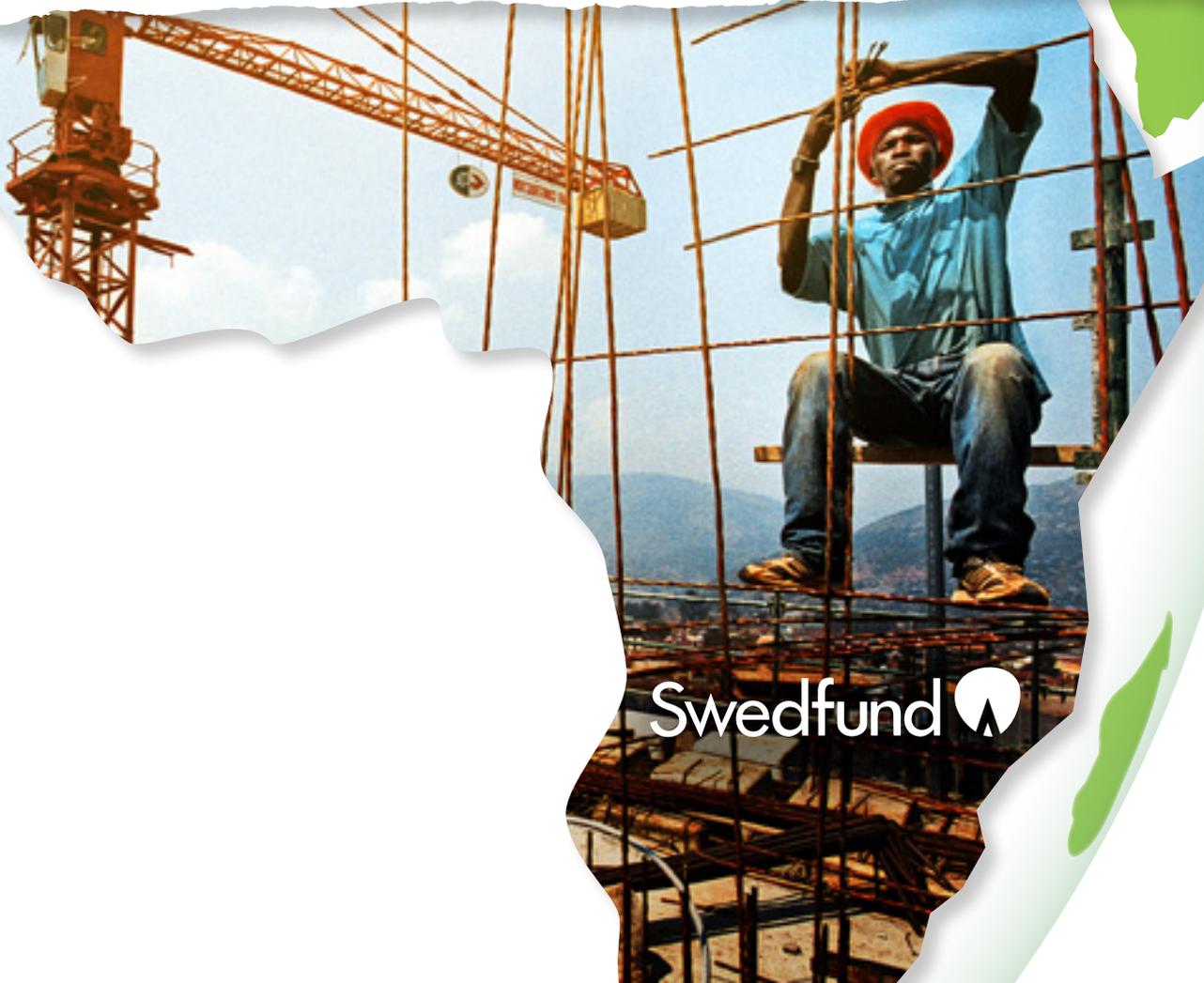




**POVERTY REDUCTION THROUGH**

# **SUSTAINABLE BUSINESS**

**SWEDFUND'S SUSTAINABILITY- AND ANNUAL REPORT 2012**



Swedfund 

# SWEDFUND 2012

**33** COUNTRIES IN WHICH SWEDFUND HAS PORTFOLIO COMPANIES

**90** INVESTMENTS IN THE BEGINNING OF THE YEAR

**9** NEW INVESTMENTS

**8** COMPLETED INVESTMENTS

**91** INVESTMENTS AT THE END OF THE YEAR



Signatory of:



PRODUCTION: SWEDFUND AND GLOBAL REPORTING 2013.

TEXT: SWEDFUND AND DAVID ISAKSSON/GLOBAL REPORTING. GRAPHIC DESIGN: LISA JANSSON/GLOBAL REPORTING.

COVER PHOTO: SVEN TORFINN/PANOS PICTURES.

PRINTED BY MODIN TRYCKOFFSET 2013.

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# SWEDFUND 2.0 – POVERTY REDUCTION THROUGH SUSTAINABLE BUSINESS

**A** new Swedfund is taking shape. During the year the new Board of Directors has clarified Swedfund's mission and role as a Development Finance Institution (DFI), and set out the strategy for the company. Private sector development, sustainability and financial viability are the cornerstones of the new Swedfund. By investing in sustainable, financially viable companies, among others, manufacturing and energy, Swedfund contributes to creating new job opportunities, increasing tax revenues and transferring knowledge and new technologies, thus contributing to positive social development in many poor countries. We firmly believe that this is the key to creating opportunities that improve the quality of life for poor people.

Swedfund's investments are a part of Swedish development cooperation; just one of its many instruments. We do not conduct our business isolated from the others. Nor is there only one solution to the poverty issue. On the contrary, many different interventions are required. Collaboration between the various actors is a prerequisite in achieving the goals of Swedish development cooperation. Civil society organisations are necessary, as are the development funds channelled through the Swedish International Development Cooperation Agency (Sida) and multilateral organisations. Entrepreneurship and business development are equally important.

Collaboration with other Development Finance Institutions has been strengthened during the year and we have stepped up our participation in EDFI (European Development Finance Institutions) and participated in several joint poverty reduction investments. We monitor and analyse emerging and developing markets, and publish findings in our newsletter

*Ekonomisk Utveckling* (only in Swedish) in which we issued three economic outlooks during the last year. Our investment portfolio included 91 (90) investments at the end of the year. The value of the portfolio before write-downs totalled SEK 2.7 (2.6)<sup>1</sup> billion. Thirteen of the investments are joint financing within the framework of European Financing Partners (EFP). Four of the investments are joint investments within the framework of *Interact Climate Change Facility*. During the year we participated in 9 (7) new investments and exited 8 (10). The contribution of our portfolio companies is vital to the development of the private sector, particularly through job creation in the respective countries, and we in Swedfund continue to develop our ESG expertise in order to help companies grow in a sustainable way for as long as possible. Despite the generally positive picture, the result for the year was negative. The main reason lies in some investments, mainly Vietstar and Raffia, that have made a negative impact on our result due to write-downs. This means that in the coming years the company will be unable to achieve the long-term financial objectives (although some years generate a positive financial result), something which I made clear in my introduction to the 2011 Sustainability and Annual report.

However, looking at the long-term results, I am optimistic, especially in light of the developments now taking place in sub-Saharan Africa. The private sector in sub-Saharan Africa is attracting increasingly more investments and a greater share of the capital now comes from domestic banks and investors. Despite foreign investment capital having increased over the past decade, the levels are nonetheless still low compared to, for example, the BRIC countries (Brazil,

Russia, India, China). One likely explanation is that companies and investors still see sub-Saharan Africa as a very difficult and inaccessible region. All too often the region is seen as a single country, not as a region with roughly fifty countries. It is important that we can pass on the knowledge about the opportunities that exist in many sectors in order to get more companies to invest in the region.

The challenges are huge. The International Finance Corporation's (IFC) *Jobs Study* shows that in the coming decades, 600 million new jobs will be needed, most of which will have to be created in Africa and Asia while remaining at current levels of unemployment. Nine out of ten jobs are in the private sector and 66 per cent of all jobs are in small and medium-sized enterprises.

Generally, the trend is clear. The region south of the Sahara is heading towards an economic "take-off". However, there are a number of challenges that the countries must overcome to get where China and India are today. Above all, the countries must reduce their dependency on extractive industries and instead diversify their production structure. To diversify their economies, human capital must be developed and services improved, and they have to tackle the issue of corruption.

Africa is no longer a hopeless continent. Behind armed conflicts, democracy and poverty issues lies a continent with vast amounts of natural resources and a middleclass that is already bigger than in India. If you want to get involved and influence developments, contacting Swedfund is a good first step. We are increasing our geographical presence towards countries south of the Sahara. With our many years' experience of investments and entrepreneurship in Africa, we are very well placed to help business partners in the region.

Our role as a Development Finance Institution (DFI) makes us additional. We can participate in investments that otherwise would not have taken place. Thereby, we are able to make a difference and contribute to more and better investments in developing countries by taking on higher risks and costs than most private investors would. By demonstrating that it is possible to make profitable investments in poor countries, Swedfund can serve as a catalyst for others. To make sustainable poverty reduction possible, the private sector has to develop. Our mission is to contribute to this.

The goal of turning Swedfund from an organisation



PHOTO: SWEDFUND

with professional staff into a professional organisation with clear mechanisms and quality assurances has been set. We are undergoing change to improve our mechanisms, procedures and quality assurance in line with our defined policies.

I am happy to confirm Swedfund's support to the *UN Principles for Responsible Investment* and the ten principles of the *UN Global Compact* with regard to human rights, fundamental labour rights, environment and anti-corruption. In this, our first *Communication on Progress*, we describe how we are integrating Global Compact's ten principles in our strategy, culture and daily operations. It is important for us to share information with our stakeholders in this way and to intensify the ongoing dialogue.

In our evaluations we prioritise investing in projects that have the potential for significant development impact. By engaging in corporate governance and environmental and social issues, we are not only contributing to the development of the company, but also to private sector development and poverty reduction.

Stockholm, March 2013

A handwritten signature in blue ink, appearing to read "Anders Craft". The signature is fluid and cursive, written over a white rectangular background.

Anders Craft

Acting Managing Director



PHOTO: JACOB SILBERBERG/PANOS PICTURES



PHOTO: JULIA BJÖRNEGLOBAL REPORTING

# A DAY IN THE GLOBAL MARKET



LIMA



CAPE TOWN



NAIROBI



NEW DELHI



BEIJING



PHOTO: ABBIE TRAVLER-SMITH / PANOS PICTURES



PHOTO: JOHAN RESELE/GLOBAL REPORTING



PHOTO: ISTOCK



PHOTOS: SWEDFUND



PHOTO: KENNA LOVE/GETTY IMAGES



PHOTO: ABBIE TRAYLER-SMITH/PANOS PICTURES



PHOTO: LOUNGPARK/GETTY IMAGES

# SWEDFUND – A DEVELOPMENT FINANCE INSTITUTION (DFI)

## Mission

Swedfund's mission is to contribute to poverty reduction through sustainable business. The company's role as a Development Finance Institution focuses on development of the private sector in low and middle-income countries, particularly countries south of the Sahara. Low-income and post-conflict countries are a priority. The goal of the company mirrors the goal of Swedish international development cooperation in helping to create opportunities to improve the quality of life for poor people and to restructure the cooperation process with Eastern Europe in order to bolster democracy and fair and sustainable development, thus bringing Eastern European countries closer to the European Union and its fundamental values.

As a responsible, long-term investor, we are helping to create and develop viable and sustainable businesses in low and middle-income countries. This has positive effects on society as a whole and contributes to improved living conditions for poor people. We contribute to sustainable entrepreneurship by:

- Providing risk capital in countries where commercial actors regard the risk (real or perceived) as being too high and/or where there is no financial infrastructure.
- Contributing with our comprehensive know-how of running a business in difficult markets in which we actively participate, to develop our portfolio companies' best practices in areas such as financial management and reporting, environment, human rights, working conditions, anti-corruption, business ethics, gender equality and diversity.

The mission of poverty reduction through sustainable business therefore rests on three pillars: Private Sector Development, Sustainability and Financial Viability. These pillars represent the conditions that have to be fulfilled for Swedfund to be a partner in an investment. These conditions exist in order to achieve satisfactory results in these areas and are an absolute and non-

exchangeable requirement. Our model of, and approach to, sustainable business is detailed in the adjacent figure.

**Private Sector Development** partly consists of the effects that our investments have on the development of a country's private sector and partly on the impact on the society as a whole. Private sector development is in areas such as the provision of better and cheaper products and services, increased competition and the transfer of knowledge and technologies. The knock-on effects in a broader, socioeconomic sense include job opportunities and an increase in tax revenues for the country. These effects can be of a direct or indirect nature. For example, jobs can be created directly in the company in which we invest, alternatively, indirectly through increased needs in supply and distribution chains. We assess our company's contribution to private sector development by forecasting the expected development results prior to engaging in the investment. We then measure the development results throughout our engagement as owners or lenders to the company (management phase), and we conduct a final review at the exit of the investment.

*Our most important performance indicators for private sector development are:*

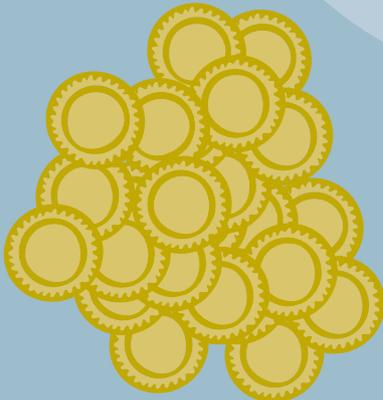
- Job creation
- Taxes
- Transfer of knowledge and capacity building

**Sustainability** describes the investor's social and environmental actions along with issues relating to corporate governance and ethics. We also use the term ESG (Environment, Social, Governance). Swedfund focuses on these issues in order to help develop sustainable and responsible operations within a portfolio company. Sustainability is also assessed in the evaluation of the company. The environment part could relate to minimising the climate impact or

**PRIVATE SECTOR DEVELOPMENT**



**POVERTY REDUCTION  
THROUGH  
SUSTAINABLE  
BUSINESS**



**FINANCIAL VIABILITY**



**SUSTAINABILITY**

The picture above illustrates how different stakeholders benefit from the value we create through our investment activities, i.e., the overall development impact.

introducing environmental management systems. Social issues would include matters such as labour rights or training activities. Corporate governance covers issues such as ethics or transparency. In our company, we pursue proactive sustainability efforts through contract formulation, ongoing activities with the Board, ESG audits and advocacy dialogue. As an investor, Swedfund also complies with international guidelines laid down by the UN and OECD, and develops policies that comply with these guidelines.

*Our most important sustainability parameters are:*

- Environment
- Working conditions
- Business ethics and anti-corruption

**Financial Viability** is a company's estimated and actual ability to be financially sustainable and successful. Profitability is essential for a business to survive and be able to contribute to a country's long-term development by fulfilling its role as a credible producer in a market, through job creation and by paying taxes, etcetera. Swedfund evaluates potential investments by analysing the company's financial and commercial projections. In addition, we require regular financial reporting from our portfolio companies and have a close dialogue with company management and other investors in order to monitor the company's development and identify potential issues early in the process.

*Our most important financial viability parameters are:*

- Growth
- Corporate governance
- Profitability
- Return

## **Need for Investment and Swedfund's Role**

Swedfund's investments complement the work carried out by other Swedish development cooperation actors. Our development finance offer is a way of stimulating companies to overcome the higher risk involved in investing in the most challenging markets. The role of businesses and the participation of the private sector is all about mobilising their knowledge, innovation and resources. Risk capital plays a vital role in this process; companies that pay tax, develop infrastructure and provide jobs lay the foundations for increased prosperity. Private sector growth is therefore crucial for development in many of the world's poorest countries.

The lack of long-term risk capital, particularly

equity capital, limits the growth of the private sector in developing and transition economies. Complex regulations increase the risks associated with investments. Common challenges include the lack of technology, experience and fluctuating levels of governance and transparency. These factors contribute to increased interest rates and lending volume decreases, which in turn leads to higher costs that limit private sector growth.

As minority investors, Swedfund and its partners provide capital to companies that would otherwise not have had the possibility to invest and grow. Our investments also demonstrate an investee's financial viability, thus paving the way for other investors and banks to see an opportunity to finance a company with the potential to develop. By demonstrating that it is possible to succeed as an investor in developing countries and emerging markets, Swedfund and other DFIs can attract new actors and increase competition, thus stimulating renewal and efficiency. By providing the financing and expertise required, and asked for, by our portfolio companies which they have difficulties getting, Swedfund stimulates the establishment of new companies and the expansion of existing companies.

Our portfolio companies contribute to a higher standard of living for poor people by creating job opportunities, increasing income, stimulating the trade of better quality and cheaper goods and services, and through technology and competence creation. This indirectly helps to develop the industrial sectors and the supply and distribution chains while creating competition and a sound business environment. In this way the companies contribute to developing the countries they operate in through an increased tax base.

Swedfund has been promoting entrepreneurship in emerging markets and contributing to the advancement of well-managed companies for more than 30 years. These portfolio companies show that it is possible to make investments that are both profitable and sustainable while creating opportunities for poor people to improve their standard of living.

## **Swedfund's capital base**

Since its establishment in 1979, Swedfund has made 240 investments with an overall value of over SEK 5 billion. Today we have 91 investments in 33 countries and SEK 2.7 billion in assets (recorded value before write-downs including contracted undisbursed commitments).

Sweden's total development aid budget for 2013 totals roughly SEK 38.2 billion. This is equivalent to

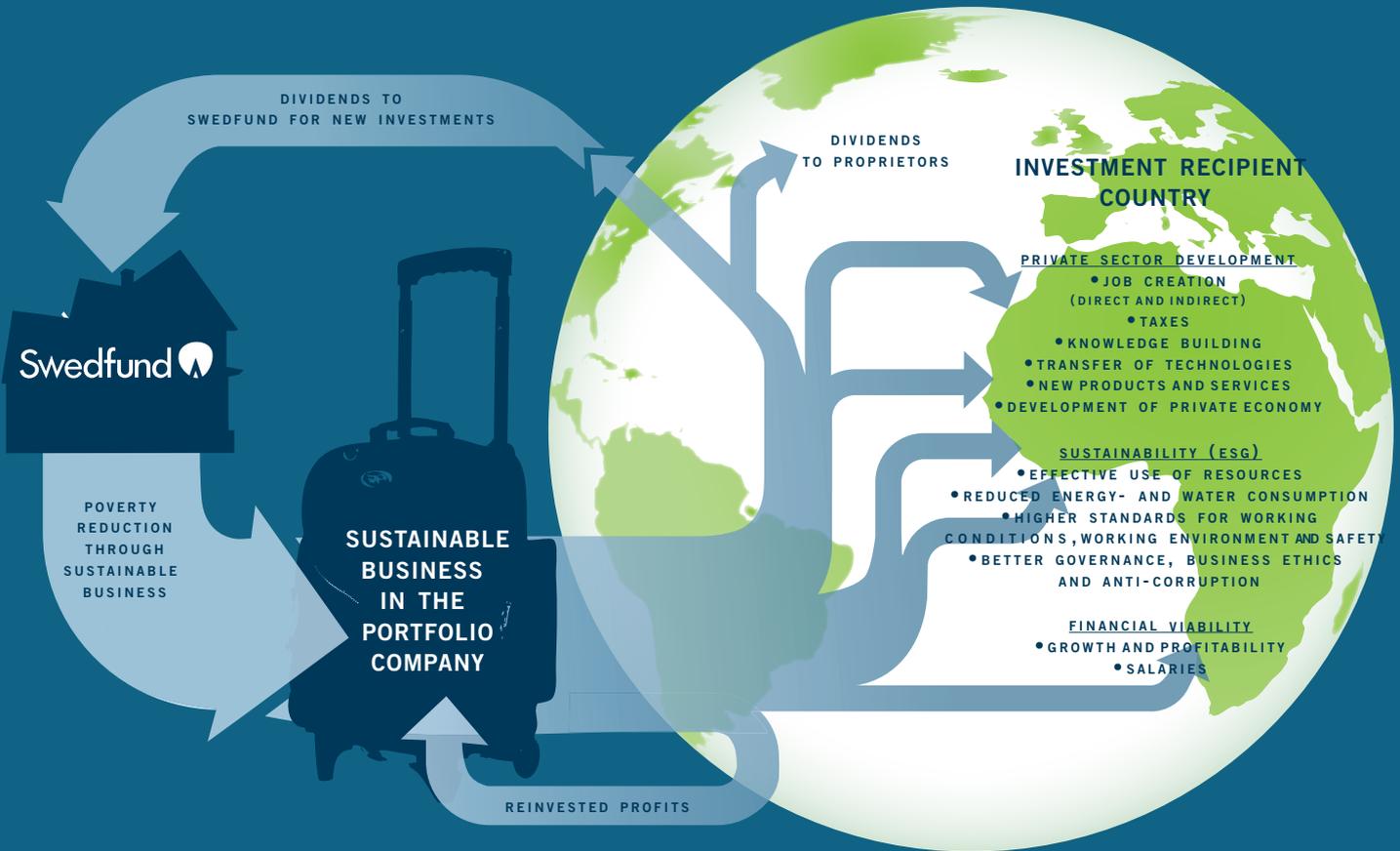


ILLUSTRATION: HELENA SHUTRICK

Swedfund's investment activities complement the work undertaken by other Swedish development assistance organizations. Our participation mitigates the overall risk faced by private-sector companies investing in the most challenging developing countries. Meanwhile, the participation of private-sector companies mobilizes additional resources for the developing countries, in the form of both financial capital and knowledge transfer.

## IFC Jobs Study

On 14 January 2013, Swedfund and 27 other Development Finance Institutions signed a declaration that emphasises the importance of creating more and better job opportunities in developing countries. The basis for the declaration was the IFC Jobs Study – Assessing private sector contributions to job creation and poverty reduction. This study shows that:

- 600 million new jobs must be created, chiefly in Africa and Asia, just to retain current levels of unemployment.
- Nine out of ten jobs come from the private sector
- 66 per cent of all jobs come from small or medium-sized enterprises (SMEs)

### **The study draws a number of conclusions about how and where jobs are created:**

- Investment climate, infrastructure, access to financing and level of education are crucial factors in developing countries
- Indirect job opportunities, primarily in the supply and distribution systems, are more often created in connection with new investments compared with those created directly in the invested company.
- Smaller companies exhibit a higher growth of new jobs, while larger enterprises are more productive, invest more in education and pay higher wages

- Higher productivity allows for more new jobs and contributes to poverty reduction
- There is a need for a specific focus on women and youth, since these groups find it difficult access the labour market and often get employment in the informal sector.

### **In the declaration, the Development Finance Institutions stated that they have an important role by:**

- Working for a better investment climate and more jobs in the formal sector
- Improving infrastructure by fostering the private sector
- Increasing access to funding, especially for SMEs
- Urging the private sector to collaborate with the education system and offer internal capacity building and training within the portfolio company.
- Working in portfolio companies to strengthen the supply system, distribution networks and productivity.
- Striving to promote the most vulnerable groups such as women, youth and the poor.

one per cent of Sweden's gross national income (GNI). Of that amount, approximately one per cent will be allocated to Swedfund during 2013. In the 2012 budget draft (version 2011/12:1, category 7, section 3.7), the government announced a contribution of capital to Swedfund of a minimum SEK 1,200 million for the 2012-14 period, of which SEK 400 million for the years 2012 and 2013 have been approved by parliament. The proposal in the 2012 budget draft for a three-year capital injection further strengthens Swedfund's contribution to global development and the fulfilment of international development cooperation goals.

With the proposed capital contribution of SEK 1,200 million during the 2012–14 three-year period, Swedfund's annual investment volume is expected to total around SEK 600 million per annum.

## Swedfund's governance

As shown in the budget proposal for 2013 (Version, 2012/13:1), the Government believes that Swedfund is an effective instrument in supporting the emergence of viable companies, which, in addition to creating jobs,

contribute to an expanded tax base, skills enhancement and the development of local markets. At the same time, Swedfund's field of operation – business and development in the poorest countries – is complex, and is characterised by difficult decisions, both business- and those related to taking responsibility for social and environmental issues.

Swedfund's corporate governance was further strengthened through the adoption of new ownership guidelines during the 2012 Annual Meeting. The new ownership guidelines (available in its entirety in the Appendix 1 on page 89) further clarifies i.a. our development policy mandate by putting additional focus on the poorest and most vulnerable countries. Moreover, clearer requirements for transparency and for conducting business in accordance with international norms and principles have been set. Following the review that previously put restrictions on making certain fund investments, the annual meeting drew up new guidelines for fund investments both direct, and through a third country. Thus, Swedfund is again able to make fund investments through a third country. Learn more on page 28.

# Africa – an emerging market!

**F**or a very long time Africa was mostly associated with famine and poverty. Today, however, we read more and more about fast economic growth while at the same time violence and conflicts continue. So, what is really “true” about Africa? First of all, one should avoid talking about Africa as one single market. The difference between Algeria in northern Africa and Botswana in Southern Africa is enormous. Equally great are also discrepancies within the same region, for example, in West Africa where Ghana is developing rapidly, while neighbouring Mali is torn apart by civil war.

Swedfund’s new investments in Africa focus on the sub-Saharan region where several countries are undergoing rapid economic growth despite the serious challenges posed by the global financial crisis. According to the latest IMF forecasts, by the year 2017, six of the fastest growing countries in the world are to be found in the sub-Saharan region. The average growth rate in the region is expected to reach 5.5 per cent per year. These countries’ economies are now transforming at an increasingly faster pace with a growing middle class demanding more consumer goods. One of the fastest growing sectors is ICT, where progress within certain areas, such as mobile banking, already surpassed Europe. At the same time, we must not forget that the economies of many African countries are growing from a very low starting level. A relatively large part of the growth is still based on export of raw materials, particularly oil and natural gas. However, other sectors are steadily becoming more important. For example, the local added value has grown from zero to 20 per cent in only a few decades. In the next few years, several million young people will leave African rural areas and move to cities that continue to grow at an even faster pace. Creating jobs for this growing, young urban population is a huge challenge. The, from a global perspective high food prices, are an additional burden for many poor families in Africa.

From a macroeconomic perspective, development has been rather positive in many African countries. Budget deficits are manageable and many countries have balanced budgets. This is also reflected through steadily declining national debts. Meanwhile, the



PHOTO: JULIA BJÖRNEGLOBAL REPORTING

fluctuating global economy poses great challenges and the financial turmoil increases vulnerability of poor countries and people.

However, the democratic development has not progressed as quickly as the economic development. Many fast-growing African countries (including Ethiopia, Chad and Angola) are authoritative, non-democratic regimes that stand low on Freedom House’s ranking list of countries respecting democratic rights and civil liberties (Freedom in the World 2013 – Democratic Breakthroughs in the Balance). Translating this positive economic and entrepreneurial development into increased stability and respect of human rights and civil liberties is and remains one of the major future challenges.

Our analyses show that sub-Saharan Africa is perhaps the most interesting market from a global perspective, with a great potential for profitability. In order words, there are possibilities for profitable investments that are both socially and environmentally sustainable and at the same time contribute to Africa’s further development.

Swedfund closely monitors the situation in sub-Saharan Africa and regularly publishes the newsletter *Ekonomisk utblick*, which analyses the latest developments in the world’s emerging markets. Subscribe to the newsletter on Swedfund’s website (click on Publications).

LAGOS.

## Africa – an emerging market!

**ACCORDING TO THE LATEST IMF FORECASTS, BY THE YEAR 2017, SIX OF THE FASTEST GROWING COUNTRIES IN THE WORLD ARE TO BE FOUND IN THE SUB-SAHARAN REGION. THE AVERAGE GROWTH RATE IN THE REGION IS EXPECTED TO REACH 5.5 PER CENT PER YEAR.**





»THOSE WHO IGNORE AFRICA ALSO IGNORE THEIR OWN FUTURE. THIS IS THE ONLY PLACE WHERE THERE IS A DOUBLE-DIGIT GROWTH.«

**M**uchiri Wahome is the CEO of Deacons Kenya Ltd., a fast-growing umbrella retail group that owns and manages various fashion brands in several East African countries. Swedfund is the largest single shareholder of Deacons (approx. 13.4 per cent) with local investors as other major shareholders. The economic development has during recent years been very fast in East Africa and Muchiri Wahome expects the growth to continue:

“The economy is very dynamic. East African governments have been heavily investing in the infrastructure, which in turn helped open up the market. These investments are now leading to a growing middle class and poverty reduction”, he says.

Muchiri Wahome believes that infrastructure development is a key issue in poverty reduction, since this is a basic requirement for transportation of goods from farmers to consumers and from producers out into the world market. Other important issues are political stability, corruption-reduction and democratic development.

“Having responsible governments in place that can create stable environments in their countries is an important condition for economic development and poverty reduction. And this can only happen if the wealth is distributed so that people get a better life.”

*Do European countries really understand the development that is taking place in Africa right now?*

“Yes, well that is an interesting question. Unfortunately I think that many European governments still view Africa from a traditional perspective.”

Muchiri Wahome sees a major and important role for Foreign Direct Investments in East Africa play. He believes that many Swedish companies have the right attitude, but that many more of them should invest in Africa:

“Those who ignore Africa also ignore their own future. This is the only place where there is a double-

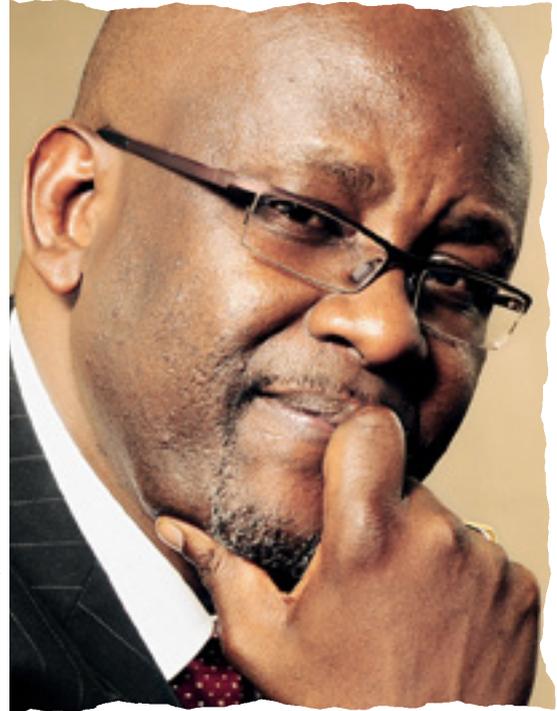


PHOTO: DEACONS LTD., KENYA

digit growth. So, if Europe is to continue producing, then you will need Africa! The companies that don't dare to invest will end up being the losers.

In Kenya, corporate social responsibility (CSR) is also becoming increasingly important and many large African companies are pursuing active, social engagement:

“CSR is extremely important and writing nice words in brochures is simply not enough.”

Then how important are the investments Swedfund is doing for the overall development? It is, after all, a small amount of money.

“Yes, that's true, but every journey must begin with a first step. The key is that the investments are made in areas that we think can contribute to growth in general. In addition to jobs that are created, the investments contribute to introducing new knowledge in areas such as ICT, management, environment, human resources and many more. Hence, even if one private investment is just a drop in the ocean, it can, with its new approach, set the standard for an entire sector.”

*What advice would you give to Swedish companies that are considering investing in East Africa?*

“Come and see for yourself! When you get off the airplane you will be surprised by the enormous opportunities that exist here. Meet with companies, government institutions and ordinary people. There's a great probability that you will fall in love with us!”

# Swedfund in cooperation with other DFI's

**F**ifteen European countries that have established bilateral institutions like Swedfund have joined forces to set up an umbrella organisation: *European Development Finance Institutions* (EDFI).

These development finance institutions (DFIs) support economically, environmentally and socially sustainable development by financing and investing in profitable private sector companies. In many investments, Swedfund collaborates with one or several development finance institutions within EDFI (European Development Finance Institutions ([www.edfi.be](http://www.edfi.be))). This enables us to share knowledge and information, and also risks.

## Investment Criteria and Portfolio

Swedfund invests in countries that qualify for development funding according to the OECD/DAC. Priority is given to low-income and post-conflict countries. Specifically, this entails a strong focus on Africa, where approximately 50 per cent of the portfolio is invested.

Swedfund invests in most sectors, with the exception of arms, tobacco, alcohol, child labour, pornography, prostitution and casino activities according to a specific exclusion list drawn up in cooperation with other European development finance institutions (EDFI

Exclusion List). The focus is on small and medium-sized companies in their emerging phase. Our most important investment partners come from the Swedish business community, as well as other European development finance institutions (DFIs), particularly our counterparts in the Nordic countries (Finnfund, Norfund and the Danish IFU), as well as FMO (the Netherlands), Proparco (France) and DEG (Germany).

Today our investments are made up of direct equity investments, 49 per cent (44), loans, 29 per cent (34), indirect investments in form of funds, 21 per cent (22) and guarantees one per cent. When Swedfund invests in equity shares it is as a minority shareholder; one requirement is that there is always a strategic partner with relevant experience and know-how who has its own financial resources. The typical investment scope is SEK 20–100 million per investment. The value of the portfolio before write-downs and including contracted undisbursed commitments was SEK 2.7 billion (2.6) at the end of the fiscal year, divided between 91 investments (90). Thirteen of these investments were at the end of the fiscal year joint financing projects within the EFP (European Financing Partners) framework, and four investments within the Interact Climate Change Facility framework, [www.sifem.ch/portfolio/portfolio-composition/1-interact-climate-change-facility](http://www.sifem.ch/portfolio/portfolio-composition/1-interact-climate-change-facility).



DFI	Country	Est. year	Portf. Mill.€ 2011
CDC	UK	1948	3 826
DEG	Germany	1962	5 647
IFU	Denmark	1967	505
FMO	Holland	1970	5 874
SBI	Belgium	1971	22
PROPARCO	France	1977	3 613
SWEDFUND	Sweden	1979	330
FINNFUND	Finland	1980	450
COFIDES	Spain	1990	551
SIMEST	Italy	1991	777
NORFUND	Norway	1997	981
BIO	Belgium	2001	398
SIFEM	Switzerland	2005	347
OeEB	Austria	2007	292
SOFID	Portugal	2007	3

# SWEDFUND'S STRATEGY, SUSTAINABILITY TARGETS AND PERFORMANCE REPORTING

## Strategic orientation

Throughout the years, Swedfund has developed a strategy based on its mission, its experience of various investment situations where it can be financially complementary, and an assessment of the markets in direct need of experience and capital. The most important aspects, from a strategic point of view, are geography, sectors, financing model (type of invested capital), investment partners and investment size.

## Geography

Swedfund has had a relatively broad geographic distribution of its investment portfolio. In order to put a stronger emphasis on the poorest countries, and in order to utilise our existing experience in the best way, we will continue to concentrate our investments to Africa. Our goal is to increase our African investment portfolio to more than 60 per cent (approx. 48 per cent today) within three years. We will particularly focus on sub-Saharan Africa where the concentration of the poorest countries is highest. Also, Sub-Saharan Africa, particularly East Africa, is the region in which Swedfund has the most extensive experience.

## Sectors

By putting a stronger emphasis on certain sectors, we strive to address the areas that our investment countries need the most. Priority sectors include: *manufacturing and service sectors* that create jobs and increase the added value of the country's own resources, *financial institutions* such as banks, which are essential if the private sector is to reinvest and grow. The *energy sector* including renewable energy is also of great importance. It is the cornerstone of all industry and commerce, but is often neglected in developing countries, where a lack of electricity is often given as the single greatest obstacle to business.

## Financing model

Swedfund's portfolio is currently comprised of 49 per cent shares (i.e. equity capital), 29 per cent loans, 21 per cent funds and one per cent guarantees. Swedfund will continue to focus on its role as shareholder as we believe that this is how we can make the most significant contribution. As a shareholder, Swedfund has the possibility of influencing a company's development, particularly through our active work with corporate governance. In addition, investing equity capital gives a catalytic effect, meaning that our investments could encourage other investors to follow suit. Hence, bolstering a company's equity capital also means increasing its chances of acquiring bank loans. Our goal is that within 3 years, 75 per cent of our portfolio will be in the form of shareholder-related capital, mezzanine financing (e.g. subordinated loans) and funds. The main part of this should be in the form of direct investments.

## Investment partners

The strength of our partners' experience is the single most important factor in determining the success of an investment. This is accentuated by the fact that Swedfund is always a minority investor and that we are therefore not alone in governing the operations and development of a company. Today, the majority of Swedfund's investments are in companies in which the main partner is a smaller, single entrepreneur with limited financial and organisational resources. For portfolio companies to survive in the long-term, Swedfund will, for as long as possible, seek to invest with partners that are sufficiently strong financially and structurally, which is especially important for small- and medium-sized companies. The structural resources, such as adequate internal procedures and clear division of responsibilities among (and knowledge of) important functions on management level



Staff at Bhutan Diary.

are essential for meeting the increased requirements set by stakeholders, including Swedfund, especially with regard to ESG compliance.

### Investment size

The size of individual investments is important as it is also an indicator of the company's size and thus its existing resources. As a minority investor, we must assess whether the company/partner has a functioning infrastructure that will allow it to operate and grow in challenging environments. To be an active and complementary investor, the number of investments must be in proportion to available resources. In the future, Swedfund intends to increase our average investment amount to around SEK 50 million per investment.

### Strategic sustainability targets

In 2012 the Swedish Minister of Financial Markets Peter Norman made it clear that the state-owned companies must define (by 2012), set (by 2013) and start following up (by 2014) strategic goals for sustainable entrepreneurship. Requirements set through

strategic goals are as follows:

- Few and comprehensive.
- Relevant for the company's business and for overcoming sustainability challenges.
- Long-term and challenging.
- Possible to follow up.
- Clear and simple to communicate.

Environmental issues, human rights, working conditions, anti-corruption, business ethics, gender equality and diversity all define sustainable business and are all integrated in Swedfund's operations through the ESG sustainability standards.

In 2012 Swedfund's Board of Directors decided that the strategic sustainability targets shall be defined within the framework of sustainability and its components environment, social factors (especially work environment) and governance (particularly business ethics and anti-corruption). In 2013 Swedfund will define the strategic sustainability targets, which will subsequently be followed up and reported in 2014.

# OUR CORE VALUES AND POLICIES

## Swedfund's Code of Conduct

In 2012 three internal seminars were held within the framework of developing Swedfund's Code of Conduct which was adopted by the Board of Directors in December 2012. The Code of Conduct, [www.swedfund.se/en/files/2013/02/Swedfunds-Code-of-Conduct.pdf](http://www.swedfund.se/en/files/2013/02/Swedfunds-Code-of-Conduct.pdf) describes Swedfund's core values that are expected to be followed by Swedfund's employees and, where applicable, by Swedfund's external Board representatives in portfolio companies, by consultants and members of the Board of Directors. The Code of Conduct is a moral compass that describes how we act as a business partner, as an employer/employee and as a member of society.

This comprehensive Code of Conduct complements Swedfund's established policies, guidelines and manuals that, where appropriate, also apply to our portfolio companies. The implementation of commitments set by Swedfund's policies and other governing documents that are a part of our investment manuals and management systems is an ongoing process.

## Swedfund's Sustainable Development Policy

The previously adopted policy, incorporated in Swedfund's investment agreements, was updated during the year and a revised policy, [www.swedfund.se/wp-content/uploads/2013/02/Swedfunds-Policy-for-Sustainable-Development.pdf](http://www.swedfund.se/wp-content/uploads/2013/02/Swedfunds-Policy-for-Sustainable-Development.pdf) was adopted by the Board of Directors in December 2012.

The policy describes how Swedfund should ensure that investments are economically, socially and environmentally sustainable and is an integral part of our Code of Conduct. The policy describes our commitment towards our stakeholders and the commitment that our portfolio companies have towards us. Sustainable business includes corporate governance, environmental issues, human rights, working conditions, business ethics, anti-corruption, gender equality and diversity.

We view our investments as long-term commitments through which we strive towards financial, environmental and social sustainability. We are

confident that sustainable business methods generate value in our portfolio companies and in the societies in which they operate. This policy for sustainable development is therefore incorporated in all our investments and is, where appropriate, included in Swedpartnership's conditional loans.

## Swedfund's Anti-Corruption Policy

Swedfund's investments are often made in some of the world's most corrupt countries. A separate, formal anti-corruption policy therefore helps us facilitate our continuing work in such countries. During the process of developing our anti-corruption policy, we turned to policies of other DFIs (e.g., IFU, DEG, FMO as well as CDC) for reference. Swedfund's Anti-Corruption Policy, [www.swedfund.se/wp-content/uploads/2013/02/Swedfunds-Anti-Corruption-Policy.pdf](http://www.swedfund.se/wp-content/uploads/2013/02/Swedfunds-Anti-Corruption-Policy.pdf) was adopted by the Board of Directors in December 2012.

Anti-corruption clauses have been part of Swedfund's earlier shareholder agreements. By adopting Swedfund's new anti-corruption policy when signing an agreement with us, our portfolio companies consent and commit to following their own adopted anti-corruption policies. To support their efforts to combat corruption, Swedfund has developed a "help to self-help", a portfolio company anti-corruption policy model that our portfolio companies can use as a guideline. This portfolio company policy and the model can be downloaded on our website, [www.swedfund.se/wp-content/uploads/2013/02/Swedfund-Portfolio-Company-Anti-Corruption-Policy-Model.pdf](http://www.swedfund.se/wp-content/uploads/2013/02/Swedfund-Portfolio-Company-Anti-Corruption-Policy-Model.pdf)

## Human rights

In 2012 the Swedish Government decided to incorporate the UN Framework for Companies and Human Rights Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework into the 2012 issue of the 2012 *Ownership policy and guidelines for state owned companies*. OECD guidelines for multinational corporations, Global Compact and Global Reporting Initiative (GRI) had long been a part of the ownership



Micro credit in Bangladesh.

policy. We are now in the process of updating Swedfund's internal manuals guided by the UN's new framework with focus on a human rights perspective.

### Education, capacity building

During the year, Swedfund, with guidance from ESG Managers, conducted three workshops with the aim of educating and further developing sustainable development expertise. These were:

- Workshop all employees (February)
- Workshop for the new Board of Directors and representatives from the Swedish National Audit Office (May)
- Workshop for especially invited staff from the Ministry for Foreign Affairs (August)

The book *Sustainable Business Development* written by Lars-Olle Larsson was used as educational material and handed out to all participants.

In August, Anders Wijkman and Johan Rockström gave a lecture to all staff at the Swedfund University on the topic "Sustainable development – a challenge for development cooperation". Their latest book *Bankrupting Nature* has been purchased to be used as additional reading material.

Three internal workshops, in smaller groups and one large workshop with all employees, were conducted under the ESG Managers' supervision as part of the decision-process prior to the Board's decision to adopt Swedfund's Code of Conduct.

The Board's decision to adopt Swedfund's Anti-Corruption Policy was preceded by a process in which about ten employees were involved in the document's development under the supervision of the ESG Manager. In parallel, the ESG Manager participated in a number of external seminars with focus on anti-corruption in order to remain updated with regard to recent developments within the Corporate Code, Swedish and British legislations. In June the head of legal affairs and an ESG Manager also took part in the course "Bribery or corruption? Globalisation is here!" that was joint organised by VJS. Due to the Board's adoption of the anti-corruption policy, another internal training is to be conducted during 2013.

By subscribing to the monitoring report "CSR Update" we are keeping the organisation up to date with respect to sustainability within the fields of investment, lending and screening, ESG, PRI and SRI, as well as new efforts related to financial tools and indicators. In addition, Swedfund subscribes to some of the major magazines on sustainable development. In January the ESG Managers took part in the training "Applying the Updated Performance Standards" organised by the IFC and hosted by FMO in Cologne. During the year the ESG Managers participated in networking meetings arranged by the "Network for Sustainable business" established by the Government Offices of Sweden. As members of the Swedish Association of Environmental Managers (NMC), Swedfund took part in a number of seminars throughout the year. In September the ESG managers and internal council participated in a seminar organised by DEG (i.a.) called "Corporate Governance: Directorships in Emerging Markets" upon Swedfund's adoption of *Approach Statement on Corporate Governance* to be implemented in early 2013 (see page 51).

## Policies 2012

### During 2012, Swedfund's Board of Directors has adopted:

- Swedfund's Code of Conduct
- Swedfund's Policy for Sustainable Development (update of previous policy)
- Swedfund's Anti-corruption Policy

The Code of Conduct and the other two policies explain Swedfund's fundamental values and describe the international guidelines that the policies are based upon.

### Like all state-owned companies, Swedfund is required to support and follow the following international guidelines:

- UN Global Compact based on UN Universal Declaration of Human Rights, ILO's Declaration of Fundamental Principles and Rights at Work, The Rio Declaration on Environment and Development and Agenda 21
- Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework
- OECD Guidelines for Multinational Enterprises
- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines

### Swedfund has chosen to formally sign:

- UN Global Compact based on UN Universal Declaration of Human Rights, ILO's Declaration of Fundamental Principles and Rights at Work, The Rio Declaration on Environment and Development and Agenda 21
- UN Principles for Responsible Investment (PRI)
- The World Bank Group's Corporate Governance Development Framework
- European Development Finance Institutions (EDFI) Principles on Responsible Financing [www.swedfund.se/wp-content/uploads/2010/06/09-05-07-edfi-principles-responsible-financing-signed-copy.pdf](http://www.swedfund.se/wp-content/uploads/2010/06/09-05-07-edfi-principles-responsible-financing-signed-copy.pdf)

### As a result, Swedfund adheres to:

- Harmonised EDFI Exclusion List
- EDFI Harmonized Environmental and Social Standards for Direct Investments
- EDFI Harmonized Environmental and Social Standards for Financial Institutions
- EDFI Harmonized Environmental and Social Standards for Fund Investments

These three EDFI Harmonised Standards are each based on international standards and guidelines, such as UN Declaration of Human Rights, ILO Core Conventions, IFC Performance Standards on Environmental and Social Sustainability and IFC/World Bank Group Environmental, Health and Safety (EHS) Guidelines.

### Swedfund also adheres to:

- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
- OECD Guidelines on Corporate Governance of State-owned Enterprises
- EDFI Guidelines for OFCs (Offshore Financial Centers)

### Swedfund's portfolio companies

Swedfund's Policy for Sustainable Development, inter alia, stipulates that Swedfund's portfolio companies shall "...comply with the ten principles in UN Global Compact."

- UN Global Compact is based on UN Universal Declaration of Human Rights, ILO's Declaration of Fundamental Principles and Rights at Work, The Rio Declaration on Environment and Development and Agenda 21

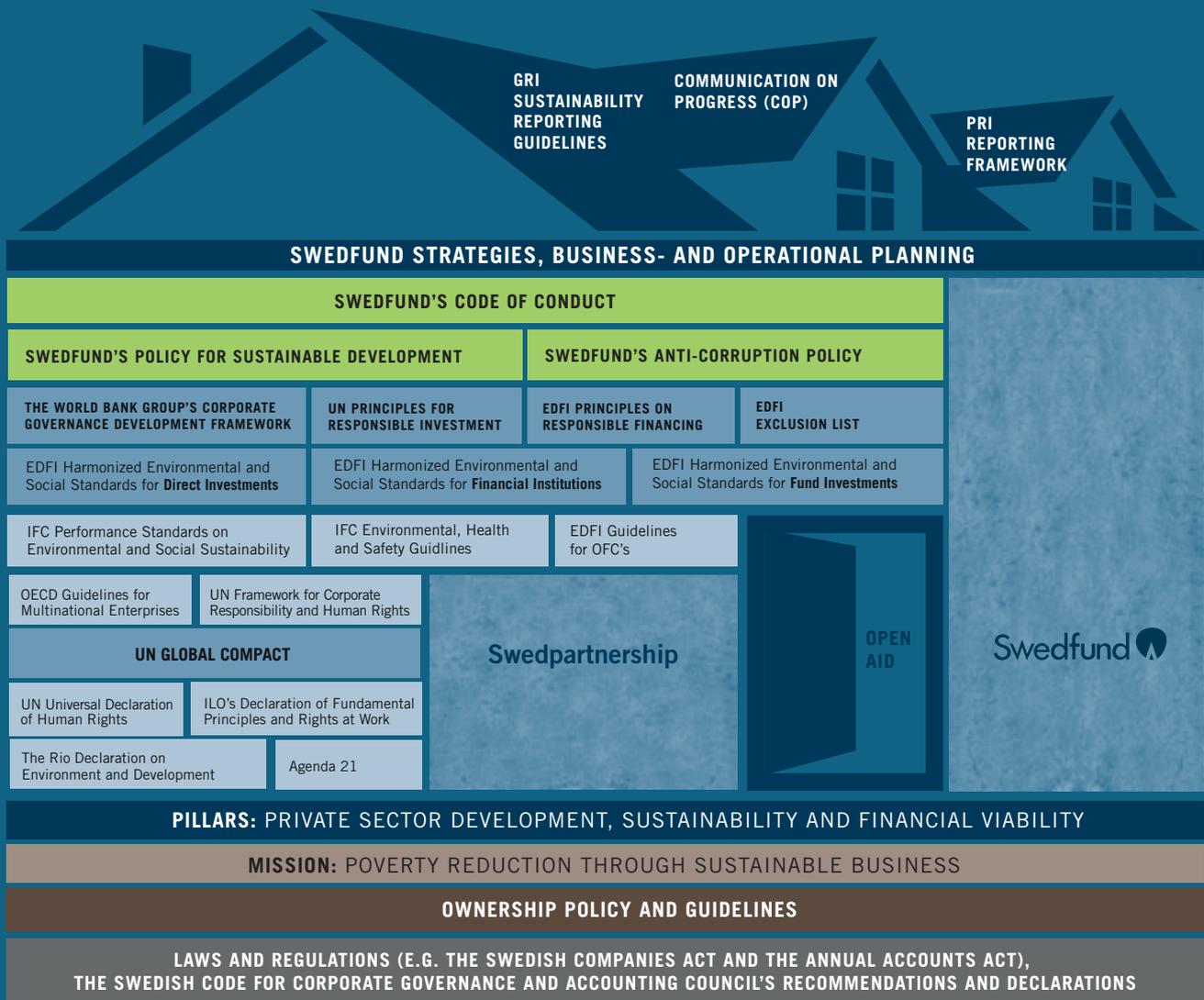
In Swedfund's Policy for Sustainable Development it is made clear that Swedfund's portfolio companies "...shall adhere to..."

- UN Framework for Corporate Responsibility and Human Rights  
Swedfund's Policy for Sustainable Development also makes clear that Swedfund's portfolio companies "...shall work over time to adhere to EDFI Harmonized Environmental and Social Standards for Direct Investments..."
- EDFI Harmonised Environmental and Social Standards for Direct Investments are based on IFC Performance Standards on Environmental and Social Sustainability, which refer to IFC/World Bank Group Environmental, Health and Safety (EHS) Guidelines

Swedfund's Anti-Corruption Policy stipulates that Swedfund's portfolio companies "...shall adhere to the international frameworks and principles mentioned in this Policy." As well as e.g.:

- OECD Convention on combating bribery of foreign public officials in international business transactions

Moreover, Swedfund's Policy for Sustainable Development stipulates that Swedfund's portfolio companies "...shall promote the above-mentioned international frameworks and principles throughout their supply chains."



International commitments
  Policy adopted by Swedfund
  Guidelines followed by Swedfund

The "Swedfund House" shows the international principles, framework and policies Swedfund adheres to. Swedfund's Code of Conduct summarizes our core values and guiding policies, which are implemented in our internal guidelines and processes.

**»WE NEED ETHICS AND MORALITY. EVERYONE HAS A PERSONAL, MORAL RESPONSIBILITY FOR HIS OR HER ACTIONS, REGARDLESS OF WHERE THEY ARE WORKING.«**

**B**o Forsberg is the Secretary General of the development cooperation organisation Diakonia and one of Sweden's most prominent voices in the aid debate. Traditionally, civil society organisations have had a critical and analytical approach towards policy- and decision-makers.

"It is important to be able to demand accountability in accordance with the Swedish policy for global development. By first and foremost holding politicians accountable, we can fight corruption, and contribute to strengthening democracy and human rights," says Bo Forsberg.

However, today even the private sector is required to take more responsibility. Renowned international companies have their own policies for corporate social responsibility (CSR). And even greater requirements are put on companies working with development aid funds:

"Swedfund contributes to development by strengthening local companies. When companies become increasingly important as actors, it also includes accountability. This in turn requires transparency. You have to find ways to help companies be transparent without running the risk of losing their competitive advantage," maintains Bo Forsberg.

The changes within development cooperation also mean that it is not enough for organisations to remain on the sidelines. Those who want to influence must also be ready to take part in a constructive process.

"I believe in dialogue and discussion. We don't want to be an organisation that only says 'no', instead we want to contribute, helping the business sector and getting a better understanding of, for example, human rights."

Bo Forsberg also believes that relations between the private sector and the civil society have become a lot better in recent years.

"Swedfund has demonstrated that to a larger extent they want to measure and report on development results, as well as to increase transparency. Swedfund has also



PHOTO: MARKUS MARCETIC

improved the dialogue with civil society in Sweden, which is positive. At the same time, we have become better in understanding the corporate world. But it is a long journey because we come with so many different perspectives. This is why we need a respectful dialogue."

What Bo Forsberg is calling for from all actors in Sweden is a moral discussion about ethics and responsibility.

"We need ethics and morality. Everyone has a personal, moral responsibility for his or her actions, regardless of where they are working. Companies are under pressure by their owners to deliver. At the same time, companies with good intentions risk paying a higher price than the ones exploiting and not adhering to rules and regulations. Therefore it is important that serious companies call for regulations that everybody should follow. In the long run I also believe that this will prove to be more profitable."

Bo Forsberg believes that Diakonia and other organisations can help companies better understand what human rights mean in everyday life.

"Companies need to constantly assess whether a business deal contributes to positive development. A lot is required from the companies when they embark on such analyses, and this is where we can contribute with our expertise. It is also important that Swedfund continues to develop its capacities in human rights in order to be able to make the right decisions in complicated situations."

# RISK MANAGEMENT

Swedfund's mission is to invest in low and middle-income countries with focus on post-conflict and the poorest countries. Investing in these countries means that the operation is associated with high risks of various kinds, related to both the specific investment, as well as the general investment climate in the country in question. For example, risks associated with a specific investment might be issues related to environmental impact and the commercial viability, whereas

risks related to investment climate could include political instability and high levels of corruption. Such risks arise from the mission and cannot be entirely avoided. However, by conducting a structured assessment process before making an investment decision (due diligence) and actively manage an already completed investment, Swedfund seeks to manage those risks that cannot be avoided.



# THE INVESTMENT PROCESS

The investment process from the first assessment to the exit is described in the illustration below. During the past few years Swedfund has done a lot to document best practices and to further develop areas that needed

improvements. This is an ongoing process and we continue to improve and develop our procedures based on requirements put upon us and on how we carry out our work.

## 1. INVESTMENT PROPOSAL



### 1. Investment proposals

Swedfund assesses roughly 500 investment proposals a year. Some of these are sent to us spontaneously while others are a result of active origination work. After an initial screening based on Swedfund's investment criteria, many could be written off for not meeting basic requirements, such as sector, country, etc.

## 2/3. Concept Clearance och Due Diligence

When an investment is deemed interesting for Swedfund, it is prepared for "concept clearance" (CC). The appointed Investment Manager (IM) writes a brief memo, which is then discussed in an informal investment committee made up of the Managing Director, the director of investments and the Director of business development. If the decision is made to pursue the investment opportunity, a process of "due diligence" (DD) is initiated. This process involves analysing the company and the intended investment from all relevant perspectives, that is, all preconditions for investing (financial, commercial, legal, partners, development effects, and ESG issues). If the company is a company with on-going business, then the company and its existing owners are assessed. If the company is a newly established company, then we assess our potential partners and the business plan. This "due diligence" process continues throughout the entire investment process, until the transaction has been made (disbursement of our investment). Analyses of different areas are sometimes done in parallel, sometimes they intertwine, and more in-depth analyses are made when necessary. When an investment has received concept clearance, a preliminary notification is sent to the board of directors.

## 2. CONCEPT CLEARANCE



## 3. DUE DILLIGENCE DURING THE ENTIRE INVESTMENT PROCESS

## 4. SCREENING



## 5. BOARD'S DECISION



ILLUSTRATION: HELENA SHUTRICK

#### 4. Screening

Following the notification to the Board of Directors, the investment process moves on to the screening phase. Apart from the IM, an analyst and a lawyer usually take part in this. During the screening, the investment is analysed and discussed in an internal peer review group on the basis of the earlier documentation. The screening group gives their opinions and recommendations for further evaluation. These recommendations include guidelines that the continued due diligence process should focus on. If the outcome of the continued process is positive, a decision guidance document is drawn up for the board or the managing director. The environmental and social due diligence process is carried out with the participation of the ESG Manager. If the investment is rated as a risk with the risk grade A or B+ in terms of environmental and social performance, an external ESG expert is also called in. Regardless of the risk rating, the memorandum to the Board of Directors always includes a summary of environmental and social risks.

#### 5. Investment decision

Depending on the investment amount, a decision is made either by the Managing Director (up to SEK 10 million) or the Board of Directors (above SEK 10 million)

#### 6. Conclusion of the transaction

If the investment is approved, negotiations are concluded and, if necessary, remaining issues reviewed and further in-depth due diligence performed if deemed necessary. At this point, an investment agreement is drafted. The agreement covers, among other things, sustainability requirements based on Swedfund's Policy for Sustainable Development adapted to that specific investment.

#### Disbursement

When the conditions for disbursement (Conditions Precedent) have been met, the disbursement is made.

#### 7. Management

After the contract signing and disbursement comes the management phase. The IM is responsible for the manage-

ment and continuous monitoring of the investment. Management implies active involvement that creates value for all stakeholders in the investment. When Swedfund is a shareholder, this is carried out with the board representation as a platform. As a shareholder, Swedfund normally has the right to nominate a member of the board. Often this member is also the one responsible for the investment. In cases when it is deemed important for the investment, Swedfund appoints an external board member who can contribute with a specific expertise within a certain business sphere or market, etc. A thorough analysis and review is carried out once a year, including the ESG and development effects, and presented to the Swedfund Board of Directors.

#### 8. Exit

After the exit, an exit report is made, which includes an analysis of development results, as well as a chapter with "lessons learned".

8. EXIT  
AND FOLLOW-UP

7. MANAGEMENT,  
ACTIVE WORK WITH BOARD  
AND FOLLOW-UP

6. NEGOTIATION,  
CONTRACT SIGNING  
AND DISBURSEMENT

## RISK AREAS

To highlight and illustrate how Swedfund views certain risk areas, we have chosen to give a detailed description of our approach to corruption, partner risk and ESG risk.

### Risk of corruption

Swedfund's portfolio companies are situated in countries and markets that face a high risk for corruption according to international indexes. The due diligence process, along with contractual clauses against corruption and money laundering constitute important instruments in the fight against corruption. The Anti-Corruption Policy adopted during the year also helps Swedfund's continued work within this area, as does the *Portfolio Company Anti-Corruption Model* that helps portfolio companies adopt their own anti-corruption policies.

### Partner risk

An important principle is that Swedfund shall not compete with commercial actors, but rather seek to invest together with qualified partners and share the risk with them. This establishment of such cooperation with strategic partners in whom we have confidence is therefore an important part of our strategy. Over the years we have developed procedures that help us deal with business, credit and other financial risks (see Director's Report, page 69). We continue to develop the Due Diligence process with regard to environmental aspects, social issues including human rights, and corporate governance. In order to be able to assess our partners' integrity and reputation, Swedfund's investment work includes background checks; both when Swedfund is considering embarking on an investment, but also when we intend to sell to a new investor. The goal is to avoid working with, financing, or selling to people or companies whose business activities are not in line with Swedfund's core values.

### ESG risk

As a minority owner Swedfund has a responsibility for the portfolio company's operations. In order to be able to push for important issues, it is always necessary that the main industrial owner, co-investors and the portfolio company live up to our vision regarding the key issues related to environmental, social responsibility and corporate governance. Our way to ensure this happens is to include Swedfund's policies and requirements in all shareholder and loan agreements, and

monitor regularly. As an active owner, we monitor the company during the entire investment process in order to detect irregularities, and when they occur, we work in dialogue with the company to achieve continuous improvements.

### Current issues

During the year civil society organisations have raised issues regarding the role of the private sector in development cooperation, specifically concerning land-based investments and tax issues connected with fund investments.

### Land-based investments

In recent years there have been reports about extensive land-based investments made in sub-Saharan Africa. Investments have largely been made by international investors. Swedfund is currently involved in such an investment in collaboration with several Development Finance Institutions: the company Addax Bioenergy in Sierra Leone. Civil society actors have been particularly critical to such investments, often referring to them as "land grabbing", a term without a particular definition. The same rules that apply for other investments also apply to Swedfund's investments in agricultural companies (including the sector-specific rules). This includes that all investments shall be made in accordance with the owner's instructions. The agreements that had been signed between the company and the landowners with regard to Addax Bioenergy's investments in Sierra Leone have been presented by the company in a transparent way. Swedfund welcomes objective criticism, as it helps us improve our work.

### Fund investments

In order to contribute to development, Swedfund not only invests directly in companies in low and middle-income countries, but also indirectly through fund investments. Funds enable Swedfund to cost effectively reach small and medium-sized businesses in poor countries to an extent that would otherwise be difficult to achieve. Making indirect investments through funds is an established method used regularly by multilateral organisations such as IFC, EIB and ADB, many national aid organisations, as well as bilateral development finance institutions like Swedfund.

The domicile of a fund is determined by the fund manager who chooses a country that has the specific infrastructure and the legislation required to set up and operate funds with investors coming from several

countries. The fund then invests in companies located in countries where Swedfund has a mandate to invest. When the fund manager has identified a company and has decided to invest, Swedfund pays its share of the investment through the fund. The company pays taxes in the country where it operates. After a few years of contributing to a country's growth and development, the fund sells its share. Swedfund's share of profits goes to Swedfund in Sweden and Swedfund pays Swedish tax on the profit. The after-tax profit is then reinvested in new companies.

A large part of the funds that Swedfund and other DFIs invest through are located in offshore financial centres (OFCs) such as Mauritius. There are two main reasons why the investments are made through these countries. Firstly, it has to be easy to move money from the fund's "home country" (domicile) to any of the countries in which the investment is made. Regardless of the country in which the fund is established, the money will be used for investments in several countries. Secondly, it must be possible to return the funds to fund shareholders at an exit. Today, such prerequisites are only available in a few countries in Africa, which is why investments must go through these countries.

There is no official Swedish or international technical definition of the term "tax haven". Swedfund therefore follows IMF's terminology and uses the term OFC (offshore financial centre). Mauritius, which hosts several of the funds that Swedfund and other DFIs have invested through, has a double taxation treaty with Sweden and many of the African countries where DFIs operate. Several other OFCs have now committed to be a part of an information exchange agreement made according to the OECD standard model and are also subject to the *Global Forum's Peer Review Process*. Up-to-date information about information exchange agreements and Global Forum is available on OECD's website.

One of the criticisms against fund investments has been that very little taxes are being paid in the country where the fund is established (domicile). This is true, but the purpose of a fund is to invest in companies operating in different countries, each company is required to pay taxes in the country in which it is registered and in which it operates.

In the light of what has been described above, it is also important that the investment through an OFC does not take place because Swedfund and other DFIs wish to avoid taxes or transparency. Swedfund invests

only in funds that meet strict requirements regarding investment rules, ethical guidelines (including rules against money laundering) and reporting. For all investments there are contract clauses and background checks designed to thwart, for example, money laundering and corruption. As a minority shareholder, Swedfund cannot alone decide upon a fund's domicile.

Swedfund and other members of EDFI (European Development Finance Institutions ([www.edfi.be](http://www.edfi.be))), have set up a special working group to oversee and harmonise standards and guidelines for investments through OFCs. IFC (the World Bank Group) believes that investing through OFCs can be done provided that such investments are made together with partners who have integrity and follow existing laws.

However, we are well aware of the tax and capital evasion issues and therefore closely follow international developments on investing via intermediary jurisdictions. As the tax laws, etc. are simplified and streamlined in more African countries, it is also our hope that we will be able to fund investments via more countries than is currently the case.

### **Swedfund's guidelines on intermediate jurisdictions**

The terms governing which countries Swedfund is allowed to invest through both directly and via funds are listed in our owner's instructions. The company shall: *"not take part in investments via intermediary jurisdictions that have been examined through OECD's framework Global Forum Peer Review Process and have thereby not been approved in the phase 1, or have been deemed as Partially Compliant or Non-Compliant during phase 2."*

Global Forum is made up of 108 members and the EU, and has nine international observers (including the UN, the World Bank and the IMF). It has defined ten essential aspects for transparency and information sharing in the context of taxes. The countries that are examined are analysed from two perspectives: Phase 1 assesses the quality of a jurisdiction's legal and regulatory framework for the exchange of information while Phase 2 looks at the practical implementation of that framework.

### »THE KEY ISSUES FOR US INCLUDE AN IMPROVEMENT OF THE MANAGEMENT STRUCTURE, EMPLOYEE POLICY, AND RAISING THE LOWEST WAGES.«

**A**bebnego Wambua Muema is 30 years old and elected President of the local trade union at Athi Steel, a steel company in Kenya that recycles metal. Acacia Fund (with Swedfund as one of its shareholders) invested in Athi Steel back in 1998. When the fund was liquidated in 2008, Swedfund chose to take over investments totalling SEK 45 million. Today Swedfund owns roughly 20 per cent of Athi Steel, which have a workforce of around 900.

“Our main objective is to ensure workplace health and safety and to make sure that the workers get rightfully paid,” explains Abebnego Wambua Muema, a machine assembler.

Abebnego Wambua Muema began working at Athi Steel in 2005. He mostly attends to the role as President of the local association of the Kenya Engineering Workers Union during his spare time. Athi Steels business concept is to buy scrap metal, process it and produce metal products for customers. In this way, the company contributes to recycling old metal as well as the rapid economic growth in Kenya. The customers come mostly from the Kenyan construction sector.

The factory in which Abebnego works is about 30 kilometres east of the capital Nairobi. The entrance into Mavoko, or Athi River as the city is also called, is lined with cement plants and other factories. This is also where Abebnego lives with his wife and two children. Safety issues are an important priority for Abebnego. Even though the number of industrial accidents have fallen since the company hired an external health and safety expert, there is still much to improve. As a part of these efforts, a consultant is training all the factory workers. Every morning workers take part in discussions about safety. Strict rules, and in the worst cases dismissal, apply for workers who repeatedly violate safety regulations:

“I think that’s good! It will help us to reduce the number of accidents and get them down to almost



PHOTO: STEPHEN MUDIARI/IMAGEPIX PHOTO AGENCY

zero. But it is also important that everybody who has been forewarned is offered training so that they can become better at following the rules,” reiterates Abebnego Wambua Muema.

The company and the union have negotiated three collective agreements. The latest two-year agreement, which will expire in December 2013, gave the members an 11 per cent salary increase based on the official minimum wage that was dramatically increased in 2012. The local association, which is a part of the Kenya Engineering Workers Union, has 350 members included in the collective agreement, and the number is on the increase.

“We are hoping to speed up the process so that every steelworker becomes part of the collective agreement by 2015, and that those with a basic minimum wage get the same salary raise as the rest,” says Abebnego.

Generally he thinks that the cooperation with the company management is good. So far there have been few conflicts. However, the union sees many areas that the company management could improve:

“The key issues for us include an improvement of the management structure, employee policy, and raising the lowest wages”, concludes Abebnego.

# STAKEHOLDER DIALOGUE AND RESPONSIBILITY

## The importance of transparency

Swedfund is engaged in the implementation of transparency guarantee in Swedish development cooperation in order to improve awareness of Swedfund's operations and investments. The new ownership guidelines adopted at Swedfund's AGM on 20 April 2012 states that Swedfund shall report to the International Aid Transparency Initiative (IATI), OECD/DAC as well as to the online information service OpenAid.se. Open aid is the Swedish government's efforts to adapt Swedish development cooperation to today's reality and the opportunities created by globalisation and technological development. The goal is to combat poverty as effectively as possible. To achieve this goal, development cooperation needs to be more transparent and open to new ideas. As a part of Open aid, the transparency guarantee has been incorporated in development cooperation. This guarantee mean that the public information about Swedish development cooperation is made available on the internet. The website for this information service is [www.openaid.se](http://www.openaid.se).

We are also continuously examining the possibilities of publishing updated information about our investments on Swedfund's website. Some information, however, cannot be made publically available as this goes against already signed business agreements. Since we want to be as open as possible despite these restrictions, we publish sensitive information on an anonymous aggregated basis as often as we deem possible. As a minority owner or a lender, we are often not the only ones who decide about publishing disclosed information on specific investments. Swedfund welcomes independent reviews of our internal processes as well as of our portfolio companies, because such studies give a valuable addition to our own reviews and follow-ups. Our external auditors continuously revise our businesses, and we encourage other stakeholders to analyse our operations, since this helps us in our ambition to improve our work.

## Stakeholders

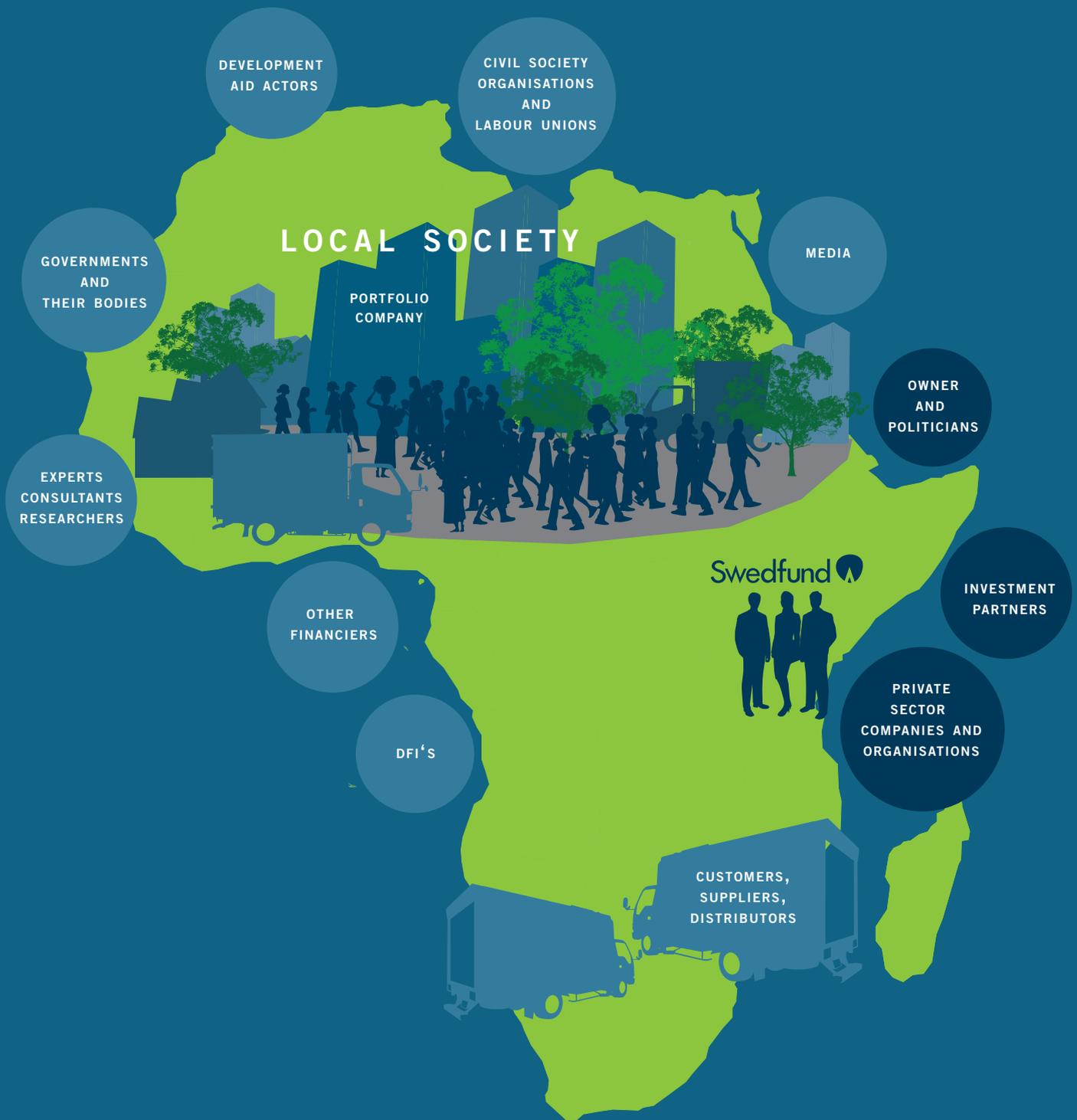
Swedfund's stakeholders are people, groups, companies or organisations that *are affected by or affect* Swedfund's operations and our role, as well as our portfolio companies, their operations and their role in a sustainable private sector development.

Living conditions for poor people in countries and societies in which we operate through our portfolio companies are central to our work, as is sustainable development. Swedfund does not act in a vacuum. Through our portfolio companies we are part of the society. Different stakeholders affect, or are affected by the society and private sector development. One conclusion drawn from this is, for example, the importance of the "do no harm" principle. To always carefully examine and reduce an investment's negative impact on its environment. With this as a premise, we see ourselves with our portfolio companies as influencing our environment in the same way as everyone else. Through a dialogue with selected stakeholders we can reach consensus how we can together impact and improve through our, our portfolio companies' and other stakeholders' roles.

The impact on private sector development through sustainable business includes environmental responsibility, ecosystems and climate, social responsibility for human rights, working conditions, gender equality and diversity.

## Stakeholder perspective

Swedfund's investments are a part of Swedish development cooperation, and Swedfund does not operate isolated from other actors. On the contrary, in order to be able to achieve goals set by Swedish development cooperation, collaboration between different actors is crucial. There is, of course, not only one solution to resolving the poverty issue, quite the opposite. Many different kinds of actions must be undertaken in order to reach a common goal in development cooperation. Civil society organisations are needed, as is development aid channelled through Sida and similar agencies.



Swedfund's stakeholders are the individuals, companies or organizations that are either affected by, or that can impact upon, Swedfund (i.e., our activities and our mission) or our portfolio companies (i.e., their activities and their mission) within the framework of sustainable development.

In the same way there is also a need for a developed business sector.

Many actors scrutinize Swedfund and our activities within the portfolio companies. Some are critical. There are, of course, many ways of looking at the development agenda, and media and civil society play an important role in critically examining all actors.

Swedfund takes every criticism seriously and welcomes constructive dialogue with all stakeholders because it helps us develop our work in portfolio companies and improve our transparency and how we present our work. A good dialogue with our stakeholders gives us valuable experience, knowledge and perspective. Our ambition is therefore to continue being transparent, and to deepen the dialogue with selected stakeholders.

### **Roundtable discussion in cooperation with EKN and SEK**

In December 2012 Swedfund, in cooperation with the Swedish Export Credits Guarantee Board (EKN) and Swedish Export Credit Corporation (SEK), organised a roundtable discussion on responsibilities and the role of the business sector in developing countries. Participants included IF Metall, Swedwatch, World Wide Fund for Nature, ABB and the Government Office of Sweden. During the dialogue Swedfund took up the issues that arise when an investment company is faced with attaining profitable investments while complying with the sustainability rules. The event touched upon several aspects of responsibility and dialogue issues and was a good example of how a constructive dialogue can be held between actors with different roles and approaches but who are striving towards the same goal.

### **In-depth dialogue with civil society organisations**

Swedfund aims to learn more about how other development cooperation actors see our role and how we can achieve joint goals. We also want other actors to learn more about conditions for our work and how we operate. This is why Swedfund, during the year, held a number of informal dialogues with different actors, including civil society organisations. We will continue this process during 2013.

### **Swedfund in the media**

In May 2012 the Swedish Radio's news programme Ekot broadcast several reports on Swedfund's operations. Some of the reports were about Swedfund's

portfolio companies allegedly not having followed labour laws to the full, which were not accurate. Swedfund was further criticised for its fund investments, and investments in Addax Bioenergy in Sierra Leone. Swedfund's portfolio company, Addax Bioenergy, was accused of causing a water shortage and of not fulfilling its pledge to help build up the infrastructure, such as schools, hospitals and roads. A report from Sierra Leone was followed up with additional reports, including an interview with Swedfund's acting Managing Director Anders Craft, and with comments by various politicians. The reports have also led to comments on blogs and other social media.

For more information, see page 38 and Swedfund's website: [www.swedfund.se/?artikel=addax-bioenergy-%E2%80%93-en-mycket-viktig-och-langsigtig-investering](http://www.swedfund.se/?artikel=addax-bioenergy-%E2%80%93-en-mycket-viktig-och-langsigtig-investering) (in Swedish).

Swedfund hired the British consultancy company Nippon Koei UK to write a report about the management of environmental and social activities within the Sierra Leone project, with specific focus on the ESHIA process (Environmental, Social, Health Impact Assessment) and the follow-up process that succeeded it. The report was presented in September 2012, but did not lead to additional reporting in the media. The report also states that Addax Bioenergy takes all questions and recommendations that arise very seriously, and deems it highly important to clarify all remaining unresolved issues.

To read the full report, please go to: <http://91.123.200.225/~swedfund/wp-content/uploads/2012/09/Swedfund-NKUK-Summary-Report-Aug-Sept-2012.pdf>

During the year Swedfund also wrote a debate article published in the magazine OmVärlden.

### **The Race for Land Report**

In May 2012 during a joint seminar, Forum Syd, the Africa Groups and the Swedish Cooperative Centre presented a report about large-scale land-based investments in developing countries. During the seminar, the organisations presented a report entitled Race for Land, which described the actors, the extent, the purpose and the consequences of land-based investments on local populations. The report also included case studies. Swedfund, having been criticised in the report, gave its reflections about the accusations made in the report and took part in a panel debate. Swedfund's ESG Manager, Lars-Olle Larsson, gave an additional interview for the magazine OmVärlden, and

answered criticism put forward in Race for Land. Swedfund thereby gave information about the implementation of the project, including information about stakeholder dialogues that had taken place, extensive land measurements, and about the ongoing follow-up process.

### Adoption of UN's Principles on Corporate Responsibility and Responsible Investments

Swedfund's mission is to contribute to the reduction of poverty through sustainable business. Environmental and social responsibility and corporate governance are key prerequisites for the fulfilment of our mission. Just like other state-owned companies, Swedfund is obligated to follow existing international guidelines on environment, human rights, labour rights, anti-corruption and business ethics among other the ten principles of the UN Global Compact. Swedfund has therefore, during 2012, joined both the UN Global Compact and the UN Principles for Responsible Investment, UN PRI.

The UN Global Compact was launched by former UN Secretary General Kofi Annan in 2000. The initiative was set up in order to make companies a part of the solution for a more sustainable and inclusive global economy by promoting globally responsible entrepreneurship. More than 7,000 companies from more than 145 countries make up the network. By signing the UN Global Compact, Swedfund has committed to implement and integrate the ten principles in all its operations. By doing so, we also require our portfolio companies to improve their own performance and follow Global Compact's ten principles:

1. Respect international human rights.
2. Make sure that the company is not complicit in human rights abuses.
3. Uphold the freedom of association and the recognition of the right to collective bargaining.
4. Eliminate all forms of forced and compulsory labor.
5. Abolish child labor.
6. Eliminate discrimination in respect of employment and occupation.
7. Support a precautionary approach to environmental challenges.
8. Undertake initiatives to promote greater environmental responsibility.
9. Encourage the development and diffusion of environmentally friendly technologies.

10. Work against corruption in all its forms, including extortion and bribery.

The ten UN Global Compact principles are now also guiding our advocacy towards portfolio companies that should run their business in a long-term, sustainable and responsible way. Read more on page 22. By adopting the UN Global Compact, Swedfund committed to annually report about the progress on the implementation of these accountability issues through a yearly Communication on Progress (COP). This Sustainability and Annual report is similar to Swedfund's first COP.

Read more about the UN Global Compact and its ten principles on UN Global Compact's homepage, [www.unglobalcompact.org](http://www.unglobalcompact.org)

UN PRI was launched in 2006 by former UN Secretary General Kofi Annan as a global initiative for institutional investors with the aim of increasing accountability with focus on ESG issues. In 2012 Swedfund decided to join UN PRI, which means that we commit to integrate the six UN principles in our business, as well as to annually report about the results of these efforts directly to the PRI secretariat and in the subsequent sustainability and annual reports. We thus commit ourselves to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Read more about UN PRI and the six principles on UN PRI's homepage, [www.unpri.org](http://www.unpri.org)



Signatory of:



## »I THINK ONE SHOULD TRY INVESTING IN DIFFICULT COUNTRIES. GETTING ENGAGED IS THE ONLY WAY TO ACHIEVE A POSITIVE DEVELOPMENT IN THE LONG TERM.«

**C**arina Lundberg Markow is the Executive Officer, Head of Corporate Governance at Folksam, and one of the people who developed Principles for Responsible investment (PRI). Through her role as a shareholder representative, Carina Lundberg Markow is active in the Swedish public debate about corporate responsibility and in the dilemma that stems from it. In 2013 she was voted second (of 150) of Sweden's most important economic communicators by the magazine Resumé.

“As an investor, you always have the responsibility over how employees, the local population and others are affected by your investment. That's why it is important for companies to understand that doing it right from the start really pays off,” she explains.

In what is called “ethical investments”, the investor often decides not to invest in companies that produce weapons, tobacco and other products. The purpose of PRI is of a different nature. It is about exerting influence on the shareholders to respect principles.

“All industrial manufacturing has a negative environmental impact but poor countries must have the chance to develop their natural resources and build up a prosperous society, just like we did. With PRI, the investors have got a framework to develop their work with ESG issues, while being able to compare with, and get inspired by, other companies.

The companies and funds that act ethically often get more criticised than those that don't act at all. But Carina Lundberg Markow says that this can also be turned into something positive:

“Of course this can sometimes be interpreted as unfair, but you can also take the criticism as some kind of a free audit that contributes to making things change for the better.”

So what can Swedfund do better within the ESG? Put forward our failures, according to Carina Lundberg Markow:

“Most often you only look at things that have gone



PHOTO: FOLKSAM

well, but all organisations could learn by putting forward their failures and analysing why something went wrong. It's also important to have a corporate culture that is in line with what you want to do. Here value-issues play an extremely important role,” says Carina Lundberg Markow who believes that Swedfund can inspire other companies and investors:

“We can't put higher demands on Swedfund than on other investors when it comes to profitability. However, Swedfund can in a good way show that it's possible to combine business and long-term sustainability. In this context many companies can learn from how Swedfund evaluates and starts up projects.”

What could one do then as an investor in a country where the risks are high, should one completely avoid investing? No, she says:

“I think one should try investing in difficult countries. Getting engaged is the only way to achieve a positive development in the long term. However, you should do it with great caution; if corruption is widespread it's important to view it as a risk from the outset and clearly communicate the principle of zero tolerance. Particular caution should be shown in countries where there are military conflicts. At the same time, what differentiates clever companies from others is not whether something goes wrong or not, but whether they have thought through the risks from the beginning and know how to deal with them once they appear.”

# OUR INVESTMENTS

## Swedfund's Portfolio

Swedfund's portfolio is divided into equity, loans and funds. Swedfund's focus is on equity investments in the range of SEK 20–100 million per investment. Through lending we can help finance larger companies together with other DFIs. Fund investments enable Swedfund to reach more and smaller companies cost-effectively in countries that would otherwise have been difficult to work in without local presence. The value of the

portfolio before write-downs (book value before depreciation, including the undisbursed commitments) totalled SEK 2.7 billion at year-end (2.6)<sup>1</sup>, divided into 91 investments (90). By year-end, 13 of these investments were within the framework of the European Financing Partners (EFP), four were joint investments within the Climate Change Facility framework. In 2012 nine (7) new investments were entered into and eight were exited (10).

### Portfolio by region (acquisition value):

Africa	49 per cent (47)
Asia	26 per cent (33)
Latin America	1 per cent (1)
Eastern Europe	16 per cent (12)
Middle East	3 per cent (2)
Globally	5 per cent (5)

### Portfolio by instrument (acquisition value):

Equity (directly owned)	49 per cent (44)
Loans	29 per cent (34)
Funds (indirectly owned equities)	21 per cent (22)
Guarantees	1 per cent (0)

### Compilation of the Board's and Managing Director's decisions, contracts and disbursements Jan–Dec 2012

	Quantity	Total amount SEK millions
Decisions	19(16)	451.4(268.8)
Contracts <sup>2</sup>	20(13)	258.8(338.8)
Disbursed <sup>3</sup>	77(89)	360.3(342.7)



PHOTO: SWEDFUND

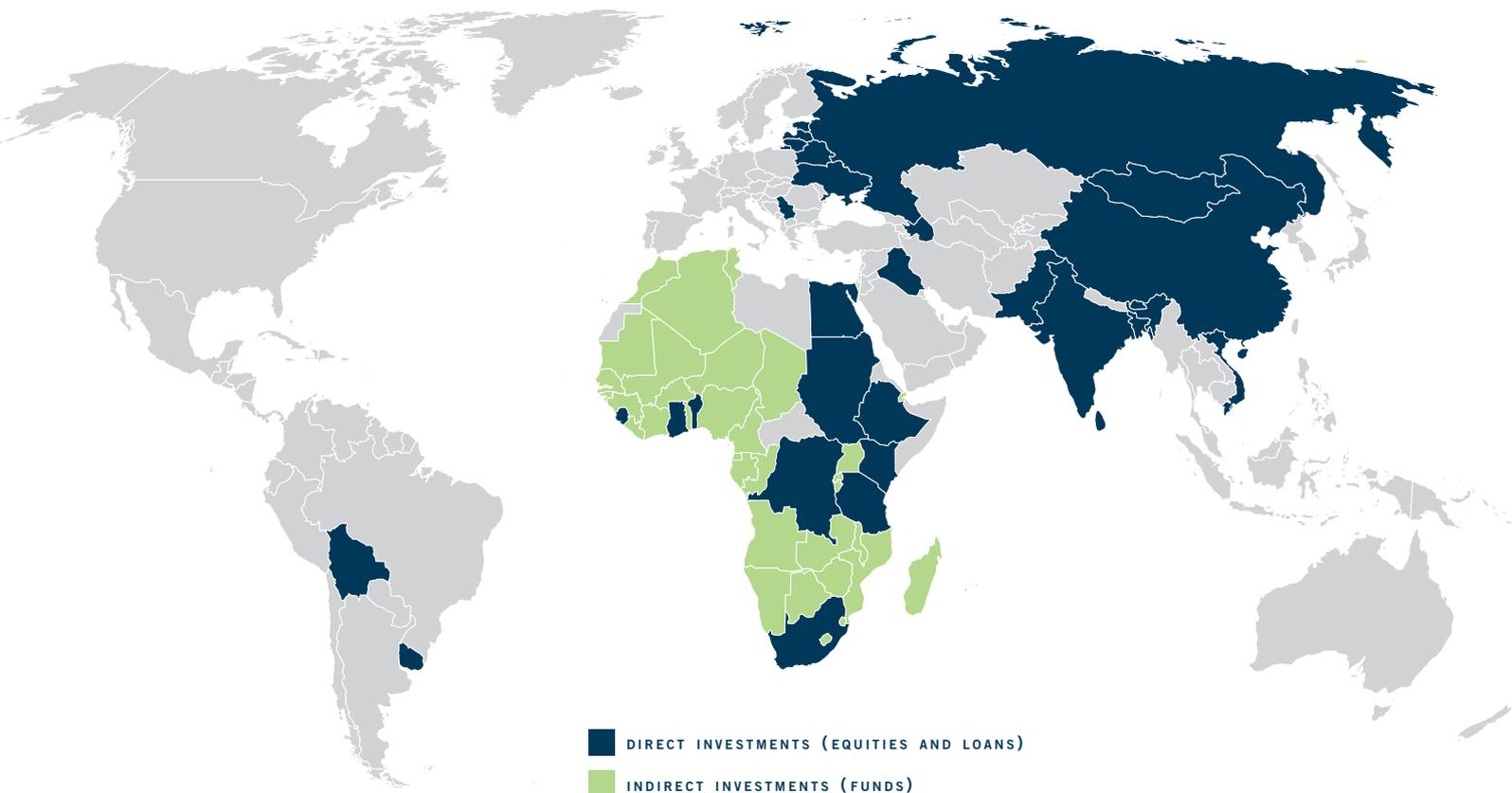
Raffia.



PHOTO: SWEDFUND

GMI.

<sup>1</sup> Of the portfolio value, SEK 0.8 billion has been written down.



## Contracted amounts, fully amortised loans and income from exits by country

The amount shown in concluded loans indicates the initial value of the loan<sup>4</sup>

Country/region	Contracted equity investments, new and follow-on investments SEK million	Contracted loans/guarantees new and follow-on investments SEK million	Fully amortised loans/guarantees SEK million	Sales full or partial SEK million
Africa <sup>5</sup>	50.1	48.3		0.2
Azerbaijan			30.8	
Bolivia				0.0
Ethiopia	5.4			
India				0.1
Iraq	33.2	8.1		
Kenya	81.6			4.5
China	0.2			0.1
Latvia			5.3	
Liberia				8.5
Rwanda			0.4	
Russia			5.6	0.2
South Africa		16.7	8.3	
South Sudan	5.2			
Tanzania				0.1
Uganda			0.4	
Ukraine				0.5
<b>Total</b>	<b>175.6</b>	<b>73.1</b>	<b>50.8</b>	<b>14.2</b>

<sup>2</sup> The amount and quantity include both new and follow-on investments.

<sup>3</sup> A decision can lead to more disbursements.

<sup>4</sup> Information about each single investment newly contracted can be found in press releases published on our homepage during the year.

<sup>5</sup> Company with businesses in several countries.

# Addax Bioenergy, Sierra Leone

**S**ierra Leone is one of the world's poorest countries and is still strongly affected by the civil war that raged in the country between 1991 and 2002. However, since the end of the war many efforts have been made to increase the growth rate. In 2011 Swedfund invested in Addax Bioenergy together with seven other development finance institutions. Apart from Addax & Oryx Group (AOG), other investors include the Dutch Netherlands Development Finance Company (FMO), the UK-based Emerging Africa Infrastructure Fund (EAIF), the German Deutsche Investitions- und Entwicklungsgesellschaft (DEG), the Belgian Investment Company for Developing Countries (BIO), the multilateral African Development Bank (AfDB), the South African Industrial Development Corporation (IDC) and the ICF Debt Pool that is managed by the Canadian Cordiant. The investment is an integrated agriculture and renewable energy project that includes the development of sugar cane fields, the establishment of a bio-ethanol refinery and a renewable energy plant planned to begin production at the turn of the year. The availability of electricity is a precondition to even start reaching development results in Sierra Leone. The investment will help produce renewable energy for the benefit of the entire country. The Sierra Leone government has explicitly named agriculture as one of the engines driving the socio-economic growth and development. The project is in line with the government's development strategy, which includes investing in the agriculture sector and processing local raw materials that create employment and production of renewable energy. The purpose of the investment in Addax Bioenergy is to contribute to this development process and at the same time increase the country's exporting capacity. The project is still at an early stage and it is too early to evaluate development results expected in the long term.

*Through the investment Addax Bioenergy contributes to the following expected results:*

- Electricity supply with a significant addition of renewable energy to the existing generated power in the country. The electricity will be sold to the national grid in Sierra Leone and is expected to account for 20 per cent of the electricity production in the country.

- **Improved infrastructure** by building new roads.
- **Employment** both directly with about 2,000 jobs and indirectly in the supply of services etc.
- **Capacity building** through an education centre for staff, Farmers Development Programme and education in modern agricultural methods at Farmer Field and Life Schools for the villages concerned.
- **Diversification of the country's industry** through the creation of export incomes by processing local raw materials.
- **Climate compensation** provided that the renewable power plant that is now registered also is classified as a CDM project. CDM (Clean Development Mechanism) is a part of a project under the Kyoto Protocol that allows industrial countries to invest in projects that will help decrease emissions in developing countries as an alternative to the more costly reduction of emissions in their own countries.

The media and civil society organisations have on different occasions been critical of Addax Bioenergy, claiming that the company has not kept its promises that they had allegedly given. Swedfund takes all criticism seriously, but concludes that several errors have been made in published reports about the number of employees and how land expropriation had supposedly taken place. Addax has, throughout the entire investment phase, held public meetings with the local population and agreements have been reached in a transparent and open way. Shareholders of Addax Bioenergy have also hired external consultants who followed up and continue to follow up and assess the investment.

Addax Bioenergy has invested great resources into making their business sustainable, inclusive and long-term. The company has made extensive risk analyses that the local population had a chance to comment on. The company has measured the land in order to give the original landowners a written and registered proof of ownership, which they had previously not possessed. Regular dialogue and meetings have been held with the local population and other interest groups, where they have been informed about the project and the establishment of mechanisms for complaints. During the year Addax Bioenergy em-



Swedfund's investment contributes with about 2,000 direct jobs and also indirectly in the supply of services etc.

ployed a gender and liaison officer with the responsibility of setting up more mechanisms to obtain women's opinions.

Statistics from FAO show that only 20 per cent of the country's arable land is presently cultivated. Even after domestic food production needs are satisfied, FAO estimates that Sierra Leone will have two million hectares arable land remaining. Addax Bioenergy uses 0.5 per cent of that land.

Swedfund's ESG Manager Kristin Sjöblom visited Sierra Leone and the project area during a three-day visit in May 2012. She met with Addax Bioenergy staff, the civil society organisation SiLNoRF, FAO and the Deputy Minister for Agriculture in Freetown. In addition, visits were made to the Farmers Development Programme (FDP) and Farmers Field & Life School, to a number of pumping stations, as well as to four villages in the area. During the meetings and visits to the villages, issues such as access to water, availability of food, the FDP programme, employment conditions, the grievance mechanism, etc. were discussed.

The external quarterly monitoring shows that the project is managed and directed in a sustainable way, and the conclusion after Swedfund's visit is that the project is being implemented in accordance with the

intentions of the investment. Addax Bioenergy has drawn up and introduced plans and processes, have employed skilled staff to handle, reduce, supervise and report about relevant environmental and social issues, including the grievance mechanism.

Large-scale projects that are in the start-up phase continuously develop and change, which is why plans and processes must be adjusted accordingly. It takes time to get everything right, and Swedfund's opinion is that Addax Bioenergy is handling the sustainability issue in a satisfying way.

## Addax Bioenergy

### Business

Integrated agricultural and renewable energy project in Sierra Leone

### Year of investment

2011

### Swedfund's investment

EUR 10 million in the form of equity capital

### The most important effects on development

- Energy supply from renewable energy sources
- Employment
- Capacity building
- Improved infrastructure (e.g. new roads)
- Demonstration and spill-over effects
- Contribution to improved trade balance for the country

# Global Medical Investments GMI AB

**T**he World Health Organisation estimates that about 10 million people in the world are diagnosed with cancer every year, roughly half of whom live in low and middle-income countries. Of those who die from cancer about 70 per cent live in low and middle-income countries. More than a third of all cancer cases can be prevented and an additional one third can be cured if the illness is discovered at an early stage. However, many developing countries have poor health-care systems where cancer treatment is not prioritised.

In 2009 Swedfund decided to start a joint investment and project development company, Global Medical Investments GMI AB (GMI). GMI's business concept is, as a majority shareholder or biggest owner, to establish and run modern cancer clinics in developing countries that lack facilities for radiation treatment

or where the demand is significantly higher than the treatment supply.

At the turn of 2012-13, GMI was a part owner of five cancer treatment clinics in as many countries (Dominican Republic, Chile, Ecuador, Ghana, and Indonesia). The clinic in Indonesia was put in operation during 2012.

As well as the investments in clinics contributing to the treatment of cancer patients, GMI's establishment also means a significant transfer of capacities and technologies. The innovating financial systems that GMI was a part of creating can also be replicated to other areas and can therefore serve as a model that will contribute to the development of the society in general. Also read the interview with GMI's chairman Jan Sundberg.

## Global Medical Investments GMI AB

### Business

Project development and investment company to establish and invest in clinics for cancer radiation treatment. To be a part of running the clinics by being active in local boards.

### Year of investment

2009

### Swedfund's investment

SEK 70 million in equity capital and shareholder addition.

### Most important

### development effects

- That the cancer patients are treated and can return to productive work.
  - Entire or part of the multidisciplinary (medicines, radiation therapy through Gamma knife, and linear accelerator) cancer clinics are set up in regions that are lacking in such effective treatments.
  - Doctors and other personnel in low and middle-income countries who get quality cancer treatment education abroad are given the possibility to move back home and utilise their acquired specialities.
  - That the clinics give locally educated medical personnel the opportunity of qualified work and additional education that bolsters the domestic knowledge and expertise in cancer treatment and gives a recruitment base for others who intend to start up state-of-the-art treatment centres.
  - In developing countries that have previously lacked advanced cancer treatment there is often also a lack of legislation (including permits and patient financing) that is required for medication- and radiation treatment.
- By GMI setting up cancer clinics in these countries, they contribute to the development of regulations and the establishment of additional clinics, not only during the establishment process. This contributes to additional availability of quality healthcare and jobs for qualified medical staff.
- Through GMI's initiative, an independent fund has been set up to give the people living under difficult conditions the possibility of treatment at the centres. The first fund, located in Ghana, has started fundraising and the initiative was welcomed at government level. The goal is to promote the establishment of national funds in the countries where GMI operates.



Global Medical Investments GMI AB establishes and runs modern cancer treatment clinics in developing countries where demand for cancer treatment services is significantly greater than the existing treatment provision.

### »SWEDFUND'S GOAL IS TO CONTRIBUTE TO CREATING SOMETHING THAT IS MISSING IN THE SOCIETY STRUCTURE.«

**J**an Sundberg has many years' experience of the banking sector and is Chairman of the Board of Global Medical Investments (GMI) jointly owned by Swedfund and Elekta. Elekta developed the radiation knife, Leksell Gamma Knife.

Radiation is an established tumour treatment method and, Gamma Knife is used specifically for radiation treatment of tumours the head and neck. Today GMI runs radiation treatment clinics in five countries, one of which is in the Ghana capital, Accra.

“People who are well off can get their cancer treatment elsewhere. Through clinics we have the possibility to reach out to the group of people who would otherwise have no access to treatment. Our business model entails people with few resources being subsidised by those who are richer,” explains Jan Sundberg.

Importing equipment does not necessarily need to be difficult. However, getting new technology and a new clinic up and running is a great challenge. If the investment is going to work, the clinic has to be integrated into the country's healthcare and insurance systems.

“It's about the combination of technology and skills. The work is built around good cooperation with the country's leading hospitals that can diagnose patients and refer them on. In several countries local hospitals are also part owners of clinics,” says Jan Sundberg.

What development results does GMI contribute with? The most obvious are the transfer of technology and knowledge, the investment of capital, capacity building of local staff and new job opportunities for qualified medical staff (who would otherwise search for jobs abroad). The more unexpected one, albeit equally interesting in the long term, is that the clinics supports the establishment of sustainable financing systems within healthcare.

“The countries in which we establish often lack a functioning tax system like we are used to. This is why in parallel to treatment we must also develop financing systems adapted to the country in question. In Ghana we have also helped with the start-up of a foundation that financially supports the treatment of people who cannot afford to pay themselves.”



PHOTO: ÅSE BENGTSSON HELIN

Another way is the collaboration with labour unions where a small part of the union fee is set aside for health care insurance.

So why are Swedfund's investments needed for these kinds of investments? Well, to develop an entire concept with similar clinics, an experienced partner committed to a long-term engagement is a necessity.

“I think that the Swedfund model is both exciting and interesting. What they offer is a help to self-help concept to which we contribute with knowledge and capital.”

The investment can also indirectly contribute to the development of new business models in other areas of society:

“Swedfund's goal is to contribute to creating something that is missing in the society structure and which later becomes a part of the entire health system.

Jan Sundberg, who is currently engaged in about ten companies and funds, came in touch with Swedfund through his work with risk management and venture activities in the bank formerly known as SE Bank.

“I think that this is an incredibly interesting area to work with. Many Swedish companies work with relatively developed products where it is important to find new markets. At the same time, it can be rather challenging to fully finance an investment through its own daughter company. This is why Swedfund's role is so important in that it helps carry out projects that are of great importance in developing the market in the countries in which the investment is made.

# Exited investments

**S**wedfund draws up an exit report for every exited investment. The exit report is an important part of Swedfund’s investment process when we reflect about experiences and draw conclusions from earlier investments. Based on these experiences we can continue to

improve the analyses of our new investments and manage risks or even abstain from making some investments. Next year’s Exit report will be fully adapted to the fundamentals Private Sector Development, Sustainability and Financial Viability.

## The following investments were exited in 2012:

Company	Country	Industry	Type	Form	Share in %	Dur. years	Invested	Exit	Profit	Internal rate of return
							amount	amount		
							in SEK Mill			
Access Bank	Azerbaijan	Microfinance	Expansion	Loan	-	4.0	30.8	42.2	11.4	10.2%
BIM	Bolivia	Equity fund	Establishm	Equity	25.0%	15.0	0.6	3.7	3.1	21.5%
BR Fuel	Liberia	Forestry	Establishm	Equity	9.9%	2.0	97.5	106.0	8.5	4.4%
Micro Africa	Africa	Micro finance	Expansion	Equity	22.9%	10.4	3.9	8.4	4.5	7.6%
TOL	Tanzania	Industrial gases	Expansion	Equity	4.0%	8.0	1.5	1.4	(0.1)	(1.3%)
<b>Total</b>						<b>2.8</b>	<b>134.3</b>	<b>161.7</b>	<b>27.3</b>	<b>6.8%</b>

1. Fixed rate of 9% in euro according to the contract with Vattenfall. 2. Figures for Micro Africa are based on when the fund Acacia (that Swedfund later took over) bought shares in the company.

In this report we have chosen to give a few selected examples of results that have positively contributed to private sector development and the promotion of sustainable business in the respective country.

- **Access Bank** – the first international bond both for Azerbaijani issuer as well as for an individual micro-finance institution. The bank received several awards for its work with transparency and sustainability (social, environmental and corporate governance), in 2009 it was awarded the Financial Times Sustainable Banking Award, and in 2010 was named Most Transparent Azerbaijani Bank by Standard & Poor’s. Swedfund’s involvement contributed to meeting the high demand for financing from micro, small, and medium-sized companies, all of whom are important providers of employment outside of the public sector.
- **BIM** – contributed to the development of the financial sector in Bolivia and also to the growth of stock trade on stock exchange markets (since the President nationalised a large number of companies in 2006, progressed has gone backwards). Swedfund’s participation contributed to the development of the financial sector in Bolivia, especially microcredit institutions, as well as to the growth of stock trade. This has served as an example as there were few actors who wanted to enter this market when the opportunity for investment arose.
- **BR Fuel** – investing in renewable energy in a post-conflict country together with a Swedish company with high demands on ESG and demonstration effects. Swedfund’s participation contributed to investment in renewable energy in a post-conflict country with the aim of creating job opportunities, increasing export incomes and revitalising rubber production, Liberia’s most important industry. During Swedfund’s investment period, a lot of technology and knowledge was transferred, and high requirements were demanded from the companies to meet the ESG standards. After two years, Swedfund was bought out of the investment.
- **Micro Africa** – successful expansion of microcredit institution in East Africa. Swedfund’s participation has contributed to a successful expansion of this micro-credit institution with business in Kenya, Uganda, Rwanda and South Sudan. The establishment in South Sudan is to be seen as a pioneer business for supporting private sector development in the country. The number of employees has increased, and education on CSR issues with focus on anti-corruption has been initiated with Technical Assistance support from Swedfund.
- **TOL** restructuring of a 50-year old Tanzanian industrial gas company. Swedfund’s participation contributed to increased private ownership through expertise and corporate governance support. Today the company has a workforce of 75.



PHOTO: SWEDFUND

Planning on site.

# Technical Assistance

**S**wedfund has been given an approval by the owner for special funds for Technical Assistance (TA) in order to finance projects that are outside of the regular business in our portfolio companies. These funds shall only be used to improve the quality of existing investments, primarily within ESG, or to follow-up and analyse previous, now exited investments. The projects are initiated by Swedfund but can also be developed in a dialogue with another partner company. During 2012 Swedfund's Technical Assistance committee approved funds for 11 projects, one of which was the extension of a previous project. The project was primarily comprised of "Quality Improvement in Portfolio Company". A more detailed review about how the funds have been used can be found in the Appendix 4 on page 93. During the year SEK 7.5 million have been approved. SEK 4.9 million of the allotted funds are still available. Examples of Technical Assistance projects: Quality Improvement in Portfolio Company related to capacity building of E&S Managers (Environment & Social) as well as assessment of environmental and social risks in Norsad Finance Ltd's investments.

Together with other Nordic DFIs and development banks from 11 SADC countries (Southern Africa Development Community), Swedfund is a shareholder of Norsad Finance Ltd (Norsad), a financier of SME companies and financial institutions in southern Africa. During Swedfund's and other shareholders'

due diligence of Norsad in 2011, a need to strengthen the E&S function in the company was identified. Swedfund and Norfund have thereafter announced that this process could be carried out with help of consultants within the framework of our technical assistance programme.

## Technical Assistance

Technical Assistance finance a consultancy assignment with the following tasks:

- Together with the E&S Manager go through Norsad's loan portfolio and ensure that the categorisation of risks is in line with the company's E&S policies.
- Develop processes in order to be able to evaluate potential risks in the portfolio companies with regard to environmental and social factors.
- Give recommendations in order to limit the risks with regard to selected projects.
- Capacity-build Norsad's personnel in E&S issues, especially the E&S Manager, but also to a limited degree the Investment Managers.

The project was initiated during 2012 and is estimated to run from January to April 2013. The overall cost of the contribution is estimated to SEK 462,000, of which Swedfund will reserve maximum SEK 264,000.

# PERFORMANCE REPORT ON INVESTMENT PORTFOLIOS

## A well-defined framework for performance reporting

As of now, Swedfund is reporting on results of its operations within the three performance areas defined in the mission: **Private Sector Development**, **Sustainability** and **Financial Viability**. The indicators that have been selected within these performance areas are both qualitative and quantitative, direct and indirect, and will be used throughout the entire investment cycle, from the initial assessment of the incoming project, in the ongoing follow-up of the portfolio company throughout the entire management phase, and finally during the evaluation after the concluded (exited) project. Efforts to monitor results of an operation are under constant development.

The 29 portfolio companies that forms the basis of the performance report below in areas Private Sector Development, Sustainability and Financial Viability are direct investments (equity investments and/or loans) in manufacturing and service sectors, and for example companies within the hotel- and healthcare sectors. Investments in financial institutions are not included in the selection, since we are currently developing tools for monitoring and performance reporting within this sector. Portfolio companies in which operations have not yet started, or portfolio companies in which the operations have been completed during the year, are also not included in this report.

### *Model for analysis*

During 2011, a new model for reporting on development results has been implemented. The model is intended to be initially applied in the assessment phase of an investment in order to identify expected development results. Thereafter, during the management phase, the actual development results are compared to the expected results, and are then reported about in the annual report on portfolio companies. Finally, during the exit phase, an analysis of actual development results is conducted, and a harmonisation with expected results is made. 2012 is the first year in which the new model has been applied in exit reports. The model

focuses on the four thematic areas that can be found in the IFC model, Development Outcome Tracking System (DOTS). Within each respective area, a number of indicators are used that include both qualitative and quantitative results, as well as direct and indirect indicators.

- Financial performance (examples of indicators: Revenue, Profitability and Return)
- Economic results (examples of indicators: Wages, Taxes, Direct and Indirect Employment Opportunities)
- ESG results and improvements (examples of indicators: Resource Efficiency, reduced negative climate effects, introduction of environmental management systems, improved working environment, improved working conditions, introduction of policies, including improvement of company management and management of corporate procedures)
- Private sector development (examples of indicators: Transfer of Technology and Knowledge, Demonstration Effects, Increased Competitiveness)

During 2012 we have continued working with the development and implementation of the model through annual monitoring and reporting on concluded projects. Among Development Finance Institutions there is an established consensus regarding the method for analysis, monitoring and reporting on development results. The methodology that Swedfund follows is also in line with how other DFIs are working. During 2012 Swedfund has participated in international initiatives ongoing between DFIs and that have the aim to harmonise indicators, as well as their definitions, for analysis of development results.

## Results for Private Sector Development

At the end of 2011, the number of *direct jobs* created in the 29 portfolio companies amounted to 7,050. To this number shall also be added a great number of *indirect jobs* generated through the companies' distribution and supply chain. We do not monitor or report about the number of indirect jobs generated in

this way. IFC, however, estimates that the number of indirect jobs created in IFC's portfolio company is 7–25 per direct employment (*IFC Jobs Study – Assessing private sector contributions to job creation and poverty reduction*). IFC further concludes that many of those indirect employments are beneficial for uneducated and poor people. We therefore conclude that the effects on job creation are significantly greater than the 7,050 direct jobs that were reported by the selected 29 portfolio companies.

Company's reported taxes amounted to SEK 50 million (pertains to 22 portfolio companies). These taxes can be used to finance social and economic infrastructure in the investment countries, which will benefit the country's population.

The supporting documents for the reporting on taxes are taken from the latest available annual report (17 up until 31 December 2011 and the remaining five from the split financial year 2012, or the latest financial statement from 2010). We have still not received some of the portfolio companies' financial statements from 2012. Of the 29 selected companies, seven are excluded, since 2012 was their first business year and/or because Swedfund has not yet received their financial statements. Due to the fact that the majority of the companies do not report about the number of employees in their annual reports, the information was taken from our self-declaration *Swedfund Self-Assessment Sustainability Report*. The data about the number of employees includes companies that have not yet been put into operation, but already have employed staff. For five companies, the information about the number of employees is missing.

In order for competitive and sustainable companies to be able to develop and grow, it is not only capital and good partners in the cooperation country that are required. An equally important part in the work is an active *capacity building* effort that is conducted in dialogue with portfolio company's stakeholders, and the portfolio company itself.

Apart from the Board expertise itself, through its part-ownership of the portfolio company, Swedfund can contribute with Swedish experiences regarding environmental issues, human rights, ESG management and experience of collaboration with the civil society. This is also fully in line with Swedfund's ownership governance and the guidelines for Swedish development cooperation.

Many times, some of Swedfund's portfolio companies serve as a model that can inspire other companies

in the same sector. Capacity building of staff at a hotel could with time e.g. lead to employees starting their own businesses that could then lead to creation of employment for even more people. Therewith can the effect of an investment become even greater than what was initially anticipated.

## Sustainability

Swedfund takes part in establishing companies in several of the world's most difficult environments. Corruption, informal economy, illiteracy and lack of governmental structures are only a few of the challenges that we and our portfolio companies are faced with. During the past year, resource investment in ESG has therefore increased immensely and sustainability is a prioritised development and working field for Swedfund. Swedfund's core values and development of our policies (described on pages 20–23) shall now also trickle down into our portfolio companies. Just as before, it is important to formulate policy requirements to be upheld in lending and shareholder agreements. However, this is not enough. The establishment of relevant policies in portfolio companies is a long-term and painstaking process with capacity building as one of its important tools. Development of policies is not enough either, which is why our follow-up and advocacy dialogue (described on page 49) is central for reaching our target. We have now selected sustainability indicators that focus on some of the most difficult and important issues to properly manage in portfolio companies, for example, corruption and environmental issues. This year's annual ESG reporting – a new model for ESG reporting – is a Baseline report that gives us a starting point for the continued necessary work with follow-up and advocacy dialogue.

### *New model for ESG reporting*

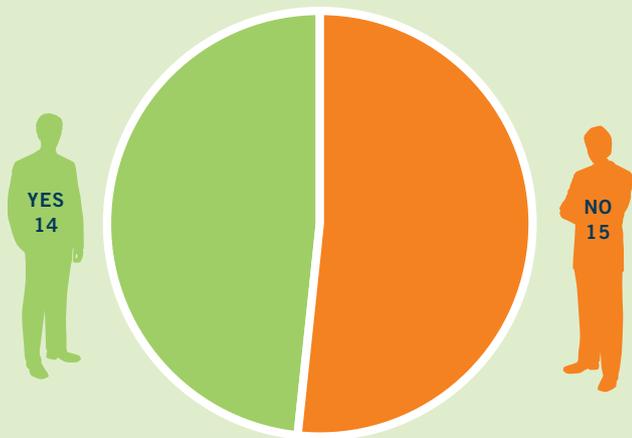
In last year's Sustainability and Annual Report we expressed the ambition to, in 2012 annual report give details about the portfolio company's data from the ongoing fiscal year, and not, as in previously published annual reports, report on data older than the present fiscal year. However, it turned out to be difficult to report on results from our very extensive *Swedfund Self-Assessment Sustainability Report*, since it was not specifically developed for such kind of reporting. This is why in 2012 Swedfund introduced a new routine that requires annual reporting by our portfolio companies about a number of ESG indicators. Swedfund Portfolio Company ESG Key Performance Report is

the self-declaration that we sent to portfolio companies in order to report for Swedfund's Sustainability and Annual Report 2012.

This newly designed, shorter self-declaration with five questions focusing on performance reporting was emailed to the 29 portfolio companies. All companies have provided answers. This performance report, and this year's selection of indicators, is a pilot report and may change according to the decision that the Swedfund's Board of Directors takes in 2013 about strategic sustainability targets. It should also be noted that the responses from the companies are self-declared and have not been subject to independent review.

The focus in this performance report is on policies, responsibilities and management. This focus has been chosen because such information provides a detailed picture about how companies are working with sustainable business. Energy and climate issues have been prioritised because the focus in 2012 was precisely on climate issues. The UN Rio Conference and the World Bank report, *Turn Down the Heat – Why a 4°C Warmer World Must be Avoided*, illustrates the gravity of climate issues.

## Results for Sustainability



### Sustainability or environmental policy

1. Does your company have a sustainability or an environmental policy (a document, preferably signed by the management, showing how the company addresses environmental, social and governance issues in its operations)?

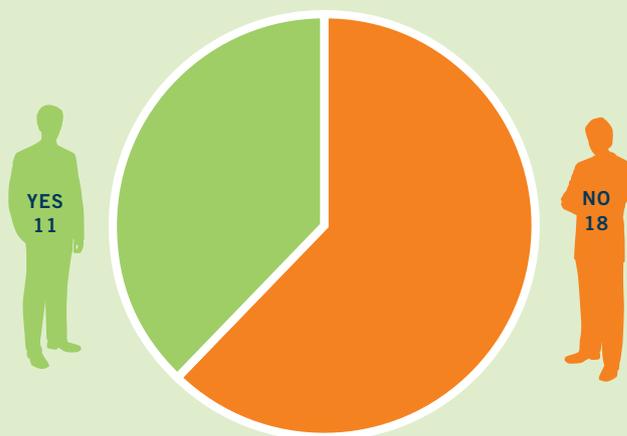
#### Results

14 portfolio companies have an environmental policy and 15 do not. Of those that answered Yes, two decided to follow their parent companies' environmen-

tal policies. Some environmental policies are detailed while others are concise. 3 companies that answered Yes to the question but have not yet sent us any policy, are reported as No.

#### Remarks

In Swedfund's portfolio there are companies with diverse activities, such as retail, healthcare and manufacturing industries. This explains why different companies chose different focus for their policies, such as Environment, Health, Safety, Quality, Work Environment, External Environment or Sustainable Development. Variations in policy wordings are also very large, ranging from simple "Statements" to group-wide comprehensive policy documents. It is, of course, not satisfactory that half of the companies do not have policies on environment and sustainable business. However, this gives us at Swedfund the opportunity to make a difference through our advocacy and to bring about improvement.



### Anti-corruption policy

2. Does your company have an anti-corruption policy (a policy to minimize the risk of management and employees engaging in corrupt practices, such as bribery, kickbacks, fraud etc.)?

#### Results

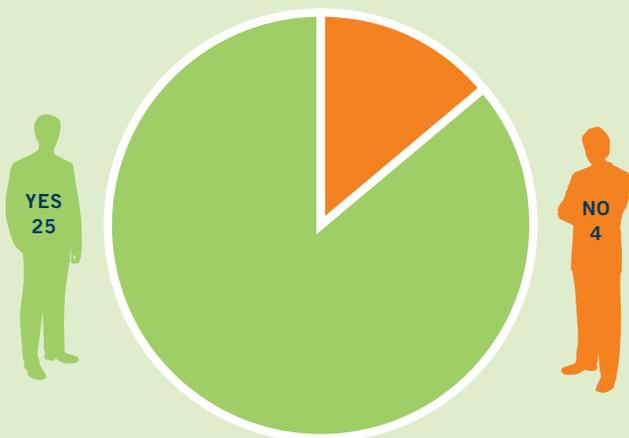
11 portfolio companies answered Yes and attached their policies. 18 companies do not have a specific anti-corruption policy. Seven companies that answered Yes to the question, but did not send us any policies, were reported as No. The companies that have parts of the corruption issue aspects in other governing documents, as in e.g. a Human Resources Policy are reported as No.

### Remarks

The findings suggest there is a potential for improvement. In this context it should be noted that most of Swedfund portfolio companies are small- or medium-size enterprises. In smaller companies, as we know from experience, working on development of policies is often not prioritised.

Anti-corruption clauses are included and have also previously been included in Swedfund's loan- and shareholder agreements, in accordance with which portfolio companies certify that they have not acted and will not act in such a way that could be described as corruption.

Our portfolio companies shall, by adopting Swedfund's new anti-corruption policy in the agreement, endorse and commit to follow its own adopted anti-corruption policy. With the Portfolio Anti-Corruption Policy Model that Swedfund is now providing to portfolio companies as support and "help to self-help", we hope to improve these results already next year.



### ESG Manager

3. Does your company have a designated manager or board member specifically responsible for ESG issues? If so, please provide the name of this person.

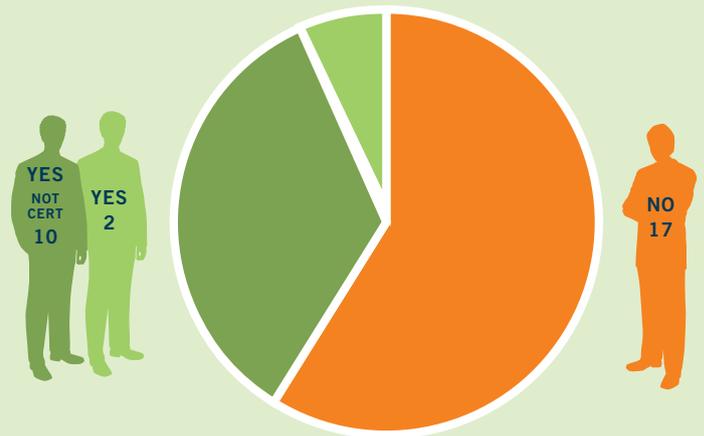
#### Results

25 companies answered that they do have an ESG Manager and have provided their names. 4 answered No, which means that they do not have a person with this designated responsibility.

#### Remarks

The companies have here reported that this responsibility lies either at board level, management level or on the operational level. Responsibility for ESG issues is

often part of additional management responsibilities in the companies. This result indicates that we need to know more about job descriptions and areas of responsibilities at the company itself in order to feel comfortable that the ESG issues are actually given priority.



### Management system (ISO 14001, OHSAS, SA8000)

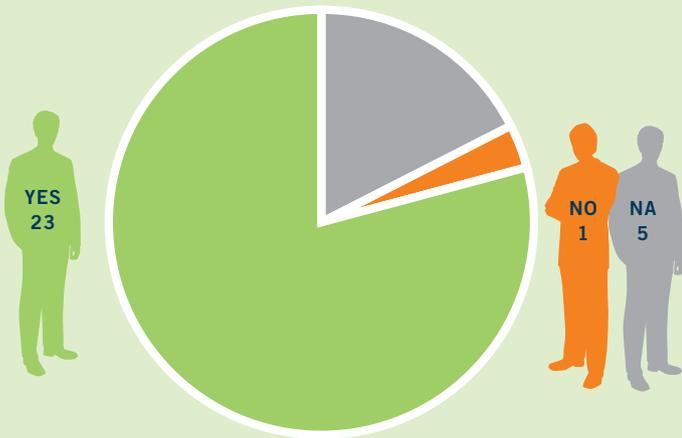
4. Does your company have a Management system in place to manage and monitor the significant aspects of sustainability, environment or health and safety in operations (i.e. ISO 14 001, OHSAS 18 001, SA 8000)?

#### Results

Two companies have attached certificates regarding management systems for environment, health and safety. Apart from these, 10 companies responded that they have management systems, but that they are not certified (it is noted here that certain management systems, such as HAPPC, are not possible to certify externally). 17 companies answered No to the question, and thus have no management systems.

#### Remarks

That only three companies established certified management systems is less noteworthy than that two-thirds of companies actually have no established management system at all. From Swedfund's perspective, systematic work with environmental, health and safety issues is a must. That a company at least complies with regulatory requirements and pushes for constant improvement, reduces environmental impact and improves the working environment is central for sustainable business. Lack of management systems means that there is a great potential for improvement.



## Report about energy consumption

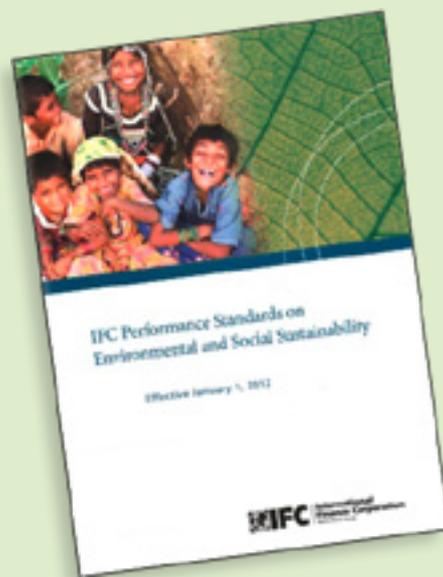
5. *Energy consumption. Please report energy used during the past 12 month period (indicate which months) in the table below. Include purchased electricity as well as fuels burned on site (e.g. for generators). Measurements can be taken from fuel bills/invoices and similar “paper-trail” records.*

### Results

23 companies have reported about their energy consumption during 2012, including both electricity and oil/diesel consumption. One company did not report and five companies stated that the issue of energy is not applicable to their business.

### Remarks

The fact that the companies actually measure and report about their energy consumption indicates maturity in the perception about what impact their business has on the climate. Only after reporting routines are established, realistic goals for energy efficiency can be set.



## Follow-up and advocacy dialogue

Swedfund’s core values and business ethic approach that is expressed through adopted international frameworks, codes of conduct and policies, constitute the platform for Swedfund’s overall business. Sustainability (ESG) is one of the foundations of Swedfund and is crucial in reaching development of core values in portfolio companies. For more information about the frameworks and standards that Swedfund follows, see page 22.

In practice, IFC’s Performance Standards on Environmental and Social Sustainability [www1.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/ifc+sustainability/publications/publications\\_handbook\\_pps](http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/publications/publications_handbook_pps) is the standard tool that Swedfund uses as a basis to identify risks in the due diligence process before an investment, as well as in the advocacy work that we continue to pursue in dialogue with portfolio companies. The standards are used to prevent, reduce and manage environmental and social risks and impacts. IFC’s Performance Standards are eight in number:

1. Assessment and Management of Environmental and Social Risks and Impacts.
2. Labour and Working Conditions.
3. Resource Efficiency and Pollution Prevention.
4. Community Health, Safety, and Security.
5. Land Acquisition and Involuntary Resettlement.
6. Biodiversity Conservation and Sustainable Management of Living Natural Resources.
7. Indigenous Peoples.
8. Cultural Heritage.

Read more on IFC’s website, [www1.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/ifc+sustainability/publications/publications\\_handbook\\_pps](http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/publications/publications_handbook_pps):

## Self-declarations, risk analyses and monitoring of sustainability

Swedfund's monitoring of sustainability shows whether a portfolio company follows responsible business practices with regard to environment, social issues and corporate governance in line with what has been stipulated through the contract. In joint investments with other DFIs, another DFI other than Swedfund can be responsible for this monitoring. In order to follow up on portfolio companies' Sustainability and ESG status, Swedfund, during 2011, further developed the tool that we use in our work. *Swedfund Self-Assessment Sustainability Report* is a self-declaration containing 144 questions about portfolio companies' Sustainability and ESG efforts. The questions focus on environment, human rights, working conditions, anti-corruption, business ethics, gender equality, diversity and corporate governance.

The self-declaration was emailed to portfolio companies in spring 2012. In total, 29 manufacturing companies and companies working in the service sector were sent the new self-declaration and responses were received from all but three companies, two of which were under decommission from Swedfund portfolio and one company reported in a corresponding manner to another DFI. The answers formed the basis for planning the 2012 ESG monitoring in the company itself. After the internal ESG analysis and its anchoring with the respective Investment Manager at Swedfund, Monitoring visits and Audits 2012 were established and implemented as follows below.

Sustainability/ESG monitoring in the selected companies were conducted by Swedfund's ESG Managers singlehandedly, or together with Swedfund's Investment Manager in each company respectively. External consultants were tendered for four monitor-

ing assignments. Based on the agreement signed with the companies and the self-declarations that they sent to Swedfund, the companies' ESG status was checked, verified, discussed and documented. Together with company managers, agreements were reached about specific time schedules for prioritised ESG activities. This work is ongoing throughout the management phase with the ambition to contribute to steady improvements and development of values.

## Serious accidents/deaths in portfolio companies

Swedfund's portfolio companies conduct their business under well-established safety procedures. Despite this, accidents with severe consequences sometimes do happen. Two deaths after an accident were reported in two companies, one in 2012 and one in January 2013. Both accidents occurred during road transportation. Obviously these tragic deaths will increasingly sharpen requirements for routines. The goal is and always has been to completely avoid accidents and work-related injuries.

## Results for Financial Viability

One of the prerequisites for development results to be achieved at all through business is that the company is financially viable, that is to say, profitable. This is why it is of course highly relevant to analyse and report on how companies perform financially. This is preferably done for each company individually (which is done internally and is an important part of the work of the IM responsible), based on the companies' specific conditions in the markets in which they operate. At the same time, it is interesting to collect financial data for portfolio companies in order to show the extent and magnitudes that these companies stand for. We have below chosen to report about the turnover, turnover

Portfolio company	Country	On-site visit	Internal/External	ESG Manager
Buchanan Renewables	Liberia	18 March	Internal follow-up	K Sjöblom
Addax Bio Energy	Sierra Leone	7 May	Internal follow-up	K Sjöblom
Prestando Wuxi Co.	China	9 May	Internal follow-up	L-O Larsson
Karlsson Spools Co.	China	10 May	Internal follow-up	L-O Larsson
HSF Wuxi Electro Mechanical	China	8 May	Internal follow-up	L-O Larsson
Emerald Addis	Ethiopia	11 September	Support by external consultants	L-O Larsson
Addis Quarry	Ethiopia	12 September	Internal follow-up	L-O Larsson
ACH Addis Cardiac Hospital	Ethiopia	13 September	Internal follow-up	L-O Larsson
Jacobi India	India	11 October	Support by external consultants	K Sjöblom
Jacobi Lanka	Sri Lanka	16 October	Support by external consultants	K Sjöblom
Athi River Steel Plant	Kenya	6 November	Support by external consultants	K Sjöblom

growth and profitability on aggregated level for 22 portfolio companies. These rates provide a sense of overall development of these companies.

The aggregate rates are difficult to analyse considering the fact that the companies are very different from several perspectives: countries in which they operate, phase of their maturity (newly established, mature companies, etcetera.), level of risk to operations, industries, currencies, markets, regulatory environment, etcetera. Henceforth, Swedfund will also continue to work on developing this part of the performance report.

The aggregate turnover in our reported selection of portfolio companies at the end of the year totalled SEK 3,709 million and the average revenue growth per company was 30 per cent compared to the previous year. Profit after tax on the aggregate level totalled SEK 182 million. Nine out of 22 companies reported negative results, since they are in their early development phase. Given the level of risk and challenges in the companies' markets, this is not surprising. We know from experience that it takes time for newly established companies to generate positive net income.

Turnover plus result after taxes is based on following financial statements: 16 companies' financial statement up until 31 December 2011 (currencies EUR, ETB, EGP, XOF, KES, CNY, LKR, USD, LTL, GHS, LVL och BYR), two companies' financial statement up until 30 June 2012 (currencies ETB och KES), three companies' financial statement up until 31 March 2012 (currency INR) and one financial statement up until 31 December 2010 (currency EGP) and has been exchanged from local currency into SEK according to the exchange rate on the date of the financial statement. The turnover growth is calculated in local currency.

### Corporate governance in portfolio companies

A central part of Swedfund's operations is the work we do with companies' corporate governance during the management phase that for an equity investment often lasts between five and ten years. Swedfund's involvement in portfolio companies' corporate governance is of utmost importance for the way in which these companies are governed, managed, achieve results and report. The starting point for an equity investment is that Swedfund be guaranteed a place on the board of the company. Usually this is the investment manager, but in some cases Swedfund engages external people to sit on the portfolio company's Board on Swedfund's behalf. Professional development of our board mem-

bers is a continuous process, and trainings within a board are of high priority. During the fiscal year an inventory of the educational status has been made and three employees conducted certified courses. Two employees were certified in DEG's Board education and one by the Swedish Academy of Board Directors. Responsibility in a board is always personal. The basis for working in a board is Swedfund's mission, core values and policies.

There is a clear connection between our engagement in corporate governance of portfolio companies and sustainable business. This is why experience and knowledge about corporate governance are an extremely important part of Swedfund's development cooperation work. Since risk and business conditions are constantly changing, a board's competence must also evolve and adapt to new conditions.

In order to boost the development of our corporate governance engagement in portfolio companies, Swedfund together with thirty other financial institutions adopted the Approach Statement on Corporate Governance. The aim is to harmonise assessments and procedures in order to establish and monitor corporate governance in portfolio companies through a jointly adopted methodology, the Corporate Governance

#### Corporate Governance Development Framework

A FRAMEWORK FOR INTEGRATING CORPORATE GOVERNANCE INTO INVESTMENT OPERATIONS

Each signatory of the Framework undertakes to:

##### 1. Integrate Corporate Governance ("CG") in its investment operations

- Adopt CG procedures and tools in line with the Framework's methodology;
- Where considered appropriate, conduct CG assessments of investee companies and develop CG action plans;
- Monitor progress of the implementation of CG action plans.

##### 2. Ensure internal responsibility

Identify and assign an internal function that is responsible for the implementation of the Framework.

##### 3. Provide or procure training

Ensure capacity building and knowledge transfer to staff for the implementation and further development of the Framework.

##### 4. Collaborate with other signatories

- Share experience and resources in training and implementation;
- Contribute to developing case studies and progress reports on the above.

##### 5. Report on implementation

Report annually to the other signatories on the internal implementation of the Framework.

Development Framework. A plan for this work was agreed upon in 2012 and managers have been appointed to start implementing this framework in 2013.

### Investing in the hotel industry as an example

In recent years, Swedfund has made several investments in the hotel sector. Are these really investments that contribute to poverty reduction? We think so, and so does the World Bank and IFC, who believe that hotel investments in low and middle-income countries provide significant development results. Since 1956, IFC has invested about \$ 2.5 billion in more than 250 hotel projects in 83 countries, where hotel industry's direct and indirect effects on development are evident. In 2007, the World Bank carried out in-depth studies of two hotels, a four-star and a five-star hotel in Zambia. The direct development results were easier to measure than the indirect ones. One conclusion was that the hotels created 840 direct jobs in total (380 rooms and 2.2 jobs per room, IFC Hotel Investments – Delivering Development Impact in Africa (2007)), 60 000 visiting tourists (2006), who paid USD 6 million in tax, sales tax and fees and spent USD 4 million in the local economy. The four million in turn generated 400 jobs and enabled the schooling of almost a thousand children.

The World Bank also observed that the more stars a hotel has, the more jobs are created and better development results are achieved. Four and five-star hotels with higher demands from guests, higher quality and higher service generate up to three jobs per room. These hotels have higher standards, which leads to more employees with higher education. They generate more tax and VAT revenues and also attract a greater inflow of foreign currency.

Hotel investments generate development and development results such as:

- Direct employment during construction and operation.

- Indirect jobs in distribution and supply chain through building contractors, food suppliers, restaurants, tourist services, local crafts, other retail and service companies.
- Tax and VAT revenue for the country.
- Infrastructure for local, regional and international business people as well as for tourism.
- Inflow of foreign currency from businessmen and tourists.
- Transfer of knowledge and skills.
- An improved local environment; reduces and limits the use of materials and products, minimises waste and water consumption, limits and optimises transport.

Since 2001, Swedfund has made five hotel investments, three of which were in operation and two under construction at the end of the year. During the year, Radisson Blu Addis Ababa in the Ethiopian capital Addis Ababa was opened. The project was made possible through Swedfund's equity investment in the real estate company Emerald Addis Hotels Private Ltd. Co., as well as through joint loans together with several DFIs through Afrinord. The hotel, which has 208 rooms, is located in central Addis Ababa and is operated by the company Rezidor under the brand Radisson Blu.

During the construction period, about 300 people were employed and currently the hotel employs 302 people, of which one third are women. Prior to their employment, employees undergo a comprehensive training that includes Rezidor's Code of Business Ethics, the hotel's guiding document, and employee handbook. A large part of the employees only had elementary education when they were employed, but through their employment got a useful further education and then an ongoing training.

In September 2011, six months after the hotel opened, Swedfund conducted an external in-depth analysis of how Swedfund's ESG standards and



PHOTO: RADISSON BLUE HOTEL

PHOTO: ISTOCK



Swedfund is looking into different methods to compensate for the environmental impact that the company's air travel causes. For example, such methods include choice of airlines and flight routes, purchase of emission allowances, CDM projects and tree-planting projects.

requirements are being implemented by the hotel's management company. The ESG inspection was done with the help of external consultants. The conclusion was that the hotel clearly met Swedfund's ESG standards and requirements. All necessary policy documents and manuals were established to ensure a good work environment for staff and a safe environment for guests. The improvement proposals initiated through the analysis were primarily related to remaining property-related matters.

### **Swedfund's CO2 footprint**

Swedfund's main environmental impact is the one that for obvious reasons occurs in portfolio companies. However, the environmental pollution that occurs when our employees travel to different places to complete their assignments is also something that we need to reduce the effects of, or compensate in some way. These trips are important for our business. To be on the spot and locally perform parts of our due diligence work prior to a decision on an investment, as well as to actively participate in the management process in portfolio companies is of course necessary. We strive to minimise air travel through teleconferencing whenever possible. However, it is likely that our total travel will increase in the future, since Swedfund's

business is expected to grow in the coming years. During 2012 Swedfund's flights resulted in 215 tonnes of CO2 emissions (270 tonnes in 2011). However, the disparity among the years cannot be analysed due to portfolio companies' variation and the differences in the nature of the operation. We will continue working on this issue and seek to relate environmental impact of air travel to comparative figures, such as number of employees, number of new investments, investment volume or number of portfolio companies. Other questions that are going to be assessed in this context include fleet modernity, choice of routes to the destinations, purchase of carbon offsets, CDM projects or tree-planting projects that could help reduce the environmental impact that our air travel causes.

### **Award-winning environmental efforts**

Swedfund rents office space in Stockholm from real estate company Hufvudstaden, a company with the best score of all Swedish companies in the Carbon Disclosure Project, a worldwide survey of the largest listed companies that examines how companies analyse their greenhouse gas emissions and strategically work with the climate issue. For the second year in a row, Hufvudstaden also received the highest score of all the Nordic real estate companies.

# SWEDPARTNERSHIP

**S**wedpartnership is Swedfunds offer to Swedish small- and medium-sized companies. The offer is unique on the Swedish market. With help of Swedish companies' competence and investments, the purpose is, to develop the private sector in developing countries and thereby contribute to development cooperation.

Since 2009, Swedpartnership has provided financing to a total of 110 Swedish small and medium-sized companies' investments in countries in which Swedfund operates. Support from Swedpartnership helps companies set aside resources necessary to lay a solid foundation jointly with local partners for long-term business partnerships.

Since Swedpartnership was formed in 2009, support has totalled a maximum of SEK 750,000 and a maximum of 40 per cent of a project's total cost. The support is designated for Swedish companies and is intended for investment in skills transfer and equipment related to business' starting up new long-term business partnerships with local partners. Swedfund's knowledge and experience about what is necessary to successfully establish a business in an emerging market is the basis for Swedpartnership's offer and the assessment of the applications that we receive.

During 2012 Swedpartnership received a total of 32 requests for financial support compared with 50 during 2011, of which 25 (32) have been granted. In 2012, financial support was granted totalling SEK 23.5 million (SEK 20 million), divided into SEK 15.5 million (SEK 15.8 million) for investment in skills transfer and SEK 8.0 million (SEK 4.2 million) for investment in equipment. With an assumption that Swedpartnership accounted for 40 per cent of the project funding, this means that in 2012 Swedfund together with the Swedish companies invested roughly SEK 60 million, (SEK50 million) in skills- and technology transfer to private sectors in emerging markets.

During spring 2013, Swedfund will continue adjusting Swedpartnership's offer in line with the positive follow-up of Swedpartnership's activities that the Ministry for Foreign Affairs carried out during 2011. According to a new government decree from 2012, Swedpartnership's potential financial support per single company and project, amounts to a maxi-

imum of EUR 200,000 (previously SEK 750 000). This is an adaptation to the standard applicable to similar support. A higher average amount is assessed to be able to contribute to a bigger and more viable project, which is also expected to lead to more sustainable development results for local partners of Swedish companies.

During 2013, Swedpartnership intends to further develop the work on sustainability issues and continue monitoring project development results. Swedpartnership's approach and performance monitoring follow the principles, tools and models that are used within Swedfund's investment organization, however, with respect to the different character of financial instruments and duration of the engagement. Important for this year's activities is also that the projects that Swedpartnership has supported in 2012 are now a part of Swedfund's reporting to the Open Aid. Below are three examples of Swedish companies' investments and partners that Swedpartnership financially supported.



## Oscar of Sweden AB, Ukraina

**Partner:** Luga PJSC, Ukraine

**Business:** Manufacturing of shirts

**Project:** Transfer of expertise in sewing techniques, cutting, fabric processing, production management and ergonomics on seamstresses, cutters, pattern designers and staff in the production management. Roughly 300 employees were involved. The project has enabled Luga PJSC to expand and upgrade skills levels in their operations, which has sharpened the company's competitive edge. The project has also made it possible to introduce job rotation, which is expected to contribute to a lower rate of sick leave and more efficient operations. Luga PJSC can now fully meet the requirements that the Swedish partner has set and the Ukrainian company now has the opportunity of establish more customer contacts with similar Western companies.

## Composite Scandinavia AB, Vietnam

**Partner:** Thanh Tai Gas Joint Stock Company

**Business:** Production of composite pressure cylinders and sale of gas

**Project:** The Swedish company received support from Swedpartnership to transfer knowledge to the Vietnamese company staff on dealing with a high-tech production line of composite cylinders. The advantages of composite cylinders over steel ones are many: they include visibility of gas level in the cylinder, which allows maximum use before the change. A composite cylinder is 4 kg lighter and therefore easier for customers to manage and reduces transport weight. The composite material includes less damage in the event of an explosion caused by fire, lower noise during handling and does not rust. A total of 41 people work in the cylinder-making plant: 24 operators, 3 technicians, 1 buyer, 10 in warehousing and logistics, 2 mechanics, 1 in charge of quality and chemicals and 1 seller.



## Check Point China AB, Kina

**Partner:** Cixi Anderui Import and Export Co. Ltd, China (subsidiary to Check Point China AB).

**Business:** Purchasing and quality assurance of industrial components

**Project:** Transfer of expertise and investment in equipment, in order to build a local quality control, as well as to develop and streamline the management and control of operations. The completed project has significantly contributed to the strengthening and development of business cooperation between the two companies. A good example of this is the investment made in the measuring equipment, the jointly developed management system, clearer and more effective marketing communications, and that the Swedish company has introduced and implemented its Code of Conduct in the local company. All this has contributed to strengthening ties between the Swedish parent company and the Chinese subsidiary.

# ABOUT THIS REPORT

**J**ust like all other state-owned companies, Swedfund is obliged to follow the Swedish Government's *Guidelines for external reporting by state-owned companies* (from 29 November 2007). These guidelines are available on the Swedish Government website.

## Report profile

Like last year's report, the 2012 report is a compilation of sustainability and annual report with regard to the 2012 fiscal/calendar year.

This year's annual report has a special focus on various achievements starting with the owner's clarification of the company's mission with an extensive follow-up on the drawing up of strategies and policies, including an audit of Swedfund's development of methodologies for measuring development results. This year's sustainability reporting (which comprises one part of this sustainability and annual report) is the fifth in a row since the first one was written in 2008. The 2008 Report won the Best Sustainability Report Award arranged by FAR, the institute for the accountancy profession in Sweden. Swedfund's ambition is to develop our report in accordance with IIRC's (International Integrated Reporting Council) Framework 1.0.

## Scope and delimitation of the report

This report mainly covers Swedfund and its portfolio companies, with a specific focus on companies in which we have a Board representative, but we also report about portfolio companies in which Swedfund is a lender. Significant assumptions and methods for measuring are presented throughout the report. The data presented on an aggregated level regarding development results and other portfolio indicators comprises compiled results provided by portfolio companies in special self-declarations, as well as through financial and other reporting. We are convinced that a transparent manner of reporting about development results benefits both development results and stakeholder relations. However for confidentiality reasons we do not have the possibility to report about individual portfolio companies' performance.

## Limitations

Our business means that we invest in a number of new projects every year and sell others. This is why the portfolio is under constant transformation, which makes comparison between years rather difficult. In this year's report we have changed our reporting routines for ESG results in a manner which we announced in our last year's report. This change has to do with the timing of our reporting. Our portfolio companies have previously been asked to report to Swedfund by 31 March every year, which is also the time when Swedfund is to report to its owner. This has meant that Swedfund earlier chose to convey information about our companies' ESG results that was two years old. By using new reporting routines in this report, we are presenting ESG results from the current fiscal year, up until 31 December 2012. The new reporting routines are a pilot test and do not allow for comparison with previous years. Our portfolio companies' financial reporting is subject to audit and independent assurance. However, the information about ESG results that the portfolio companies presented in a self-declaration Portfolio Company ESG Key Performance Report, have not been independently assured.

## Application level according to GRI Guidelines

Just like last year, we have chosen to apply Global Reporting Initiative's (GRI) reporting framework for sustainability reports, version G3, including GRI's Financial Services Sector Supplement. Our selected application level is C+ and the task to provide assurance on the sustainability report is given to PwC.

## UN Global Compact, Communication on Progress, COP

By adopting UN Global Compact, as Swedfund did in April 2012, it is understood that Swedfund is to annually report on progress in a Communication on Progress (COP). The company's first COP will be submitted in April 2013, which is why we chose to integrate our first COP into this year's sustainability and annual report. In a special GRI/COP index we

Report Application Level	C	C+	B	B+	A	A+
<b>G3 Profile Disclosures</b> OUTPUT	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15		Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17		Same as requirement for Level B	
<b>G3 Management Approach Disclosures</b> OUTPUT	Not Required	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured	Management Approach Disclosures for each Indicator Category	Report Externally Assured
<b>G3 Performance Indicators &amp; Sector Supplement Performance Indicators</b> OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.		Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human rights, Labor, Society, Product Responsibility.		Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.	

\*Sector supplement in final version

decided to refer to information stipulated in the BASIC GUIDE Communication on Progress, GC Active Level, drawn up by the UN Global Compact.

### UN PRI

By adopting the UN Principles for Responsible Investment (PRI), which Swedfund did in August 2012, we have also committed to annually report about the results of these efforts electronically to the PRI secretariat directly and in the coming sustainability and

annual report, with first reporting in 2014 about the financial year 2013 (reporting to the PRI secretariat can be done online under the period of six months from October 2013 until March 2014).

### Contacts

The contacts for the sustainability and annual report are Elisabeth Mattisson, Financial Manager, and Lars-Olle Larsson, Manager ESG Affairs.

# GRI/COP-INDEX

The index below refers to GRI indicators and Global Compact's ten principles.

■ Fully reported    ■ Partly reported

GRI	Description	Page	Notes/Remarks	Relation to principles in UN's Global Compact
<b>1</b>	<b>Strategy and analysis</b>			
1.1	Statement from the most senior decision-maker	4-6		
<b>2</b>	<b>Organisational profile</b>			
2.1	Name of the organisation	60		
2.2	Primary brands, products, and/or services	8, 60		
2.3	Operational structure of the organisation including main divisions, operating companies, subsidiaries and joint ventures	60, 65		
2.4	Location of organisation's headquarters	60		
2.5	Number of countries where the organisation operates	60		
2.6	Nature of ownership and legal form	60		
2.7	Markets served	36-37		
2.8	Scale of the reporting organisation	60-87		
2.9	Significant changes during the reporting period	60-61		
2.10	Awards received in the reporting period	-	No awards have been received during 2012	
<b>3</b>	<b>Report parameters</b>			
3.1	Reporting period	56		
3.2	Date of most recent previous report	-	30 <sup>th</sup> of March 2012	
3.3	Reporting cycle	56		
3.4	Contact point for questions regarding the report	57		
3.5	Processes for defining report content	56		
3.6	Boundary of the report	56		
3.7	Limitations on the scope or boundary of the report	56		
3.8	Basis for reporting on joint ventures etc.	56		
3.10	Explanation of the effect of any re-statements	-	No significant changes	
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods	-	No significant changes. New reporting routines regarding the portfolio companies' ESG results.	
3.12	Table identifying the location of the Standard Disclosures in the report	58-59		
3.13	Policy and current practice with regard to seeking external assurance for the report	56	The report is supported by PwC	
<b>4</b>	<b>Governance, commitments and engagement</b>			
4.1	Governance structure for the organisation	66-68		1-10
4.2	Statement in the case that the chairperson is also the CEO	-	Chairperson of the Board is not the CEO	1-10
4.3	Number of independent board members	-	The Board is independent from the company management	1-10

4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the CEO		67	Shareholders take part in the annual meeting. Employees have the possibility to directly get in touch with the CEO	1-10
4.14	Stakeholder groups engaged by the organisation		31-33		
4.15	Basis for identification and selection of stakeholders		31		
<b>FS</b>	<b>Supplement for the financial sector</b>				
FS1	Policies with specific environmental and social components applied to business lines		20-23		1-10
FS2	Procedures for assessing and screening environmental and social risks in business lines		25-29		1-10
FS4	Processes for improving staff competency to implement the environmental and social policies		21		
FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities		45-50		1-10
FS6	Percentage of the portfolio for business lines by specific region, size and by sector		36-41, 84-87		
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures		49-51		1-10
FS10	Percentage and number of portfolio companies with which the organisation has interacted on environmental and social issues		45-50	Own declarations regarding the key indicators	1-10
<b>EC</b>	<b>Economic performance indicators</b>				
EC4	Significant financial assistance received from government		12-62	Shareholder contribution (SEK 400 million), including funds for Technical Assistance and Swedpartnership	
EC8	Development and impact of infrastructure investments and services provided for public benefit		38-43		
EC9	Understanding and description of significant indirect economic impacts		43, 52		
<b>EN</b>	<b>Environmental performance indicators</b>				
EN17	Other relevant indirect greenhouse gas emissions by weight		53		8
<b>LA</b>	<b>Labor practices and decent work performance indicators</b>				
LA1	Total workforce by employment type, employment contract and region		78-80		
LA13	Diversity indicators for governance bodies and employees		78-80		1, 6
<b>HR</b>	<b>Human rights performance indicators</b>				
HR1	Percentage and total number of significant investment agreements that include human rights clauses		20-23, 25-30		1-6
<b>SO</b>	<b>Society performance indicators</b>				
SO2	Percentage and total number of business units analysed for risks related to corruption		47-48	29 of 91 companies have been selected for their self-declarations. All 29 companies have answered	10

# ANNUAL REPORT

## Directors' Report for Swedfund International AB Financial year 2012

The Board of Directors and Managing Director of Swedfund International AB hereby present the annual report for the financial year 2012.

### THE COMPANY'S OBJECTIVES AND FOCUS

#### Business structure

Swedfund International AB is a limited liability company that is wholly-owned by the Swedish state. The Company is a development finance institution with a specific social responsibility. The Company's main office is located in Stockholm and it has a regional office in Nairobi.

#### Objectives

*According to our Owner's Instructions*

The Company aims to contribute to the goals of Sweden's Policy for Global Development (PGD): equitable and sustainable global development. The Company's operations are based on two fundamental objectives. One, relating to international development cooperation, is to help in enabling poor people to improve their lives. The other, concerning reform cooperation in Eastern Europe, is to bring about strengthened democracy, equitable and sustainable development and alignment with the European Union and its core values.

*According to the resolution by the Annual General Meeting of Shareholders*

According to a resolution by the Annual General Meeting (financial objectives), the Company shall strive to ensure that its average pre-tax return on equity exceeds the average interest rate on Swedish central government debt of one-year maturity. Return is to be measured over rolling seven-year periods.

#### Focus of the operations

In cooperation with strategic partners, the Company shall contribute to investments that are not expected to be achievable with commercial financing alone. Operations shall be conducted in a professional and business-like manner. The investments must be finan-

cially, environmentally and socially sustainable. In preparing and deciding on investments, significant importance shall be assigned to their expected contributions to the objectives of the Company's operations, according to the first paragraph of the section above.

#### Choice of countries

The Company shall invest in countries that qualify for development financing according to the OECD Development Assistance Committee (DAC) definition. Among developing countries, the Company shall give priority to investments in low-income and post-conflict countries. Investments in upper middle-income countries and territories, as defined by the OECD/DAC, may only be made in countries with which Sweden engages in bilateral development cooperation.

For further information, please refer to "Swedfund – A Development Finance Institution" on page 8 in the sustainability report.

Swedfund's complete Owner's Instructions [www.swedfund.se/en/files/2012/04/Swedfund-Owners-Instructions-adopted-20-April-2012.pdf](http://www.swedfund.se/en/files/2012/04/Swedfund-Owners-Instructions-adopted-20-April-2012.pdf) and in Appendix 1.

#### Swedpartnership

Through the brand Swedpartnership, Swedfund offers financial support for small and medium-sized Swedish enterprises for investments in Swedfund's partner countries. This support is provided as a loan that can be converted into a grant when the project has been completed according to plan. These operations are financed entirely by the Swedish state through the allocation of separately-budgeted funds. A link to the ordinance which primarily regulates the operations: [www.riksdagen.se/sv/Dokument-Lagar/Lagar/Svenskforfattningssamling/Forordning-20081272-om-Swed\\_sfs-2008-1272/?bet=2008:1272](http://www.riksdagen.se/sv/Dokument-Lagar/Lagar/Svenskforfattningssamling/Forordning-20081272-om-Swed_sfs-2008-1272/?bet=2008:1272) (in Swedish).

#### Results of operations in 2012 and long-term financial objectives

For information regarding Swedfund's strategies, sustainability objectives and the results of operations, please refer to page 18 of the Sustainability Report. In 2012, the Company incurred a substantial loss of

MSEK -217.6 (-60.8) as a result of major write-downs in the investment portfolio. The single largest write-downs refer to two companies,

Company	Amount (MSEK)	Operations
Vietstar	51.8	Waste recycling in Vietnam
Raffia	42.1	Manufacturing of cement sacks in various African countries

Raffia, which has contributed negatively to Swedfund's results for several years, has now been dissolved through transfers of the company's assets and liabilities and individual sales of subsidiaries. At the time of Swedfund's initial investment, the operations were based in Tanzania. The Kenyan operations had been developed as a greenfield and, in conjunction with Swedfund's investment, operations were acquired in South Africa. These three entities have been sold to two separate owners – the two entities in East Africa to one owner and the operations in South Africa to another. Operations are currently conducted in all three entities and the number of individuals employed by the companies amounts to almost 1,000.

The sales process has been characterised by numerous difficulties, such as administration related to the sales process, the management and transfer of securities, as well as difficulties with fundraising in the wake of the financial crisis. These factors have entailed that the process has drawn out somewhat, which has prevented the companies from conducting their operations in an optimal manner. Consequently, the companies lost momentum in their markets and also witnessed the emergence of new competitors. The current focus of the operations in Kenya, Tanzania and South Africa is to attain profitability in the near future. The investments, which has been completely written down, will remain in Swedfund's balance sheet for a

period, even though the companies will not be conducting industrial operations. There are a number of legal matters affecting the companies requiring attention, for which reason reservations have been made. For further information, please refer to the previous year's Sustainability Report under "Responsibility at a price".

Swedfund operates in some of the poorest countries in the world, which implies that major financial risks must be taken. Write-downs have been made in the annual accounts, in accordance with the accounting principles described on page 76.

Profit levels in companies which engage in development financing may fluctuate considerably over the years, depending on the company's achieved sales results and its prevailing investment phase. In the long term, the Company strives to cover its costs through income from the loan portfolio and liquidity. Sales of shares, dividends and the net result of reversals and write-downs form the determining parameters for the Company's earnings trend, in addition to the cost coverage achieved through interest income.

The previous four years have all been unprofitable. As a result, the Company is no longer able to achieve its long-term financial objectives. If the Company, in coming years, is to fulfil its financial objectives, a significant increase in profit is required, which can only be achieved through sales of portfolio companies. The Company is expected to have slightly positive results in the coming 2–3 years, which is not, however, sufficient to meet the long-term financial objectives in the same period. Swedfund has been in an investment phase for a long time, which implies that there are a low number of companies which have matured to an extent that makes an exit a reasonable strategy. The Company generally plans to keep companies in the portfolio for a period of 7 to 10 years.

The Company's tax assets amount to TSEK 34,819. Our assessment, based on analyses of future sales

Year	Return on opening equity per year	Average return on opening equity, rolling seven year period	Average interest on Swedish central government debt of one-year maturity	Average interest on Swedish central government debt of one-year maturity, rolling seven year period
2006	12.32%	12.08%	2.76%	2.72%
2007	1.23%	9.34%	3.78%	2.93%
2008	6.29%	8.83%	3.74%	3.07%
2009	-4.45%	6.94%	0.51%	2.70%
2010	-4.05%	5.72%	0.74%	2.34%
2011	-2.24%	2.56%	1.68%	2.19%
2012	-7.34%	0.25%	0.96%	2.02%

figures, is to attain sufficient capital gains within one investment cycle (7–10 years) to be able to utilise the tax assets.

Sales of shares, dividends and the net result of reversals and write-downs constitute the determining parameters for the Company's earnings trend.

The table on the previous page shows the return on opening shareholders' equity for each year and the average return for the period, compared with the interest on Swedish central government debt for the corresponding year and on average over the period.

## BUSINESS ACTIVITIES IN 2012

### Investment operations

Of a total of twelve sales, eight constitute sales of participations in funds. Four shareholdings were sold in their entirety. One company was sold after a retention period of approximately one year, due to the fact that the strategic partner sold their holding. The sold shareholdings and participations in funds have resulted in a net gain of a total of MSEK 14.2 (80.9).

Three loans and two guarantees reached full maturity. Two loans were converted into shares, either wholly or partially.

Write-downs were carried out on shares, loans and interest, in accordance with the valuation principles described on page 75, for a total of MSEK 269.3 (163.8). Reversals amounted to MSEK 11.0 (0).

During the financial year, the reported value of the portfolio, including guarantee commitments, decreased marginally from MSEK 1,495.5 to MSEK 1,405.2.

### Sustainable development

#### *Environmental and ethical issues*

Through its investment activities, the Company shall promote sustainable global development, a healthy environment, a sound corporate culture and fair working conditions. For further information, please refer to "Performance report on investment portfolios" on page 45 in the Sustainability Report.

The Company prepares a sustainability report in accordance with GRI's reporting framework, the Financial Services Sector Supplement, application level C+.

#### *Development results*

Assessed development effects are reported to the Board for each individual investment in conjunction with the Board's decision on investment. For current direct

investments, the effects are reported in the annual report on the portfolio companies, while for completed investments, the effects are reported in the exit report. Swedfund works continuously to improve its procedures and reports referring to the work with development effects. During the autumn, the Board concentrated on clarifying the Company's objectives and focus, in order to facilitate improved governance and to refine the reporting of development effects. Refer also to the section "Performance Report on Investment Portfolios" on page 45 of the Sustainability Report.

#### *Equal opportunities*

The Company has fulfilled its equal opportunity targets established in the equal opportunities plan.

The gender distribution for various types of roles and work assignments within the Company is well-balanced. Measures have been implemented to enable both male and female employees to combine work and parenthood.

### Financing operations

With the exception of Swedpartnership and funds for technical assistance, the Company is financed entirely with shareholders' equity. Long-term and short-term loans are utilised to limit the Company's currency risks and interest rate risks when lending in foreign currency.

Refer also to the section on risks.

A total of MSEK 200 of the capital contribution received by the Company in 2011 was earmarked for investments in Africa. The entire amount was used in 2012 for investments in the region.

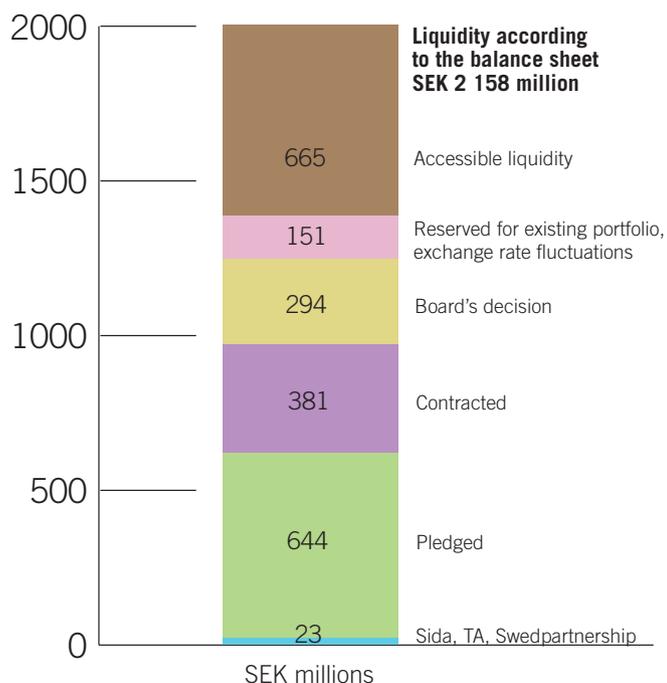
The Company's current investments have yielded a return of 1.71% (2.80%).

The Company has a sound financial position. The equity/assets ratio is 84.9% (82.5%). During the year, the Company received a shareholders' contribution of MSEK 400. Current liabilities amount to 7.5% (6.0%) of total assets.

The portfolio investments correspond to 37.4% (41.4%) of total assets.

According to the balance sheet, the Company's liquid assets (the items Current receivables and Cash and bank balances) amounted to MSEK 2,158. These funds are distributed in accordance with Figure 1. As of 31 December 2012, the Company had surplus liquidity of MSEK 665 for use in new investments. Contracted investments are sometimes paid out over a number of years, and not all investments decided on and endorsed by the Board reach an agreement

**Figure 1. Liquidity 2012-12-31**



Liquid assets are invested in accordance with Note 16.

regarding payment. Liquidity must be reserved both for investments which the Board has decided on and endorsed and investments for which contracts have been entered into, to ensure that the Company has sufficient funds to fulfil its commitments. The Company makes long-term liquidity forecasts taking into account return flows, etc.

## Risks

Swedfund invests in shares in portfolio companies and grants loans to portfolio companies. The financing operations are undertaken solely to support the business operations. Swedfund's operations give rise to business risks, credit risks, financial risks and operative risks.

It is important to note that, as Swedfund invests in developing countries, the possibilities of guarding against financial risks are sometimes less than optimal and, in certain cases, do not exist. Factors impacting this matter include corruption, legal frameworks and the lack of a local financial market.

### Risks that the investments do not generate development effects

The manner in which Swedfund achieves development effects is described under the heading "Performance report on Investment Portfolios" on page 45 of the

Sustainability Report. This section also includes information on the chosen analysis model and the manner in which classifications are determined.

## Political risks

*Definition:* The risk of a fluctuation in profit as a consequence of changes in a country's political structure or political direction, or events caused by political instability.

*Policy:* The risk is assessed in conjunction with the investment decision and regularly thereafter in conjunction with the monitoring of the investment.

Swedfund's mandate – to operate in developing countries with an emphasis on the poorest states, Africa, and post-conflict regions – means that the portfolio investments are exposed to political risks. These risks can be addressed by, among other things, continuous monitoring of the investment country and by taking steps to mitigate the effects of political instability.

## Business/Credit risks associated with business operations

*Definition:* Business risk is defined as the risk of reduced profit owing to a decline in volume, depressed prices or competition.

Credit risk is the risk that the borrower or guarantor will be unable to fulfil their commitments.

Investments in shares in portfolio companies, or loans to the same, give rise to both business risks and credit risks.

*Policy:* Credit risks shall not be hedged. Credit and business risks are controlled by means of the commercial control of the portfolio companies.

At the end of the year, the total investments in shares (net) in portfolio companies amounted to MSEK 994 (940), and net lending to MSEK 389 (549).

## Financial risks

### Interest risks

*Definition:* The risk that profit will be affected if interest rates go up or down.

Swedfund's interest risk derives largely from three types of exposure: Lending to portfolio companies, borrowing to finance lending to portfolio companies, and the investment of liquid assets.

*Policy:* Swedfund shall minimise its interest risks.

Swedfund shall, whenever possible, raise and grant loans of short duration, and shall invest liquid assets on a short-term basis. To the extent that the business operations require lending long term in nature, this shall be offset against long-term borrowing.

The average fixed interest term of Swedfund's total interest risk exposure may not exceed 18 months.

At the year-end, the average term was nine and a half months.

## Currency risk

**Definition:** The risk that profit will be affected by the rise or fall in one or several exchange rates.

The currency risk arises from both investments in shares and lending, as well as from contracted but not disbursed commitments. Liquidity can also create temporary currency risks, for instance, the foreign currency proceeds from the sale of an investment, or that a process involving borrowing in a foreign currency may have been initiated.

**Policy:** Swedfund shall not hedge currency risks on investments in shares.

Swedfund shall endeavour to minimise the currency risk on lending to portfolio companies.

Swedfund shall not normally hedge currency risks on contracted but not undisbursed commitments.

Surplus liquidity shall be invested in Swedish krona.

Maximum permitted currency risks regarding lending to portfolio companies			
(MSEK)	Of which in:		(counter value in MSEK)
	USD	EUR	Other currencies
Lending (net after write-downs)	Unlimited	Unlimited	Unlimited
Borrowing for hedging purposes	Unlimited	Unlimited	Unlimited
Maximum volume	-200<X<200	-100<X<100	-20<X<20 per currency <100 total (1)

(1) Total exposure is measured as the sum total of the absolute value of the total exposure for each currency.

The net exposure reported in the balance sheet at year-end amounted to MSEK -14. The maximum permitted exposure was MSEK 100. Contracted but not disbursed commitments amounted to MSEK 381 (476).

## Liquidity and credit risks associated with financial management

**Definition:** Liquidity risk: The risk of not being able to sell a financial instrument at a reasonable price within a reasonable period of time.

Restrictions on investment of liquid assets					
Category	Counterparty	Instrument	Lowest permissible rating (I)	Limited criteria: Per category counterparty	Limited criteria: Per individual counterparty
Svenska	Swedish state or securities guaranteed by the Swedish state	Deposits, interest-bearing securities	-	Max: Unrestricted Min: 60% of total liquidity	Max: 100% of the maximum for the counterparty category
Kommuninvest in Sweden		Interest-bearing securities	Long rating: A+: Moody's A1: Standard & Poor	Max: 40% of total liquidity	Max: 100% of the maximum for the counterparty category
Swedish municipalities and county councils		Interest-bearing securities	A: Swedish Municipal rating	Max: 40% of total liquidity	Max: 15% of the maximum for the counterparty category
Swedish banks and Swedish housing institutions		Deposits Unsubordinated interest-bearing securities	Long rating: A+: Moody's A1: Standard & Poor	Max: 40% of total liquidity	Max: 100% of the maximum for the counterparty category
Swedish banks		Deposits via notary account	Long rating: A+: Moody's A1: Standard & Poor	-	Ideal: Not to exceed MSEK 3 per counterparty
Foreign banks		Deposits	-	-	Max: SEK 200,000
Swedish companies		Unsubordinated interest-bearing securities	Short rating: P-2: Moody's A-2: Standard & Poor K1: Nordic Rating	Max: 40% of total liquidity	Max: 15% of the maximum for the counterparty category

**Credit risk:** The risk that the counterparty will fail to fulfil its commitments.

Liquidity and credit risks in financial management arise in connection with the investment of liquid reserves.

**Policy:** Liquidity and credit risks in financial management shall be minimised.

Swedfund's liquid assets may only be invested in the Swedish National Debt Office, in interest-bearing securities or deposited in a bank, subject to the restrictions stated below. The investments shall be liquid. Under normal circumstances, they shall be convertible into cash within a reasonable period of time and at negligible transaction cost.

Swedfund (the administrator) shall exercise prudence in its investments. In the event that the counterparty may be suspected of potential repayment problems, Swedfund shall refrain from executing the investment, even if such suspicions are not, at that point in time, reflected in the counterparty's rating.

At year-end, liquidity amounted to MSEK 2,158 (1,975). The investment of liquidity is described in Note 16.

## Borrowing risk

**Definition:** Risk of being unable to raise the loans required at a reasonable cost.

Swedfund primarily finances its operations with shareholders' equity. Borrowing risk arises, therefore, only as a consequence of the planned borrowing of foreign currency. (When the loan is raised, the equivalent amount in SEK is pledged as security.)

**Policy:** Swedfund shall minimise borrowing risks whenever economically and practically feasible.

At the end of the year, the borrowing risk (net) amounted to MSEK 162, allocated so that the maximum amount for any time period amounted to MSEK 48.

## Counterparty risk

**Definition:** The risk that the counterparty to a financial transaction will default.

Counterparty risks arise only in conjunction with the pledging of assets within financial management.

**Policy:** Counterparty risks shall generally only be taken when the counterparty is the Swedish state or a state-owned company.

Swedfund has, essentially, no counterparty risks, other than its exposure to AB Svensk Exportkredit (Swedish Export Credit Corporation), which amounted to MSEK 420 (520) at the end of the year.

## Operative risks

**Definition:** Risk of loss as a consequence of unsuitable or ineffective internal practices or systems, or on account of human error or external events, as well as legal risks.

**Policy:** Swedfund shall minimise operative risks whenever practically and financially feasible.

Swedfund manages its operational risks by, among other things, adhering to the duality principle, documentation requirements, authorisation rules and back up procedures. All agreements require the approval of a lawyer. Swedfund has procedures for investigating partners and co-investors with the aim of reducing the risk of being exposed to corruption and other criminal offences.

Maximum permitted borrowing risk							
(MSEK)	Maturity						
(Future payments received +; future ongoing payments --)	0–6 mths	7–12 mths	>1–2 yrs	>2–3 yrs	>3–5 yrs	>5–10 yrs	>10 yrs
+ Lending to portfolio companies in for. cur. (net)	Unrestricted						
- Borrowing from portfolio comp in foreign curr.	Unrestricted						
Total: Max volume	-100<X<100						
- Expected payments for contracted but not disbursed lending in foreign currency (1)	Unrestricted						

(1) Expected disbursements for contracted but not disbursed commitments can only be covered at a reasonable cost in the event of serious concern that it will not be possible to gain access to borrowing in foreign currency. For this reason, the exposure in the policy is not limited, and each exposure should be assessed individually by the Managing Director.

# CORPORATE GOVERNANCE REPORT

## Corporate governance in Swedfund

The Swedish state owns 100% of the Company, which belongs to the group of companies with special social responsibility. Swedfund applies the State's ownership policy and guidelines for state-owned companies (2012) ([www.regeringen.se/sb/d/108/a/172250](http://www.regeringen.se/sb/d/108/a/172250)) which includes the Swedish Code of Corporate Governance (February 2010). Operations are governed by the aforementioned ownership policy and the applicable Owner's Instructions as adopted at the Annual General Meeting.

The State's ownership policy does not apply to those companies in which Swedfund is a partner. The Company holds, with two exceptions, only minority stakes in portfolio companies. Any wholly-owned companies are in the process of liquidation and have been incorporated in order to maintain development effects and protect the Company's assets.

Swedfund's regulations, in the form of policies, are incorporated in shareholder agreements and loan agreements. In all other cases, foreign laws and norm

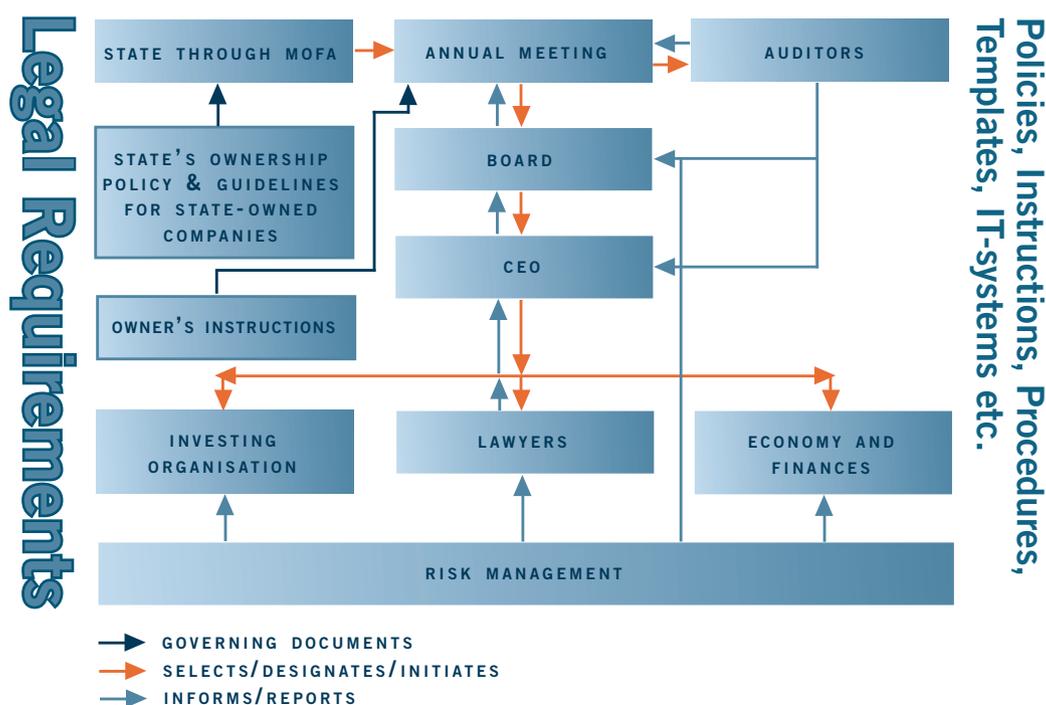
systems are applied in respect of the portfolio companies.

The State's ownership policy and guidelines for state-owned companies (2012) make clear the cases in which these guidelines deviate from the norms in the Swedish Code of Corporate Governance. Swedfund adheres, in all material respects, to all aspects of the Code. The Board of Directors has chosen to undertake the duties which are otherwise the responsibility of the audit and remuneration committee.

Under the Annual Accounts Act for listed companies, state-owned companies are required to submit a corporate governance report. The report is to be audited by the Company's auditors. Swedfund has chosen to include the corporate governance report in the mandatory annual report, and it is therefore covered by the auditor's audit.

Information and documentation regarding corporate governance can be found at [www.corporategovernanceboard.se/the-code/current-code](http://www.corporategovernanceboard.se/the-code/current-code)

## Overview Corporate Governance in Swedfund



## Annual General Meeting

The shareholders' right to resolve on matters regarding the Company's operations is exercised at the Annual General meeting, which is the Company's highest decision-making body. The Annual General Meeting makes resolutions regarding changes in the articles of association and presents new Owner's Instructions for the Company's business operations. Other issues resolved at the Annual General Meeting are the adoption of the income statement and balance sheet, discharge from liability for the Board and Managing Director, the election of new Board members and auditors, remuneration to the Chairman of the Board, other members of the Board and auditors, and guidelines for salaries and other remuneration to senior executives.

Members of the Swedish Parliament are entitled to attend the Annual General Meeting and, in conjunction with this, to address questions to the Company.

The Annual General Meeting is open to the general public.

## The State through the Ministry for Foreign Affairs

The Owner appoints the Chairman of the Board, members of the Board and auditors, proposes fees for the Chairman, other Board members and auditors and evaluates the activities of the Board. The principles for this work are described in the State's ownership policy and guidelines for state-owned companies 2012. The document contains the State's Ownership Policy, Guidelines for External Reporting, Guidelines for Terms of Employment for Senior Executives in state-owned Companies and the Swedish Code of Corporate Governance. [www.regeringen.se/sb/d/15683/a/197214](http://www.regeringen.se/sb/d/15683/a/197214)

## Auditors

In accordance with applicable legislation, the auditors are appointed by the Annual General Meeting under the guidance of the State's ownership policy, normally for a period of one year. The auditors are accountable to the owner at the Annual General Meeting and submit an audit report on the annual report and the Board's management of the company, as well as a review report on the sustainability report. The Swedish National Audit Office has exercised its right to appoint one auditor and one deputy auditor. The main responsibility of the National Audit Office is to audit and provide an opinion on the Company's annual reports, with the same scope as the auditors appointed by the

Annual General Meeting. Both the auditors appointed by the Annual General Meeting and by the National Audit Office submit a summarised report of the audit to the Board once a year and to the Company management twice a year.

## Board of Directors

The Board is responsible for the Company's organisation and administers the Company's affairs on behalf of the Owner. The Board shall regularly assess the Company's financial position and ensure that the Company is organised in such a manner that the book-keeping, management of resources, compliance with the Owner's Instructions, etc. are controlled satisfactorily. The Board determines policies and instructions for such activities, and establishes a formal work plan for the Board and terms of reference for the Managing Director. These documents outline the manner in which responsibilities and authorities are to be shared between the Board, the Chairman of the Board and the Managing Director. The Chairman is responsible for the evaluation of the Board's activities and informs the Government Offices of the results of this evaluation.

## Managing Director

The Managing Director is appointed by the Board to manage the Company's activities. In addition to the terms of reference from the Board, the Managing Director must comply with the rules laid out in the Swedish Companies Act and a number of other laws, ordinances and Owner's Instructions from the State. The Managing Director is not a member of the Company's Board. Management activities are coordinated by a management group consisting of the Managing Director, the Chief Legal Counsel, the CIO, the CFO, the Head of Investment, the Head of Business Development and the Head of Strategic Development.

## Risk control

Risk control is undertaken by means of extensive reporting to the Board and the Managing Director on matters such as the investment portfolio's performance, liquidity, financial position, development results, financial risks, environmental and social risks. The Company's lawyers are actively involved throughout the investment process, in order to protect the legal interests of the Company and to ensure that fair practices and standards are complied with.

Activity	Time
Inaugural meeting/election of Deputy Chairman	After AGM
Authorisation instructions	Annually
Current liquidity status	Each meeting
Long-term liquidity status	Quarterly
Project inflow	Each meeting
Business plan/Activity plan and budget	Annually
Signatories	Annually
Formal work plan for the Board/Terms of reference to the Managing Director	Annually
Investment proposals	Each meeting
Status report, investment portfolio	Each meeting

Activity	Time
Financial risks	Quarterly
Financial policy, instructions for investments and borrowing	Annually
Evaluation of Board activities	Annually /Dec
Review of portfolio activities/fund reports/ exit reports/ development results/ESG	Annually
Interim reports	Quarterly
Annual report/Sustainability report/ Corporate governance/ Internal control	Annually Feb/Mar
Guidelines for salaries and other remuneration to senior executives/Salary review	Annually
Strategy	Annually

## Work of the Board 2012

The Board held eleven meetings. The work of the Board follows a structure constituting fixed and recurring activities, mainly as in the table above.

The members of the Board are presented on the Company's website [www.swedfund.se/en/about-swedfund/organisation/board-of-directors-2](http://www.swedfund.se/en/about-swedfund/organisation/board-of-directors-2)

## Principles for corporate governance in Swedfund

The Company's overall objectives (development and financial) are described in further detail in the chapter on the Company's objectives and focus (page 60). The development objectives take precedence over profitability objectives. As a general rule, a profitable company contributes to achieving development objectives. In order to ensure that investments are economically, socially and environmentally sustainable, the Company has a "Policy for sustainable development" which permeates the operations. The work with that policy and the result we achieve is described in more detail in the Company's sustainability report.

In order to maintain and enhance the quality in the portfolio companies as far as possible, work is actively undertaken with, amongst other things, the monitoring of development effects, ESG performance and financial information, mainly in the companies' Boards. The Company's mandate includes taking risks in countries in which we do business through making investments. A large proportion of the Company's resources is allocated to managing these risks.

In order to be able to disburse payments, maintain adequate liquidity and grant loans in foreign currency, the Company must manage a number of financial risks. How this is done is regulated in a Financial Policy and in instructions for investment and borrowing. The main philosophy underlying the financial policy is to minimise the financial risk as far as is economically feasible.

## Company Management

The acting Managing Director was born in 1959. He has been with the Company for seven years, the last two of which as head of the Company's investment transactions and investment portfolio. His experience in international investment business includes work with 3i. He is currently a member of the Board of Totebo AB, an assignment which has been approved by the Board of Swedfund. He has no significant business relationships/partnerships in any portfolio company owned by the Company.

## Signatories

The primary authorised signatory of the Company is the acting Managing Director alone (external signatory appointed by the Board), although two members of the management group may sign jointly in the absence of the Managing Director, through power of attorney granted by the Board. According to the formal work plan for the Board, the Managing Director's authority to sign for the Company is limited to commitments of MSEK 10 or below. The Managing Director's authority to sign for the Company for commitments in excess of MSEK 10 must be approved by the Board. Actions taken within the remit of the acting Managing Director are reported to the Board at the following meeting. When members of management have signed for the Company, this is reported at the following meeting. In other cases, management has only limited authority to authorise costs.

Practical reasons lie behind the implementation of this procedure. Many agreements and other actions require the approval of an authorised signatory at short notice.

## Remuneration to senior executives

The Company applies the Government's Guidelines for Terms of Employment for Senior Executives in state-owned Companies. Remuneration and benefits to the Managing Director and other senior executives are described in Note 1.

# The Board's report on internal control in financial reporting

## Background

Under the Swedish Companies Act, the Board is responsible for internal control.

This report has been prepared in accordance with the Annual Accounts Act, Chapter 6, Section 6, and is limited to the internal control in financial reporting.

The Company's system for internal control is designed to manage, rather than eliminate, the risk of failing to reach business objectives and provides only reasonable assurance against material misstatements or deficiencies in the financial reporting.

## Control environment

The Company has drawn up a framework for corporate governance, the articles of association and the formal work plan for the Board. The most important elements of the control environment in the framework include clear frames of reference for the Board, with a documented delegation of decision-making responsibilities from the Board to the Managing Director, organisational structure, employee competence, policies, routines and frameworks.

The delegation of decision-making responsibilities is documented in an authorisation plan which gives clear instructions to department Heads.

Employee competence and ability is prioritised by means of on-going training, practical experience and development.

## Risk analysis

The risks associated with the Company's investment portfolio are evaluated quarterly by means of a financial assessment of the companies' results. An in-depth review is carried out annually, in which development and ESG are also evaluated. The investment activities constitute the single largest risk of losses for the Company.

The companies in which Swedfund is a shareholder are monitored regularly through active participation in their Board work by internal and/or external Board members.

A review of investments under consideration and a follow-up of investments in which problems have arisen are carried out at each Board meeting.

The Company's financial risks are managed according to the Financial Policy and instructions for investment and borrowing established by the Board and the Managing Director.

Reports are submitted quarterly to the Board each quarter.

## Control activities

Routines and processes are in place to ensure that the financial reporting is designed on the basis of the duality principle in key control elements, and that control activities are documented and followed up.

Internal control covers all departments and includes methods and activities to safeguard assets, check the accuracy and reliability of internal and external financial reports and ensure compliance with established instructions and guidelines

## Proposed appropriation of profits

The following funds are at the disposal of the Annual General Meeting (amounts in SEK):

Retained earnings	Capital contribution	Loss for the year	Total unappropriated earnings
2,374,700,550	400,000,000	-224,024,753	2,550,675,797

The Board proposes that the unappropriated earnings of SEK 2,550,675,797 be carried forward.

For further information regarding the results of the Company's operations and financial position, refer to the following income statements and balance sheets, statement of shareholders' equity and cash flow statement, with associated notes and supplementary information.

# FINANCIAL RESULT

## Income statement

<i>Expressed in SEK thousand</i>	Note	1.1. 2012	- 31.12.2012	1.1. 2011	- 31.12.2011
<b>Sales of shares</b>	4				
Sales income	2	130 317		131 977	
Acquisition costs		- 116 091	<b>14 226</b>	- 51 061	<b>80 916</b>
<b>Share dividend</b>	2		<b>19 050</b>		<b>9 918</b>
<b>Interest and charges</b>					
Income	2	44 000		39 506	
Expenses		- 9 337	<b>34 663</b>	- 8 607	<b>30 899</b>
<b>Net reversals and write-downs of portfolio investments</b>					
Reversals		10 979		-	
Write-downs		- 269 259	<b>258 280</b>	- 163 799	<b>163 799</b>
<b>Services sold</b>					
Income	2	2 055		3 348	
Expenses		- 13	<b>2 042</b>	- 79	<b>3 269</b>
<b>Other portfolio income</b>	2		<b>51</b>		<b>393</b>
<b>Other operating income</b>	3		<b>18 044</b>		<b>13 052</b>
<b>Gross Profit</b>			<b>- 170 204</b>		<b>- 25 351</b>
<b>Other external costs</b>	3,6		<b>- 29 107</b>		<b>- 30 346</b>
<b>Personnel costs</b>	1,3		<b>- 52 971</b>		<b>- 46 499</b>
<b>Depreciation of tangible fixed assets</b>	5		<b>- 350</b>		<b>- 434</b>
<b>Other operating costs</b>			<b>- 767</b>		<b>- 1 397</b>
<b>Operating profit</b>			<b>- 253 400</b>		<b>- 104 027</b>
<b>Financial items and results</b>					
<b>Other interest income and similar profit/loss items</b>	7		<b>36 835</b>		<b>43 751</b>
<b>Interest expenses and similar profit/loss items</b>	8		<b>- 1 033</b>		<b>- 557</b>
<b>Profit after financial items</b>			<b>- 217 598</b>		<b>- 60 833</b>
<b>Profit before tax</b>			<b>- 217 598</b>		<b>- 60 833</b>
Tax on the profit for year	9		<b>- 6 427</b>		<b>15 607</b>
<b>Profit for the year</b>			<b>- 224 025</b>		<b>- 45 226</b>

## Balance sheet

<i>Expressed in SEK thousand</i>	Note	31.12. 2012	31.12. 2011
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Tangible fixed assets</b>			
Equipment	10	395	678
<b>Financial fixed assets</b>			
Other long-term holdings of securities	11,14	1 825	1 542
Deferred tax claim	17	34 819	41 247
		<u>36 644</u>	<u>42 789</u>
<b>Total fixed assets</b>		<b>37 039</b>	<b>43 467</b>
<b>Current assets</b>			
<b>Investments in portfolio companies</b>			
Shares	13,14	993 975	939 648
Loan claims	12,14	388 506	548 925
		<u>1 382 481</u>	<u>1 488 573</u>
<b>Current receivables</b>			
Income taxes recoverable		5 513	4 115
Accounts receivable	14	50 022	36 711
Other receivables	14	35 470	19 332
Prepaid expenses and accrued income	15	29 142	24 411
		<u>120 147</u>	<u>84 569</u>
<b>Current investments</b>	14,16	<b>2 101 565</b>	<b>1 933 962</b>
<b>Cash and bank accounts</b>	14	<b>56 545</b>	<b>41 481</b>
<b>Total current assets</b>		<b>3 660 738</b>	<b>3 548 585</b>
<b>TOTAL ASSETS</b>		<b><u>3 697 778</u></b>	<b><u>3 592 052</u></b>

## Balance sheet

<i>Expressed in SEK thousand</i>	Note	31.12. 2012	31.12. 2011
<b>Shareholders' equity &amp; liabilities</b>			
<b>Shareholders' equity</b>			
Share capital		50 000	50 000
Legal reserve		540 000	540 000
		<b>590 000</b>	<b>590 000</b>
Retained earnings		2 774 701	2 419 926
Profit for the year		- 224 025	- 45 226
		<b>2 550 676</b>	<b>2 374 700</b>
		<b>3 140 676</b>	<b>2 964 700</b>
<b>Provisions</b>			
Provisions for endowment insurances		1 524	1 258
<b>Long-term liabilities</b>			
Liabilities to credit institutions	14,18	267 178	397 114
Other liabilities	14	10 977	12 668
		<b>278 155</b>	<b>409 782</b>
<b>Current liabilities</b>			
Liabilities to credit institutions, current part of long-term liabilities	14	153 170	123 573
Accounts payable	14	33 922	16 994
Other liabilities	14	70 737	50 487
Accrued expenses and prepaid income	15	19 594	25 257
		<b>277 424</b>	<b>216 312</b>
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>		<b>3 697 778</b>	<b>3 592 052</b>

## Pledged assets and contingent liabilities

<i>Expressed in SEK thousand</i>		31.12. 2012	31.12. 2011
<b>Pledged assets for liabilities to credit institutions</b>			
Bonds and other securities		642 437	849 372
Bank accounts		1 249	419
Total pledged assets		<b>643 686</b>	<b>849 791</b>
<b>Other pledged assets and securities</b>			
Pledged endowment insurances		1 524	1 258
<b>Contingent liabilities</b>			
Guarantees issued for loan claims		22 670	6 882
Contracted, but not disbursed, portfolio commitments		358 567	469 048
		<b>381 237</b>	<b>475 930</b>

## Shareholders' equity

<i>Expressed in SEK thousand</i>	Share capital	Restricted reserves	Profit carried forward	Profit for the year	Total shareholders' equity
<b>Shareholders' equity 31.12.2009</b>	<b>50 000</b>	<b>540 000</b>	<b>2 087 503</b>	- 3 253	<b>2 674 250</b>
Appropriation of profit according to annual general meeting:			- 3 253	3 253	-
Capital contribution			100 000		<b>100 000</b>
Profit for the year				- 64 325	- <b>64 325</b>
<b>Shareholders' equity 31.12.2010</b>	<b>50 000</b>	<b>540 000</b>	<b>2 184 250</b>	- <b>64 325</b>	<b>2 709 926</b>
Appropriation of profit according to annual general meeting:			- 64 325	64 325	-
Capital contribution			300 000		<b>300 000</b>
Profit for the year				- 45 226	- <b>45 226</b>
<b>Shareholders' equity 31.12.2011</b>	<b>50 000</b>	<b>540 000</b>	<b>2 419 925</b>	- <b>45 226</b>	<b>2 964 700</b>
Appropriation of profit according to annual general meeting:			- 45 225	45 225	-
Capital contribution			400 000		<b>400 000</b>
Profit for the year				- 224 025	- <b>224 025</b>
<b>Shareholders' equity 31.12.2012</b>	<b>50 000</b>	<b>540 000</b>	<b>2 774 700</b>	- <b>224 025</b>	<b>3 140 676</b>

The share capital consists of 50 shares each having a ratio value of 1 000.

## Cash flow statement

Expressed in SEK thousand	1.1.2012-31.12.2012	1.1.2011-31.12.2011
<b>Ongoing operations</b>		
Profit after financial items	-217 598	-60 833
Adjusted for non-cash items	287 359	181 609
	69 761	120 776
Tax paid	-1 397	-1 232
<b>Cash flow from current operations before changes in working capital</b>	68 364	119 544
<i>Cash flow from changes in working capital</i>		
Increase (-)/Decrease (+) in investment in portfolio companies	-178 397	-212 727
Increase (-)/Decrease (+) in investment in operating receivables	-34 123	-9 309
Increase (-)/Decrease (+) in investment in operating liabilities	29 203	13 836
<b>Cash flow from current operations</b>	-114 953	-88 656
<b>Investment activities</b>		
Acquisition of tangible fixed assets	-67	-436
Investments in (-)/disposal of (+) financial fixed assets	206 433	-21 342
<b>Cash flow from investment activities</b>	206 366	-21 778
<b>Financing activities</b>		
Capital contribution	400 000	300 000
Increase (-)/Decrease (+) in loan liabilities	-101 812	-71 392
<b>Cash flow from financing activities</b>	298 188	228 608
<b>Cash flow for the period</b>	389 602	118 174
<b>Liquid assets at the beginning of the year</b>	1 126 072	1 007 897
<b>Liquid assets at the end of the year</b>	1 515 674	1 126 072

## Supplementary information to the cash flow statement

Expressed in SEK thousand	1.1.2012-31.12.2012	1.1.2011-31.12.2011
<b>Interest paid and dividends received</b>		
Dividends received	19 050	9 918
Interest received	87 001	36 851
Interest paid	-8 236	-8 236

## Accounting Principles and Notes to the Financial Statements

(Amounts in SEK thousands except where otherwise stated)

### General accounting principles

Swedfund International AB's annual report is made up in accordance with the Swedish Annual Accounts Act and recommendations 1-29 with pertaining statements issued by the Swedish Financial Standards Council.

The accounting principles are unchanged in relation to last year.

To increase the readability of the income statement and give a true picture, the headings and items listed in the Swedish Annual Accounts Act or the recommendations for annual accounting issued by the Swedish Financial Accounting Standards Council have not been used. Costs directly ascribable to each item of revenue are net with specification of the items included in the net result.

Endowment insurance is stated at its fair value on the asset side, as a provision as well as a pledged liability also at its fair value. The company has received financial aid for Technical Assistance (T/A) and "Swedpartnership" from the Swedish government. The effect that has had on the income statement is shown in Note 3.

### Accounting and valuation principles

#### *Income*

Divestments of shares are recognised in the accounts when the shares have been transferred in accordance with the terms of the sale and in an amount that is expected to be received.

Dividend income is recognised in the accounts when the right to dividend income has been established. Income from the sale of shares and dividends is related to the company's shareholding. Interest income is recognised in accordance with the accrued interest principle and in an amount that is expected to be received. Interest income is attributable to the company's lending. Related interest costs are attributable to borrowing to protect the company from exchange rate fluctuations.

#### *Assets and liabilities*

Assets and liabilities are valued at acquisition value except where otherwise specified. Bank accounts, accounts receivable and accounts payable, current and long-term liabilities as well as loans in foreign currency are translated at closing date rates. Currency differences are stated in the operating result. These currency differences amount to MSEK 10.0(5.1) and are included in Other operating income. Foreign currency transactions are translated at transaction date exchange rates.

Lending in foreign currency has mainly been hedged by the borrowing of corresponding amounts. Assets and liabilities are recognised on the balance sheet either as a contingent liability or a pledge at the time of the conclusion of the agreement and are removed when obligations under the agreement cease to exist.

In principle receivables and liabilities with durations of less than one year are classed as current. Securities with a longer duration can be included in the company's current investments. The entire portfolio is classed as current owing to its high liquidity and short duration.

#### *Taxes*

The company applies the Swedish Financial Accounting Standards Council's recommendation RR9 Income taxes. Total tax consists of actual tax and deferred tax. Deferred tax is calculated in accordance with the balance sheet method and is based on

periodization differences between the book and fiscal values of assets and liabilities. The amounts are calculated on the basis of how the periodization differences are expected to even out and using tax rates and tax rules decided on or announced by the balance sheet date.

***Depreciation principles for fixed assets***

Depreciation according to plan is based on original acquisition values and estimated utility periods. Assets are depreciated over five years except for computers, which are depreciated over three years.

***Other long-term holdings of securities***

Holding of securities are valued at their acquisition value. Their value is written down when a decline in value is judged to be permanent.

***Shares***

Shares in portfolio companies are to be regarded as investment holdings and are valued individually to the lower of the acquisition value and the net realizable value. By net realizable value is meant the market value of listed portfolio companies at the end of Swedfund's financial year. For unlisted companies, it is deemed to be the net worth as stated in the most recently received accounts, see table below, or recognized a lower amount to be the net worth is expected to have deteriorated further since the last received accounts.

Write-downs are provided in intervals of 25% as follows.

<u>Net worth as a percentage of acquisition value</u>	<u>Book value a percentage of acquisition value</u>
Over 62.5%	100%
62.4-37.5%	75%
37.4-12.5%	50%
12.5-5.0%	25%
Under 5.0%	SEK 1

There is no write-down on holdings that have a duration of less than two years, unless there are special circumstances.

In connection with write-downs of shares where Sida is responsible for either all or part of the investment, the share of the write-down that will be charged to Sida, is not stated as a cost in Swedfund's accounts. The actual amount is instead stated as a write-down in the value of Swedfund's loans from Sida, subject to Sida's agreement.

Write-downs in the value of unlisted portfolio companies are not reversed before the company has reported one profitable audited financial year. The maximum amount that may be reversed is the original acquisition value. The cost of administration of a fund is part of Swedfund's portfolio commitments and the acquisition value of the fund.

***Loans***

Loans to portfolio companies are valued at the amounts that are expected to be received. Their values are written down successively in intervals of 25% after 12,18,24 and 30 months of non-payment alternate other lower amount if the borrower is deemed to lack capacity to pay.

***Current receivables***

Current receivables are valued at the amounts that are expected to be received, after individual valuation.

***Current investments***

Current investments are valued at the lower of the accrued acquisition value and the fair value.

### **Cash flow statement**

The cash flow statement is made up using the indirect method. By liquid funds is meant current investments and money at bank, excluding collateral provided for loans.

### **Note 1 The Board, employees and personnel costs**

#### **Gender division regarding the board, the Managing Director and other senior management personnel.**

	2012	of which men	2011	of which men
Board of Directors	8	4	7	3
Managing Director	1	1	1	1
Other senior management personnel	5	3	7	3

#### **Average number of employees**

Country	2012	of which men	2011	of which men
Kenya	1.5	100%	2.0	100%
Sweden	34.2	51%	34.0	49%
Total	35.7	53%	36.0	52%

#### **Salaries, other remuneration and payroll overheads**

	2012		2011	
	Salaries and remuneration	Payroll overheads	Salaries and remuneration	Payroll overheads
	32 860	18 391	28 607	15 591
(of which pension expenses)	(0) 1,2)	(7 437)	(0) 1,2)	(6 301)
<b>Total</b>	<b>32 860</b>	<b>18 391</b>	<b>28 607</b>	<b>15 591</b>

- 1) KSEK 873 (533 last year) of the pension expenses relate to pension insurance premium for MD and KSEK 504 relates to Acting MD.
- 2) For all employees, defined premium and comparable pension premiums are paid according to law and collective agreements, which is taken as cost for the year.

## Salaries and other remuneration broken down by country and between members of the board and other personnel

	2012		2011	
	Board and MD	Other personnel	Board and MD	Other personnel
Sweden	11 758	19 292	9 349	16 849
(of which remuneration to the board)	(450)		(428)	
(of which salary and severance pay to former MD)	(2 732)		(1 854)	
(of which salary to Acting MD)	(1 654)			
(of which salary to other senior management personnel)	(6 924)		(7 067)	
Kenya, representative office		1 809		2 409
<b>Total</b>	<b>11 758</b>	<b>21 101</b>	<b>9 349</b>	<b>19 258</b>

Remuneration to members of the board, former members of the board and former Managing Director.

Name		Directors' remuneration	Directors' remuneration portfolio companies
Claes Ekström	Chairman of the board	-	
Björn Börjesson	V Chairman of the board	90	
Renée Andersson	Board member	90	
Pernilla Bard	Board member	90	
Anna Centerstig	Board member	-	
Bengt Kvarnbäck	Board member	90	
Anna Ryott	Board member	90	
Per Östensson	Board member	-	
Tord Olofsson	Former MD subsidiary		100
Olle Arefalk	Former MD		217
Hugo Thelin	Former Board member		40

A fee is paid to the chairman and other members of the Board in accordance with the AGM's decision.

Board members' attendance record during the year.

Board member	1/12	2/12	3/12	4/12	5/12	6/12	7/12	8/12	9/12	10/12	11/12
Lars Gårdö resigned April 2012	X	X	X	X							
Mia Horn af Rantzien resigned April 2012	X		X	X							

Stina Mossberg resigned April 2012	X	X	X	X							
Maria Norrfalk resigned April 2012	X	X	X	X							
Elisabeth Westberg resigned April 2012	X	X	X	X							
Claes Ekström	X	X	X	X	X	X	X	X	X	X	X
Renée Andersson					X	X	X	X	X	X	X
Pernilla Bard						X	X	X	X	X	X
Björn Börjesson					X	X	X	X	X	X	X
Anna Centerstig					X	X	X	X	X	X	X
Per Östensson	X	X	X	X		X	X	X	X	X	X
Bengt Kvarnäck						X		X	X	X	X
Anna Ryott					X	X	X	X	X	X	X

### Absence due to sickness

Total absenteeism due to sickness amounted to 0.73% (0.81% last year) of the employees' aggregate ordinary working hours. The company does not have any employees whose total absence due to sickness amounts to or exceeds 60 days. For integrity reasons sick leave statistics are not shown by age group and gender.

### Salary of MD and other senior management personnel, severance pay etc

The Acting Managing Director (appointed January 11, 2012) has a fixed salary of SEK 133,333 per month. No variable component is paid. Appointment as Acting MD has a notice period of 1 month. Acting MD then returns to his previous ordinary employment. The former MD had at the termination by the company an agreement for severance compensation equivalent to all costs (salary during the notice period 6 months, 11 months severance pay, social security, etc.). The cost of MSEK 4.7 have been charged against the net result. In June, an agreement was reached with the communication manager to terminate her employment. The cost of MSEK 1.4 (severance pay and social security contributions) have been charged against the net result. The payment is in accordance with the agreement made in one single installment which is not in accordance with the Guidelines for Terms of Employment for Senior Executives in state-owned Companies. In those states that severance pay is payable monthly.

#### Salaries of other senior management personnel

Name	Position	Annual salary	
Eva-Marie Andersson	Chief legal counsel	1 018 255	
Oscar Carlsson	Director of business development	886 375	
Karin Isaksson	Director of origination	1 020 221	
Per Juth	Director of strategic development	1 463 202	
Maria Lannér	Director of communications	1 478 595	resigned June 2012
Elisabeth Mattisson	Director of finance and administration	1 057 076	

For other senior management personnel, defined premium and comparable pension premiums, both statutory and pursuant to collective agreements are paid, and were booked during the year. The collective agreement rules apply when the company gives notice of termination.

### Pension commitments

The Former Managing Director is entitled to a direct pension secured by an endowment insurance owned by the Company. Payment is made via an annual premium.

### Note 2 Net turnover per geographic market and per line of business

	2012	2011
Net turnover per geographic market		
Africa	143 937	26 122
Asia	26 671	16 761
Eastern Europe	21 195	140 414
Latin America	3 670	1 846
	<u>195 473</u>	<u>185 143</u>

	2012	2011
Net turnover per operational area		
Sales of shares	130 317	131 977
Share dividends	19 050	9 918
Interest income	44 000	39 506
Services sold	2 055	3 348
Other portfolio income	51	393
	<u>195 473</u>	<u>185 143</u>

### Note 3 Support for Technical Assistance and "Swedpartnership"

	2012	2011
Heading in Income statements		
Other operating income	4 338	4 433
Other interest income and similar profit/loss items	-	-
	<u>4 338</u>	<u>4 433</u>

Other external costs	- 1 588	- 1 677
Personnel costs	- 2 750	- 2 756
	<u>- 4 338</u>	<u>- 4 433</u>

	2012	2011
Heading in Income statements		
Other operating income	4 748	3 514
	<u>4 748</u>	<u>3 514</u>

Other external costs	- 4 295	- 2 607
Personnel costs	- 31	- 409
	<u>- 4 325</u>	<u>- 3 016</u>

**Note 4 Equity investments sold/wound-up during the year**

	2012		2011
Total acquisition value of shares sold	- 116 974	-	72 879
Written-down prior to the financial year	883		21 818
<b>Acquisition value of shares sold for the year</b>	<b>- 116 091</b>	<b>-</b>	<b>51 061</b>
Payments received	130 317		131 977
<b>Capital gain/loss for the year</b>	<b>14 226</b>		<b>80 916</b>

**Note 5 Depreciation of tangible fixed assets**

	2012		2011
Equipment	350		434

**Note 6 Auditors' fees and remuneration**

	2011		2010
<u>PricewaterhouseCoopers</u>			
Audit assignments	455		724
Other assignments	1 058		22
Swedish National Audit Office	119		-

**Note 7 Other interest income and similar profit/loss items**

	2012		2011
Income from asset management	36 727		43 561
Income from bank balances	108		190
	<b>36 835</b>		<b>43 751</b>

**Note 8 Interest expenses and similar profit/loss items**

	2012		2011
Write-down, financial fixed assets	218		299
Other financial expenses	815		258
	<b>1 033</b>		<b>557</b>

**Note 9 Tax costs**

<i>Reported in the Income Statement</i>		2012		2011
<i>Actual tax cost</i>				
Tax for the period		-		-
Adjustment of deferred tax claim because of change in tax rate		- 6 427		15 607
		<b>- 6 427</b>		<b>15 607</b>
<i>Reconciliation of effective tax rate</i>				
Profit before tax	%	- 217 598	%	- 60 833
Tax as per current tax rate	26.3	57 228	26.3	15 999
Non-deductible costs and tax-free income	-0.1	- 284	-0.6	- 392
Tax on current year's loss not posted as a deferred tax claim	-23.2	- 50 517	0	-
	<b>-3</b>	<b>6 427</b>	<b>25.7</b>	<b>15 607</b>

## Note 10 Equipment

<i>Accumulated acquisition value</i>	2012	2011
Opening value	5 634	5 198
New acquisitions	138	436
Sales and disposal	- 443	-
	<b>5 329</b>	<b>5 634</b>
<i>Accumulated depreciation according to plan</i>		
Opening value	- 4 956	- 4 522
Sales and disposal	352	-
Depreciation for the year on acquisition value according to plan	- 330	- 434
	<b>- 4 934</b>	<b>- 4 956</b>
<b>Closing book value according to plan</b>	<b>395</b>	<b>678</b>

## Note 11 Other long-term holdings of securities

	2012	2011
Shares in EDFI	118	108
Shares in EFP	130	123
Shares in ICCF	53	53
Endowment insurance policies	1 524	1 258
<b>Book value at year-end</b>	<b>1 825</b>	<b>1 542</b>

## Note 12 Loans

<i>Accumulated acquisition value</i>	2012	2011
Opening book value	712 659	690 989
Lending for the year	259 683	174 311
Repayments for the year	- 201 824	- 144 306
Reclassifications	- 122 818	- 24 000
Currency rate/translation differences for the year	- 28 133	15 665
	<b>619 567</b>	<b>712 659</b>
<i>Accumulated write-downs</i>		
Opening book value	- 163 733	- 83 779
Write-downs for the year	- 112 755	- 78 219
Reversed write-downs for the year	32 581	935
Currency rate/translation differences for the year	12 846	- 2 670
	<b>- 231 061</b>	<b>- 163 733</b>
<b>Book value at year-end</b>	<b>388 506</b>	<b>548 926</b>

3 loans have been converted to equity during 2012. Two of these loans to companies with operations in Kenya, representing 117.7 MSEK of the amount under classifications. The remaining 5.1 MSEK represents the conversion of a loan to a company with operations in Iraq.

53 MSEK is expected to be repaid in 2013. Closing date exchange rates are used for translating repayments in foreign currencies.

## Note 12 Loans continued

### Break-down of the loan portfolio by country and currency

Country	Currency	2012		2011	
		Loan amount	Of which written-down	Loan amount	Of which written-down
Africa	USD	168 110	- 143 943	140 827	- 109 847
Africa	EUR	19 352	- 169	13 359	-
Azerbaijan	USD	-	-	17 204	-
Bangladesh	USD	3 253	-	6 882	-
Bhutan	USD	-	-	1 445	- 1 445
Egypt	USD	6 505	- 3 253	13 763	-
Ethiopia	EUR	26 673	- 6 668	30 750	-
Ghana	USD	2 732	- 2 049	5 781	- 1 445
India	USD	32 788	-	97 620	- 30 107
India	EUR	64 426	-	66 850	-
Iraq	USD	26 671	- 26 671	15 557	-
Kenya	USD	976	- 976	47 828	- 3 097
China	USD	10 252	- 5 126	10 846	-
China	SEK	1 333	- 1 333	2 000	- 1 500
Congo (DRC)	SEK	1 080	-	1 080	-
Latin America	SEK	6 867	-	6 867	-
Latvia	EUR	-	-	329	-
Macedonia	EUR	1 160	- 1 160	1 203	- 1 203
Pakistan	USD	64 240	-	74 757	-
Russia	USD	985	- 985	1 042	- 1 042
Russia	EUR	579	- 579	1 801	- 1 351
Russia	RUB	-	-	3 243	-
Sri Lanka	USD	7 058	-	8 533	-
South Africa	ZAR	-	-	2 416	-
Vietnam	USD	103 201	- 38 150	120 030	- 12 697
Belarus	USD	71 327	-	20 645	-
<b>Total</b>		<b>619 567</b>	<b>- 231 061</b>	<b>712 659</b>	<b>- 163 734</b>

### Convertible loans and profit-sharing loans

Borrower	Currency	Outstanding		Conversion right
		loan amount in '000'	Interest and equivalent	
Raffia Holdings Ltd	USD	4 632	Interest	Yes
Al Quseir Hotel Company S.A.E	USD	1 000	Interest and royalty	No
Addis Emerald Hotel	EUR	3 105	Interest and share of profit	Yes

### Note 13 Portfolio investments in equity

<i>Accumulated acquisition value</i>	2012	2011
Opening book value	1 441 806	1 337 440
Investments for the year	160 368	168 350
Reclassifications	123 466	24 000
Sales for the year	- 116 974	- 87 984
	<b>1 608 667</b>	<b>1 441 806</b>
<i>Accumulated write-downs</i>		
Opening book value	- 502 158	- 476 388
Reversed write-downs for the year related to sales	883	24 986
Write-ups for the year	10 138	-
Write-downs for the year	- 123 554	- 50 757
	<b>- 614 690</b>	<b>- 502 158</b>
<b>Closing book value</b>	<b>993 976</b>	<b>939 648</b>

Developing Countries	Share category	Share %	Acquisition value
<b>Africa</b>			
ACACIA Fund, Kenya	Ordinary	100.0	19 275.2
Addax Bioenergy S.A., Sierra Leone	Ordinary	8.0	73 660.9
Addis Cardiac Hospital Plc, Ethiopia	Ordinary	36.2	7 600.0
Addis Quarry Development plc, Ethiopia	Ordinary	27.2	15 149.5
Afrinord Hotel Investment A/S, Africa	Ordinary	20.0	470.1
Africap Microfinance Investment Company Ltd, Africa	Ordinary	7.4	16 802.6
AMSCO, Africa	Ordinary	5.0	4 656.9
Athi River Steel Plant Ltd, Kenya	Ordinary	12.5	85 227.1
Cimbenin, Benin	Ordinary	15.4	6 429.4
Deacons Kenya Limited, Kenya	Ordinary	13.4	7 865.9
Energy Poverty Action, Africa	Ordinary	-	252.6
EFP- IFU, CareWorks, Africa	Ordinary	-	0.2
EFP-Proparco, Scancem, Africa	Ordinary	-	1 221.9
ECP Africa Fund I	Fund units	2.7	26 558.3
ECP Africa fund II PCC	Fund units	2.2	51 142.2
ECP Africa fund III PCC	Fund units	3.3	66 508.5
Elgon Road Development Ltd, Kenya	Ordinary	21.3	28 398.9
Emerald Addis Hotels plc, Ethiopia	Ordinary	27.0	23 398.8
Gamma Knife Center S.A.F, Egypt	Ordinary	24.3	6 755.5
Geratech Zirconium Beneficiation Ltd, South Africa	Ordinary	9.2	27 984.9
Kinyeti Venture Capital Ltd, South Sudan	Ordinary	49.7	4 951.1
Norsad	Ordinary	18.6	50 052.1
Raffia Holdings Ltd, Africa	Ordinary	100.0	285 353.5
Somalia Telekom Group, Somalia	Ordinary	19.0	26 284.3
UAP, Kenya	Ordinary	7.9	72 719.0
<b>Total of Africa</b>			<b>908 719.4</b>

## Note 13 Portfolio investments in equity continued

### Asia

Baring India Private Equity fund II Ltd, India	Fund units	7.1	73 215.6
Belstar Investment and Finance Ltd, India	Ordinary	7.3	3 304.0
China Environment Fund III	Fund units	4.4	71 490.8
Green Investment Asia Sustainable Fund I	Fund units	30.8	48 938.0
HSF Electro Mechanic Wuxi Ltd, China	Units	40.0	16 684.1
Karlsson Spools Precision Machining Co Ltd, China	Units	30.0	15 456.5
Kurdistan Medical Services, Iraq	Ordinary	30.0	6 351.9
Mongolia Nord GmbH, Mongolia	Ordinary	14.3	16 159.6
NS India Holding AB, India	Ordinary	33.3	5 481.1
Oatly, China	Ordinary	25.0	4 290.0
Prestando Co Ltd, China	Units	40.0	12 000.0
Quanadil Al Rafidain Automotive Trading, Iraq	Ordinary	49.0	33 581.6
Recupero AB, China	Ordinary	24.4	2 597.9
SEAF Sichuan SME Investment Fund	Fund units	13.3	11 389.3
<b>Total of Asia</b>			<b>320 940.4</b>

### Latin America

Central American Inv. Facility, Centralam.	Ordinary	11.4	23.8
Central American Inv. Facility, Centralam.	Preferred	-	23 761.9
Entel S.A., Bolivia	Ordinary	0.1	1 003.8
Global Medical Investments AB, Latin America	Ordinary	48.0	59 885.8
Ontur International S.A, Uruguay	Ordinary	14.0	14 076.5
<b>Total of Latin America</b>			<b>98 751.7</b>

### Eastern Europe

Ambiente Furniture A/S, Ukraina	Preferred	-	1 380.8
Askembla Growth Fund KB, Russia	Shares in limited partnership	6.6	45 932.1
Belarusian Bank for Small Business, Belarus	Ordinary	9.4	13 515.4
Eskaro Ukraine, Ukraine	Ordinary	20.0	21 873.8
FJ Holding AB, Russia	Ordinary	31.0	25 000.0
FMW/AS Fors MW, Estonia	Ordinary	28.4	6 499.1
Komercijalna Banka AD Beograd, Serbia	Ordinary	2.9	96 727.0
Mint GP Ltd, Russia	Fund units	4.7	34 667.7
Pieno Zvaigzdes, Lithuania	Ordinary	9.5	25 018.5
Troll Nursery, Latvia	Ordinary	24.4	9 640.5
<b>Total of Eastern Europe</b>			<b>280 254.9</b>
<b>Total acquisition value</b>			<b>1 608 666.5</b>

Norsad is a development finance institution in southern Africa, which was formed through a collaboration between the four Nordic countries Sweden, Norway, Finland and Denmark and the member countries of SADC (Southern African Development Community). When Norsad was incorporated into Norsad Finance Ltd, Swedfund became a shareholder and received 1,496 shares in the company at no cost. The acquisition value and the reported value of these shares is therefore zero. Swedfund thereafter subscribed for 894 new shares in the company at a price per share of \$ 8,279, in total \$ 7,401,426, which is the basis for the reported value of Swedfund's shareholding in the company.

## Note 14 Fair values

Book and fair values of certain assets are as follows	2012		2011	
	Stated amount		Fair value	
Other long-term holdings of securities	1 825	1 542	1 825	1 542
Shares	993 975	939 648	1 045 563	1 109 567
Loan claims	388 506	548 925	388 506	548 925
Accounts receivable	50 022	36 711	50 022	36 711
Other receivables	35 470	19 332	35 470	19 332
Current investments	2 101 565	1 933 962	2 107 980	1 945 120
Cash and bank accounts	56 545	41 481	56 545	41 481

For other long-term holdings of securities the fair value is deemed to Swedfund International AB's share of the Company's equity in accordance with the latest annual accounts.

The fair value of shares is the shares' net worth in accordance with the latest received accounts. For listed companies, the fair value is the market value on the closing day.

The fair value of current investments is their valuation at closing date market rates.

As loan receivables, liabilities to credit institutions short- and long-term, and other long-term liabilities are mainly rolled over at new interest rates every third or sixth month the book value is considered to represent a close approximation to the fair value.

In the case of accounts receivable, other receivables, cash and bank, liabilities to suppliers, and other current liabilities, the book value is considered to be a close approximation to the fair value.

## Note 15 Memorandum items

### Prepaid costs and accrued income

	2012	2011
Prepaid costs	3 617	2 282
Accrued interest current investments	16 317	17 862
Accrued interest loan claims	13 732	8 893
Write-downs accrued interest loan claims	- 5 526	- 4 689
Other accrued interest	1 003	64
	<u>29 142</u>	<u>24 411</u>

### Accrued costs and deferred income

	2012	2011
Prepaid income (Technical Assistance)	11 471	16 671
Accrued wages	2 914	2 995
Accrued payroll charges	3 214	2 457
Accrued interest liabilities to credit institutions	199	2 023
Other accrued costs	1 797	1 111
	<u>19 594</u>	<u>25 257</u>

## Note 16 Current investments

Specification of security	Average duration in years	Fair	Book	Fair	Book
		value 2012	value 2012	value 2011	value 2011
Treasury bills	0.12	1 137 855	1 137 690	968 235	968 448
Government bonds	3.28	224 794	220 690	368 853	360 383
Bonds (government guarantee)	1.19	198 646	197 931	235 018	233 391
Secured bonds	0.51	320 104	318 721	313 129	311 859
Municipal Certificates	0.22	36 955	36 948	44 969	44 963
Bank-, Mortgage- and	0.03	189 625	189 585	14 916	14 918
		<b>2 107 980</b>	<b>2 101 565</b>	<b>1 945 120</b>	<b>1 933 962</b>

Weighted effective annual interest rate for the portfolio is 1.19%.

Interest rate risk in the event of 1% change in interest rates +/- 19 400

## Note 17 Deferred tax receivables and liabilities

Stated deferred tax receivable can be attributed to	2 012	2011
Machinery and equipment	117	112
Pension agreement for Managing Director	338	323
Deferred tax loss 2009	1 734	2 073
Deferred tax loss 2010	19 384	23 173
Deferred tax loss 2011	13 245	15 566
	<b>34 819</b>	<b>41 247</b>

The company has losses brought forward totaling 372 715 TSEK, of which a deferred tax claim has been reserved for 156 198 TSEK. The Company considers that likelihood of the recognized deferred tax assets will be utilized for future taxable profit.

## Note 18 Other liabilities to credit institutions

	2012	2011
Due date 1-5 years from balance sheet date	411 641	410 907
Due date more than five years from balance sheet date	9 045	109 779
	<b>420 686</b>	<b>520 686</b>

The sustainability report (page 4-66) is made up in accordance with generally accepted accounting standards for state-owned companies (guidelines for external financial reporting), the information provided agrees with the actual conditions and nothing of material importance has been omitted that could affect the picture of the company created by the sustainability report.

The annual report (page 67-100) is made up in accordance with generally accepted accounting standards for state-owned companies (guidelines for external financial reporting), the information provided agrees with the actual conditions and nothing of material importance has been omitted that could affect the picture of the company created by the annual report.

Stockholm, 18 March 2013

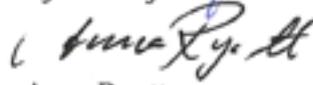


Claes Ekström

*Chairman*



Björn Börjesson



Anna Ryott



Anders Craft

*Acting Managing Director*



Renée Andersson



Pernilla Bard



Anna Centerstig



Bengt Kvarnbäck



Per Östensson

Our audit report was submitted on 19 March 2013



PricewaterhouseCoopers AB

Peter Nilsson

*Authorised Public Accountant  
Public Accountant*



Henrik Söderhielm

*Authorised  
appointed by the Swedish National Office*

# Appendix 1: Owner's Instructions for Swedfund International AB (Swedish Corporate id no. 556436-2084 AB)

## § 1 Functions of the Company

*The Company shall:*

- a) contribute to the goal of Sweden's Policy for Global Development (PGD): equitable and sustainable global development. The Company's operations have two objectives. One, relating to international development cooperation, is to help in enabling poor people to improve their lives. The other, concerning Sweden's reform cooperation in Eastern Europe, is to bring about strengthened democracy, equitable and sustainable development and alignment with the European Union and its core values;
- b) ensure, in cooperation with strategic partners, that the Company takes part in investments that are not expected to be achievable with commercial financing alone. Competition with commercial financial players must be avoided. Assessment of the Company's additional role shall be carried out ahead of investment decisions;
- c) ensure that operations are conducted in a businesslike manner. The investments must be financially, environmentally and socially sustainable. In preparations for and decisions on investments, crucial importance shall be assigned to their expected contributions to the aims of the Company's operations as defined in the second paragraph of §1a) above;
- d) ensure that activities are guided by the principle of untied aid, with the exception of 'Swedpartnership';
- e) ensure that the investments take place in accordance with international norms and principles for responsible investments, and within sound, clear corporate structures that do not contribute to tax evasion, money laundering or financing of terrorism;
- f) invest in countries that qualify for development financing according to the OECD Development Assistance Committee (DAC) definition. Investments in 'Low Income Countries and Territories' and post-conflict countries shall be given priority. Investments in 'Upper Middle Income Countries and Territories' according to the DAC definition should take place only in countries with which Sweden is engaged in bilateral development cooperation;
- g) refrain from taking part in investments through intermediary jurisdictions that have been assessed within the framework of the OECD Global Forum Peer Review Process and that have thereby failed to gain approval in Phase 1 or been deemed 'partially compliant' or 'non-compliant' in Phase 2.

## § 2 Reporting

*The Company shall:*

- a) besides meeting the statutory reporting requirements, assist in the implementation of the 'transparency guarantee' in Swedish development cooperation, in order to enhance openness in Swedish development cooperation, by such means as actively increasing public access to information about the Company's operations;
- b) to fulfil what is required under §2a) above, the Company shall systematically and continuously assess, and report externally on, the overall results from the investments and their contribution to the aims of operations listed in the §1a) above. A summary report must be included in the Annual Report, based on measurable indicators and with investments classified as 'current' and 'exited'. Reports on activities shall also be sent to the International Aid Transparency Initiative (IATI), the OECD DAC and the OpenAid.se information service;
- c) in its Annual Report, report separately on financial objectives adopted at the annual general meeting of shareholders.

## § 3 Validity

These Owner's Instructions supersede the former owner's instructions adopted at the Company's Annual General Meeting (AGM) on 27 April 2011. These Instructions apply until the AGM decides otherwise.

*Adopted at the Annual General Meeting on 20 April 2012.*

## Appendix 2: Portfolio companies

COMPANY	BUSINESS	SECTOR	COUNTRY	YEAR	INSTRUMENT
Acacia	Fund	Various	Kenya		1997 Equity
Addax Bioenergy	Production of Ethanol & Bioenergy Power Plant	Energy & Agriculture	Sierra Leone		2011 Equity
Addis Cardiac Hospital	Hospital	Healthcare	Ethiopia		2006 Equity
Addis Quarry Development	Quarry	Natural Resources	Ethiopia		2008 Equity
Advakom	Data Cables	ICT	Russia		2001 Debt
AfriCap Microfinance Investment Company	Microfinance Fund	Finance	Africa		2007 Equity
Afrinord Hotel Investments	Hotel	Infrastructure	Africa		2005 Equity and Debt
Al Quseir Hotel	Hotel	Infrastructure	Egypt		2001 Debt
Ambiente Furniture	Furniture Factory	Industrials	Ukraine		2005 Equity
AMSCO	Employment Agency	Services	Africa		1990 Equity
Askembla Growth Fund	Fund	Various	Baltics		2003 Equity
Athi River Steel Plant	Steel Plant	Industrials	Kenya		2009 Equity
Baring India Private Equity Fund II	Fund	Various	India		2005 Equity
Belarusian Bank for Small Business	Microfinance Institution	Finance	Belarus		2007 Equity and Debt
Belstar	Microfinance Institution	Finance	India		2010 Equity
Bhutan Dairy	Dairy	Agriculture	Bhutan		2004 Debt
CAIF	Fund	Various	Central America		1996 Equity
CEF III	Fund	Various	China		2008 Equity
Cimbenin	Cement Production	Industrials	Benin		1991 Equity
Deacons Kenya	Retail Chains	Consumer Products	Kenya		2010 Equity
ECP Africa Fund I	Fund	Infrastructure	Africa		1999 Equity
ECP Africa Fund II	Fund	Various	Africa		2006 Equity
ECP Africa Fund III	Fund	Various	Africa		2008 Equity
EFP two loan agreement	DFI Co-Financing Facility	Various	Africa		2006 Debt
Radisson Nairobi	Hotel	Infrastructure	Kenya		2008 Equity
Radisson Emerald Addis Hotels	Hotel	Infrastructure	Ethiopia		2008 Equity and Debt
Energy Access Partnership <sup>2</sup>	Model for Energy Production	Energy	South Africa		2010 Equity
Engro Energy	Gas Power Plant	Energy	Pakistan		2007 Debt
Entel S:A	Telecom Operator	ICT	Bolivia		2011 Equity
Eskaro	Paint Factory	Industrials	Ukraine		2010 Equity
FJ Holding AB	Vehicle Components	Industrials	Russia		2011 Equity
Fors MW	Engineering Industry	Industrials	Estonia		1995 Equity
Gamma Knife Center	Radiotherapy Clinic	Healthcare	Egypt		2000 Equity
Geratech	Zirconium Production	Chemical Industry	South Africa		2005 Equity
Global Medical Investments	Project Development and Investment Company	Healthcare	Multiregional		2009 Equity and Debt
Green Investment Asia Sustainable Fund I	Fund	Cleantech	Asia		2007 Equity
Haripur Power	Power Plant	Energy	Bangladesh		2003 Debt

HSF Wuxi	Components	China	2006 Equity
Ilac Hotel Uvira	Hotel	Congo	2010 Debt
Interact Climate Change Fund/Facility	DFI Co-Financing Facility	Africa	2010 Debt
VMG Industry	Wood Industry	Belarus	2011 Debt
Izma Reindeer Meat	Foods Company	Russia	2004 Debt
Jacobi Carbons	Chemical Industry	India	2008 Debt
Jacobi Carbons Lanka	Chemical Industry	Sri Lanka	2010 Debt
Karlsson Spools	Hydraulic Valves	China	2005 Equity and Debt
Kinyeti Capital	Fund	South Sudan	2012 Equity
Komercijalna Banka	Bank	Serbia	2009 Equity
KurdMed	Eye Hospital	Iraq	2008 Equity and Debt
Mint II	Fund	Russia	2004 Equity
Radisson Blu Ulaanbaatar	Hotel	Mongoliet	2010 Equity
Nordrus Hotel	Hotel	Russia	2003 Equity
Norsad Finance	Credit Institution	Africa	2012 Equity
Artheon Battery Company	Battery Manufacturing	India	2010 Equity and Debt
Oatly Hong Kong Holding Co	Dairy	China	2011 Equity
Ontur International	Port Terminal	Uruguay	2005 Equity
Phoenix Basra Co. Ltd	Anti-Corrosion Treatment	Iraq	2012 Equity
Pieno Zvaigzdes	Dairy	Lithuania	2001 Equity
Polygenta	Textile Industry	India	2009 Debt
Prestando	Vehicle Industry	China	2007 Equity and Debt
Quanadeel Al Rafidain	Components	Iraq	2010 Equity and Debt
Raffia	Packaging Products	Africa	2005 Equity, Debt and Guara
Recupero	Aluminum Recycling	China	2007 Equity and Debt
Sacombank	Bank	Vietnam	2011 Debt
Sanghi Industries	Heating Plant	India	2007 Debt
Sichuan Investment Fund	Fund	China	2001 Equity
Small Enterprise Foundation	Microfinance Institution	South Africa	2006 Debt
Somalia Telecom Group	Telecom Operator	Somalia	2007 Equity and Debt
Sweden Ghana Medical Center	Cancer Clinic	Ghana	2008 Debt
Swedmilk Makedonija	Dairy	Macedonia	2006 Debt
Troll	Nursery Products	Latvia	2004 Equity
UAP	Insurance Company	Kenya	2012 Equity
Vietstar	Waste Recycling	Vietnam	2008 Debt
Vireo	Renewable Energy	Belarus	2012 Debt
	Industrials		
	Infrastructure		
	Various		
	Industrials		
	Agriculture		
	Chemical Industry		
	Chemical Industry		
	Industrials		
	Various		
	Finance		
	Healthcare		
	Various		
	Infrastructure		
	Infrastructure		
	Finance		
	Industrials		
	Agriculture		
	Industrials		
	Industrials		
	Industrials		
	Cleantech		
	Finance		
	Energy		
	Various		
	Finance		
	ICT		
	Healthcare		
	Agriculture		
	Consumer Products		
	Finance		
	Cleantech		
	Energy		

## Appendix 3: Swedpartnership, approved projects in 2012

COMPANY	COUNTRY	BUSINESS	COOPERATION
Farm Mac AB	Ukraine	Sale of agricultural machines and equipment	Subsidiary
Alutrade AB	Turkey	Delivery of aluminum profiles	Supplier
Check Point China AB	China	Sourcing and quality assurance of industrial components	Subsidiary
Energy Save Nordic AB	China	Products and systems for energy conservation	Supplier
Soft Touch AB	China	Wholesale of protection equipment, hand gloves and protection clothes	Supplier
SolarWave AB	Tanzania	Production of water purification products	Subsidiary
Miris AB	Bangladesh	Development and sale of instruments for milk analysis	Distributor
SweModule AB	Botswana	Production of solar modules	Distributor
Emric AB	Indonesia	System support for credits	Subsidiary
Triggerfish Holding AB	Nepal	Data programming	Supplier
Öhlins Racing AB	Thailand	Production of bumpers	Subsidiary
TeroC AB	Bolivia	Technical consultancy	Distributor
Contac Solutions AB	China	Contract manufacturing of electronic products	Subsidiary
SPI Nordic Play & Leisure AB	Turkey	Design, production and sale of play facilities	Distributor
Tovenco AB	China	Production of cooker hoods and ventilation systems	Subsidiary
Bactiguard AB	China	Production and sales of medical devices that prevent infections	Distributor
Fastdev AB	Kenya	Data programming	Subsidiary
Wenmec AB	China	System deliveries of construction machinery and other industrial products	Subsidiary
Sweden Power Chippers AB	Zambia	Pellet production machine	Distributor
AB Svenskt Konstsilke	China	Production of technical yarns	Subsidiary
AB Trätälja	Tanzania	Trade with wooden products	Distributor
Kristallen i Lannavaara AB	Namibia	Sanding and sale of gemstones	Supplier
Mattias Lägermo Bygg & Snickeri AB	Kenya	Contracts, repairs and services in the construction sector	Distributor
Comptech i Skillingaryd AB	China	Metal foundry	Subsidiary
Grafiska Punkten i Växjö AB	Ghana	Printing company	Subsidiary
Arjeplog Test Management AB	China	Automotive testing	Subsidiary
Bonitas AB	India	Asisted living	Distributor
Centigo AB	China	Management consultancy company	Distributor
Projektengagemang Byggprocesstyrning AB	Nigeria	Technical consultancy business	Distributor
Bröderna Nyman AB	China	Industrial confection	Supplier
Progresslead Scandinavian Management AB	China	Organisational consultants	Distributor
Svensk Pallreconditionering AB	Iraq	Trade with packaging, etc.	Distributor
Röjdåfors Skogs AB	Nicaragua	Forestry contractors	Joint-venture
Rudhäll Industri AB	China	Metal processing	Subsidiary
Ewes Stålfjäder AB	Bosnia	Metal industry	Subsidiary
Verisec AB	Serbia	Development and sale of products for IT security	Subsidiary

## Appendix 4: Technical Assistance, TA list, Project 2012

REGION	ACTIVITY	SECTOR	TYPE OF TA-FUNDS	PROJECT-NO	PROJECT NAME
Middle East	Consultancy assignment to conduct a market study	Financing	Quality-increasing support	820075	Financing company Iraq
Africa	Consultancy assignment for a company analysis	Hospital	Quality-increasing support	820076	Forensic Audit in Addis Emerald
Africa	Consultancy assignment for a company analysis	Agriculture/ industry	Quality-increasing support	820077	Buchanan Renewables Fuel
Africa	Consultancy assignment to conduct a market study	Hospital	Quality-increasing support	extension	Extension of the decision 16/2011
All regions	Consultancy assignment for ESG audits	All sectors	Quality-increasing support	820078	External ESG audits
Africa	Consultancy assignment for quality assurance	Hospital	Quality-increasing support	820079	Addis Cardiac Hospital Docent Wiklund
Africa	Consultancy assignment for education assignments	Finans	Quality-increasing support	820080	Kinyeti Capital
Middle East	Consultancy assignment for development of financial statements	Hospital	Quality-increasing support	820081	KurdMed Financial statement
Middle East	Consultancy assignment for medical support	Hospital	Quality-increasing support	820082	KurdMed Support medical equipment
Middle East	Consultancy assignment for education	Transport	Quality-increasing support	820083	Education for Qanadeel, Irak
Africa	Consultancy assignment for education	Financing	Quality-increasing support	820084	Education of E&S Manager at Norsad

## Appendix 5: Abbreviations and glossary

ADB	African Development Bank	NORFUND	Norwegian DFI
BIO	Belgian's DFI (like SBI)	OECD	Organisation for Economic Co-operation and Development
GNI	Gross national income	OeEB	Austrian DFI
BNP	Gross national product Bruttonationalprodukt	OFC	Offshore Financial Centre
BRIC countries	Brasil, Russia, India, China	OHSAS	Occupational Health and Safety Assessment Standard
CC	Concept Clearance	PGU	Swedish Policy for Global Development
CDC	UK's DFI	PRI	Principles for Responsible Investment
CDM	Clean Development Mechanism	PROPARCO	French DFI
Civil society	is the part of the society in which people help each other without the involvement of the state.	SA	Social Accountability
Code of Conduct		SADC	Southern African Development Community
COFIDES	Spain's DFICOP Communication on progress	SBI	Belgian DFI (liksom BIO)
CO2	Carbon dioxide	SEF	Small Enterprise Foundation
CSR	Corporate Social Responsibility	SEK	Swedish kronor
DAC	Development Assistance Committee	SEK	Swedish Export Credit Corporation
DD	Due Diligence	Sida	Swedish International Development Cooperation Agency
DEG	Germany's DFI	SIFEM	Swiss DFI
DFI	Development Finance Institution	SIMEST	Italian DFI
DOTS	Development Outcome Tracking System	SME	Small- and Medium sized Enterprises
EDFI	European Development Finance Institutions	SOFID	Portuguese DFI
EFP	European Financing Partners	TA	Technical Assistance
EIB	European Investment Bank	USD	US Dollar
EKN	Swedish Export Credits Guarantee Board	UN	United Nations
ERP system	Enterprise Resource Planning	VD	Managing Director
ESG	Environmental Social Governance	WHO	World Health Organisation
ESHIA	Environmental, Social, Health Impact Assessment		
FAR	Swedish Trade Association of Accountants, Auditors and Advisers		
FAO	Food and Agriculture Organisation		
FINNFUND	Finlands DFI		
FMO	Dutch DFI		
GRI	Global Reporting Initiative		
HACCP	Hazard analysis and critical control points, food standards		
HIV/AIDS	Human immunodeficiency virus/ Acquired immunodeficiency syndrome		
HR	Human Relations alternatively Human Rights		
ICT	Information Communication Technology		
IFC	International Finance Corporation		
IFU	Denmark's DFI		
ILO	International Labour Organisation		
IM	Investment Manager		
IMF	International Monetary Fund		
ISO	International Standards Organisation		
ISO 9001	Certifiable quality management system		
ISO 14001	Certifiable environment management system		
Mezzanine financing	is a form of financing that is between equity capital and loans		
NMC	Swedish Association of Environmental Managers		

## Appendix 6: 10 years in brief

<i>Amounts in SEK million</i>	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Share and fund portfolio, book value	255	249	278	398	376	369	540	642	861	940	994
Loan portfolio, book value	49	146	178	238	312	336	412	630	607	549	389
Total accumulated write-downs	67	97	138	155	231	314	373	496	560	666	846
Contracted but undisbursed investments	185	216	151	526	360	444	567	617	501	469	359
Guarantees and options	59	57	50	33	10	17	20	18	27	7	23
Total committed investments	615	765	795	1 350	1 289	1 480	1 912	2 403	2 556	2 631	2 611
Capital contributions, beginning of year	745	759	759	759	759	839	1 239	1 539	2 139	2 239	2 539
Received shareholder contributions	50	-	-	-	80	400	300	600	100	300	400
Dividends to shareholder	-36	-	-	-	-	-	-	-	-	-	0
Capital contributions, end of year	759	759	759	759	839	1 239	1 539	2 139	2 239	2 539	2 939
Accumulated profits, beginning of year	163	177	200	306	360	445	463	538	535	471	426
Net profit for the year after taxes and provisions	30	23	105	54	85	17	76	-3	-64	-45	-224
Translation adjustment	-15	-	-	-	-	-	-	-	-	-	0
Accumulated profits, end of year	178	200	305	360	445	462	539	535	471	426	202
Provisions beginning of year	6	28	37	81	99	118	108	109	19	1	1
Change in provisions	22	9	44	19	18	-10	1	-90	-18	-	1
Provisions, end of year	28	37	81	100	117	108	109	19	1	1	2
Total assets under management, beginning of year	913	965	997	1 146	1 219	1 402	1 810	2 187	2 693	2 711	2 966
Total assets under management, end of year	965	996	1 145	1 219	1 401	1 809	2 187	2 693	2 711	2 966	3 143
Profit before tax	49	42	190	94	138	16	107	-92	-89	-61	-218
Profit for the year after tax and provisions	30	23	105	54	85	17	76	-3	-64	-45	-224
Tax paid	-23	-14	-11	-47	-47	-35	-10	11	0	-1	0

## Auditor's report (translation)

To the annual meeting of the shareholders of Swedfund International AB, corporate identity number 556436-2084

### Report on the annual accounts

We have audited the annual accounts of Swedfund International AB for the year 2012. The annual accounts of the company are included in the printed version of this document on pages 67-100.

### Responsibilities of the Board of Directors and the Managing Director for the annual accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

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

### Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Swedfund International AB as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. A corporate governance statement has been prepared. The statutory administration report and corporate governance statement are consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

### Report on other legal and regulatory requirements

In addition to our audit of the annual accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Swedfund International AB for the year 2012.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

### Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

### Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm 19 March 2013

  
PricewaterhouseCoopers AB  
Peter Nilsson  
Authorized Public Accountant

  
Henrik Söderhielm  
Authorized Public Accountant  
Riksrevisionen

## Auditor's Report on review of Sustainability Report

### To the readers of the Swedfund International AB Sustainability and Annual Report 2012

We have been engaged by the management of Swedfund International AB ("Swedfund") to review the Sustainability Report for the year 2012. Our review covers pages 8-59 of the Swedfund Sustainability and Annual Report 2012. The Board of Directors and Executive Management team are responsible for the company's activities regarding environment, health & safety, social responsibility, and sustainable development, and for the preparation and presentation of the Sustainability Report in accordance with applicable criteria. Our responsibility is to express a conclusion on the Sustainability Report based on our review.

#### *The scope of the review*

We have performed our review in accordance with RevR 6 *Assurance of Sustainability Reports* issued by Far. A review consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The criteria on which our review is based are the parts of the *Sustainability Reporting Guidelines G3*, published by the Global Reporting Initiative (GRI), which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the company has developed and disclosed. We consider these criteria suitable for the preparation of the Sustainability Report.

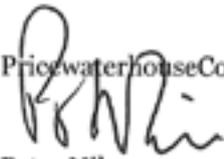
Our review has, based on an assessment of materiality and risk, included e.g. the following procedures:

- a. update of our knowledge and understanding of Swedfund's organization and activities,
- b. assessment of suitability and application of the criteria regarding the stakeholders' need for information,
- c. interviews with management in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient,
- d. examination of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient,
- e. evaluation of the design of selected systems and processes used to obtain, manage and validate sustainability information,
- f. analytical procedures of the information stated in the Sustainability Report,
- g. assessment of the company's declared application level according to the GRI guidelines,
- h. assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria,

#### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the information in the Sustainability Report has not, in all material respects, been prepared in accordance with the above stated criteria.

Stockholm, March 19<sup>th</sup>, 2013

  
PricewaterhouseCoopers AB  
Peter Nilsson  
Authorised Public Accountant

  
Fredrik Ljungdahl  
Expert Member of Far

## BOARD OF DIRECTORS

### **Claes Ekström, ordförande**

**Born:** 1958

**Board member since:** 2008

**Education:** Graduate Engineer, Chalmers; Bachelor of Economics and Law studies at the University of Gothenburg.

**At present:** Partner, Altor Equity Partners.

**Board appointments:** Northstar (Chairman), Papyrus (Chairman), Max Matthiessen (chairman), Orchid Orthopedic Solutions (member), Norsk Gjenvinning (member) and many more non-profit commitments; Mentor (preventing drugs), Karolinska Institutet, Stella and Worldchildren Prize.

### **Renée Andersson, member of the board**

**Born:** 1947

**Board member since:** 2012

**Education:** Medical Secretary and autodidact.

**At present:** Manager of Ethics and Environment, Indiska Magasinet AB, Honorary doctor at the Technical Institute of Lund.

**Board appointments:** Steering committee of Sweden Textile Water Initiative (STWI). Ethical Advisory Board of Robur, Swedbank (member), Blichta Association, Leprosy village, Addis Abeba, Ethiopia (member and treasurer).

**Former board appointments:** Member of the Advisory Board for Industry and Development (2010–2012), GLP-school, Dhaka, Bangladesh (Chairperson 1994–1998), Swedish-Yemeni Association (member 1992–1994), Swedish-Ethiopian Association (member and editor 1992–1994), Adoption Centre (member 1979–1984).

### **Pernilla Bard, member of the board**

**Born:** 1967

**Board member since:** 2012

**Education:** Master of Science from the Stockholm School of Economics.

**At present:** Founder of Social Initiative.

**Board appointments:** Social Initiative Norden AB.

### **Björn Börjesson, member of the board**

**Born:** 1951

**Board member since:** 2012

**Education:** Bachelor of Laws.

**At present:** Consultant.

**Board appointments:** Kommuninvest i Sverige AB (chairman), Tredje AP-fonden (Vice Chairman).

**Former board appointments:** UC AB (chairman), Subsidiaries in the Handelsbanken Group.

### **Anna Centerstig, member of the board**

**Born:** 1975

**Board member since:** 2012

**Education:** Master of Political Sciences, Stockholm University.

**At present:** Deputy Director, Department for Aid Management, Ministry for Foreign Affairs.

### **Bengt Kvarnbäck, member of the board**

**Born:** 1945

**Board member since:** 2012

**Education:** Master degree in Materials Engineering, Royal Institute of Technology, Stockholm (1970).

**At present:** Industrial Advisor, Altor Equity Partners. Board appointments: Ålö AB (chairman), Q-Matic AB, Atlas Copco South Africa (Pty) Ltd (chairman).

**Former board appointments:** Nimbus Boats Holding AB, Relacom AB, Dynapac AB, Volvo Penta AB, Kalmar Industries AB, Industriförvaltnings AB Kinnevik, Invik AB, Korsnäs, AB, Atlas Copco Airpower bv (Belgium), a large number of companies within the Atlas Copco Group, etc.

### **Anna Ryott, member of the board**

**Born:** 1972

**Board member since:** 2012

**Education:** MBA, Stockholm University.

**At present:** Secretary General SOS Children's Villages Sweden.

**Former board appointments:** World Childhood Foundation.

### **Per Östensson, member of the board**

**Born:** 1959

**Board member since:** 2010

**Education:** Technical College, MBA (Stockholm School of Economics).

**At present:** Director, Ministry of Finance.

**Former board appointments:** Nefco, Swedish Export Credit (SEK).

## MANAGEMENT

**Anders Craft** Acting MD, +46 8 725 94 18

**Eva-Marie Andersson**

Chief Legal Counsel, +46 8 725 94 05

**Oscar Carlsson**

Investment Director, +46 8 725 94 13

**Karin Isaksson**

Investment Director, +46 8 725 94 21

**Per Juth**

Strategic Business Development, resigned from management at the end of the year and from corporation 2013-03-31.

**Elisabeth Mattisson**

Director, Finance and Administration, +46 8 725 94 04

## SWEDFUND 10 YEARS IN BRIEF

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
No. of countries in which Swedfund has portfolio companies	32	26	28	30	31	33	33	36	43	36	33
No. of portfolio companies at the beginning of the year	67	61	54	55	66	67	69	71	81	93	90
No. of new portfolio companies	6	5	9	14	6	8	15	13	17	7	9
No. of divestments	-12	-12	-8	-3	-5	-6	-13	-3	-5	-10	-8
No. of portfolio companies at the end of the year	61	54	55	66	67	69	71	81	93	90	91

Four of the new investments are within the framework of the INTERACT CLIMATE CHANGE FACILITY S.A (ICCF) initiative. At the year-end, 13 of the investments co-financed within the framework of the EUROPEAN FINANCING PARTNERS S.A (EFP) initiative. At the year-end, 4 of the investments co-financed within the framework of the INTERACT CLIMATE CHANGE FACILITY S.A (ICCF) initiative.

Swedfund 

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