFU has good experience with investing in projects supporting the green transition in developing countries. The additional funds made available will add to the growing portfolio based on investments through IFU and the Danish SDG Investment Fund. ▪

Lifeshelter, Uganda – temporary shelters.

EVALUATION SPARKS NEW STRATEGIC INITIATIVES

In the spring of 2019, an external evaluation report on IFU's activities covering 2004 to 2017 was published. The report concluded that overall IFU has complied with its mandate and contributed to the development in developing countries.

During the period, IFU's mandate has been adjusted several times. Most significant is the untying from co-investing with Danish companies only. Moreover, a major change is IFU's engagement in new public-private partnerships like the Danish Climate Investment Fund and the Danish SDG Investment Fund

GOING FORWARD, IFU WILL INCLUDE AN IMPACT AND VALUE CREATION PLAN IN ALL NEW PROJECTS

The evaluation emphasised that by setting up new public-private funds, IFU has been among the most active and innovative institutions in mobilising private capital for commercial investments in developing countries. From 2012 to 2017, IFU managed to mobilise DKK 1.8 billion from institutional and private investors.

Case studies show solid impact

The evaluation analysed 50 specific investments with special attention on investments made in Kenya, China and Ukraine. The conclusion was that in more than eight out of every ten investments, IFU's engagement had a high or medium positive financial additionality, for example by providing funds in countries with little capital available.

The case studies also showed that the projects had a solid performance on ESG. Two third of the projects have a high score, and more than one fifth a medium score. The scores on development outcomes are more moderate with 50 per cent good scores, 20 per cent medium and 30 per cent poor. The evaluation concluded: "There is a clear correlation between negative or poor financial outcomes and a low score on development outcomes".

In general, the evaluation stressed that it was difficult to assess the development outcome, as IFU has not been systematic in documenting the effects, except for job creation and ESG. Consequently, one of the recommendations was that IFU should strengthen its expertise on development on all levels of the organisation as well as improve the monitoring of development outputs.

Strategic focus on development

Based on a determination to improve impact and the recommendations from the evaluation, IFU updated its strategy in 2019.

Going forward, IFU will include an impact and value creation plan in all new projects. This will increase focus on impact and value in the decision-making process and provide a more comprehensive approach when dealing with the individual investments as an investor and board member. Moreover, the impact and value creation plans will enable IFU to be more systematic in assessing and documenting the development outcome of the projects as recommended by the evaluation.

As a further step to increase awareness, transparency and accountability, IFU has decided to publish an annual sustainability and impact report. The first report will be available in Q2, 2020. ▪

NEW AGREEMENT INCREASES FUNDING

The Nordic Investment Bank (NIB) and IFU have concluded a loan arrangement, which improves IFU's ability to increase loan financing for sustainable projects in developing countries.

The loan agreement gives IFU access to EUR 50m that can be lent on to projects in developing countries, which include a Nordic interest like transfer of knowledge or purchase of goods and services.

The loan agreement with NIB has a 10-year duration. ▪

DANIDA SUSTAINABLE INFRASTRUCTURE FINANCE

DSIF WILL SUPPORT A POWER TRANSMISSION LINE IN MALI

As of January 2020, Danida Business Finance changed its name to Danida Sustainable Infrastructure Finance (DSIF). The new name reflects the nature of the projects that are financed and the Danish Government's commitment to sustainable and climate-smart infrastructure in developing countries.

One example is the Santa Cruz Wind Energy Project in Bolivia, which was approved by the minister for development cooperation in 2016. The 108 MW windfarm is under construction and will start producing energy to the grid in 2020, supplying one million people with green electricity.

Santa Cruz Wind Energy Project, Bolivia.

DSIF is expanding the pipeline into new countries. In 2019, the Danish minister for development cooperation approved support for the first DSIF project in Pakistan – the Faisalabad Wastewater Treatment Project. The treatment plant is in Faisalabad, the third largest city in Pakistan, and will treat wastewater from 765,000 people and surrounding industries.

The two first DSIF projects in Ukraine were also cleared in principle and included in the DSIF pipeline in 2019. The Zaporizhzhia Wastewater and Sludge Treatment Project and Kremenchuk District Heating Renovation Project covering 760,000 and 25,000 people, respectively. Both projects will upgrade existing systems with cutting-edge technology and thereby improve energy efficiency and reduce pollution. Both projects are implemented in cooperation with NEFCO, who has extensive experience with implementing projects in Ukraine.

Finally, a power transmission lines project in Mali – also the first DSIF project in the country – was cleared in principle in 2019. The project will supply affordable and reliable electricity to industries and population in the region of Kayes in Mali.

DSIF offers financing on concessional terms to sustainable and climate-relevant infrastructure projects in developing countries, which would not otherwise have obtained financing on commercial terms. DSIF is financed by the Danish State and has since 1993 contributed to water, sanitation and energy projects based on state-of-the-art Danish technology and know-how in 31 developing countries in Africa, Asia and Latin America. ▪

SUPPORTING THE GLOBAL GOALS

The 17 Sustainable Development Goals (SDGs) are a universal call to action set by the United Nations to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

IN ORDER TO CREATE SUSTAINABLE SOCIETIES IN THE DEVELOPING WORLD, PRIVATE CAPITAL AND INVESTMENTS ARE VITAL

In order to create sustainable societies in the developing world, private capital and investments are vital. This is the reason for IFU to offer advice and risk capital to private investors and companies wishing to do business in developing countries.

IFU contributes to the realisation of the SDGs by promoting investments which support sustainable development in its three dimensions – economic, social and environmental – in a balanced and integrated manner. With the Danish SDG Investment Fund, IFU has significantly increased the committed capital for investments supporting the SDGs and thereby the potential positive development impact of IFU's investments.

To get funding, projects must have measurable, beneficial development impact in the investment country and be deemed commercially viable. Commercial viability ensures that the business is making a profit on invested capital and can continue to operate; creating decent jobs, producing important goods and services and paying taxes to society.

The spin-off is increased income for workers, transfer of knowledge, company-sponsored employee training, interaction with local business and funding for the public sector in the host country, which can be invested in for example education, healthcare and infrastructure.

Measuring development impact

IFU has continuously tracked the development impact of its investments, and in 2019 the impact management process and measurement methods were improved. The updated process now includes initial impact screening, an assessment of positive as well as negative impacts using impact indicators better aligned with the SDG targets, an agreement with the project on an impact creation plan and annual impact reporting. Going forward, this will enable IFU to strengthen the follow-up and annual reporting on development impact of IFU's investments. ▸

Driving change and creating impact

The following impact themes summarise how IFU and IFU managed funds investments support the SDGs by creating positive impacts and mitigating negative impacts. In addition, key figures on the SDG's targets, which our investments have impacted in 2019, are presented. These figures originate from the annual sustainability reports that IFU requires each project to submit to IFU, and form basis for a dialogue on continuous improvement in each project. For a more detailed description, see IFU's Sustainability and Impact Report 2019.

INVESTMENTS IN MICROFINANCE CONTRIBUTE TO SERVICE 25 MILLION CLIENTS WITH SMALL LOANS

Financial inclusion reduces poverty and inequalities
Ending poverty is the first and ultimate goal, and IFU acknowledges that eradicating poverty is an indispensable requirement for sustainable development.

Financial inclusion is important to reduce poverty and inequalities, but in most developing countries, access to financial services is sporadic. This is not least the case in rural areas and for women, and it hampers the ability for people to invest in and grow their business.

To improve access to capital, IFU had at year end 2019 invested more than DKK 600 million in eight microfinance funds and institutions in Africa, Asia and Latin America. In 2019, the investments had a total of 25 million clients, of whom more than 20 million were women. These investments contribute to redress power imbalances and give women better options for managing their own lives and becoming financially independent.

IFU has also engaged in financing local banks in developing countries. The focus is on supporting banks targeting small and medium-sized local companies, which can develop and grow their business through loan financing. Investing in banks enables IFU to better service the local business community in developing countries compared to direct investments in individual small companies.

Contributing to target:
1.1 Eradicate extreme poverty.
1.4 Ensure that all men and women, in particular the poor and vulnerable, have equal rights to economic resources, as well as access to financial services, including microfinance.

Decent jobs create sustainable economic growth
Productive employment and decent work are key elements to creating positive development impacts, because it provides opportunities for people to escape poverty and improve their standard of living, which in turn helps make countries more stable, economically and socially.

In 2019, close to 255,000 people were employed in the projects included in IFU's active portfolio. Over 125,000 are employed in Asia and close to 80,000 in Africa. In addition, almost 50,000 people are employed in companies in Latin America, Europe and globally.

The share of female employees is more than 30 per cent and the share of young employees below 25 is just above 20 per cent.

In addition, every direct job created is estimated to generate one to two additional jobs, for instance in local supply chains or with service companies. In the 2019 status reports from IFU's direct investments, 34 per cent of the projects stated that the domestic purchase of goods and services accounted for more than

SUPPORTING SDG 1 / IMPROVING FINANCIAL INCLUSION IN UGANDA

NEW INVESTMENT IN 2019

- **Investment year:** 2019
- **IFU investment:** DKK 92.1m
- **Expected total investment:** DKK 92.1m
- **Expected direct employment:** 1,145

Financial services are important for people to develop their life and business. In most developing countries financial inclusion is low. This is also the case in Uganda, where only around 10 per cent of the population has a bank account. In 2019, IFU made an investment of DKK 92 million in DFCU, which is one of the larger banks in Uganda.

DFCU has a strategic focus on the agribusiness sector, which affects around 70 per cent of the Ugandans. Moreover, the bank has initiated a programme "Women in Business" assisting 250,000 women in developing their businesses by providing e.g. training and networking.

80 per cent of the total expenditure costs, thereby contributing to maintaining or creating new local jobs and growth.

In many countries, having a job does not guarantee a decent living. In addition to creating jobs, IFU supports and promotes decent work. This means that all workers must have an employment contract specifying the terms of employment, including reasonable wages and working hours, and migrant workers must have adequate housing and living conditions. IFU's requirements for decent work also include occupational health and safety initiatives that effectively prevent and protect workers against health and safety risks in the workplace. Furthermore, the project must respect workers' right to privacy, freedom of association and collective bargaining, and promote equal opportunities and prevent discrimination.

69 PER CENT OF THE DIRECT INVESTMENTS REPORTED THAT THEY HAD TAKEN INITIATIVES TO PROMOTE EQUAL OPPORTUNITIES AND PREVENT DISCRIMINATION

In 2019, 69 per cent of the direct investments reported that they had taken initiatives to promote equal opportunities and prevent discrimination. The most common initiative implemented by the projects is a policy ensuring unbiased and transperant criteria for hiring, wages, promotion, training, discipline, retirement and termination. Read about the initiatives and get statistics on accidents involving workers in IFU's Sustainability and Impact Report 2019.

IFU's direct investments also support developing economies through transfer of technology and competence building. Modern technology enables project companies to develop more advanced and cost-efficient products and services, making the developing countries more competitive. Company-sponsored employee training contributes to boost the general level of education, making people more employable.

Contributing to target:
8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation.
8.5 Achieve full and productive employment and decent work for all women and men.
8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers.

Tax contribution improves social welfare
The SDGs can only be realised with a strong commitment to global partnership and cooperation, and all IFU's projects build on effective public, public-private and civil society partnerships.

In most projects, collaboration with the local authorities is important for achieving license to operate, and IFU sees proper payment of taxes to host countries as an important part of responsible investments. Tax collection supports countries in financing improvements of social welfare like education, healthcare and infrastructure.

IFU project companies must respect local tax laws and pay taxes where they have their economic activity. For 2019, IFU has information on taxes from 146 investments. Total reported annual corporate taxes from these investments amount to more than DKK 3.1bn. These figures do not include taxes paid by employees and VAT.

Corporate tax per continent (in DKK 1,000)	
Africa	1,207,406
Europa	73,667
Asia	1,167,695
Global	629,594
Latin America	56,343
Total	**3,134,704**

Note: Tax information regarding 16 projects under establishment, 19 inactive projects, 4 PDP projects and 11 projects where reporting is missing/unavailable has been excluded.

Contributing to target:
17.1 Strengthen domestic resource mobilization to improve domestic capacity for tax and other revenue collection
17.17 Encourage and promote effective public, public-private and civil society partnerships.

Empowerment of women in the workplace
Women play an important role in the economy of the developing countries, and their integration in the labour market and in the private sector has a significant impact on the livelihood of families. Therefore, IFU is supporting and motivating projects to address and demonstrate a commitment to empowerment of women.

Based on a SEAF (Small Enterprise Assistance Funds) Gender Equality tool, IFU in 2019 applied and developed a Gender Equality Scorecard (GES) to assess women's economic empowerment and gender equality. The scorecard helps companies initiate internal dialogue on how to approach gender equality, set goals and track progress. The scorecard is structured around six issues related to equal pay, workforce participation, leadership, benefits and professional development, ▸

women-powered value chains and workplace environment. Workplace environment includes initiatives that improve women's health and sexual and reproductive health.

Four IFU projects have tested the scorecard, and based on the test results, it will be adjusted and rolled out to all relevant companies in 2020. The initial feedback was that the scorecard is clear, informative and user friendly and inspires conversation and reflection at senior management level. The tests revealed what significant contributions the companies have already made and identified other areas for improvements. Furthermore, the scorecard shows the company how to become a gender champion and highlights the importance of salary transparency to promote equal pay, and which policies should include women specific considerations.

59 PER CENT OF THE DIRECT INVESTMENTS REPORTED THAT THEY HAVE MEASURES TO REDUCE ENERGY CONSUMPTION

In 2019, 19 per cent of the direct investments have reported that the share of women in leading positions is more than 40 per cent. However, in nearly half of the projects, the share of women in leading positions is less than 10 per cent.

In 2019, 67 per cent of the direct investments reported that they had taken initiatives to promote health and reproductive health. The most common initiatives include offering health insurance for employees as well as providing health checks and time off for medical care. Read about these initiatives in IFU's Sustainability and Impact Report 2019.

Ingemann Food Nicaragua – honey and cocoa production.

Contributing to target:
5.1 End all forms of discrimination against all women and girls everywhere.
5.5 Ensure women's full and effective participation and equal opportunities for leadership.
3.7 Ensure universal access to sexual and reproductive health-care services, including for family planning, information and education.

Renewable energy supports climate stability
Access to modern, affordable and clean energy is one of the big challenges in developing countries for both people and businesses. In Sub-Saharan Africa alone, around 50 per cent on average do not have access to electricity. At the same time, many developing countries are the ones facing the most severe consequences of climate change, affecting livelihoods, private sector development and economic growth.

Consequently, the need for investments in clean energy in general and especially in renewable energy in developing countries is high. In recent years, IFU has increased its investments in wind and solar projects in several developing countries like Kenya, Egypt and Mongolia.

In 2019, IFU contracted four climate investments; three new investments and one additional financing for phase two of an ongoing project. Excluding one investment in a platform, where calculation is not yet possible, the investments will install renewable energy capacity of 336 megawatts, and are expected to produce more than 1,000 GWh per annum when fully operational. In total, the projects are expected to represent GHG savings of approximately 9,500,000t CO_2e during their lifetime.

In total, IFU has invested in renewable energy projects with an overall capacity of more than 1,150 megawatts distributed on 680 megawatts in wind power and 480 megawatts in solar power.

In 2019, 59 per cent of the direct investments reported that they have measures to reduce energy consumption. Examples of measures include installation of energy-efficient equipment and energy saving awareness campaigns. Read about measures to reduce GHG emissions in IFU's Sustainability and Impact Report 2019.

SUPPORTING SDGs 13 AND 7 / FINANCING THE GREEN TRANSITION

NEW INVESTMENT IN 2019

- **Investment year:** 2019
- **SDG Fund investment:** DKK 170.1m
- **Expected total investment:** DKK 442.2m

To reduce CO_2 emissions and improve access to energy in developing countries, the Danish SDG Investment Fund has invested DKK 170 million in JCM Power. The global platform is highly skilled in developing, structuring and operating large energy projects, which in most developing countries is a missing competence that prevents many solid renewable energy projects from receiving commercial finance and consequently from being realized.

JCM Power is engaged in several renewable energy projects in e.g. Pakistan, Malawi and Cameroon. The aim of the investment is to contribute to install 800-megawatt wind and solar energy in developing countries.

Contributing to target:
13.a Mobilise capital to address the needs of developing countries in the context of meaningful mitigation actions on Climate Change.
7.1 Ensure universal access to affordable, reliable and modern energy services.
7.2 Increase substantially the share of renewable energy efficiency.
7.3 Double the global rate of improvement in energy efficiency.

Pollution prevention contributes to healthy ecosystems

Increased economic activity and urbanization often generate increased levels of pollution to air, water and land and consume finite resources in a manner that may harm people and the environment.

IN 2019, 49 PER CENT OF THE DIRECT INVESTMENTS REPORTED THAT THEY HAD AN ENVIRONMENTAL MANAGEMENT PLAN IN PLACE

IFU strives to prevent and minimise the environmental impacts related to its investments and thereby ensure that local communities are not exposed to unhealthy environments, and that they have access to and benefit from biodiversity and natural resources. As pollution prevention methods and cleaner technologies are available in most of the world, IFU encourages projects to adopt the best available technologies where financially and technically viable.

In 2019, 49 per cent of the direct investments reported that they had an environmental management plan in place to manage and monitor the environmental performance in accordance with environmental requirements from IFU and/or local authorities. Some of the projects without an environmental management plan are investments contracted before 2015 where this was not a requirement. Focus areas in most plans are consumption of water and energy as well as waste management. Read more about these plans in IFU's Sustainability and Impact Report 2019.

Contributing to target:
12.2 Achieve the sustainable management and efficient use of natural resources.
12.4 Achieve the environmentally sound management of chemicals and all wastes throughout their lifecycle and significantly reduce their release to air, water and soil.
12.5 Substantially reduce waste generation through prevention, reduction, recycling and reuse.

Sustainable agriculture creates food security

Hunger and malnutrition remain a barrier to development in many countries, and investments in agribusiness are crucial for creating economic growth and social progress. Consequently, IFU has during the years been investing in agribusiness projects along the whole value chain from farm to fork. ▸

NEW INVESTMENT IN 2019

SUPPORTING SDGs 2 AND 12 / REDUCING FOOD LOSS IN INDIA

- **Investment year:** 2019
- **SDG Fund investment:** DKK 74.9m
- **Expected total investment:** DKK 859m
- **Expected direct employment:** 700

Up to 40 per cent of the annual grain production in India is lost due to inadequate storage facilities. Consequently, more than 190 million Indians are undernourished, even though the national grain production is sufficient to feed all.

To address this paradox, IFU has invested DKK 95 million in an Indian company, Leap, that aims to build and operate modern silos and adjacent infrastructure with a total capacity of 700,000 tons. Each complex with a capacity of 50,000 tons will provide grain storage for over 30,000 farmers, cut the handling cost of the grain in half and create 50 direct jobs.

The first silo complex will be operational in 2020.

82 PER CENT OF THE DIRECT INVESTMENTS REPORTED THAT THEY HAD TAKEN INITIATIVES TO REDUCE THE RISK OF CORRUPTION

At year-end 2019, the active agribusiness portfolio included 52 projects companies at a total of DKK 2bn in contracted investments. The project companies employed close to 17,000 people.

Food waste is a serious problem. Every year, one third of total global food production is wasted. In developing countries, one of the main reasons for food waste is insufficient and ineffective storage and transport facilities. Consequently, IFU's investments in improving and upgrading agribusiness infrastructure have the potential to reduce food waste, reduce undernourishment and increase farmers' income. Examples of such investments include cool storage in Chile and Peru and freeze drying of food in India, and in 2019, IFU contracted a new investment to store grain in India.

Contributing to target:
2.3 Double the agricultural productivity and incomes of small-scale farmers.
2.4 Ensure sustainable food production systems.
12.3 Halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses.

Anti-corruption is key to poverty alleviation
IFU recognises that corruption is one of the greatest barriers to sustainable development with a disproportionate impact on developing countries, and that combating corruption is a key element to poverty alleviation. Therefore, IFU is maintaining a zero-tolerance policy regarding corruption, including bribery, fraud and facilitation payment. All projects must comply with any anti-corruption legislation in the country in which it operates and take a clear, written stand against corruption. In addition, IFU requires that projects assess the risk of corruption, establish an anti-corruption culture, and make their anti-corruption commitment known to business partners.

In 2019, 82 per cent of the direct investments reported that they had taken initiatives to reduce the risk of corruption. 50 per cent of the direct investments have an anti-corruption policy, 40 per cent have a code of conduct for business partners, and 60 per cent have trained their employees in anti-corruption. With regard to the funds, 86 per cent have reported that they have a written stand against corruption. Read more about these initiatives in IFU's Sustainability and Impact Report 2019.

Contributing to target:
16.5 Substantially reduce corruption and bribery in all their forms. ▪

MANAGING SUSTAINABILITY

Managing environmental and social (E&S) risks and impacts is an integral part of IFU's investment process for both direct investments and investments in funds and financial institutions.

During appraisal, IFU assesses and approves investments according to a gradually increased engagement level passing several approval stages. The first phase is a screening where IFU identifies project-related sustainability risks and impacts to be assessed during the due diligence phase and categorises projects in terms of environmental and social risk.

IFU uses the risk categories A, B+, B and C that are defined and used by all European Development Finance Institutions (EDFIs). Category A projects are projects with significant potential adverse environmental or social impacts or risks, e.g. large wind farms and cement manufacturing. Contrary to this, category C projects are projects with minimal or no adverse social or environmental impacts or risks, e.g. offices or IT development companies.

DURING APPRAISAL, IFU IDENTIFIES PROJECT-RELATED SUSTAINABILITY RISKS AND IMPACTS TO BE ASSESSED

IFU also evaluates the project sponsor's track record, commitment and capability to manage sustainability issues.

Applying international standards

Based on the E&S categorisation, the due diligence phase includes a comprehensive assessment of sustainability risks, impacts and mitigation measures related to the specific project.

In all direct investments, the sustainability performance is assessed using the UN Global Compact Self Assessment Tool co-developed by IFU. For high-risk projects (A and B+), IFU initiates an Environmental and Social Impact Assessment (ESIA) against the IFC Performance Standards and the related IFC Environmental, Health, & Safety (EHS) Guidelines. IFU wishes to promote IFC performance standards and guidelines in all direct investments. For the less critical projects (B and C), it may be relevant to apply other international standards like ISO 14001, OHSAS 18001 and SA 8000. Agribusiness projects are required to use Danish standards regarding animal welfare and slurry management as a baseline.

These assessments identify gaps in the current performance or planned measures in the project, and indicate which improvements are necessary to meet the requirements of IFU's sustainability policy and the relevant sustainability standards over time.

In addition, IFU conducts site visits to identify areas that require further attention. For some high-risk projects, site visits include stakeholder identification and engagement.

When the project has a construction phase, IFU also focuses on special risk and impact during construction. This could include occupational, health and safety risks, land issues related to ownership and use as well as impacts on the local community.

Strengthened human rights due diligence

As a state-owned institution, IFU has a special responsibility and duty to protect human rights, and in 2019, IFU strengthened its human rights due diligence process for direct investments as an integral part of the investment process.

In the screening phase, IFU conducts a pre-investment assessment of potential adverse impacts on human rights for relevant rightsholders related to the project. If this assessment shows that there is a risk of severe adverse human rights impacts, which are not already managed in mitigation measures proposed based on IFC Performance Standards, IFU will complement the ESIA with a more thorough assessment of these impacts in order to address them.

In 2019, IFU carried out a pilot test of the human rights due diligence process and conducted ten assessments. None resulted in a thorough human rights impact assessment, while two resulted in additional mitigation measures. Read more about the human rights due diligence process in IFU's Sustainability and Impact Report 2019. ▸

Syvash wind farm, Ukraine.

Exercising active ownership
Before the investment is approved, IFU ensures commitment to a written sustainability action plan describing the measures to be implemented within an agreed time frame to meet the requirements of IFU's sustainability policy and the relevant sustainability standards. Both the sustainability action plan and the impact creation plan act as tools for IFU's ongoing management and monitoring of the sustainability performance of the project.

IN 2019, IFU WAS A BOARD MEMBER IN 84 PER CENT OF THE DIRECT INVESTMENTS

Throughout the investment period, IFU exercises active ownership and uses its leverage to initiate improvement of the sustainability performance of the project. IFU's investment professionals have the overall responsibility for ensuring that the sustainability requirements are met, and typically they participate in the board of directors of the direct investments. In 2019, IFU was a board member in 84 per cent of the direct investments. IFU's Sustainability Unit assists the investment professionals and provides them with the necessary tools and training.

Projects are required to prepare an annual sustainability report to be discussed and approved by its board of directors. The report serves as an important tool for the annual stocktaking of the project's sustainability performance and development impacts. The annual reports must be submitted to IFU and are essential for IFU's ability to perform active ownership and provide transparent sustainability information about its investments.

In 2019, 88 of 95 direct investments submitted an annual sustainability report to IFU. Two of the remaining projects have reported in a not applicable format, whereas five projects that are in distress have not prepared a report in this reporting period.

IFU has invested in six financial institutions, of which three are microfinance institutions. Two of the microfinance institutions have submitted an annual sustainability report to IFU in 2019. The remaining four are new investments not yet required to report.

Out of 42 fund investments, including five microfinance funds, 31 submitted an annual sustainability report in 2019. Seven are new fund investments not yet required to report, one had been exempted for reporting, and three did not report in the reporting period.

Providing tools and training for projects
IFU has developed a variety of tools to support the projects in their sustainability efforts. These include a Sustainable Investments Handbook that explains how IFU's sustainability requirements should be interpreted and can be implemented to ensure that sustainability is an integrated part of the strategic and daily operation of a company.

In 2019, the handbook was updated to reflect the commitments and approach in IFU's new Sustainability Policy. The handbook applies to all direct investments, but funds and financial institutions may also use the handbook in their dialogue with their portfolio companies and clients.

In 2018, IFU established a Sustainability Facility for IFU companies to promote sustainability aspects. In 2019, the Sustainability Facility supported two projects on gender equality, a HIV/AIDS project and a project on implementation of an Environmental and Social Management System. Going forward, the scope of the facility will be expanded to include high risk – high impact projects.

In March 2019, IFU provided a grant to the Danish Family Planning Association (Sex & Samfund) from the IFU Sustainability Facility Fund. The aim of the grant is to ensure gender lens investing and mainstreaming of gender equality initiatives in IFU and among project companies by developing tools and implementing them in the due diligence process, and supporting the gender equality work in the project companies.

Resolving grievances regarding investments
IFU has a grievance mechanism through which external stakeholders can report alleged breaches of IFU's Sustainability Policy. This includes grievances from individuals and communities affected by an IFU project. In 2019, the grievance mechanism was reviewed and updated in light of the Danish Anti-Money Laundering Act, section 35, that requires financial institutions to set up an externally administered whistle-blower mechanism.

Grievance reports will be received through a web portal established in collaboration with an external provider, the Danish law firm Bech-Bruun, who will assist IFU in administrating the reports. IFU will investigate the grievances and seek to resolve any breaches of IFU's policy. Measures may include third party investigations, negotiated settlements, contractual remedies and considering the future relationship with the breaching parties. Furthermore, IFU will whenever justified use its leverage to seek to ensure access to remedy for affected individuals and communities and/or notify the appropriate authorities.

In 2019, IFU received two grievances regarding its investments. One grievance concerned land use and is not resolved yet. The other concerned governance issues in a project company and was rejected by IFU.

Stakeholder engagement and partnerships
IFU participates in several fora to keep up to date with stakeholder expectations and the international developments within sustainability and responsible business

Sustainability in the investment process

SCREENING	• First gate impact screening • Identification of project-related sustainability risks and impact • Pre-assessment of potential adverse impacts on human rights • Evaluation of projects' sustainability awareness, capability and track record • Categorisation of projects according to environmental and social risk level
DUE DILIGENCE	• Assessment of impact aligned with SDGs for all projects • UN Global Compact Self-Assessment for alle projects • Environmental and Social Impact Assessment (ESIA) for high-risk projects • Complementary assessment of severe adverse human rights impacts • Site visit, including stakeholder identification and engagement for high-risk projects
APPROVAL	• Binding commitment to IFU's sustainability requirements and to sustainability action plan and impact creation plan
ACTIVE OWNERSHIP	• Ongoing monitoring of sustainability performance • Follow-up on sustainability action plan and impact creation plan • Annual sustainability status report, including impact reporting

IFU's investment process is aligned with the standards adopted by the European Development Finance Institutions (EDFIs) and will therefore be applied in a similar way when co-financing among EDFIs occurs.

conduct. IFU is a member of European Development Finance Institutions (EDFI), UN Global Compact Network Denmark, Transparency International Denmark, The Tax Dialogue, the Danish Ethical Trading Initiative (DIEH) and the DFI Gender Finance Collaborative.

In addition, IFU has its own Sustainability Advisory Board with members appointed in their personal capacity, each representing issues of particular importance to IFU: human rights, environment, development research and policy. The advisory board meets regularly to discuss and advise on key issues. Main topics discussed in 2019 were IFUs new sustainability policies.

TO MAINTAIN AN OPEN DIALOGUE, IFU MEETS WITH CIVIL SOCIETY ORGANISATIONS TWICE A YEAR

At the end of 2019, IFU's Sustainability Advisory Board members included:

- Lars Engberg-Pedersen, Senior Researcher, DIIS
- Nanna Callisen Bang, Deputy Director & Head of Programme, Tuborgfondet
- John Nordbo, Climate Advocacy, CARE
- Allan Lerberg Jørgensen, Lead Sustainability Advisor, Social Impact, A.P. Moller Maersk
- Malene Østergaard, Director, Ethics & Human Rights, Danfoss
- Gitte Dyrhagen Husager, Head of Private Sector Engagement, Danish Church Aid
- Mads Bugge Madsen, Director, Ulandssekretariatet
- Jacqueline Bryld, International Director, Sex & Samfund

In order to maintain an open dialogue about stakeholder concerns and ensure quick response to public initiatives, IFU meets with civil society organizations twice a year. In 2019, IFU's new policies were on the agenda.

Sustainability policies and processes in place in the portfolio

IFU encourages all projects to work strategically with sustainability and formally anchor the activities in the business plans and daily practices, and projects are required to adopt a written policy and establish an Environmental and Social Management System (ESMS). ▸

IFU views the policy as a key performance indicator that states the level of sustainability ambition and offers clear evidence of the project's sustainability commitment. 65 per cent of the direct investments have a sustainability policy, while 95 per cent of the funds have a policy or investment code, which includes sustainability commitments. Direct investments without a written policy are either projects contracted before 2015, where this was not a requirement, or projects (20 per cent) that are in the process of preparing a policy. The same goes for funds without a policy or investment code. All six financial institutions have a sustainability policy.

ALL IFU INVESTMENTS ARE CLASSIFIED ANNUALLY WITHIN FIVE SUSTAINABILITY CATEGORIES

The management system ensures that the project continually identifies and assesses all significant sustainability risks and impacts, addresses any identified shortcomings in relation to sustainability issues and ensures continuous improvement of the sustainability performance.

For direct investments, the management system is an indicator of the project's ability to manage their specific adverse impacts. When investing in funds or financial institutions, IFU focuses on the fund's or institution's ability to employ a management system that effectively addresses sustainability risks related to their portfolio companies and clients.

42 per cent of the direct investments have an Environmental and Social Management System, while 79 per cent of the funds have implemented a management system. 88 per cent of funds contractually bind their portfolio companies to comply with the policy or investment code, assess ESG aspects of the investments and monitor the sustainability performance of the portfolio companies.

Direct investments without a management system are either projects contracted before 2015 where this was not a requirement, or projects (20 per cent) that are in the process of implementing a system. As many new projects are greenfield investments, the establishment of the management system will await the construction and management of the company/the facilities.

The projects are also required to establish a grievance mechanism for receiving, processing and settling complaints by individuals and communities. This includes providing clear and easily accessible information on how complaints can be submitted, what kind of complaints can be reported, and how complaints are processed and resolved. Furthermore, the projects must ensure access to remedy for the affected persons and/or notify the appropriate authorities.

49 per cent of the direct investments have a grievance mechanism for external stakeholders, while grievance mechanisms are in place in 69 per cent of funds. This is expected to increase in the coming years as it is a new requirement in IFU's Sustainability Policy.

Assessment of sustainability performance

All IFU investments are classified annually within four sustainability categories: 1) Environment, 2) Health and safety, 3) Human rights and labour practices, and 4) Anti-corruption. The classification is based on an internal IFU assessment of the project companies' sustainability performance, and each project company is classified into one of five categories as follows: Excellent, Good, Fair, Poor and Critical.

Project companies classified as Good comply with local legislation and relevant international sustainability standards. Project companies classified as Excellent go beyond this and are e.g. active in local communities, have high-quality and publicly available reports or certified management systems. Project companies classified as Fair, Poor or Critical are given extra attention, and IFU will engage in discussions with the partners on how a project company can improve its performance.

In 2019, internal assessments were carried out for 166 projects under IFU and IFU managed funds. The exercise did not include three projects that were not yet disbursed, 22 inactive or under exit and five Project Development Programme projects, which are under implementation. ▪

Sustainability classification	Total score (%)	Environment (%)	Health and safety (%)	Human rights and labour practices (%)	Anti-corruption (%)
Excellent	31	31	31	34	28
Good	57	56	57	56	57
Fair	11	11	10	9	13
Poor	2	2	2	1	2
Critical	0	0	0	0	0

Totals may not add up to 100 due to rounded figures.

ORGANISATION

To successfully execute IFU's strategy based on creating impact and return on investments IFU's staff is key. IFU is a global knowledge organisation, and the ability to deliver results relies on teamwork, knowledge sharing and on-going organisational learning and development.

In 2019, IFU's learning culture was further enforced to sustain an organisation where values, processes and practices encourage individuals and the organisation to increase knowledge, competences and performance.

Improving performance through feedback
During the year, special focus has been on feedback, because ongoing constructive dialogue within and across teams, offices and people working in different parts of the world is important for sharing knowledge and improving performance. Engaging in and giving constructive feedback to colleagues as well as seeking feedback for own development, will continue to be a top priority for IFU's learning culture.

20 DIFFERENT NATIONALITIES ARE REPRESENTED AMONG IFU'S EMPLOYEES

Gender composition
IFU's policy and objectives for the gender composition of the board and leadership positions in IFU follow the guidelines of the Danish Business Authority, Section 11 (2) of the Danish Gender Equality Act and Section 99 b of the Danish Financial Statements Act.

IFU's board of directors consists of up to ten members and is appointed by the minister for development cooperation. To have a balanced composition on the board of directors, the objective is to have representation of at least one third of each gender. Currently, the board consists of seven members and one observer[2]. Five are male (71 per cent), and two are female (29 per cent).

The objective for the gender composition of leadership positions at IFU is the same as the above. IFU did not meet the objective in 2019, given a 68/32 per cent split between males and females end of 2019. It is IFU's policy to increase the share of the under-represented gender in leadership positions.

HR statistics
During 2019, the average staff amounted to 88 full-time employees (FTE). 81 per cent of the staff was employed in Copenhagen and 19 per cent across Africa, Asia, Latin America and Eastern Europe. Twenty different nationalities are represented among IFU's employees.

The average age of IFU's employees is 44 years, and the average seniority is nine years[3]. There is a 57/43 percentage split between male and female employees. ▪

Employee turnover[3]	13.4%
Retention (five years of seniority or more)[3]	49.5%
New people on-boarded[3]	16

2) Observers are not included as per the guidelines from the Danish Business Authority.
3) Excluding students and others on hourly wage.

FINANCIAL REVIEW

IFU recorded a profit of DKK 28m in 2019 compared to a loss of DKK (161)m in 2018.

The much-improved performance is clearly positive; but that said, results are still not at a satisfactory level and fell short of expectations from a year ago.

Yield from share capital investments was positive with 1.1 per cent against (7.6) per cent in 2018. The contribution was especially marked by a disease outbreak in a pig production farm in China in February and a hotel investment in Kenya experiencing challenges. Results fluctuate from year to year, and as IFU is a long-term investor, measurement on especially share capital investments should be seen over a longer time span. The average five-year and ten-year returns for IFU on share capital investments stand at 4.7 per cent and 7.9 per cent, respectively.

THE AVERAGE FIVE-YEAR AND TEN-YEAR RETURNS FOR IFU ON SHARE CAPITAL INVESTMENTS STAND AT 4.7 PER CENT AND 7.9 PER CENT, RESPECTIVELY

Yield from loans was 2.2 per cent against 5.4 per cent in 2018, and albeit at a lower rate in 2019 and slightly below expectations, project loans remain a stable earner. The return in 2019 was affected negatively by value adjustments on a few medium-sized engagements. The average five-year and ten-year returns for IFU on loans stand at 6.0 per cent and 4.7 per cent, respectively.

Management fees and other income was higher due to a full-year contribution from the Danish SDG Investment Fund, which had final close end of 2018. Operating expenses increased at a lower rate than expected, in particular due to vacancies during the year, but are set to increase in 2020, as IFU strengthens the organisation to cope with the planned future growth. Net financial income was negative DKK (4)m, mainly due to the negative interest rate environment.

IFU's equity end of year 2019 was DKK 4,161m.

Appropriation of net income for the year
In accordance with IFU's dividend policy, the board recommends to the minister for development cooperation that a dividend of DKK 13m for 2019 is paid out in 2021. Further, the board has approved to transfer in total DKK 5m to IFU's grant facility, the Sustainability Facility. The latest appropriation to the grant facility was made in 2017 and has since supported projects within gender equality, health, HIV/Aids, establishing environmental social management systems (ESMS), energy optimisation and minimising water consumption.

Contribution from projects
Total contributions from IFU's primary project-related activities were DKK 46m against DKK (121)m in 2018.

Share capital investments contributed DKK 30m in 2019 against DKK (167)m in 2018. The contribution in 2019 includes in total DKK (119)m related to the two investments in China and Kenya mentioned above. Out of the total contribution, dividends were DKK 44m against DKK 55m in 2018, contribution from exited investments was DKK 25m against DKK (33)m in 2018, and finally, unrealised value adjustments on the portfolio were DKK (39)m compared to DKK (189)m in 2018.

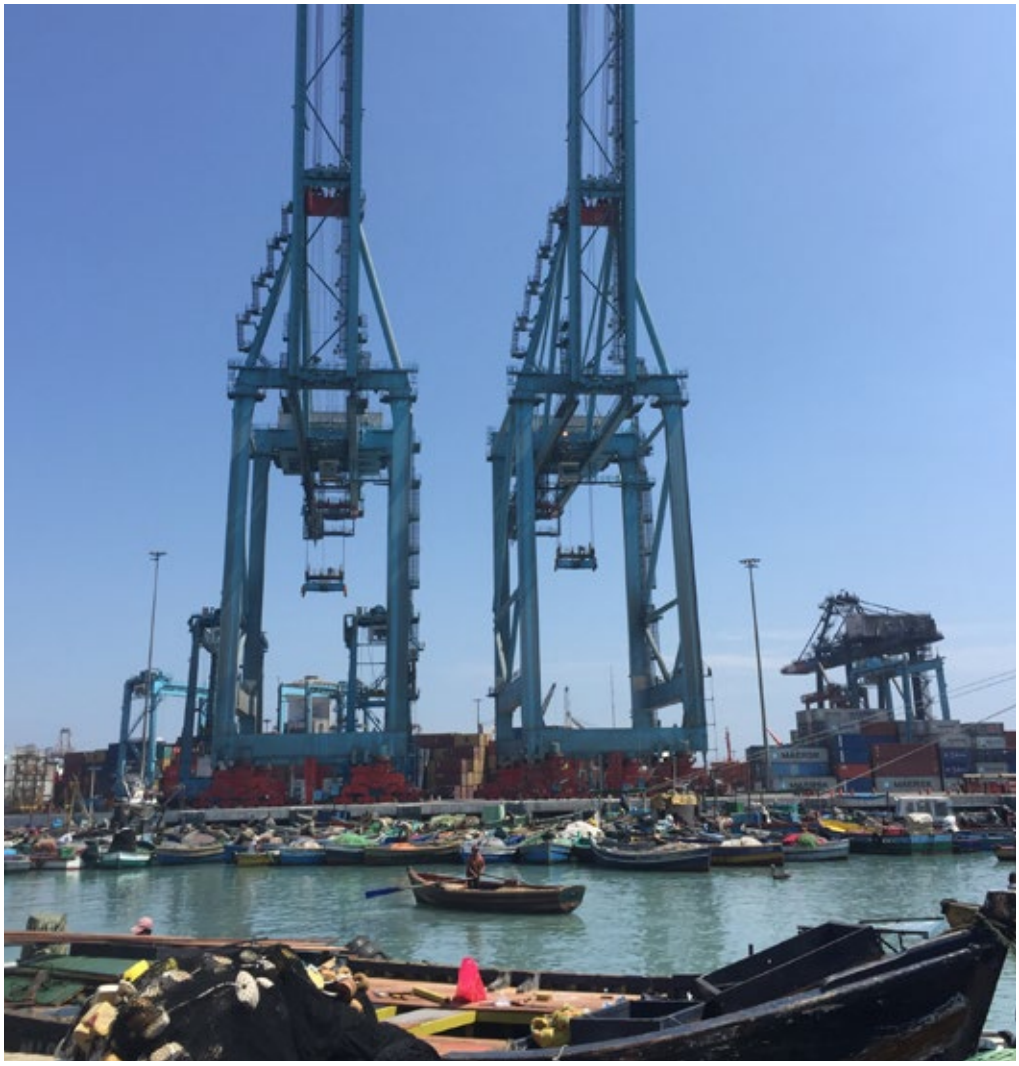
Project loans and guarantees contributed DKK 21m against DKK 52m in 2018, the lower contribution being mainly due to an increase in negative value adjustments to DKK (45)m in 2019 from DKK (20)m in 2018, both figures including the effect of provisions relating to IFRS 9. Net effect of exchange rate adjustments and hedges was DKK (4)m similar to DKK (5)m in 2018. Interest and fees income, after provisions but before hedging arrangements, decreased to DKK 70m from DKK 77m in 2018.

Other contributions from projects was DKK (5)m in 2019 against DKK (6)m in 2018. The negative contribution in 2019 was mainly due diligence expenses.

Management income and operating expenses
Management income was DKK 100m in 2019, up from DKK 78m in 2018. The increase is mainly due to the Danish SDG Investment Fund as mentioned above.

Overall expenses covering both IFU and IFU managed funds rose to DKK 115m from DKK 112m in 2018. The expense level was lower than expected mainly due to vacancies during the year resulting in average number of staff being more or less unchanged against an expected increase, but with end of year tally being higher than at end of 2018. Number of staff is set to increase further in 2020. Expenses for external assistance and IT were higher in 2019, whereas travel expenses fell.

Financial income, cash flows and balance sheet items
Net financial income was DKK (4)m compared to DKK (5)m in 2018. The result reflects mainly the negative interest rate environment during the year.



APMT Callao, Peru – port terminal.

THE AVERAGE VALUE-ADJUSTED PORTFOLIO OF SHARE CAPITAL INVESTMENTS GREW TO DKK 2.6BN IN 2019

Net cash flow for the year was DKK (99)m after investing DKK 79m in bonds. Financing activities provided a net of DKK 436m comprised of new capital contributions from the State with DKK 337m, loan financing from Danmarks Nationalbank of DKK 150m and less pay-out of dividend to the State of DKK 50m. New disbursements to investments were DKK 903m, a record level, and IFU received DKK 450m from investments and investment-related receivables.

The average value-adjusted portfolio of share capital investments grew to DKK 2.6bn in 2019 from DKK 2.2bn in 2018. For loans and guarantees, the average value-adjusted portfolio was unchanged from 2018 at DKK 1.0bn.

Cash and bonds end of year was DKK 545m, down from DKK 579m in 2018, and undisbursed commitments were DKK 3.4bn, down from DKK 4.4bn in 2018. DKK 27m was drawn on a credit facility end of year compared to a draw of DKK 41m in 2018.

The continued very high level of commitments compared to cash underlines the need for stringent management of IFU's liquidity position. Commitments, however, only translate into disbursements over a multi-year period, which in particular is relevant for IFU's commitment to the Danish SDG Investment Fund, making up 1.8bn out of the undisbursed commitments end of 2019.

According to IFU's liquidity policy, the aim is to always have a positive cash position. The liquidity position is backed by a DKK 300m credit facility shared with IØ (DKK 270m available for drawing at end of 2019). In addition, IFU was granted access to loan financing of DKK 800m from Danmarks Nationalbank in 2018 for partial funding of IFU's commitment to the Danish SDG Investment Fund. DKK 650m is still undrawn on this facility. Finally, IFU in 2019 entered into a EUR 50m loan facility with the Nordic Investment Bank for refinancing of larger loan engagements fulfilling NIB's mandate. No drawings had been made on this facility at end of 2019. Including the credit facility, the national bank lending line and the NIB facility, total liquidity resources available to IFU amounted to DKK 1.8bn at year-end 2019. ▸

In 2020, IFU will receive a final DKK 6m contribution for the Neighbourhood Energy Investment Fund and is expected to establish access to additional loan funding of DKK 300m based on state guarantees for the first tranche of "Denmark's Green Future Fund".

As per 31 December 2019, IFU had equity of DKK 4,161m, up from DKK 3,802m at 31 December 2018. The net change reflects the net income for the year plus paid-in capital less appropriation to IFU's Sustainability Facility.

Risk management

IFU invests in projects located in developing countries. Political and economic conditions may be volatile, and the projects are often subject to high commercial risk.

IFU EXPECTS A POSITIVE RESULT IN 2020

As a result of this exposure, and in particular because IFU measures its investments at estimated fair value in accordance with the accounting principles set out in the Danish Financial Statements Act, IFU's net results may fluctuate considerably from year to year due to value adjustments on the investments.

In preparing the financial statements, management makes a number of estimates and assumptions of future events that will affect the carrying amount of assets and liabilities. The areas where estimates and assumptions are most critical to the financial statements are the fair value measurement of share capital investments and the impairment of project loans. The note on accounting policies and note 28 on fair value measurement basis provide more details.

To minimise the overall risk in IFU's investment portfolio, a set of risk policies have been implemented in the investment policy. These policies include guidelines for appraisal of commercial risk for project, partner and country risk exposure as well as guidelines for managing direct financial risk. 2016 2015

Commercial risk for each project is evaluated at time of appraisal using a risk model based on IFU's large experience from previously exited projects as well as on sensitivity analyses of key performance parameters specific to the project in question.

Project risk (and commercial risk) is further managed by the indicative limit for IFU's participation in individual projects, which is DKK 100m to 150m, whereas partner risk is limited through the indicative limit that a partner (at group level) should not account for more than 20 per cent of the fund's total project commitments (the sum of investments at acquisition cost, remaining commitments and binding commitments).

Country risk is managed by the indicative limit that total commitment in any single country should not exceed 30 per cent of the fund's total project commitments.

Details on equity, credit, currency, interest rate risk and liquidity risk are provided in notes 23 to 26 to the financial statement.

Distribution of project commitments as at 31 December 2019 – five largest single country portfolios *

Country	2019 (%)	2018 (%)
Ukraine	9.4	6.9
China	7.7	8.7
Kenya	5.9	7.5
India	5.5	6.9
Egypt	3.9	3.6

* Based on IFU and IFU's share of portfolio investments in own managed funds

Events after the balance sheet date

No events have occurred after the balance sheet date, which have materially affected IFU's financial position.

Specifically, no material effect on IFU's financial position related to the consequences of actions taken against the COVID-19 has at this time been identified, however, the likelihood of such an effect materialising must currently be considered high.

Outlook for 2020

In 2020, IFU expects to invest own funds in the range of DKK 1,000-1,100m, including investments by "Denmark's Green Future Fund". The figure includes additional financing to existing investments. IFU expects a positive result in 2020, however, subject to considerable uncertainty, not least related to the unknown effects of the COVID-19 outbreak.

Including IFU managed funds, IFU expects to invest in the range of DKK 2,100-2,300m. ▪

STATEMENT BY THE MANAGEMENT ON THE ANNUAL REPORT

The executive management and the board of directors have today considered and approved the annual report of the Investment Fund for Developing Countries (IFU) for the financial year 1 January – 31 December 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the annual report gives a true and fair view of IFU's financial position as per 31 December 2019 and of the results of IFU's operations and cash flows for 2019.

Further, it is our opinion that business procedures and internal controls have been set up to ensure that the transactions covered by the financial statements comply with the appropriations granted, legislation and other regulations and with agreements entered into and usual practice; and that due financial consideration has been taken of the management of funds and operations covered by the financial statements.

In addition, it is our opinion that systems and processes have been established to support economy, productivity and efficiency.

It is further our opinion that the management's review includes a true and fair account of the development in the operations and financial circumstances of the fund of the results for the year and the financial position of IFU.

Copenhagen, 30 March 2020

Executive management:

Torben Huss, CEO

Lars Krogsgaard, CIO

Board of Directors:

Michael Rasmussen, Chairman

Lars Andersen, Deputy Chairman

Jens Jørgen Kollerup

Bjarne H. Sørensen

Mads Kjær

Charlotte Jepsen

Anne Broeng

INDEPENDENT AUDITORS' REPORT

To the board of directors of the Investment Fund for Developing Countries (IFU)

Opinion
We have audited the financial statements of IFU for the financial year 1 January – 31 December 2019, which comprise an income statement, balance sheet, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of IFU's financial position at 31 December 2019 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. In addition, the audit was performed in accordance with generally accepted public auditing standards as required by the Articles of Association of IFU. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of IFU in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing IFU's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 IFU's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on IFU's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are

required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause IFU to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management's review
Management is responsible for the management's review.

Our opinion on the financial statements does not cover the management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the management's review.

Report on other legal and regulatory requirements
Statement on compliance audit and performance audit
Management is responsible for ensuring that the transactions covered by the financial reporting comply with appropriations granted, legislation and other regulations and with agreements entered into and usual practice; and that due financial consideration has been taken of the management of funds and operations covered by the financial statements.

In performing our audit of the financial statements, it is our responsibility in accordance with generally accepted public auditing standards to select relevant items for both compliance audit and performance audit purposes. When conducting a compliance audit, we test the selected items to obtain reasonable assurance as to whether the transactions covered by the financial reporting comply with the appropriations granted, legislation and other regulations as well as agreements entered into and usual practice. When conducting a performance audit, we perform assessments to obtain reasonable assurance as to whether the tested systems, processes or transactions support due financial consideration in relation to the management of funds and operations covered by the financial statements.

We must report on any grounds for significant critical comments should we find such in performing our procedures.

We have no significant critical comments to report in this connection.

Copenhagen, 30 March 2020

Ernst & Young
Godkendt Revisionspartnerselskab
CVR no 30 70 02 28

Lars Rhod Søndergaard
State Authorised Public Accountant
mne28632

Anne Tønsberg
State Authorised Public Accountant
mne32121

PROJECT COMPANIES REPORTED LOCAL TAXES OF DKK 3.1 BILLION

INCOME STATEMENT

Note		2019	2018
		DKK 1,000	DKK 1,000
2/	Contribution from share capital investments	30,054	(167,121)
3/	Contribution from project loans and guarantees	21,405	52,182
4/	Other contributions from projects	(5,004)	(5,919)
	CONTRIBUTION FROM PROJECTS	**46,455**	**(120,858)**
5/	Management fees and other income	100,241	77,679
5/	Operating expenses	(115,348)	(112,204)
	OPERATING INCOME	**31,348**	**(155,383)**
6/	Financial income, net	(3,673)	(5,312)
	NET INCOME FOR THE YEAR	**27,675**	**(160,695)**

BALANCE SHEET AT 31 DECEMBER

ASSETS

Note		2019	2018
		DKK 1,000	DKK 1,000
	FIXED ASSETS		
	Share capital investment in projects at cost	2,829,473	2,332,435
	Value adjustments	29,778	44,280
7/	Share capital investment in projects	2,859,251	2,376,715
	Project loans at cost	1,053,112	1,002,037
	Value adjustments	(116,629)	(72,933)
8/	Project loans, net	936,483	929,104
9/	Investment in subsidiaries	2,230	2,230
10/	Fixed assets and leasehold improvements	3,113	4,175
	Total fixed assets	**3,801,077**	**3,312,224**
	CURRENT ASSETS		
11/	Interest receivable related to projects	38,053	31,592
12/	Other receivables	31,374	47,932
	Bonds	260,176	181,218
	Cash	285,249	397,500
	Total current assets	**614,852**	**658,242**
	TOTAL ASSETS	**4,415,929**	**3,970,466**

BALANCE SHEET AT 31 DECEMBER

LIABILITIES AND EQUITY

Note		2019	2018
		DKK 1,000	DKK 1,000
	EQUITY		
	Paid-in capital	2,478,342	2,141,842
	Repaid capital	(1,250,000)	(1,250,000)
	Proposed dividend	13,000	0
	Retained earnings	2,919,754	2,910,079
13/	**Total equity**	**4,161,096**	**3,801,921**
	PROVISION FOR LOSSES		
14/	Provisions for guarantees and loan commitments	1,861	2,933
	NON CURRENT LIABILITIES		
15/	Long-term debt	149,468	0
	CURRENT LIABILITIES		
	Drawn on bank credit facility	27,870	41,088
16/	Other current liabilities	75,634	124,524
		103,504	165,612
	Total liabilities	**252,972**	**165,612**
	TOTAL EQUITY, PROVISION FOR LOSSES AND LIABILITIES	**4,415,929**	**3,970,466**

1/ ACCOUNTING POLICIES
17/ UNDISBURSED COMMITMENTS TO PROJECTS
18/ CONTINGENT LIABILITIES
19/ RELATED PARTY DISCLOSURES
20/ RECOMMENDED APPROPRIATION OF NET INCOME
21/ FINANCIAL HIGHLIGHTS, INVESTMENTS CONTRACTED IN 2019 AND SUSTAINABILITY CLASSIFICATION
22/ FINANCIAL RISK MANAGEMENT
23/ EGUITY AND CREDIT RISK
24/ CURRENCY RISK
25/ INTEREST RATE RISK
26/ LIQUIDITY RISK
27/ CLASSIFICATION OF FINANCIAL INSTRUMENTS
28/ FAIR VALUE MEASUREMENT BASIS

CASH FLOW STATEMENT

Note	2019 DKK 1,000	2018 DKK 1,000
CASH FLOW FROM OPERATING ACTIVITIES		
Dividends from projects received	43,895	55,428
Interest from projects received	55,251	62,199
Other project related payments	(1,585)	2,145
Operating expenses, net	(1,087)	(8,281)
Net payments related to financial income and expenses	(2,318)	(3,986)
Net cash from operating activities	**94,156**	**107,505**
CASH FLOW FROM (TO) INVESTING ACTIVITIES		
Received from sale of shares	86,583	80,799
Received from project loans	277,778	226,161
Received from derivatives, loans	(11,469)	(12,994)
Paid-in share capital in projects	(583,986)	(582,074)
Disbursement of project loans	(318,989)	(266,947)
Paid-in capital in subsidaries	0	(550)
Received from (invested in) bonds	(79,421)	58,344
Net cash from (to) investing activities	**(629,504)**	**(497,261)**
CASH FLOW FROM (TO) FINANCING ACTIVITIES		
Loan from Danmarks Nationalbank	149,815	0
Paid-in capital received during the year	336,500	305,500
Paid-out dividend during the year	(50,000)	(50,000)
Net cash from (to) financing activities	**436,315**	**255,500**
NET CHANGE IN CASH	(99,033)	(134,256)
NET CASH BEGINNING OF YEAR	**356,412**	**490,668**
NET CASH END OF YEAR	**257,379**	**356,412**
- Shown as cash in current assets	**285,249**	**397,500**
- Shown as drawn on bank credit facility	**(27,870)**	**(41,088)**

NOTES

Note

1/ Accounting policies

This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act concerning Class C enterprises (large). In accordance with Section 37 (5) in the Danish Financial Statements Act, IFU applies the International Reporting Standards (IFRS) as regards measurement of financial assets and financial liabilities and related disclosures.

The accounting principles applied are unchanged from previous year.

Presentation and classification

To better reflect IFU's activities, the presentation of the income statement and balance sheet as well as the order of the line items in the income statement deviate from the standard format in the Danish Financial Statements Act. By presenting the primary statements on the basis of IFU's special character as an investment fund (long-term investments), the financial statements hereby provide the reader with the best possible clarity of IFU's activities. The deviation is in accordance 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 IFU, and provided that the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when IFU 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 IFU, 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 affected as described below for each item.

IFU applies the accounting principles described in the Danish Financial Statements Act Section 37 (5), on measurement of financial assets and liabilities in accordance with IFRS.

Information brought to IFU's attention before the time of finalising the presentation of the annual report, and which confirms or invalidates affairs and conditions existing at the balance sheet date, is included in the 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. Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price, without any deduction for transaction costs. ▸

NOTES

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances.

For assets and liabilities that are measured at fair value on a recurring basis, IFU identifies transfers to and from the three levels of the fair value hierarchy by re-assessing the categorisation, and deems transfers to have occurred at the beginning of each reporting period.

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 contribution from projects or financial income and expenses, depending on their nature.

Non-monetary items
Monetary balance sheet items are translated at the exchange rates at the balance sheet date, whereas non-monetary items are translated at transaction date rates.

Derivative financial instruments
On initial recognition in the balance sheet and subsequently, derivative financial instruments are measured at fair value. Positive and negative fair values of derivative financial instruments are recognised under other receivables or other payables, respectively, and are only offset when IFU has the legal right and the intention to settle several financial instruments net.

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

INCOME STATEMENT

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

Contribution from project loans and guarantees
Contribution from project loans and guarantees includes interest income, guarantee commissions and value adjustments, including impairment provisions, reversals of impairment provisions and exchange rate adjustments.

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.

Management fees and other income
Management fees comprise fees received for the management of IFU managed funds.

Operating expenses
Operating expenses comprise expenses for management, administrative staff, office expenses, depreciation of fixed assets and leasehold improvements, etc.

Income from investments in associates and subsidiaries
Dividends from associates and subsidiaries are included in the income statement at the declaration date.

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.

NOTES

BALANCE SHEET

Share capital investment in projects

Share capital investments in projects are recognised when they are disbursed. Share capital investments in projects are measured both at initial recognition and throughout the investment period at fair value with changes recognised through profit or loss as contribution from share capital investments.

Share capital investments in projects where IFU has significant influence (typically 20-50 per cent of the voting rights) are associates and are accounted for as share capital investments.

Project loans

Project loans are designated as loans and receivables, and are recognised when they are disbursed. Project loans are initially recognised at cost, which is fair value and are subsequently measured at amortised cost less any allowance for impairment.

The allowance for impairment is measured in accordance with IFRS 9 by applying the simplified approach, whereby the expected loss in the remaining life of the loan is recognised irrespective of whether the loan is allocated to stage 3 (credit impaired), stage 2 (significant increase in credit risk) or stage 1 (all other loans).

The expected loss is measured loan by loan by applying an estimated loss percentage based on IFU's past experience, current expectations and internal rating of the individual project loans.

Provisions for losses on guarantees and loan commitments are calculated in the same way as the allowance for impairment of project loans.

Impaired project loans, together with the associated allowance amount, are written off when there is no realistic prospect of future recovery, and all collateral has been realised or has been transferred to IFU. If a previous write-off is later recovered, the recovery is credited to "Contribution from project loans and guarantees".

Investments in subsidiaries

Investments in subsidiaries are included in the balance at cost less accumulated impairment losses. Subsidiaries are insignificant in size and consolidated accounts have not been made.

Fixed assets and leasehold improvements

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

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

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

Interest receivable related to projects and other receivables

Interest receivables related to projects and other receivables are designated as receivables and are recognised over the period when they are earned.

Interest receivables related to projects and other receivables are recognised at nominal value less any allowance for impairment.

Interest receivable related to projects includes accrued interest on project loans. Other receivables includes receivables from sale of shares and loans, dividends receivables, administrative and other project-related receivables. ▸

NOTES

Cash and cash equivalents
Bonds are stated at the official prices quoted on the balance sheet date except for drawn 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.

Non-current liabilities
A bullet loan issued by Danmarks Nationalbank is designated as long-term debt according to the repayment conditions and is recognised at amortised cost.

Current liabilities
Current liabilities are initially recognised at cost, which is fair value, and are subsequently measured at amortised cost.

Commitments
Undisbursed commitments to projects are comprised of undisbursed contractual commitments and binding commitments not yet contracted. The existence of such liabilities will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within IFU's control.

CASH FLOW STATEMENT

The cash flow statement has been prepared in accordance with the direct method and shows IFU's cash flow from operating, investing and financing activities as well as IFU's cash position at the beginning and end of the year. Cash comprises cash at hand less short-term bank debt. ▪

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000
2/	Contribution from share capital investments		
	Dividends from projects	44,066	54,744
	Realised gain (loss) from divested share capital investments	24,712	(32,851)
	Value adjustments, portfolio	(38,724)	(189,014)
	Contribution from share capital investments	**30,054**	**(167,121)**
3/	Contribution from project loans and guarantees		
	Interest income and fees related to project loans and guarantees	79,354	81,653
	Value adjustments, loan portfolio	(46,316)	(22,638)
	Value adjustments, remaining commitments on loan portfolio	1,080	2,368
	Value adjustments, guarantees	(8)	61
	Exchange rate adjustments, project loans	9,787	21,710
	Value adjustments, derivatives	(13,579)	(26,586)
	Value adjustments, interest and fees	(8,913)	(4,386)
	Contribution from project loans and guarantees	**21,405**	**52,182**
4/	Other contributions from projects		
	Value adjustments, receivables, excl. exchange rate adjustments	(116)	(1,577)
	Exchange rate adjustments, receivables	(233)	(191)
	Interest from receivables	269	841
	Other income and expenses	(4,924)	(4,992)
	Other contributions from projects	**(5,004)**	**(5,919)**

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000
5/	Management fees, other income and operating expenses		
	Management fees and other income		
	Management fees	99,700	77,380
	Board member fees	434	192
	Various income	107	107
	Total management fees and other income	100,241	77,679
	Expenses		
	Salaries, head office	58,453	56,986
	Rental expenses	7,271	7,179
	Travelling expenses	5,381	6,458
	Regional office expenses	13,561	14,316
	Fees for board of directors	1,302	1,195
	Fees for external assistance	7,937	5,898
	IT expenses	6,645	5,101
	Office expenses	1,305	1,486
	Various expenses	9,564	9,950
	Depreciation of fixed assets and leasehold improvements (note 10)	1,120	1,155
	Total expenses before payroll tax	112,539	109,724
	Payroll tax	2,809	2,480
	Total operating expenses	115,348	112,204
	Fee to the auditor of the funds included in "Fees for external assistance" and "Various expenses":	**1,111**	**660**
	- hereof audit fees	467	567
	- hereof other assurance engagements	544	34
	- hereof tax and VAT advice	12	26
	- hereof other non-audit services	88	33

NOTES

Note	2019 DKK 1,000	2018 DKK 1,000
Specification of personnel expenses (salaries etc.)*		
Salaries, remunerations etc.	63,810	62,674
Pension contributions	5,564	5,293
Other expenses for social security	321	336
Payroll tax	2,809	2,480
Personnel expenses in total	**72,504**	**70,783**
*) The figures are included in "Salaries, head office", "Travelling expenses", "Regional office expenses", "Fees for board of directors" and "Payroll tax".		
Remuneration to the board of directors:		
Michael Rasmussen, Chairman	271	271
Lars Andersen, Deputy Chairman	199	199
Jens Jørgen Kollerup	145	145
Bjarne H. Sørensen	145	145
Dorrit Vanglo *	97	145
Mads Kjær	145	145
Charlotte Jepsen	145	145
Anne Broeng **	155	0
Total remuneration to the board of directors	1,302	1,195
*) Member of the board of directors untill 31. August 2019		
**) Member of the board of directors from 31. December 2018		
Remuneration to the executive board:		
Salaries and pension		3,353
Torben Huss *	2,133	
Lars Krogsgaard **	1,243	
Performance remuneration:		796
Torben Huss	391	
Lars Krogsgaard	231	
Total remuneration to the executive board	3,998	4,149
Total remuneration to the board of directors and executive board	**5,300**	**5,344**
*) Hereof pension 299 (248 in 2018)		
**) Hereof pension 170 (0 in 2018). Lars Krogsgaard was employed from April 2019		
Average number of employees, head office	72	72
Average number of employees, regional offices	16	17
	88	**89**

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000
6/	Financial income, net		
	Financial income		
	Interest income, cash and bonds	235	324
	Financial income	**325**	**324**
	Financial expenses		
	Interest expenses, bank charges and exchange rate adjustments	(3,445)	(4,540)
	Loss on bonds	(463)	(1,096)
	Financial expenses	**(3,908)**	**(5,636)**
	Financial income, net	**(3,673)**	**(5,312)**

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000
7/	Share capital investment in projects		
	Share capital investment in projects beginning of year at cost	2,332,435	1,831,805
	Paid-in share capital in projects during the year	583,986	582,074
	Project loans or interest converted into share capital during the year	0	15,678
	Proceeds from divestment of shares	(87,437)	(15,786)
	Realised gain (loss) from divestment of shares relative to cost, net	489	(81,336)
	Share capital investment in projects end of year at cost *	**2,829,473**	**2,332,435**
	Accumulated value adjustments beginning of year	44,280	184,810
	Reversed value adjustments, divested share capital investments	24,222	48,484
	Value adjustments, portfolio during the year	(38,724)	(189,014)
	Accumulated value adjustments end of year	**29,778**	**44,280**
	Share capital investment in projects end of year	**2,859,251**	**2,376,715**
	Herof associated companies:		
	Share capital investment in projects end of year at cost	1,399,092	899,066
	Accumulated value adjustments end of year	(69,635)	(90,136)
		1,329,457	**808,930**
	Accumulated value adjustments end of year are comprised of:		
	Positive value adjustments	570,554	467,179
	Negative value adjustments	(540,776)	(422,899)
		29,778	**44,280**

*) DKK 61.8m guaranteed by the Danish State (DKK 0m in 2018).

NOTES

Note

7/ Share capital investment in projects, net

Associated companies:

DKK 1,000

Name/domicile:	Form of company:	IFU's ownership interest (%)	2019 Result	2019 Equity*
			According to the latest approved annual report	
Aerial & Maritime Ltd., *Mauritius*	Ltd.	35.18%	(5,153)	73,114
Africa Coffee Roasters Limited, *Kenya*	Ltd.	20.00%	(12,632)	(4,448)
AfriNord Hotel Investment A/S, *Denmark*	A/S	20.00%	132	3,166
Afro Farm Limited, *Tanzania*	Ltd.	40.22%	(348)	1,119
Al Quseir Hotel Company SAE, *Egypt*	SAE	20.00%	5,007	22,854
Aller Aqua China A/S, *Denmark*	A/S	38.00%	5,171	30,561
Aller Aqua Egypt for Industrialization S.A.E., *Egypt*	S.A.E	20.00%	26,295	60,095
Alliance for Microfinance in Myanmar Limited, *Myanmar*	Ltd.	23.43%	9,111	108,141
Birger Christensen China Holding A/S, *Denmark*	A/S	40.00%	(183)	97
BOPA PTE Ltd, *Cambodia*	Ltd.	24.52%	5,996	109,521
Bukkehave Distribution ApS under tvangsopløsning, *Denmark*	ApS	40.00%	(664)	(3,953)
CerCa A/S, *Denmark*	A/S	48.00%	(3,298)	1,486
COT Africa Limited , *Mauritius*	Ltd.	49.99%	(662)	24,582
Danish Agribusiness Fund K/S, *Denmark*	K/S	37.50%	(42,959)	207,307
Danish Climate Investment Fund I K/S, *Denmark*	K/S	39.92%	18,141	636,863
Danish Microfinance Partners K/S, *Denmark*	K/S	24.92%	8,907	472,419
Danish Sustainable Development Goals Investment Fund K/S, *Denmark*	K/S	40.00%	(67,896)	259,650
Danper Agricola La Venturosa S.A.C., *Peru*	S.A.C	45.00%	(33,767)	23,886
Danper Agricola Olmos S.A.C., *Peru*	S.A.C	25.00%	(20,161)	179,201
Dansani Kina Holding A/S, *Denmark*	A/S	50.00%	N/A	N/A
DESMI India LLP, *India*	LLP	20.00%	(596)	23,738
DSC Denmark Holding ApS under frivillig likvidation, *Denmark*	ApS	33.33%	(21)	771
Dynatest South America Holding ApS, *Denmark*	ApS	33.33%	(11,533)	(7,242)
Elgon Road Developments Ltd, *Kenya*	Ltd.	30.08%	(34,121)	281,240
Emerging Markets Power (Ghana) Limited, *Ghana*	Ltd.	27.00%	N/A	N/A
EMF Cooling Systems Hong Kong Limited, *Hong Kong*	Ltd.	26.77%	(7,111)	49,536
Enara Bahrain SPV W.L.L., *Bahrain*	WLL	41.43%	N/A	N/A
Fertin India Private Limited, *India*	Ltd.	25.00%	(8,144)	10,745
Fiberline Asia Limited, *Hong Kong*	Ltd.	24.89%	4,074	6,177
Fibertex South Africa, *South Africa*	Pty. Ltd.	25.80%	(22,563)	18,295

NOTES

Note

Associated companies:

DKK 1,000

Name/domicile:	Form of company:	IFU's ownership interest (%)	2019 Result	2019 Equity*
			According to the latest approved annual report	
Foss India Private Limited, *India*	Ltd.	24.15%	(3,558)	2,325
Frontier Trading Co. Ltd., *China*	Ltd.	40.00%	N/A	N/A
Ghana Emulsion Limited, *Ghana*	Ltd.	26.10%	N/A	N/A
Gustu Gastronomia S.A., *Bolivia*	S.A.	45.00%	582	5,749
House of Odin Ltd., *Nigeria*	Ltd.	20.20%	866	7,993
IBF Uganda ApS, *Denmark*	ApS	36.00%	(22)	(25)
Jema Autolife Co., Ltd, *China*	Ltd.	44.01%	(3,291)	132
Kenya Property Holding ApS, *Denmark*	ApS	49.00%	(67)	5,819
Kjaer Group A/S, *Denmark*	A/S	20.00%	N/A	N/A
Merkur Udviklingslån A/S, *Denmark*	A/S	50.00%	(1,374)	12,455
Mim Cashew & Agricultural Products Limited, *Ghana*	Ltd.	20.00%	(4,390)	57,038
Niebuhr Limited, *Hong Kong*	Ltd.	25.00%	(80)	27,103
NMI Fund IV KS, *Norway*	K/S	28.17%	N/A	N/A
Nordic Horn of Africa Opportunities Fund, *Canada*	Fund	25.50%	2,192	50,168
Nordic Microfinance Initiative AS, *Norway*	A/S	33.33%	(5,898)	69,857
Nordic Microfinance Initiative Fund III KS, *Norway*	K/S	24.40%	(107,689)	531,428
Orana India Pvt Ltd, *India*	Ltd.	36.95%	502	877
Rabai Power Holdings Limited, *United Kingdom*	Ltd.	20.00%	54,835	328,600
Sing-Scandi Fish-Tech Management Pte.Ltd, *China*	Ltd.	46.67%	N/A	N/A
Smart Solar International Holding, *France*	SA	49.00%	N/A	N/A
Wagner China ApS, *Denmark*	ApS	40.00%	(11,345)	(12,751)

*) Excluding undisbursed commitments/not paid-in capital.

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000
8/	Project loans, net		
	Project loans beginning of year at cost	1,002,037	967,614
	Disbursements during the year	318,989	266,947
	Share capital converted into project loans during the year	0	5,000
	Interest and fees converted into project loans during the year	2,787	1,011
	Repayments during the year	(277,778)	(226,161)
	Project loans converted into share capital during the year	0	(18,634)
	Exchange rate adjustments, project loans	9,787	21,710
	Project loans transferred to other receivables during the year	0	0
	Write-offs during the year	(2,710)	(15,450)
	Project loans end of year at cost *	**1,053,112**	**1,002,037**
	Accumulated value adjustments beginning of year	(72,933)	(65,656)
	Reversed value adjustments, loans written off	0	(8,823)
	Value adjustments	(43,606)	1,635
	Value adjustments related to conversions during the year	(90)	(89)
	Accumulated value adjustments end of year	**(116,629)**	**(72,933)**
	Project loans, net end of year	**936,483**	**929,104**
	*) Project loans end of year at cost are comprised of:		
	Senior project loans	682,362	770,960
	Subordinated loans	326,966	187,319
	Equity loans	43,784	43,758
		1,053,112	**1,002,037**

NOTES

Note			2019	2018
			DKK 1,000	DKK 1,000

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

	2019	2018		
	Currency	Currency		
DKK			173,033	182,332
USD [1]	62,075	54,116	414,407	352,807
EUR	54,194	57,785	404,815	431,500
INR	519,000	229,000	48,578	21,320
Other currencies			12,279	14,079
			1,053,112	**1,002,037**

1) USD 32.3m is hedged against DKK (USD 36.3m in 2018)

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000
9/	Investment in subsidiaries		
	Investment in subsidiaries beginning of year at cost	2,230	1,680
	New investments during the year	0	550
	Investment in subsidiaries end of year at cost	**2,230**	**2,230**
	Accumulated value adjustments end of year	**0**	**0**
	Investment in subsidiaries, net end of year	**2,230**	**2,230**

Investment in subsidiaries comprises of:

Name/domicile:	Form of company:	IFU's ownership interest (%)	2019 Result	2019 Equity
			According to the latest approved annual report	
IFU Investment Komplementar, Copenhagen, *Denmark*	ApS	100%	16	163
IFU Investment Partners GP, Copenhagen, *Denmark*	P/S	100%	(26)	374
DCIF I GP Komplementar, Copenhagen, *Denmark*	ApS	100%	8	83
DCIF I GP, Copenhagen, *Denmark*	P/S	100%	(15)	441
DAF I GP Komplementar, Copenhagen, *Denmark*	ApS	100%	6	67
DAF I GP, Copenhagen, *Denmark*	P/S	100%	(13)	469
DSDG GP Komplementar, Copenhagen, *Denmark*	ApS	100%	6	56
DSDG GP, Copenhagen, *Denmark*	P/S	100%	(8)	493

Subsidiaries are insignificant in size and consolidated accounts have not been made.

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000
10/	Fixed assets and leasehold improvements		
	Cost beginning of year	12,425	12,050
	Additions during the year	58	375
	Disposals during the year	(448)	0
	Cost end of year	**12,035**	**12,425**
	Depreciation beginning of year	8,250	7,095
	Depreciation for the year (note 5)	1,120	1,155
	Depreciation for disposal of the year	(448)	0
	Depreciation end of year	**8,922**	**8,250**
	Book value end of year	**3,113**	**4,175**
11/	Interest receivable related to projects		
	Interest receivable related to projects before value adjustments	66,822	51,839
	Value adjustments	(28,769)	(20,247)
	Interest receivable related to projects	**38,053**	**31,592**
12/	Other receivables		
	Dividend receivables	385	148
	Receivables from sale of shares	10,878	11,268
	Receivables from sale of loan	911	911
	Receivable front-end fees	2,304	3,881
	Other project-related receivables	2,845	463
		17,323	16,671
	Value adjustments	(1,630)	(1,630)
		15,693	15,041
	Derivatives *	1,545	5,144
	Administrative receivables	11,498	20,995
	Current accounts	0	3,792
	Accrued interest receivables from bonds	0	498
	Rental deposits	2,638	2,462
		31,374	**47,932**

*) Stated amount for 2019 concerns a hedged amount of USD 11.0m with term from 2020 to 2026.

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000
13/	Total equity		
	Paid-in capital beginning of year	2,141,842	1,836,342
	Project Development Programme	0	19,000
	Danish Sustainable Development Goal	0	99,500
	African Guarantee Fund	0	85,000
	Landbrugsinvesteringsfaciliteten	0	40,000
	Neighbourhood Energy Investment Fund	69,000	62,000
	Blended concessional finance	199,500	0
	Climate Investor 2	50,000	0
	Nordic Fund Project	18,000	0
	Paid-in capital end of year	**2,478,342**	**2,141,842**
	Repaid capital beginning of year	(1,250,000)	(1,250,000)
	Repaid capital end of year	**(1,250,000)**	**(1,250,000)**
	Dividend proposed for the year	**13,000**	**0**
	Retained earnings beginning of year	2,910,079	3,070,774
	Transfered income for the year	9,675	(160,695)
	Retained earnings end of year	**2,919,754**	**2,910,079**
	Total equity end of year	**4,161,096**	**3,801,921**
14/	Provisions for guarantees and loan commitments		
	Value adjustments on remaining commitments beginning of year	2,933	5,362
	Value adjustments on remaining commitments on loans	(1,080)	(2,368)
	Value adjustments on remaining commitments on guarantees	8	(61)
	Value adjustments on remaining commitments end of year	**1,861**	**2,933**

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000
15/	Long-term debt		
	Loan from Danmarks Nationalbank	149,468	0
		149,468	**0**

The term of the bullet loan issued by Danmarks Nationalbank is 10 years and with an annual interest rate of 0.5% and an annual fee to the Danish State of 0.15%.

16/	Other current liabilities		
	Other project-related debt	807	2,290
		807	2,290
	Derivatives *	7,852	9,342
	Dividend regarding previous year	0	50,000
	IFU Sustainability Facility	7,975	3,000
	Administrative debt	53,427	57,673
	Current accounts	4,775	0
	Deferred income	798	2,219
		75,634	**124,524**

*) Stated amount for 2019 concerns a hedged amount of USD 21.3m with term from 2020 to 2026.

17/ Undisbursed commitments to projects

Undisbursed commitments to projects are comprised of undisbursed contractual commitments and binding commitments not yet contracted. The stated amount of guarantees is net of provision for losses, if any.

Amounts payable on share capital and loan agreements	2,944,049	3,593,093
Guarantees *	32,791	51,897
Binding commitments	459,746	765,442
Undisbursed commitments to projects	**3,436,586**	**4,410,432**

*) Net outstanding guarantees after provision for losses, amount to 32,688 (51.803 in 2018)

NOTES

Note		2019	2018
		DKK 1,000	DKK 1,000

18/ Contingent liabilities

The total lease and rental commitments amount to DKK 7.0m (DKK 7.3m in 2018)
- hereof due within the following year DKK 6.8m (DKK 6.4m in 2018).

19/ Related party disclosures

IFU project investments - shares and loans
For a list of project investments where IFU has significant influence, see note 7.

Transactions conducted during the year with the project companies include dividends, interest income and fees and directors' fees from the companies in which IFU representatives are board members.

Board of directors and executive board
IFU's other related parties are the members of the board of directors and the executive board.

During the year there were no transactions other than remuneration paid to the members of the board of directors and the executive board.

20/ Recommended appropriation of net income

Dividend proposed for the year	13,000	0
Distribution to IFU Sustainability Facility	5,000	0
Transfered to reserve under equity	9,675	(160,695)
	27,675	**(160,695)**

21/ Financial highlights, Investments contracted in 2019, Developmental highlights and Sustainability classification
Financial highlights (table) - see page 7
Investments contracted in 2019 (table) - see page 12
Sustainability classification (table) - see page 28

NOTES

Note

22/ Financial risk management

Introduction

Through investments, IFU is exposed to financial risks such as equity and credit risk on investments, currency risk, interest rate risk and liquidity risk.

The board of directors has established limits to avoid excessive concentrations of risk, and through its investment policy and due diligence procedures IFU further seeks to identify and mitigate the equity and credit risk.

23/ Equity and credit risk

Equity risk

Equity risk arises from changes in the fair values of share capital investments in projects.

Credit risk

Credit risk is the risk that IFU will incur a financial loss due to a counterparty not fulfilling its obligation. These credit exposures occur from project loans, derivatives and other transactions.

Managing equity and credit risk

At portfolio level, IFU mitigates equity risk and credit risk by investing in a variety of countries and by limiting the concentration of risks per partner. IFU assesses concentrations of risk on the basis of total commitments, which include acquisition cost of both share capital investments and project loans, binding commitments and amounts payable on share capital and loan agreements. Further through the due diligence process IFU assesses the specific risks for each share capital investment and project loan and seeks to mitigate associated equity and credit risks.
For some of IFU's share capital investments, IFU has the opportunity to sell the shares through pre-agreed exit agreements. In this way, IFU mitigates the risk of not being able to exit the investments. See note 28 for fair value measurement basis.

On an ongoing basis, the credit quality of the projects is assessed based on among other things:
- Specific terms as agreed
- Current and expected operational results of the company
- Expected sales value and pledges
- Historical records of debt service

NOTES

Note

The table below shows the distribution of the cost of IFU's investments by the OECD country risk classification. This classification takes into account the political and economic environment of each country, including risk of force majeure such as war, etc. The classification of each country is updated twice a year.

2019	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%
2	167,001	6%	118,319	11%	285,320	7%	62,110	2%
3	187,279	7%	136,038	13%	323,317	8%	87,747	3%
4	232,458	8%	43,126	4%	275,584	7%	65,724	2%
5	178,433	6%	46,191	4%	224,624	6%	135,748	4%
6	552,499	20%	306,751	29%	859,250	22%	293,659	9%
7	109,470	4%	387,045	37%	496,515	13%	268,441	8%
Africa regional	502,975	18%	1,467	0%	504,442	13%	148,874	4%
DAC	821,432	29%	0	0%	821,432	21%	2,229,987	65%
Asia regional	77,926	3%	0	0%	77,926	2%	47,963	1%
Latin America Regional	0	0%	0	0%	0	0%	50,069	1%
Not rated	0	0%	14,175	1%	0	0%	46,264	1%
Total	**2,829,473**	**100%**	**1,053,112**	**100%**	**3,868,410**	**100%**	**3,436,586**	**100%**

2018	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%
2	163,765	7%	125,513	13%	289,278	9%	110,843	3%
3	182,999	8%	148,361	15%	331,360	10%	323,630	7%
4	96,946	4%	45,998	5%	142,944	4%	63,325	1%
5	190,768	8%	21,761	2%	212,529	6%	212,095	5%
6	559,704	24%	388,977	39%	948,681	28%	453,466	10%
7	125,694	5%	269,427	27%	395,121	12%	291,056	7%
Africa regional	330,920	14%	2,000	0%	332,920	10%	288,001	7%
DAC	608,283	26%	0	0%	608,283	18%	2,548,335	58%
Asia regional	73,356	3%	0	0%	73,356	2%	61,006	1%
Not rated	0	0%	0	0%	0	0%	58,675	1%
Total	**2,332,435**	**100%**	**1,002,037**	**100%**	**3,334,472**	**100%**	**4,410,432**	**100%**

NOTES

Note

Credit quality/impairment (IFRS 9)

All outstanding project loans have been classified into three stages:

- Stage 1 includes project loans with no credit deterioration and no specific value adjustments.
  The value adjustments according to IFRS 9 are based on IFU's historical annual credit loss.
- Stage 2 includes project loans where payments are delayed with more than 30 days at the end of year but without specific value adjustments.
  The value adjustments according to IFRS 9 are based on IFU's historical credit loss.
- Stage 3 includes project loans with only specific value adjustments.

The table below shows the project loans at cost according to stages.

DKK 1,000	2019	2018
Project loans (stage 1)	804,796	892,806
Project loans (stage 2)	131,923	33,963
Project loans (stage 3)	116,393	75,268
Total	**1,053,112**	**1,002,037**

The table below illustrates the credit quality by OECD Country risk for project loans in stage 1.

DKK 1,000	2019	2018
OECD 0	14,174	0
OECD 2	52,804	108,959
OECD 3	136,037	143,556
OECD 4	10,841	35,498
OECD 5	27,054	21,760
OECD 6	246,568	328,480
OECD 7	315,851	252,553
Africa regional	1,467	2,000
Total	**804,796**	**892,806**

NOTES

Note

The table below shows project loans according to stages.

DKK 1,000	Value adjustments %	Project loans at cost	Accumulated value adjustments	**Project loans carrying amount 2019**
Project loans (stage 1)	(1.3)%	804,796	(10,677)	794,119
Project loans (stage 2)	(5.5)%	131,923	(7,308)	124,615
Project loans (stage 3)	(84.8)%	116,393	(98,644)	17,749
Total		**1,053,112**	**(116,629)**	**936,483**

DKK 1,000	Value adjustments %	Project loans at cost	Accumulated value adjustments	**Project loans carrying amount 2018**
Project loans (stage 1)	(1.3)%	892,806	(11,595)	881,211
Project loans (stage 2)	(18.3)%	33,963	(6,200)	27,763
Project loans (stage 3)	(73.3)%	75,268	(55,138)	20,130
Total		**1,002,037**	**(72,933)**	**929,104**

NOTES

Note

Project loans at amortised cost before value adjustments	Stage 1	Stage 2	Stage 3	Total 2019
Project loans beginning of year at cost	892,806	33,963	75,268	1,002,037
Disbursements during the year	315,989	3,000	0	318,989
Interest and fees converted into project loans during the year	2,697	0	90	2,787
Repayments during the year	(266,867)	(8,109)	(2,802)	(277,778)
Exchange rate adjustments, project loans	8,910	476	401	9,787
Write-offs during the year	(2,710)	0	0	(2,710)
Project loans end of year at cost before change of stages	950,825	29,330	72,957	1,053,112
Change in loan value from stage 1	(146,029)	114,731	31,298	0
Change in loan value from stage 2	0	(12,138)	12,138	0
Project loans end of year at cost	**804,796**	**131,923**	**116,393**	**1,053,112**

Accumulated value adjustments	Stage 1	Stage 2	Stage 3	Total
Accumulated value adjustments beginning of year	(11,595)	(6,200)	(55,138)	(72,933)
Value adjustments	(26,674)	(1,884)	(15,048)	(43,606)
Value adjustments related to conversions during the year	0	0	(90)	(90)
Accumulated value adjustments end of year before change of stages	(38,269)	(8,084)	(70,276)	(116,629)
Change in loan value from stage 1	27,592	(5,293)	(22,299)	0
Change in loan value from stage 2	0	6,069	(6,069)	0
Accumulated value adjustments end of year	**(10,677)**	**(7,308)**	**(98,644)**	**(116,629)**

NOTES

Note

Project loans at amortised cost before value adjustments	Stage 1	Stage 2	Stage 3	Total 2018
Project loans beginning of year at cost	854,346	32,558	80,710	967,614
Disbursements during the year	244,247	0	22,700	266,947
Share capital converted into project loans during the year	5,000	0	0	5,000
Interest and fees converted into project loans during the year	1,011	0	0	1,011
Repayments during the year	(205,045)	(8,278)	(12,838)	(226,161)
Project loans converted into share capital during the year	(18,634)	0	0	(18,634)
Exchange rate adjustments, project loans	20,214	681	815	21,710
Write-offs during the year	(56)	(2,877)	(12,517)	(15,450)
Project loans end of year at cost before change of stages	901,083	22,084	78,870	1,002,037
Change in loan value from stage 1	(32,508)	12,944	19,564	0
Change in loan value from stage 2	2,315	(2,315)	0	0
Change in loan value from stage 3	21,916	1,250	(23,166)	0
Project loans end of year at cost	**892,806**	**33,963**	**75,268**	**1,002,037**

Accumulated value adjustments	Stage 1	Stage 2	Stage 3	Total
Accumulated value adjustments beginning of year	(8,973)	(4,367)	(52,316)	(65,656)
Reversed value adjustments, loans written off	0	0	(8,823)	(8,823)
Value adjustments	(18,854)	1,729	18,760	1,635
Value adjustments related to conversions during the year	(89)	0	0	(89)
Accumulated value adjustments end of year before change of stages	(27,916)	(2,638)	(42,379)	(72,933)
Change in loan value from stage 1	16,612	(3,057)	(13,555)	0
Change in loan value from stage 2	(9)	9	0	0
Change in loan value from stage 3	(282)	(514)	796	0
Accumulated value adjustments end of year	**(11,595)**	**(6,200)**	**(55,138)**	**(72,933)**

NOTES

Note

Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk for IFU. The table only includes derivatives with positive market value.

	2019		2018	
DKK 1,000	Carrying amount	Maximum credit exposure (contractual cash flow)	Carrying amount	Maximum credit exposure (contractual cash flow)
Project loans	936,483	1,053,112	929,104	1,002,037
Interest receivable related to projects	38,053	66,822	31,592	51,839
Other receivables	15,693	17,323	15,041	16,671
Derivatives	1,545	1,545	5,144	5,144
Cash	285,249	285,249	397,500	397,500
Commitments	0	396,815	0	616,240
Total	**1,277,023**	**1,820,866**	**1,378,381**	**2,089,431**

Description of collateral held and fair value hereof (accessibility of pledged assets for project loans)

In a number of cases, IFU has received securities to minimise credit exposure. IFU has received the following types of securities:

- Pledges
- Indemnities and counter-guarantees

The fair value of the pledges is DKK 258m (2018: DKK 236m) and for indemnity and counter-guarantee the fair value is DKK 180m (2018: DKK 275m).

NOTES

Note

24/ Currency risk

Currency risk is the risk that the value of a financial instrument fluctuates due to changes in foreign exchange rates.

IFU is exposed to currency risk through its investments that are denominated in currencies other than the functional currency (DKK). It is IFU's general policy to hedge foreign exchange exposures originated from project loans in other currencies than EUR, when the principal of the loan is greater than the equivalent of USD 1m, and internal credit rating is above a certain threshold.

IFU does not hedge local currency exposure in share capital investments, as costs are typically very high and by way of operation investments may have a natural built-in hedge, e.g. export-oriented businesses. IFU does not hedge commitments to disburse either, as timing and amounts are often difficult to foresee.

IFU primarily uses cross currency swaps to hedge the exposure towards changes in foreign exchange rates on project loans. As exchange rate adjustments of the hedged item and fair value adjustments of the derivative financial instruments are recognised in the income statement, hedge accounting in accordance with IFRS 9 is not applied.

Currency exposure and sensitivity

The following table indicates the currencies to which IFU had significant exposure as of 31 December on its financial assets and liabilities excluding share capital investments. The analysis calculates the effect of a reasonably likely movement of the currency rate against DKK on profit or loss with all other variables held constant. There is no sensitivity effect on equity as IFU has no assets classified as available-for-sale or designated hedging instruments.

2019

DKK 1,000	Project loans	Interest receivables	Other project-related receivables	Hedged	Provision for losses Guarantees and loan commitments	Other project-related debt	Net exposure	Increase in foreign exchange rates	Effects on profit or loss
USD	377,111	16,078	784	(216,054)	(1,053)	(389)	176,477	10%	17,648
EUR	357,463	14,895	1,182	0	(542)	0	372,998	1%	3,730
INR	48,467	0	102	0	0	0	48,569	10%	4,857
DKK	153,442	7,080	13,542	216,054	(266)	(263)	389,589	N/A	0
Other	0	0	83	0	0	(155)	(72)	10%	7
Total	**936,483**	**38,053**	**15,693**	**0**	**(1,861)**	**(807)**	**987,561**		

2018

DKK 1,000	Project loans	Interest receivables	Other project-related receivables	Hedged	Provision for losses Guarantees and loan commitments	Other project-related debt	Net exposure	Increase in foreign exchange rates	Effects on profit or loss
USD	336,983	12,039	2,413	(236,659)	(1,832)	0	112,944	10%	11,294
EUR	402,434	13,318	918	0	(448)	0	416,222	1%	4,162
DKK	168,481	5,033	11,140	236,659	(573)	(2,251)	418,489	N/A	0
Other	21,206	1,202	570	0	(80)	(39)	22,859	10%	2,286
Total	**929,104**	**31,592**	**15,041**	**0**	**(2,933)**	**(2,290)**	**970,514**		

NOTES

Note

25/ Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Most of IFU's investments in project loans carry variable interbank interest rates, thus changes in interest rates will mainly affect future cash flows and income.

Interest rate exposure and sensitivity

The annual effect of changes in the interest rate only affects the fair value of fixed rate loans. For variable rates loans, the effect on profit and loss will be a change in the interest payments for the coming year.
The annual effect of an increase in the interest rate of 100 basis points is shown in the table below for fixed and variable interest rate loans.

2019					
DKK 1,000	Project loans	SWAP	Net exposure	Increase in interest rates	Effect on profit or loss
Fixed	269,795	(27,571)	242,224	100 bp	0
Variable	666,688	27,571	694,259	100 bp	6,943
Total	**936,483**	**0**	**936,483**		

2018					
DKK 1,000	Project loans	SWAP	Net exposure	Increase in interest rates	Effect on profit or loss
Fixed	233,688	(10,234)	223,454	100 bp	0
Variable	695,416	10,234	705,650	100 bp	7,057
Total	**929,104**	**0**	**929,104**		

26/ Liquidity risk

Liquidity risk is defined as the risk that IFU will encounter difficulty in meeting financial obligations.

IFU has no external funding and is equity financed except for current liabilities comprised of administrative debt and negative fair value of derivative financial instruments.
IFU's primary exposure to liquidity risk arises from commitments to disburse share capital investments and project loans. To meet these and other obligations, IFU, apart from capital contributions net of dividends, relies on a continuous positive cash flow from interest and repayments on project loans as well as dividends and sales of share capital investments to meet its obligations. It is IFU's policy to maintain a positive cash position. A DKK 300 million credit facility shared with IØ is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, DKK 270 million was available for drawing. Furthermore, IFU has access to loan financing of DKK 800m from Danmarks Nationalbank. At the end of 2019 DKK 150 was drawn on this lending line. Finally, IFU entered into a EUR 50m loan facility with the Nordic Investment Bank for refinancing of larger loan engagements fulfilling NIB's mandate. No drawings had been made on this facility at end of 2019. Including the credit facility, the lending line at the national bank and the loan facility with the Nordic Investment Bank, total liquidity ressources available to IFU amount to DKK 1.839m at year-end 2019.

NOTES

Note

Contractual maturities

The contractual maturities based on undiscounted contractual cash flows are shown below for financial assets, liabilities, guarantees and commitments.

2019							
DKK 1,000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	936,483	1,053,112	48,615	184,808	513,467	306,222	0
Interest receivable related to projects	38,053	66,822	66,822	0	0	0	0
Other receivables	29,829	31,459	6,913	13,114	8,794	0	2,638
Derivatives	1,545	1,545	0	426	1,056	63	0
Cash and cash equivalents	545,425	545,425	(27,751)	313,000	260,176	0	0
Total assets	**1,551,335**	**1,698,363**	**94,599**	**511,348**	**783,493**	**306,285**	**2,638**
Liabilities							
Derivatives	7,852	7,852	0	1,969	4,765	1,118	0
Other current liabilities	67,782	67,782	0	67,782	0	0	0
Loan from Danmarks Nationalbank	149,468	141,661	0	0	0	141,661	0
Drawn on bank credit facilities	27,870	27,870	0	27,870	0	0	0
Total liabilities	**252,972**	**245,165**	**0**	**97,621**	**4,765**	**142,779**	**0**
Off-balance							
Guarantees		32,791	0	0	0	0	32,791
Amounts payable on share capital and loan agreements		2,944,049	2,944,049	0	0	0	0
Binding commitments		459,746	0	459,746	0	0	0
Total off-balance		**3,436,586**	**2,944,049**	**459,746**	**0**	**0**	**32,791**

NOTES

Note

2018							
DKK 1,000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	929,104	1,002,037	43,289	301,065	492,311	165,372	0
Interest receivable related to projects	31,592	51,839	51,839	0	0	0	0
Other receivables	42,788	44,418	5,941	31,777	3,848	0	2,852
Derivatives	5,144	5,144	0	1,418	3,516	210	0
Cash and cash equivalents	578,718	578,718	84,500	313,000	181,218	0	0
Total assets	**1,587,346**	**1,682,156**	**185,569**	**647,260**	**680,893**	**165,582**	**2,852**
Liabilities							
Derivatives	9,342	9,343	0	2,343	5,669	1,331	0
Other current liabilities	115,182	115,182	0	115,182	0	0	0
Drawn on bank credit facilities	41,088	41,088	0	41,088	0	0	0
Total liabilities	**165,612**	**165,613**	**0**	**158,613**	**5,669**	**1,331**	**0**
Off-balance							
Guarantees		51,897	0	0	0	0	51,897
Amounts payable on share capital and loan agreements		3,593,093	3,593,093	0	0	0	0
Binding commitments		765,442	0	765,442	0	0	0
Total off-balance		**4,410,432**	**3,593,093**	**765,442**	**0**	**0**	**51,897**

NOTES

Note

27/ Classification of financial instruments

The following table provides a reconciliation between line items in the balance sheet and categories of financial instruments.

2019				
DKK 1,000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Other liabilities at amortised cost	Total
Financial assets				
Share capital investment in projects	2,859,251	0	0	2,859,251
Project loans	0	936,483	0	936,483
Interest receivable related to projects	0	38,053	0	38,053
Other receivables	10,410	19,419	0	29,829
Derivatives	1,545	0	0	1,545
Bonds	260,176	0	0	260,176
Cash and cash equivalents	0	257,379	0	257,379
Total financial assets	**3,131,382**	**1,251,334**	**0**	**4,382,716**
Financial liabilities				
Current liabilities:				
Derivatives	7,852	0	0	7,852
Other current liabilities	0	0	67,782	67,782
Long-term debt	0	0	149,468	149,468
Total financial liabilities	**7,852**	**0**	**217,250**	**225,102**

2018				
DKK 1,000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Other liabilities at amortised cost	Total
Financial assets				
Share capital investment in projects	2,376,715	0	0	2,376,715
Project loans	0	929,104	0	929,104
Interest receivable related to projects	0	31,592	0	31,592
Other receivables	10,800	31,988	0	42,788
Derivatives	5,144	0	0	5,144
Bonds	181,218	0	0	181,218
Cash and cash equivalents	0	356,412	0	356,412
Total financial assets	**2,573,877**	**1,349,096**	**0**	**3,922,973**
Financial liabilities				
Current liabilities:				
Derivatives	9,342	0	0	9,342
Other current liabilities	0	0	115,182	115,182
Total financial liabilities	**9,342**	**0**	**115,182**	**124,524**

NOTES

Note

The carrying amount of project loans with fixed interest terms amounts to DKK 270m (2018: 227m). The fair value of these project loans amounts to DKK 286m (2018: DKK 235m) measured as the net present value of the future cash flow. The inputs used to measure the fair value for project loans are all level 2 inputs in the fair value hierarchy, for more information see disclosure on fair value measurement, note 28. For other loans and receivables and other liabilities the carrying amount is measured at amortised cost a reasonable approximation of fair value.

28/ Fair value measurement basis

The calculation of fair value is based on a fair value hierarchy that reflects the level of judgement associated with the inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3 inputs are unobservable inputs that have been applied in valuing the respective assets or liabilities.
- In the following sections a short description of the overall principle for IFU's calculation of fair value is provided. 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:

1) Current and expected operational results of the project company
2) Risk of remittance, if any
3) Specific circumstances relating to the partners, project, country, region and/or sector
4) Current market conditions
5) Tax issues

Share capital investments

Most of IFU's fair value estimates are based on unobservable market data (level 3).
Indirect investments through financial intermediaries (funds) where the underlying investments are valued according to a fair value principle will be valued at net assets value according to the most recent financial statement received by IFU. Financial intermediaries include own managed funds, loan funds, (externally managed) funds where IFU has a managerial role and externally managed private equity funds. For own managed funds, IFU has made the fair value assessment of the indirect investments following the same principles as described here.

Direct investments are valued as follows:

- In the initial phase all investments are valued at cost price less any impairment adjustment, as this is deemed to provide a good indication of fair value. Hereafter investments will be valued at 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. For direct investments in financial institutions, book value of equity is applied in cases where it reflects fair value. For smaller investments, see below.
- If during the 12-month period prior to the reporting date IFU has received a binding offer in writing from a third party, or a significant transaction has taken place, the shares will normally be valued based on the offer or the recent transaction.

NOTES

Note

The following general assumptions are applied when performing DCF or earnings multiple calculations:

- For DCF calculations, budgets and forecasts for the investments form the basis for the valuation.
- A weighted average cost of capital based on the cost of equity and the cost of debt weighted by the targeted financial leverage from the industry. Growth in terminal period is based on the estimated long-term inflation rate of the country.
- An illiquidity discount is applied and other specific adjustments may be applied where relevant for both DCF and earnings multiple calculations.

Valuing private investments in developing countries at fair values involves a large inherent uncertainty. Due to these uncertainties, a degree of caution is applied when exercising judgements and making the necessary estimates. For smaller investments (cost price or book value of equity below DKK 25m) uncertainties are deemed to be even higher and therefore these will be valued at book value of equity to reflect IFU's share of earnings in the companies. These investments constitute a minor part of IFU's portfolio.

Some share capital investments include a pre-agreed exit agreement. In these cases the value of the exit agreements is taken into consideration as part of the fair value calculation. Investments valued according to exit agreements are in the table below disclosed together with investments valued based on a recent binding offer or transaction.

NOTES

Note

Fair value measurements and reconciliation

The following table shows financial instruments recognised at fair value by level in the fair value hierarchy and a reconciliation of all movements in the fair value of items categorised within level 3.

2019				
DKK 1,000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	20,935	0	2,355,780	2,376,715
Total gains/losses for the period included in profit or loss [1]	1,609	0	(15,622)	(14,013)
Paid-in share capital in projects	89,498	0	494,488	583,986
Proceeds from divestment of shares	0	0	(87,437)	(87,437)
Closing balance	**112,042**	**0**	**2,747,209**	**2,859,251**
Other receivables				
Opening balance	0	10,800	0	10,800
Closing balance	0	10,410	0	10,410
Derivative financial instruments (Assets)				
Opening balance	0	5,144	0	5,144
Closing balance	0	1,545	0	1,545
Derivative financial instruments (Liabilities)				
Opening balance	0	9,342	0	9,342
Closing balance	0	7,852	0	7,852
Total recurring fair value measurements	**112,042**	**19,807**	**2,747,209**	**2,879,058**

NOTES

Note

2018				
DKK 1,000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	4,213	0	2,012,402	2,016,615
Transfers into the level	0	0	15,678	15,678
Total gains/ losses for the period included in profit or loss [1]	(15,016)	0	(206,850)	(221,866)
Paid-in share capital in projects	31,738	0	550,336	582,074
Proceeds from divestment of shares	0	0	(15,786)	(15,786)
Closing balance	**20,935**	**0**	**2,355,780**	**2,376,715**
Other receivables				
Opening balance	0	82,154	0	82,154
Closing balance	0	10,800	0	10,800
Derivative financial instruments (Assets)				
Opening balance	0	17,451	0	17,451
Closing balance	0	5,144	0	5,144
Derivative financial instruments (Liabilities)				
Opening balance	0	8,057	0	8,057
Closing balance	0	9,342	0	9,342
Total recurring fair value measurements	**20,935**	**25,286**	**2,355,780**	**2,402,001**

1) Recognised in Contribution from share capital investments.
Hereof DKK (37)m (2018: DKK (189)m) is attributable to assets held at 31 December for level 3.

NOTES

Note

Valuation techniques and unobservable inputs used measuring fair value of level 3 fair value measurements.

2019

DKK 1,000 Type of investment	Fair value at 31/12/2019	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Indirect investments through financial intermediaries					
Own managed funds, loan funds and funds where IFU has a managerial role	921,200	Net assets value			
Externally managed funds	751,148	Net assets value			
Direct investments	371,190	Cost			
	148,244	Binding offers/transaction/ exit terms			
	126,756	Book value of equity			
	252,585	Discounted Cash Flow	WACC	+ 10%	(33,281)
			Growth in terminal value	- 20%	(6,661)
	125,996	Multiple valuation	EV/EBITDA	- 10%	(6,698)
			Price/Book	- 10%	(6,902)
	50,090	Book value of equity (small investments)			
Share capital investments	**2,747,209**				

2018

DKK 1,000 Type of investment	Fair value at 31/12/2018	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Indirect investments through financial intermediaries					
Own managed funds, loan funds and funds where IFU has a managerial role	656,896	Net assets value			
Externally managed funds	716,518	Net assets value			
Direct investments	228,255	Cost			
	223,712	Binding offers/transaction/ exit terms			
	128,785	Book value of equity			
	257,899	Discounted Cash Flow	WACC	+ 10%	(25,703)
			Growth in terminal value	- 20%	(3,870)
	52,326	Multiple valuation	EV/EBITDA	- 10%	(5,887)
	91,389	Book value of equity (small investments)			
Share capital investments	**2,355,780**				

TOTAL CAPITAL UNDER MANAGEMENT IS DKK 11.2 BILLION

MANAGEMENT

BOARD OF DIRECTORS

The Danish minister for development cooperation appoints the chairman, the deputy chairman and the other members of the board of directors for three-year terms, according to Section 9 of the Danish Act on International Development Cooperation. Each appointment is personal. The current three-year term ends on 31 July 2021.

Since 1 January 2013, an observer from the Ministry of Foreign Affairs has been appointed to IFU's board of directors.

The board of directors usually convenes six to eight times a year. On the recommendation of the executive management, it makes decisions about investments and key issues.

It is noted that the chairman and deputy chairman have both been members of the board for more than 12 years and as such cannot be considered independent in accordance with the recommendations by the Danish Committee on Corporate Governance.

Further it is noted that IFU in 2019 had business transactions with Nykredit Bank A/S (part of the Nykredit group, in which the chairman is CEO) and Royal Danish Fish Group A/S, in which board member Jens Jørgen Kollerup is a board member, and was a shareholder in Kjær Group A/S, which is majority-owned by board member Mads Kjær.

The rules of procedure for the board contain detailed rules regarding conflict of interest – as well as a reference to the conflict of interest rules in the Danish Public Administrations Act, which the board is subject to – and the above-mentioned business transactions are not considered to be of a nature as to impair the general independence of the board members. ▪

MICHAEL RASMUSSEN
Chairman, board member since 2000.
CEO, Nykredit.
Other board memberships: Nykredit Bank A/S (chairman), Totalkredit A/S (chairman), Finance Denmark (chairman), Copenhagen Business School (deputy chairman), Sparinvest Holding SE (chairman).

LARS ANDERSEN
Deputy Chairman, board member since 1994.
Managing Director, The Economic Council of the Labour Movement.
Other board memberships: Industripension Holding A/S, Industriens Pensionsforsikring A/S, Arbejdernes Landsbank A/S.

JENS JØRGEN KOLLERUP
Board member since 2009.
Managing Director, Ormholt A/S.
Other board memberships:
Arctic Group A/S, Vermund Larsen A/S (chairman),
Royal Danish Fish Group A/S.

BJARNE H. SØRENSEN
Board member since 2012.
Ambassador (retired).

MADS KJÆR
Board member since 2015.
Managing Director, Kjaer Group A/S.
Other board memberships:
Kjaer Group A/S, Udsyn A/S,
Ejendomsselskabet Svendborg ApS

CHARLOTTE JEPSEN
Board member since 2017.
Managing Director, FSR – Danish Auditors.
Other board memberships:
Plan Børnefonden, Pantebrevselskabet Boligkredit A/S,
Groupcare A/S.

ANNE BROENG
Board member since 2019.
Professional board member.
Other board memberships: Velliv (chairman), NNIT A/S,
VKR Holding A/S, Velux A/S, ATP, Aquaporin A/S, NASDAQ Nordic
OY og Rodinia aps.

SIGNE SKOVBAKKE WINDING ALBJERG
Board observer since 2020.
Head of Department, Ministry of Foreign Affairs.

EXECUTIVE MANAGEMENT

The Danish minister for development cooperation appoints the CEO.

TORBEN HUSS
CEO
Board memberships: Nordic Microfinance Initiative.

LARS KROGSGAARD
CIO
Board memberships: ViroGates A/S, Samplix ApS, DCR Solutions A/S.

STAFF

Staff - See www.ifu.dk - click here

GLOBAL PRESENCE

INVESTMENT FUND FOR DEVELOPING COUNTRIES

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IFU HAS OFFICES ABROAD, COVERING AFRICA, ASIA, LATIN AMERICA AND EUROPE

INVESTMENT FUND FOR
DEVELOPING COUNTRIES

Cover photo from global platform JCM Power wind project Hawa in Pakistan.
Other photos by Ernst Tobisch, IFU and project companies.

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