INTEGRATED REPORT 2013

SWEDFUND

Growing power

HOW SWEDFUND HELPS FIGHT POVERTY THROUGH SUSTAINABLE BUSINESS

Swedfund

TEXT MERYEM CAN
PHOTOS EINAR LINDGREN

ABEL BERHE, AGED 31

WORKING HARD FOR A FUTURE IN ADDIS ABABA

HE WORKS the night shift at Radisson Blu Hotel in the centre of Addis Ababa. Once the rent is paid, the rest of his money goes to his family. He supports himself and helps his mother and grandmother.

"I lived with my grandmother until I was 26. She took care of all us grandchildren while we grew up. Now it's my turn to take care of her," he explains.

THE CONTRAST BETWEEN the busy streets and the spacious hotel lobby is striking. Outside the cars throw up dust that sparkles in the sun. The roofs of the city seem to stretch for miles and miles. Most of the taller buildings are hotels and they stand out against the background of the surrounding mountains. Beyond the security zone inside the hotel everything is normal – business people meet, chat and move on.

He is grateful.

"Thanks to my job I know we will manage and that we have a future here in Addis Ababa. My job means everything to me."

ADDIS ABABA, which means 'new flower', is the home of the African Union and virtually all aid to Africa is coordinated through this city. The capital of Ethiopia, Addis Ababa is around 2,400 metres above sea level and has a population of around three million people.

Hotel porter Abel Berhe, 31, is one of them.

Click on the link to see a film about Abel Berhe.

RADISSON BLU ADDIS ABEBA

Business: Hotel
Employees: 320
Swedfund's investment: EUR 6 million in shares and loans
Other participants: Together with IFU (Denmark's equivalent to Swedfund) and Strandwood Investment, Swedfund has invested in the property company, Emerald Addis Hotels Plc.
Key development impact: Direct and indirect jobs (especially for women and low wage earners), tax revenues, foreign currency inflows, training in service industry, development of infrastructure (including water and electricity).

ABEL BERHE
is a night porter at Radisson Blu Hotel in Addis Ababa. His salary helps to support himself, his mother and his grandmother.

INFORMATION ABOUT

Swedfund follows the guidelines for external reporting of state-owned companies issued by the Government Offices of Sweden (adopted by the Swedish government on 29 November 2007).

REPORT PROFILE

In our annual report for 2013 we have taken further steps to integrate sustainability-related information with financial data in Swedfund's first attempt at producing an integrated report.

A MORE INTEGRATED DIRECTORS' REPORT

We have restructured this year's sustainability and annual report. Compared with last year, the directors' report this year is published in separate sections in an integrated report. We were inspired by the International Integrated Reporting Council's (IIRC) Framework.

REPORT DEFINED BY THE BOARD

The Board has signed the integrated report in its entirety. The formal annual report and directors' report appears in specially marked sections, as shown in the list of contents. The Sustainability report, which makes up the rest of the integrated report, is the sixth to be produced since the first one in 2008. Swedfund aims to further develop the integrated report next year in line with IIRC recommendations.

GLOBAL REPORTING INITIATIVE

We apply version G4 of the Global Reporting Initiative's (GRI) sustainability reporting framework, as well as GRI G4 Sector Disclosures, Financial Services, core level.

UN GLOBAL COMPACT, COMMUNICATION ON PROGRESS, COP

Following Swedfund's adoption in 2012 of the UN Global Compact, Swedfund reports on its implementation of the Global Compact's 10 principles in an annual Communication on Progress (COP). The first COP was submitted in April 2013. In this report we are integrating our second COP. In the GRI/COP index we follow the BASIC GUIDE Communication on Progress, GC Active Level, prepared by UN Global Compact.

UN PRI, PRINCIPLES FOR RESPONSIBLE INVESTMENT

By adopting the UN Principles for Responsible Investment (UN PRI) in 2012, Swedfund undertook to report the results of these activities directly online to the PRI secretariat and in future integrated reports starting with the 2014 report on activities in 2013. Swedfund will report to the PRI secretariat using the PRI tool before the end of March 2014 and references will be made to this in the 2014 integrated report.

AUDIT AND REVIEW REPORT

With this Board-defined report it has become clearer which parts of the report constitute the formal annual report and therefore are subject to auditing. The sections not belonging to the formal annual report comprise Swedfund's sustainability report/Communication on Progress (COP) and these sections have been subject to a review report except for those sections made available via links.

PwC submits an audit report for Swedfund's annual report and a separate review report for the sustainability report/COP.

FOCUS FOR THIS REPORT

When foreign aid is debated in public the discussion is usually about the de facto results achieved with taxpayers' money. This year's report focuses especially on development impact and special emphasis has therefore been given to describe investment activities in the form of case studies to show how impact on society, sustainability and financial viability contribute to reducing poverty.

During the year Swedfund adopted a new strategy (see page 40) that rests upon three cornerstones that are considered to be equally necessary conditions for Swedfund to participate in an investment: impact on society, sustainability and financial viability. A series of measurement indicators have been set for each cornerstone.

At the IMF/World Bank annual meeting in Washington DC in October 2013 Swedfund along with over 30 other bilateral and multilateral development finance institutions agreed to a common set of indicators for measuring development impact, IFIs Harmonized Development Results Indicators for Private Sector Investment Operations.

In our choice of measurement areas and underlying indicators we have been inspired by this international harmonisation and the stakeholder dialogues with development finance organizations. After extensive internal discussions a number of measurement areas and underlying indicators have been selected as the basis for assessing an investment prior to a final decision. The same measurement areas and indicators then form the starting point for follow-up, internal reporting during the monitoring phase and external reporting. Listed below are the measurement areas that Swedfund has selected to focus and report on. Further reference is made in the GRI/COP index on page 100.

THIS ANNUAL REPORT

KEY SIGNIFICANCE

- Transparency; Swedfund's commitment to openness
- Results from fighting poverty; impact on society, sustainability and financial viability

IMPACT ON SOCIETY

- Jobs; contributing to long-lasting direct and indirect jobs
- Tax; contributing to a bigger tax base in countries where Swedfund invests
- Knowledge; contributing to knowledge transfers

SUSTAINABILITY

- Working conditions; creating and keeping jobs with a good working environment and good terms of employment
- Environment; implementing policies and management systems relevant for the business activities of portfolio companies
- Anti-corruption; implementing anti-corruption policies and management systems for dealing with corruption

FINANCIAL VIABILITY

- 'Growth' is defined as the percentage increase of a company's sales from one year to the next.
- 'Return' is defined as the company's annual profit after tax divided by capital invested.
- 'Profitability' is defined as a company's profit margin and it can be measured gross (before tax) and net (after tax). Swedfund reports returns net after tax.

Swedfund's strategic sustainability targets (page 42), defined by the Swedfund Board in December 2013, will be monitored in 2014 and the results will be reported in Swedfund's integrated report for 2014.

SCOPE OF THE REPORT

This sustainability 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 to whom Swedfund is a lender. Significant assumptions, restrictions in the selection of portfolio companies for reporting and methods for measuring impact on society, sustainability and financial viability 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-assessments, 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.

In this report, for the first time, we are reporting tax items on a country-by-country basis in line with the agreement Swedfund established during the year in dialogue with aid organizations and in accordance with the EU Commission's new directive on non-financial reporting.

The financial reporting does not cover reporting of the financial results of portfolio businesses. This information is presented in the portfolio companies' own annual reports and is not covered by Swedfund's integrated reporting.

LIMITATIONS

Our activities mean that we invest in a number of new projects every year and sell others. The portfolio is therefore under constant transformation, which makes comparison between years rather difficult. In this year's report we observe the reporting routines for sustainability results (ESG results) from the portfolio companies first introduced in last year's report. This enables some comparison. Sustainability results (ESG) are thus reported for the reporting year from 1 January to 31 December 2013 compared with results for 1 January to 31 December 2012. Some new result indicators have been introduced this year and no comparisons with last year are possible in these instances.

Our portfolio companies' financial reporting is subject to auditing. However, the information about ESG results that the portfolio companies presented in a self-assessment Portfolio Company ESG Key Performance Report have not been independently assured.

CONTACTS

The contact people at Swedfund for the 2013 integrated report are, for financial information, Elisabeth Mattisson, Financial Manager, and for non-financial information, Lars-Olle Larsson, Manager ESG Affairs and the Swedish ambassador for International Integrated Reporting Council (IIRC).

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Signatory of: PRI Principles for Responsible Investment

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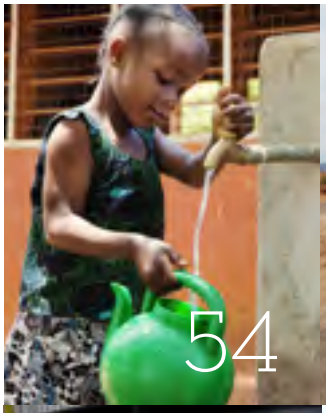

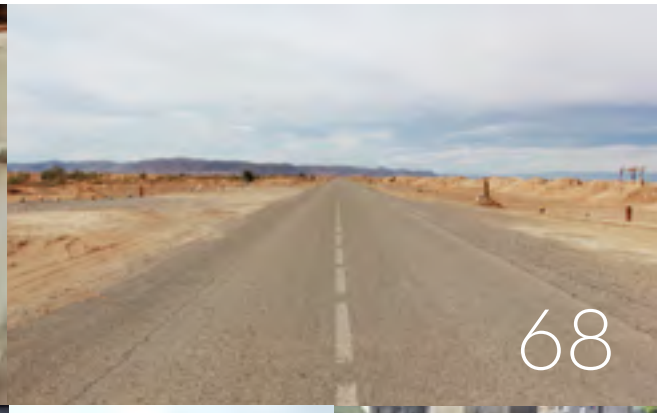

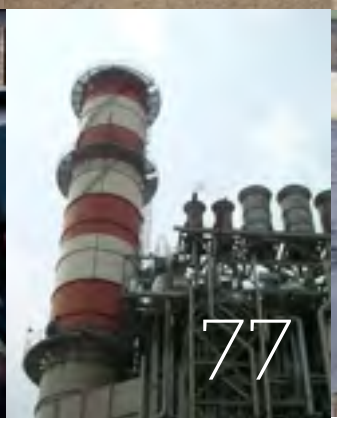

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ANNA RYOTT

TIME TO TAKE THE NEXT STEP!

There are no easy solutions to the problem of poverty in the world. Neither will the necessary change to sustainable development be simple. But there are a **wealth of opportunities** and one of them is the task given to Swedfund by the Swedish government to contribute to **reducing poverty** through sustainable business by being a responsible, long-term and proactive investor.

OVER THIRTY YEARS of experience investing in the most demanding and complex environments gives us at Swedfund a unique pool of knowledge. We accept more risk, so that others will follow our lead and dare to invest. We also invest where there is a shortage of finance. This makes us pioneers. Our investment creates jobs, tax revenues, good working conditions, growth, financial returns and profits. We pass on knowledge and take the lead on issues such as the environment, anti-corruption and human rights. This work is a natural part of our activities because, as proactive owners and lenders, we have a clear assignment and we often take a seat on the boards of our portfolio companies.

BETWEEN 1990 AND 2010 the proportion of extremely poor people in developing countries fell from 43% to 21.5%. Since the millennium targets were established in 2000 the number of people who live on less than 1.25 dollars a day has been cut by half a billion. Two thirds of this reduction is due to economic growth. Knowing this, it is not strange that commerce, growth and job creation are of highest priority when development issues are discussed.

This focus matches what people want in the countries receiving financial aid. The message from 60,000 poor people interviewed in a unique study by the World Bank is that the most important way out of poverty is having a job. Nine out of ten jobs in developing countries are in the private sector. Creating more and better jobs in sustainable companies is decisive when meeting the challenges facing global development initiatives. Today there are 200 million people without jobs in developing countries, and even more outside the formal economy. Many of these people are young people and women who live in sub-Saharan Africa. To keep pace with population increases we need to create a further 600 million jobs up to 2020.

THE KEY PLAYERS here will be government-owned multilateral and bilateral investment institutions. Swedfund belongs to the group of Development Finance Institutions (DFI). The role for DFIs is to make investments that create local jobs, boost tax revenues for local government and improve services in key sectors such as health, finance, infrastructure, energy and manufacturing.

Swedfund is well-equipped to meet expectations when it comes to fighting poverty in an effective, results-oriented and long-term

In the autumn of 2013 I visited one of Swedfund's portfolio companies, Athi Steel in Nairobi, Kenya (pictures below). Discussions with employees and their CEO provided an insight into the company's challenges, opportunities and employment terms.

manner. We have sharpened our focus on sub-Saharan Africa where poverty is most extensive. In recent years we have considerably reinforced our internal competence within ESG (Environment, Social & Governance) to ensure long-term sustainability and positive development effects in all of our investments. Our know how in sustainability issues makes us a respected and attractive partner. Over the years we have built up invaluable sector knowledge that helps us select and manage the most promising development opportunities. The Board and senior management team now have all the right conditions to meet the growing expectations from owners and the general public.

IN RECENT YEARS Swedfund has expanded its presence in the arenas where the development agenda is debated. We are in close dialogue with civil society, the business world and other stakeholders. I am very pleased that we have confirmed Swedfund's support for the UN principles for Responsible Investment (PRI) and for the UN Global Compact. Implementation of the PRI principles in our investment process has started and we are also establishing the impact of introducing Global Compact principles concerning responsible business practices in our portfolio companies. I participated at the UN Global Compact Leaders Summit 2013 in New York where much of the focus was on the role that the private sector and businesses can play in development. It is great to see growing understanding of the significance of this area and I am pleased that Swedfund is right at the heart of the new development agenda.

We continue to build upon our strong experience, interpreting our assignment with a clear, new strategy and adding genuine commitment to dialogue and openness. We certainly do not have a simple task ahead. It's a huge and difficult challenge, but it's incredibly important. It's time to take the next step! ⊙

STOCKHOLM, MARCH 2014

ANNA RYOTT
CEO

TEXT PER WESTERGÅRD
PHOTOS LINUS HALLGREN

DEVELOPMENT REQUIRES CHEAP ENERGY

ANDERS WIJKMAN AND **JOHAN ROCKSTRÖM** BELIEVE THAT IMPROVED WELFARE IN DEVELOPING COUNTRIES AND EFFICIENT CLIMATE ACTIVITIES ARE CLOSELY LINKED. THE PROBLEM IS THAT THE POLITICAL SYSTEM DOES NOT KNOW HOW TO DEAL WITH GLOBAL CHALLENGES.

Anders Wijkman is clear: cheap energy is a precondition for development.

"To a large extent the prosperity of the West is based on fetching cheap raw materials and energy from poor countries," says Anders. "So today we have a moral responsibility to help these countries, partly by giving them access to energy-efficient technology and partly by supplying financial solutions so that poor villagers can buy solar panels, for example."

A double perspective is needed to handle both the climate and poverty. On the one hand, global warming is a long-term threat. Tackling it requires answers about tomorrow's energy systems and how to farm so that carbon binds in with the soil instead of being released into the atmosphere. But we need to change our economic system, too, from 'buy and scrap' to a society where all natural resources are reused in a balanced ecocycle.

THE OTHER KEY QUESTION IS how to prepare for the changes that a warmer climate will bring.

"This includes building homes that will withstand strong storms and lots of rain. It also means preparing for a generally warmer climate and periods of severe drought," explains Anders Wijkman.

Anders has been involved in climate and development issues for a long time, both as a politician, head of the Red Cross and SAREC (Department for Research Cooperation of the Swedish International Development Cooperation Agency, SIDA) and independent debater. He is the chairman of the Club of Rome, a global think tank, and the new chairman of Swedish think tank Global Utmaning's climate advisory board. In recent years he has often collaborated with Johan Rockström, head of the Stockholm Resilience Center. Together they have written several books and numerous media articles. Their goal has always been to explain what happens when the climate changes and the planet's resources are depleted.

"We cannot just focus on climate change, we have to consider that we have been overexploiting the earth's resources for too long. To avoid catastrophic environmental transformation we must also protect biological diversity, stop the acidification of the oceans, review our use of fresh water and change the way we use land," says Johan Rockström.

JOHAN CONTRIBUTED TO the launch of the concept of planetary boundaries. Within nine areas – of which climate is one – researchers have attempted to explain the risks that humanity faces when the boundaries are exceeded.

Anders Wijkman is chairman of Swedish think tank Global Utmaning's climate advisory board, among other positions.

Johan Rockström is professor of environmental science at Stockholm University and head of the Stockholm Resilience Center

As always there is a big risk that the effects will be greatest in developing countries. One example could be severe drought in northern Mali, an area that today is regularly exposed to famine.

"The question is who pays for adapting society so that it can withstand changed living conditions? To date the rich countries haven't taken their share of the responsibility," claims Anders Wijkman.

Yet Anders remains cautiously optimistic. That's partly because the changes that are needed can be carried out at a reasonable cost provided we get things right from the start, and partly because the world's politicians have finally agreed to create a green fund to help developing countries finance climate-related measures. The principles behind this fund are established. The next step is to put some money in.

"If we had started this fund when climate change was first noted we would see a completely different conversation between countries today," continues Anders. "But if we start spending 50-100 billion dollars a year now a lot of positive things can be achieved. That would create the conditions for energy from both solar and wind power in many countries and in the long term it would be an efficient way to tackle poverty. Parallel to that we have to slow down population increases, so we should build more schools and strengthen family planning. Education for girls is the best contraceptive."

ANDERS WIJKMAN SAYS that Swedfund, in its role supporting the private sector in developing countries, should put some of its resources into helping small and medium-sized businesses to create solutions that enable solar panels to be set up in villages not connected to the electricity grid.

"Access to effective energy technology is vital both for our climate and for battling poverty. As long as people have to find firewood and burn dung there will be no development."

There are plenty of good examples of how developing countries use energy technology to reduce poverty. Kenya is one of those countries where investment in solar energy is starting to produce results.

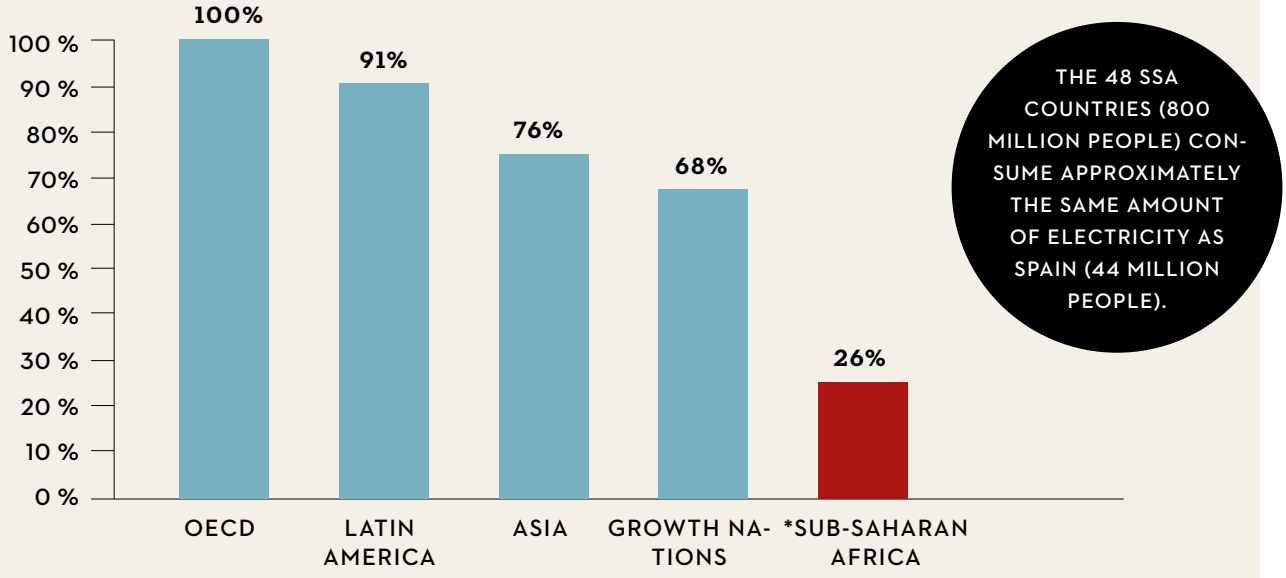
BUT CHANGE IN DEVELOPING COUNTRIES will not be sufficient. Richer countries, the ones who have so far taken the biggest share of the cake, face tougher demands. We must start using resources in much smarter ways – cutting back on our consumption of energy, especially fossil fuels, to give poorer countries greater opportunities to increase their consumption as they build up their communities. This side of the global challenge is one that politicians so far have difficulties meeting.

"We have lived for too long with the myth of infinite material growth and the idea that nature's larder is without limit. This model worked while economies and populations were small, but this is no longer the case. Natural resources are not sufficient," says Johan Rockström.

The problem is that the link between what we do in our daily lives and the drought that could hit Africa in 20 years is too abstract for many people.

"We need to change our focus and see that our responsibility stretches further from satisfying our own desires and needs. Morally it's about global justice and responsibility for future generations," says Anders Wijkman. ⊙

SSA* ELECTRICITY PRODUCTION VERSUS OTHER REGIONS



Source: Africa Infrastructure Country Diagnostic (AICD), 2008, a report published by the World Bank in collaboration with the African Development Bank.

Mohammed Bangura checks the sugar cane plantation at Addax Bioenergy in Sierra Leone. Read more about Swedfund's investment in renewable energy on page 34.

GUNILLA NILSSON AND MARKUS WILKENS AT SWEDFUND:

"The energy gap must be bridged"

A lot of developing countries suffer from great shortages of electricity with generation plants on the supply grid often working below capacity due to poor maintenance. The population and business world are not connected to the grid, while the networks that do exist often require upgrades in order to supply electricity continuously. These are the problems identified by Gunilla Nilsson and Markus Wilkens, who are both Senior Investment Managers at Swedfund and specialists in energy investments.

"Since access to supply grids is insufficient, people generate their own electricity, which tends to be more expensive and also dangerous for both people´s health and the environment. Soot and fumes cause health problems and the poorest are those who are most vulnerable," explains Gunilla Nilsson.

Electricity shortages affect competitiveness and hinder development.

"Access to sustainable electricity for all social groups is vital for a country to be able to utilise its growth potential," continues Markus Wilkens.

He says that existing resources must be improved and investments made in new capacity in order to broaden and deepen access to sustainable electricity in developing countries. However, investment from private businesses will not increase until the surrounding infrastructure is improved.

"ELECTRICITY SHORTAGES AFFECT COMPETITIVENESS AND HINDER DEVELOPMENT."

Gunilla Nilsson

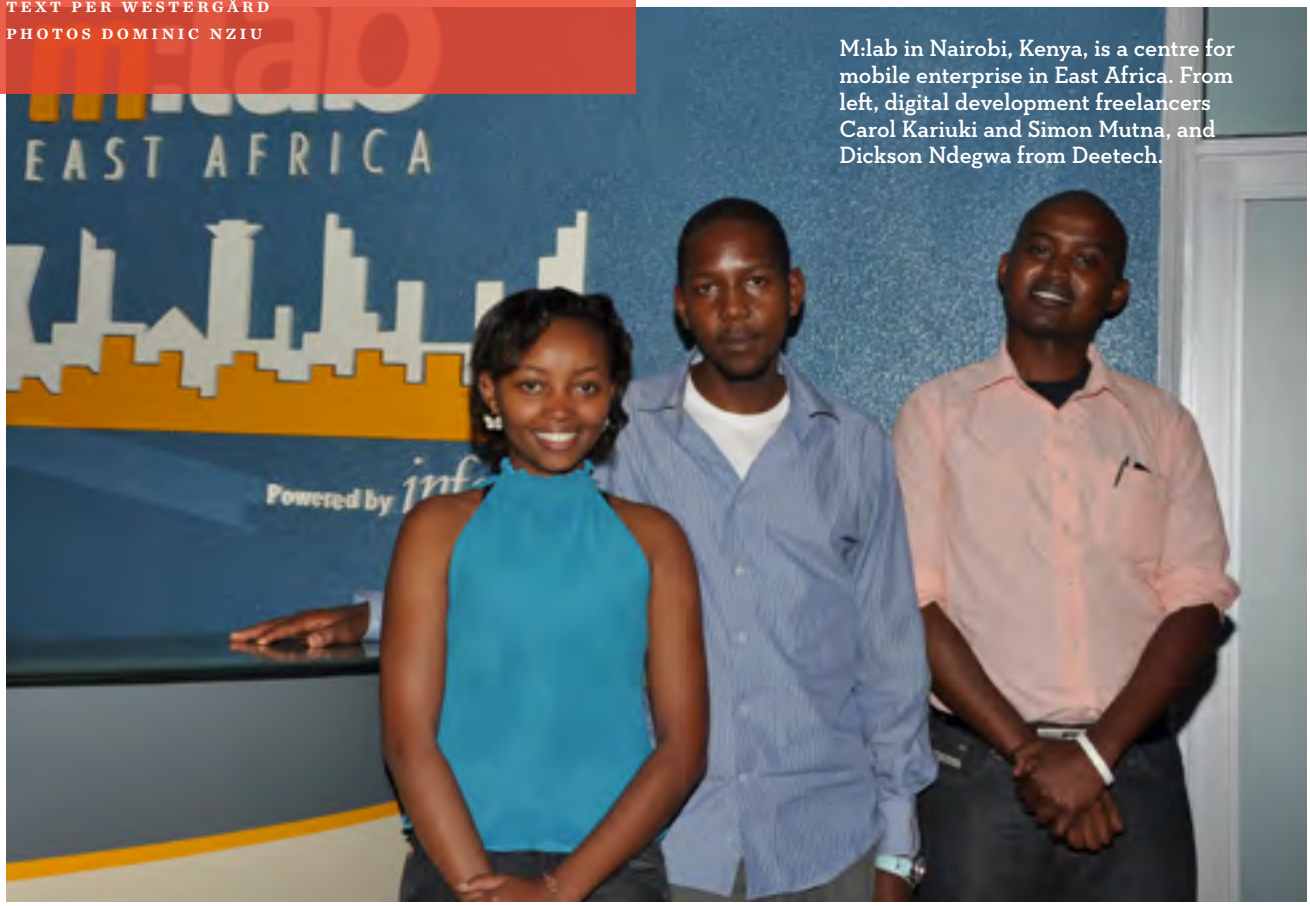
Markus Wilkens

SWEDFUND'S energy investments are mostly aimed at electricity generation and these investments must have the potential to meet Swedfund's requirements in terms of commercial and environmental sustainability.

Swedfund supports the development of electricity generation from renewable sources but will continue to finance non-renewable production when it can be achieved in compliance with Swedfund's basic requirements.

"A non-renewable energy source may initially be a better alternative and it may be needed to bridge the large energy gap that exists in many of the countries in which Swedfund invests," concludes Markus Wilkens. ⊙

TEXT PER WESTERGÅRD
PHOTOS DOMINIC NZIU



M:lab in Nairobi, Kenya, is a centre for mobile enterprise in East Africa. From left, digital development freelancers Carol Kariuki and Simon Mutna, and Dickson Ndegwa from Deetech.

Impact on society is built on new jobs

IN THE COMING YEARS A LARGE NUMBER OF YOUNG PEOPLE WILL ENTER THE LABOUR MARKET. TO AVOID A RISE IN UNEMPLOYMENT, **600 MILLION NEW JOBS** MUST BE CREATED.

Right now there are around 100 million people in the world out of work. And it could get worse. Demographic changes alone mean that around 600 million new jobs are needed up to 2020 (IFC Jobs Study, January 2013). In rich countries, being unemployed is a worry. In poor ones, it's a question of survival.

"It's not just a problem for the individual. Without incomes there is no tax base for key social services such as schools and hospitals," says Karin Isaksson, Director for Business Development at Swedfund.

Not all jobs are good ones. In developing countries many people work informally and do not receive a wage they can live on.

"More jobs in the formal sector are needed. That's where there are proper salaries and decent conditions," says Niclas Düring, Portfolio Director at Swedfund.

WHEN THE WORLD BANK asked 60,000 people in developing countries a few years ago what would help them out of poverty the answer was simple: a proper job. The next question is how will all these jobs be created? In developing countries with a weak public

sector the answer is without doubt in the private sector where nine out of ten jobs are to be found.

"Helping the unemployed get jobs is a huge challenge and it requires efforts at many levels. Our contribution is investing in businesses so that they get the chance to expand and employ more people," explains Karin Isaksson.

SWEDFUND INVESTS primarily in large companies where the essentials of the business are already in place. That's where most jobs are created from the money Swedfund puts in. Smaller companies are supported mainly by local financiers such as banks and investment funds.

Karin Isaksson

"The companies that we get involved in have a viable business concept and we can help them to develop. As job numbers rise and profits climb, tax revenues start to increase and money can be spent on education, health, infrastructure and the other areas where the government traditionally plays a more prominent role in economically more developed nations. This is the start of a positive spiral that over time will help society to move forward," says Niclas Düring.

Niclas Düring

SWEDFUND IS COMMITTED to business development as a long-term, responsible and proactive investor. Investment can take time. For example, it is not unusual for an investment to take ten years to prove itself. That gives a company the conditions to survive lean years.

"Making a profit is essential in the long run if the business is going to create good effects for the community. By supporting them along the way we can contribute to long-term sustainable development," says Karin Isaksson. ⊙

"Without incomes there is no tax base for key social services ..."

KARIN ISAKSSON

SUPPORTING SMALLER BUSINESSES

RESPONSIBLE INVESTMENT WITH THE ADENIA FUND

Swedfund invests directly in companies that do business in a wide variety of countries. It's easier to reach larger corporations and harder to reach the smaller ones. A small organization such as Swedfund cannot have a presence in every country. The solution is to work together with professional fund managers with a local presence who share Swedfund's values concerning sustainable business.

"We do extensive checks before we select the funds we want to invest in. We look at how they work and how well they have succeeded with previous investments," says Fredrik Törgren, Senior Investment Manager for the Financial Institutions sector team at Swedfund.

One of the selected funds is Adenia, which originated in Mauritius, but is now active in Madagascar and West Africa.

"The reason we work with them is that they are committed to issues concerning the environment, ethics and governance while they also work closely with the communities where their investments are made. They do business in a responsible manner."

Adenia is also active in countries where there is great need of capital but where others are reluctant or unable to invest.

"The staff at Adenia have the right background for this type of assignment and they have the local knowledge as well as the experience needed to succeed. They have invested successfully in Madagascar, for example, a country where political turbulence causes some difficulties," says Fredrik Törgren.

Fredrik Törgren, Senior Investment Manager på Swedfund.

The idea is that both organizations will now start to work together in joint ventures.

"There is a big lack of capital in those countries where Adenia operates. Thanks to them, Swedfund can now start reaching out to businesses there."

THE ADENIA FUND

Activity: Fund investment
Employees: 12
Investment year: 2013
Swedfund's investment: EUR 10 million
Other participants: Other European DFIs such as IFC, EIB, BIO, CDC, DEG and FMO.
Key development effects: Job creation, development of ESG standards (Environmental, Social, Governance) in local small and medium-sized businesses, and support for regional integration and development.

TEXT ANNE-CHARLOTTE ERIKSSON
PHOTOS AYODEJI TOBUN / IBSTMEDIA

Diplomacy saved jobs

A few years back, Cimbenin, a cement business, was fighting for survival with far too low cement prices fixed by the state. The intervention of diplomats led to the government changing course and raising prices, saving jobs and securing income for Gilbert Gahou and his family.

"I've been very lucky to work for Cimbenin for so long," says Gilbert Gahou, an electrician and chairman of the trade union club.

Cimbenin, a cement business with a plant outside Cotonou in Benin, was formed in 1991 using share capital from Swedfund and its Danish equivalent in the Investment Fund for Developing Countries (IFU). The principal owner is Heidelberg Cement of Germany. Gilbert joined two years after the business started and he is now in his 20th year with the company. He is a very satisfied trade union leader who praises his employer and claims that his colleagues are at least as

Gilbert Gahou, centre, with his wife Amoki M. Justine and sons, Lebel, Ansèlme and Louange.

satisfied as he is because "everything is well organised, the care shown for the environment and employees is genuine and salaries are paid on time". He makes comparisons with former work places and the employers of his friends and says that not all companies show as much consideration for their employees as Cimbenin.

"I like it here very much. I have fixed hours, work from 8 to 5 Mondays to Fridays. We get a full hour's lunch break as well," says Gilbert with a smile.

A FEW YEARS BACK his job was in danger. Fredrik Wijkander, Senior Investment Manager at Swedfund, recalls that the business was doing well up until 2005. Raw material costs were rising rapidly, but the government, which was responsible for cement pricing, had not adjusted prices, which were thus too low in relation to the costs of materials needed in production.

"The share capital was being eroded and the company was close to bankruptcy," remembers Fredrik.

> "...the care shown for the environment and employees is genuine and salaries are paid on time."

A PERIOD OF INTENSIVE diplomacy started. The owners, led by IFU and Swedfund, wrote to the Benin government to ask that cement prices be changed to reflect market levels. Cimbenin's CEO, the owners of Heidelberg Cement, Swedfund and IFU all confirmed that the plant had been modernised and made as efficient as possible, but that they were still struggling for survival due to the imbalance between the costs of materials and prices of sold goods. ▶

Three of Gilbert Gahou's four sons; from left, Louange, Lebel and Ansèlme. They are all studying hard so they can go to university.

"In addition to supporting my elderly mother, my wife and four sons, I also look after other relatives so that they can go to university in Cotonou."

"Nothing happened for three years and we were starting to give up. But then suddenly in July 2008 the government announced a rise in cement prices and we could breathe out at last," says Fredrik Wijkander.

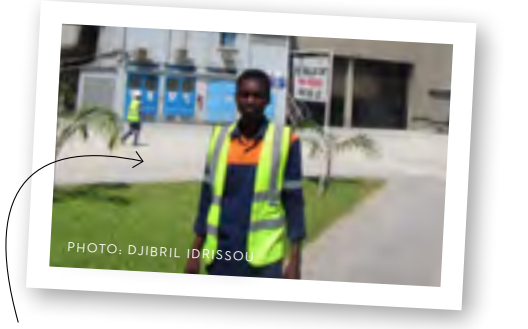
CIMBENIN HAS BEEN profitable for a few years now and is once again paying dividends to shareholders as well as vital tax revenues to the state and salaries to staff.

Fredrik Wijkander.

"Benin is a very, very poor country so my salary is vital for my family. In addition to supporting my elderly mother, my wife and four sons, I also look after other relatives so that they can go to university in Cotonou," explains Gilbert, with a resigned sigh.

But then he laughs and says:

"Of course, the children are my pension, they're my investment in the future!"



Gilbert Gahou outside Cimbenin, the cement plant that has been his workplace for the past 20 years.

Djibril Idrissou, Technical Manager at Cimbenin, sees a bright future and he proudly explains that the company has its ISO 14001 environmental management certificate, which is regularly followed up via checks from external consultants.

"We are a very well-developed company in a highly under-developed country. I'm pleased to work for such a responsible employer," says Djibril Idrissou.

CIMBENIN

Business: Grinding operation that produces cement.

No. of employees: 109

Swedfund's investment: SEK 6.5 million in share capital and SEK 8 million in loans that have been repaid.

Other participants: Swedfund and Denmark's IFU are minority owners, the principal owner is German Heidelberg Cement.

Key development results: Contribution to creating jobs, higher tax payments, maintaining ESG standards at a high level and infrastructure development in Benin.

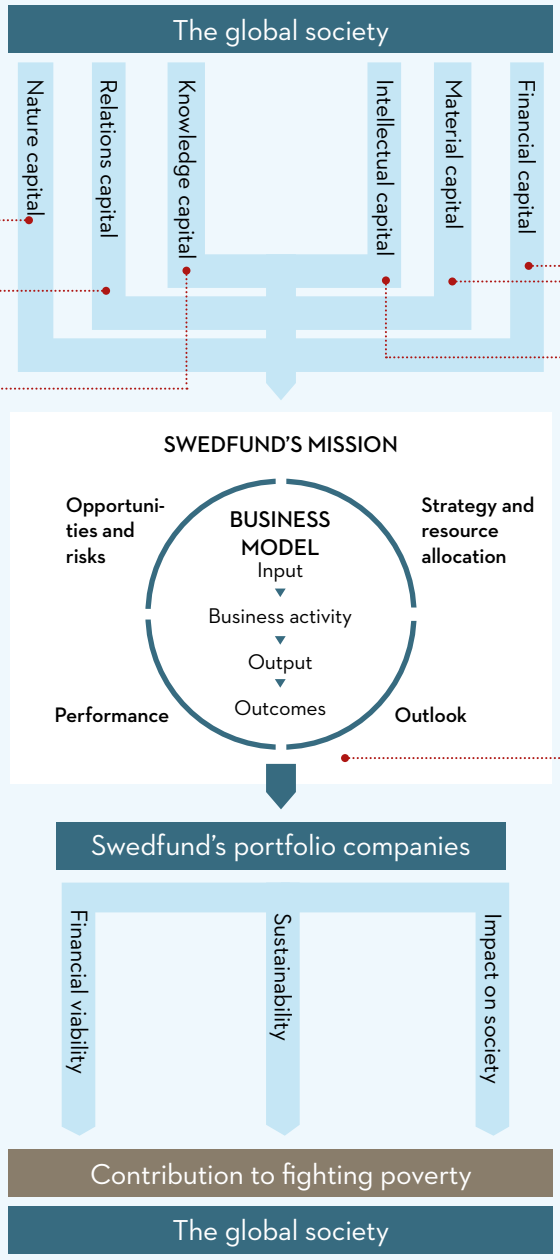
Swedfund's business model and value-creating capital

As a development finance institution, Swedfund works on commercial terms with a special sense of social responsibility. Our mission, to help reduce poverty through sustainable business, rests on three cornerstones: impact on society, sustainability and financial viability. Value is created when various forms of capital flow though the business model.

Natural capital; the environment is indirectly affected by Swedfund via its portfolio companies, so these areas must therefore be monitored by the companies and by Swedfund as a financier who makes specific demands.

Relations capital; value can be created when staff share a common approach and work in a healthy climate of collaboration both internally and externally. Codes of conduct, policies and adoption of international principles concerning responsibility and ethics form the basis for the shareholder agreements that Swedfund signs in connection with its investments. They form value-creating governance documents for the short and long term in Swedfund's portfolio companies and therefore also in Swedfund as owner.

Knowledge capital; is the value-creating experience, know-how, competence and motivation of the employees. Equally important is the ability of directors and the managers to understand and implement Swedfund's mission, adopt strategies and business plans, and then organise activities and ensure that the business model and corporate governance meet the requirements of owners and stakeholders. Knowledge capital also affects value in the work done by the boards of the portfolio companies and the influence that Swedfund exerts in companies during the management phase.



The model is inspired by the International Integrated Reporting Council's (IIRC) framework.

Swedfund's risk capital is the **financial capital** that Swedfund invests and which creates value in the portfolio companies.

The financial capital is invested by portfolio companies in factories, offices, equipment and machinery. This **material capital** constitutes one of several conditions that enable portfolio companies to do business.

Swedfund's **intellectual capital** comprises the intangible value that rests in the development over many years of Swedfund's internal processes, management systems and databases such as investment manuals, ESG Toolkit, project portal, analysis and monitoring system.

Input/outcome
These various types of working capital represent inputs in Swedfund's integrated investment model, which generates outcomes through impact on society, sustainability and financial viability where fighting poverty is the overall goal and result in the communities where Swedfund's portfolio companies operate.

TEXT JOHAN PERSSON

INVESTMENTS THAT MAKE A DIFFERENCE

SWEDFUND'S INVESTMENTS CREATE INCREASED PROSPERITY AND HELP TO REDUCE POVERTY. THAT IS THE MISSION FROM THE SWEDISH STATE AND PAST EXPERIENCE PROVES THAT IT WORKS. **AND THE NUMBERS ALSO DELIVER A CLEAR MESSAGE.**

Since it was formed in 1979, Swedfund has made 259 investments in companies and funds in new markets in Africa, Asia, Latin America, the Middle East and the Baltic countries.

"The aim of these investments and for Swedfund overall is to give our partners access to capital funding, which is often a big challenge in many developing nations," says Niclas Düring, Portfolio Director at Swedfund.

By enabling long-term sustainable and profitable businesses to operate with careful consideration for the environment and a good corporate culture, Swedfund contributes to well-functioning commercial activities that in turn spurs economic growth and creates job opportunities while meeting demand for products and services.

Niclas Düring explains how over the years Swedfund has invested significantly in Eastern Europe. Incomes have now risen so much there that Swedfund no longer feels it is so urgent to invest in this region. Domestic investment and the ability to attract investment capital have improved remarkably. Swedfund's role of trying to identify and support businesses at an early stage in demanding and risk-filled markets is therefore more useful in the poorer countries of Africa and many parts of Asia.

"By the end of 2013 Swedfund had over 90 investments worth around SEK 3 billion in businesses and funds, of which half were in African nations such as Kenya, Ethiopia, Sudan, Egypt, Sierra Leone and Benin."

NICLAS EXPLAINS that there are major shortages of both share capital and loans for financing companies in these countries. The level of bank loans is extremely low, just one fiftieth of the level in Sweden, for example. All the stock markets in Africa added together come up to just half the size of the Stockholm stock exchange. Niclas explains that there is also very little public investment capital available.

"Access to capital funding is often the biggest barrier preventing businesses from growing in these countries, which means that our investments are a very significant contribution."

ON AVERAGE Swedfund provided SEK 32 million per investment in the 2009-2013 period to companies that had managed by themselves to overcome the initial growing pains but who needed help taking the next step forward. The average size of a loan in the same period was SEK 18 million per company. Swedfund focuses on three key areas: manufacturing and services industry, the financial sector and the energy sector.

By investing in the financial sector, such as banks and funds, Swedfund helps to spread capital across the market to individuals and companies that need it.

"Our strategy is to be a proactive owner in the companies and funds we invest in. That ambition not only covers traditional areas such as directorships, cost control and other operational and strategic issues. We are also focused on sustainability issues such as the working environment, diversity in the workplace and that employees receive legal employment with a proper contract. We know that the latter creates long-term security for the individual so that they can afford to buy a home for their families," concludes Niclas. ⊙

22.5

AVERAGE PERCENTAGE INCREASE IN TAX PAYMENTS IN OUR LOAN-FINANCED PORTFOLIO COMPANIES IN 2012

24.7

AVERAGE PERCENTAGE GROWTH IN JOB OPPORTUNITIES IN OUR LOAN-FINANCED PORTFOLIO COMPANIES IN 2012

8.7

PER CENT WAS THE AVERAGE RETURN ON EQUITY FOR OUR DIRECTLY OWNED PORTFOLIO COMPANIES IN 2012

11.4

AVERAGE PERCENTAGE GROWTH PER COMPANY IN OUR LOAN-FINANCED PORTFOLIO COMPANIES IN 2012

13

PER CENT GROWTH IN JOBS AMONG SWEDFUND'S DIRECTLY OWNED PORTFOLIO COMPANIES BETWEEN 2011 AND 2012

38.9

PER CENT INCREASE IN AVERAGE GROWTH FOR OUR DIRECTLY OWNED PORTFOLIO COMPANIES BETWEEN 2011 AND 2012

8

PER CENT AVERAGE RISE IN SALES IN SWEDFUND'S TEN FUND HOLDINGS IN 2012. THE FIVE WITH HIGHEST SALES RISE INCREASED BY 28.8 PER CENT.

THE FIGURES ARE TAKEN FROM THE PORTFOLIO COMPANIES' ANNUAL REPORTS FOR 2012, THE MOST RECENT YEAR FOR WHICH REPORTS ARE AVAILABLE.

OUR ETHICAL

IN 2013 OUR POLICY WORK FOCUSED ON IMPLEMENTING THE CODE OF CONDUCT ADOPTED IN THE PREVIOUS YEAR AS WELL AS THE POLICIES AND INTERNATIONAL COMMITMENT IN THE SWEDFUND INVESTMENT MANUAL AND ESG TOOLKIT

At the IMF/World Bank annual meeting in Washington DC in October 2013, Swedfund and around 30 other bilateral and multilateral development finance institutions signed the IFI's Harmonized Development Results Indicators for Private Sector Investment Operations. In 2014 these indicators will be indicated in Swedfund's database. Data will be taken from all new investments and existing holdings where we have a possibility to change and extend our reporting.

The Board has agreed on new strategic sustainability targets (page 44) that will govern everything we do. The aim is to strengthen our commitment even if it was previously implicit in our policies and international undertakings. During the year Swedfund developed and implemented procedures to be applied when there is suspicion of corruption. The new procedures describe how Swedfund's crisis group will handle suspicions of corruption and give guidance to Senior Investment Managers and directors of Swedfund's portfolio companies about how to act if there is a suggestion of impropriety. The procedures also give guidance for how to produce plans for tackling corruption.

Swedfund's Country Corruption Assessment Tool, which combines three international corruption indexes (World Bank Control of Corruption Index, Transparency International Corruption Perception Index (CPI), OECD Export Credit Premium Group), is now applied during due diligence.

During the year Swedfund supplied specialist competence to the Anti-Corruption group started by Sida in its Swedish Leadership for Sustainability Development (SLSD) project. Possibly the most important result of the group's work is the proposal that SLSD supports concerning the formulation of anti-corruption targets among the targets currently being set at the UN to replace the millennium targets. ⊙

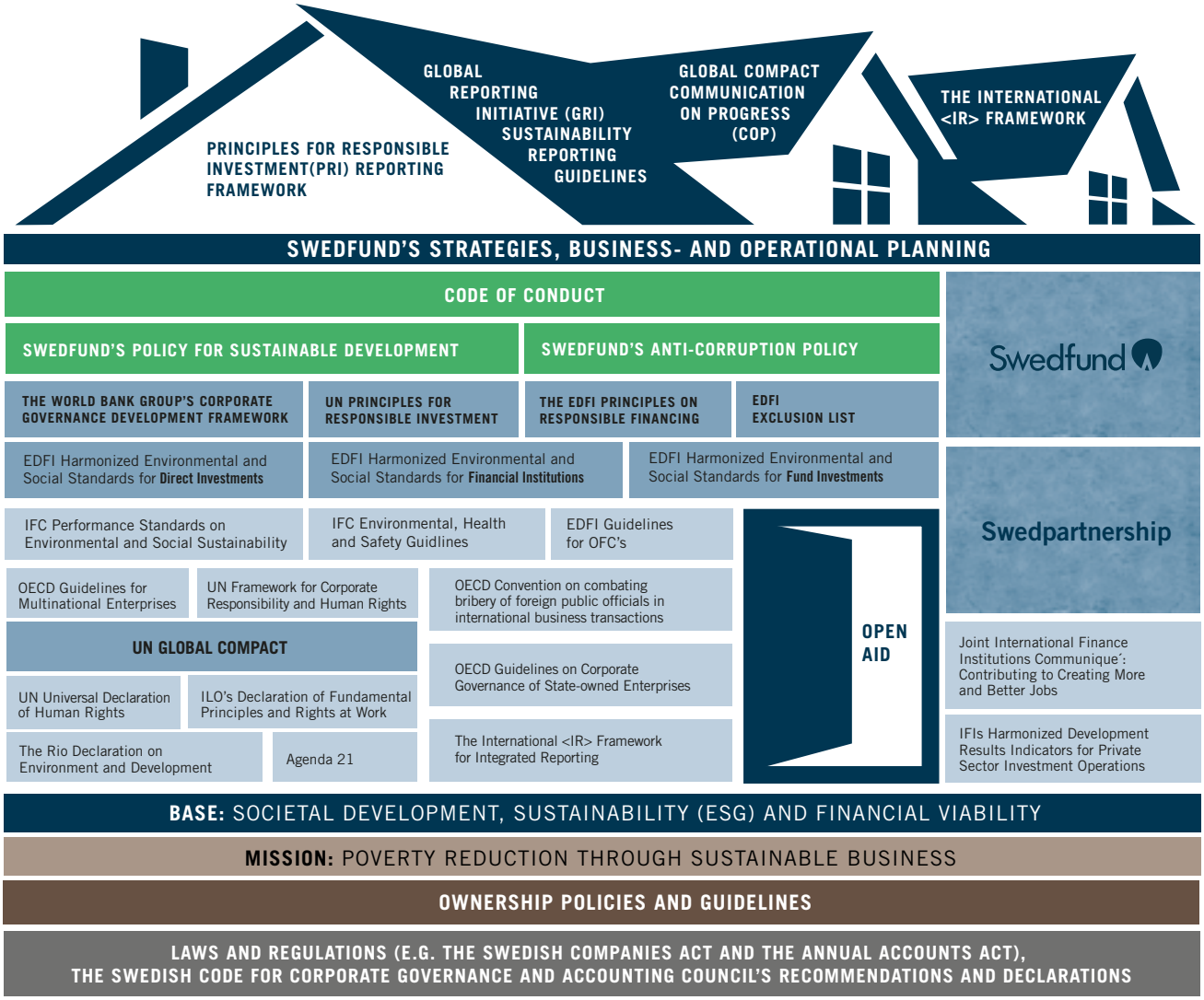
SWEDFUND'S REQUIREMENTS CONCERNING PORTFOLIO COMPANIES

- The company must comply with all legal and regulatory requirements in the areas of law in which it operates.
- The company must comply with the European Development Finance Institutions (EDFI) / Swedfund Exclusion List.
- Over time, the company must work to meet international standards and norms for best practice, including the following:
  a. IFC Performance Standards
  b. IFC Environmental, Health and Safety Guidelines
  c. The Universal Declaration of Human Rights (UN 1948)
  d. OECD Principles of Corporate Governance
  e. The eight ILO core conventions
- The company must live up to high standards on anti-corruption and corporate governance.
- The company must appoint persons with appropriate training at management and operational level for the environment, occupational health and safety, social issues and corporate governance.
- The company must develop and implement environmental and social management systems.
- The company must submit an annual ESG report and development results report to Swedfund.
- The company must report in writing all serious environmental, health and related incidents, accidents or deaths within 72 hours after they occurred.
- The company must have correct and complete environmental, health and safety, and social information and ensure that this information is available during normal working hours for inspection by Swedfund or authorized representatives.

COMPASS

THE SWEDFUND HOUSE

The illustration below shows which international principles, frameworks, guidelines, commitments and policies that Swedfund has signed up for or observes.



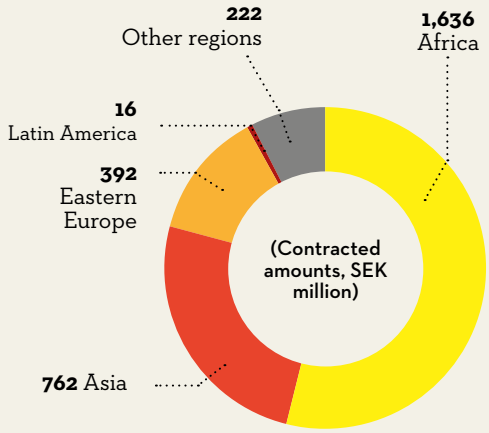
DISTRIBUTION OF SWEDFUND'S INVESTMENTS

SWEDFUND'S PORTFOLIO IS DIVIDED INTO EQUITY, LOANS AND FUNDS. **THE FOCUS IS ON LARGER EQUITY INVESTMENTS** IN THE RANGE OF SEK 20–100 MILLION PER INVESTMENT. BUT THROUGH LOANS AND FUND INVESTMENTS WE CAN REACH MORE BUSINESSES, INCLUDING SMALL- AND MEDIUM-SIZED ONES.

The graphs below are based on figures as of 31 December 2013. Contracted amounts refer to amounts that Swedfund is committed to pay in each investment. Payments are recorded in the balance sheet. Amounts not paid are recorded as contingent liabilities.

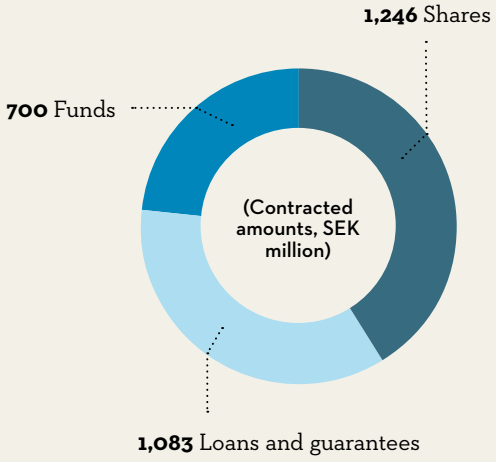
REGIONAL DISTRIBUTION

Swedfund's investments in different regions as a percentage are: Africa 54.0%, Asia 25.2%, Eastern Europe 13.0%, Latin America 0.5% and other regions 7.3%



DISTRIBUTION PER INSTRUMENT

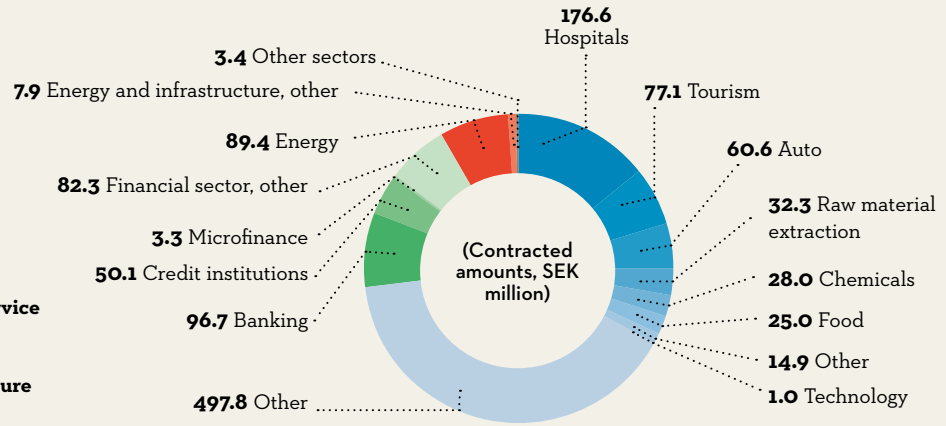
Swedfund's investments in various instruments are divided as follows: shares 41.1%, loans and guarantees 35.8% and funds 23.1%.



SHAREHOLDINGS BY SECTOR

The division between sectors in per cent is: manufacturing and service 73.3%, financial sector 18.6%, energy and infrastructure 7.8% and other sectors 0.3%.

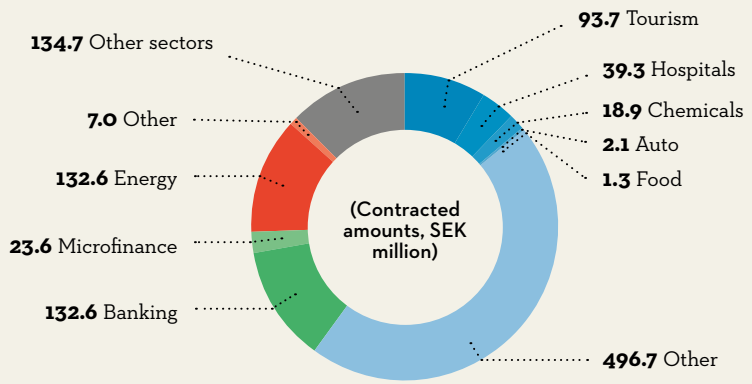
- **Manufacturing and service**
- **Financial sector**
- **Energy and infrastructure**
- **Other sectors**



LOANS BY SECTOR

The division between sectors in per cent is: manufacturing and service 60.2%, financial sector 14.4%, energy and infrastructure 12.9% and other sectors 12.4%.

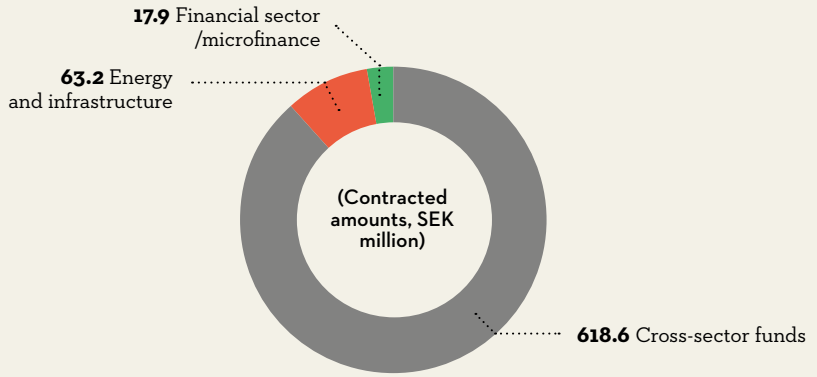
- **Manufacturing and service**
- **Financial sector**
- **Energy and infrastructure**
- **Other sectors**



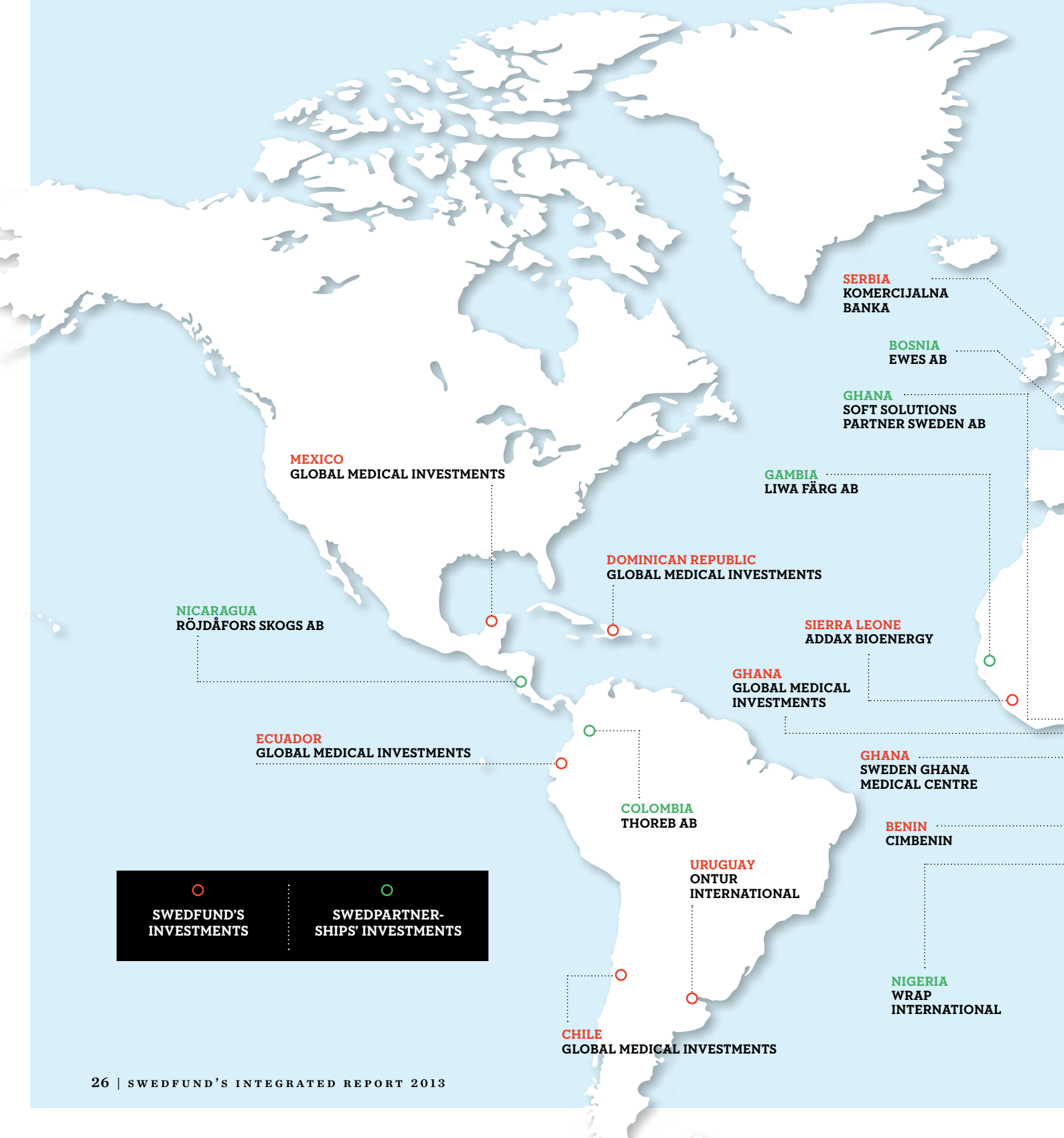
FUNDS BY SECTOR

The division between sectors in per cent is: cross-sector funds 88.4%, energy and infrastructure 9.0% and financial sector/microfinance 2.6%.

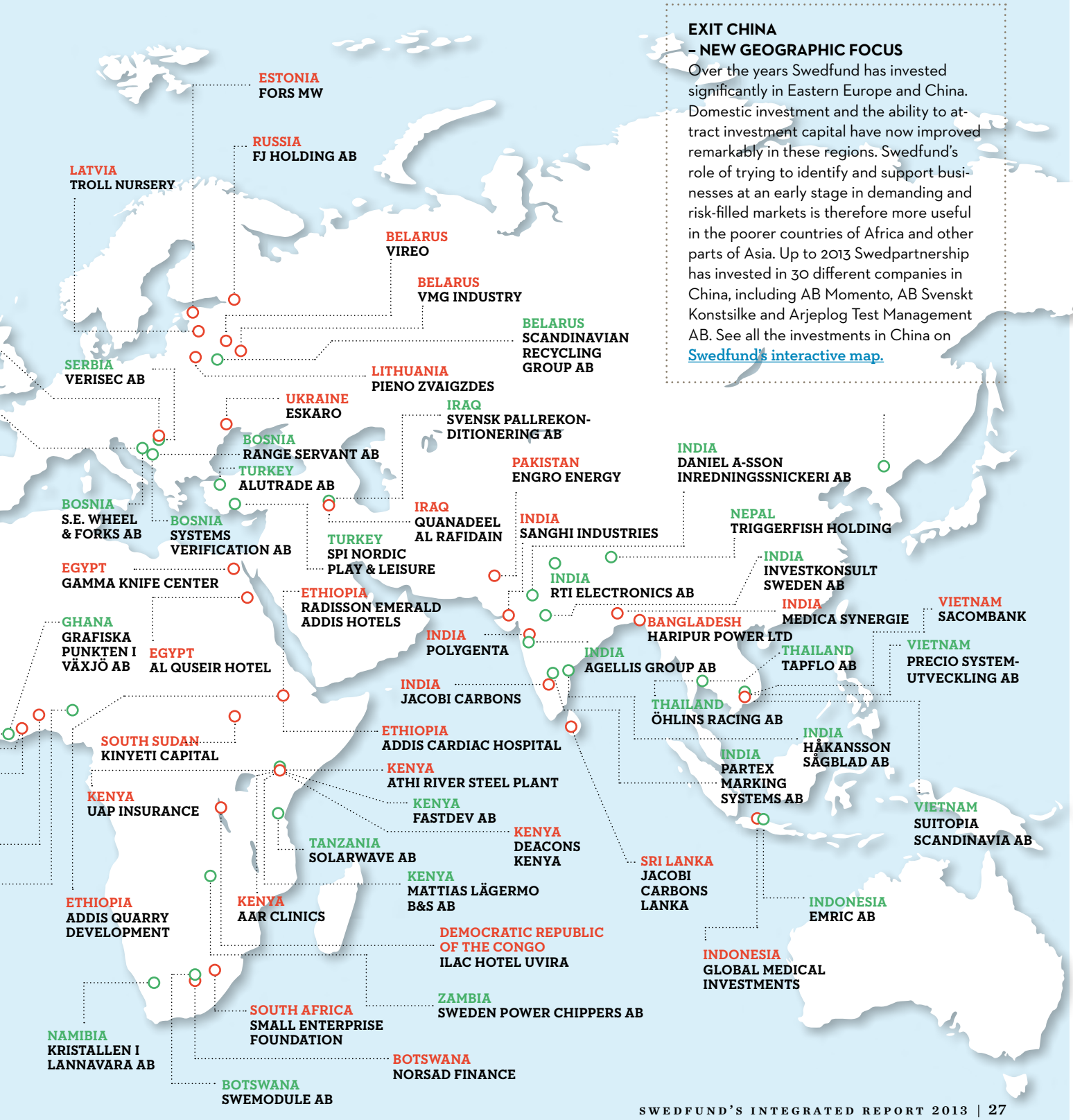
- **Cross-sector funds**
- **Energy and infrastructure**
- **Financial sector**



SWEDFUND


SERBIA
KOMERCIJALNA BANKA
BOSNIA
EWES AB
GHANA
SOFT SOLUTIONS PARTNER SWEDEN AB
MEXICO
GLOBAL MEDICAL INVESTMENTS
GAMBIA
LIWA FÄRG AB
DOMINICAN REPUBLIC
GLOBAL MEDICAL INVESTMENTS
NICARAGUA
RÖJDÅFORS SKOGS AB
SIERRA LEONE
ADDAX BIOENERGY
GHANA
GLOBAL MEDICAL INVESTMENTS
ECUADOR
GLOBAL MEDICAL INVESTMENTS
GHANA
SWEDEN GHANA MEDICAL CENTRE
COLOMBIA
THOREB AB
BENIN
CIMBENIN
URUGUAY
ONTUR INTERNATIONAL
SWEDFUND'S INVESTMENTS
SWEDPARTNER-SHIPS' INVESTMENTS
NIGERIA
WRAP INTERNATIONAL
CHILE
GLOBAL MEDICAL INVESTMENTS

IN ACTION



EXIT CHINA – NEW GEOGRAPHIC FOCUS

Over the years Swedfund has invested significantly in Eastern Europe and China. Domestic investment and the ability to attract investment capital have now improved remarkably in these regions. Swedfund's role of trying to identify and support businesses at an early stage in demanding and risk-filled markets is therefore more useful in the poorer countries of Africa and other parts of Asia. Up to 2013 Swedpartnership has invested in 30 different companies in China, including AB Momento, AB Svenskt Konstsilke and Arjeplog Test Management AB. See all the investments in China on Swedfund's interactive map.

NJOKI NJUGUNA
is 29 years old, a midwife and staff nurse at one of Nairobi Women's Hospital's affiliates in Nairobi, Kenya. She has worked at the hospital for two years.

TEXT MERYEM CAN
PHOTOS EINAR LINDGREN

"We give the women courage and hope"

SWEDFUND'S INVESTMENT IN **THE NAIROBI WOMEN'S HOSPITAL** CONTRIBUTES TO IMPROVED LIVING STANDARDS FOR WOMEN. THE AIM IS TO **SECURE HEALTH CARE FOR WOMEN** AND MAKE THE HOSPITAL FINANCIALLY VIABLE.

Kenya's capital lies 1,800 metres above sea level. It's a modern business metropolis featuring both skyscrapers and its own national park. Nairobi, which means 'cold water' in the Maasai language, has over three million inhabitants of whom around 60% live in shantytowns. Next to one of them is the Nairobi Women's Hospital affiliate where Njoki Njuguna, 29, works as a midwife.

"We give the women here courage, hope and encouragement. It is always a pleasure to see a mother give birth to a healthy baby, despite all the pain they go through," she says.

The hospital provides healthcare and midwife training to Kenyan women, who are low-to-medium income earners, and their families. Through a Gender Violence Recovery Centre (GVRC), which is supported by Plan International, German International Corporation (GIZ), Safaricom Foundation and Nairobi Women's Hospital, patients who have suffered gender-related violence are offered free healthcare and psychosocial support. GVRC also educates staff from other institutions that wish to offer similar services.

"We help to improve the living standards of women, and therefore their families, because ▸

The pharmacy is a vital part of the hospital and it's open to the general public.

▸ in Kenya it's women who look after families. Because of everything this hospital offers, my job feels very important to me," says Njoki Njuguna.

NAIROBI WOMEN'S HOSPITAL has over 600 employees with a variety of specialist knowledge. Around 90% of the work force are women.

"Of course, we create job opportunities for women. Those who work here are highly qualified and very competent and they are passionate about making a difference," says Dr. Sam Thenya, hospital manager.

Since the hospital opened in 2001 it has expanded to meet growing demand for healthcare. Today there are six affiliates In Nairobi and there are plans to open more.

"We are the leading private hospital in our sector and we aim to establish in all the major centres of Kenya and Africa in general. That's our vision and our mission," says Dr. Sam Thenya. ⦿

Click here to see a film about Njoki Njuguna and Nairobi Women's Hospital.

NWH

Business: Private healthcare organization in Kenya that owns and operates four fully-equipped hospitals with a total of 260 beds plus two other clinics.

No. of employees: 600

Investment year: 2013

Swedfund's investment: USD 4 million (20% of the share capital).

Other owners: Dr Sam Thenya and Africa Health Fund.

Key development results: Jobs, high quality healthcare at low prices for low and middle income earners.

◂ **Facilities for childbirth are simple but adequate.**

This fully equipped hospital is one of four Nairobi Women's Hospitals operated by the same owner. ▾

Midwife Njoki Njuguna is one of 600 employees.

TEXT MERYEM CAN

HOW AN INVESTMENT WORKS

SWEDFUND INVESTED IN THE **NAIROBI'S WOMEN'S HOSPITAL** (NWH) IN 2013. HERE YOU CAN FOLLOW THE INVESTMENT PROCESS FROM INITIAL ASSESSMENT TO DISBURSEMENT.

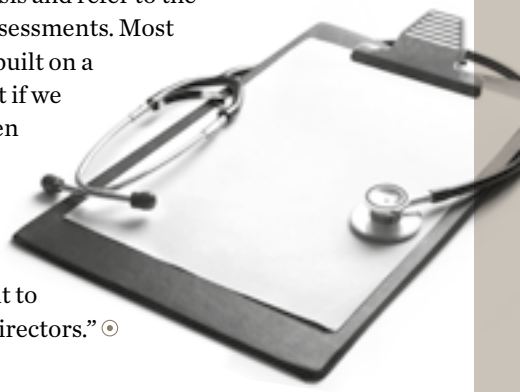
Environment and sustainability expert Kristin Sjöblom is Senior Manager ESG Affairs at Swedfund. Together with colleagues in the ESG team she makes assessments of issues concerning the environment, social conditions and corporate governance, including a proposed action plan, in all of Swedfund's investment processes.

"We perform an independent assessment, sometimes with the help of consultants, of the entire project and we develop preliminary terms and conditions for a contract. This may include appointing someone within the company who will take responsibility for the environmental and social issues," explains Kristin.

Kristin Sjöblom, Senior Manager, Swedfund.

Kristin Sjöblom is also a member of Swedfund's investment committee, which makes decisions about investments.

"My role on the committee is saying yes or no to issues concerning ESG. All decisions must have a factual basis and refer to the ESG team's assessments. Most decisions are built on a consensus, but if we can't agree then Swedfund's CEO will make the decision to take the investment to the Board of directors."



FOLLOW THE PROCESS STEP BY STEP >>>

SWEDFUND'S STANDARD INVESTM

STEP BY STEP

>>>

1 INITIAL ASSESSMENT

DOES THE INVESTMENT fit Swedfund's mission? In the initial assessment, consideration is given to the country, business, other partners and Swedfund's role in the investment. Will the investment lead to a noticeable impact on society? Will the project be sustainable and financially viable?

2 CONCEPT CLEARANCE

AN ASSESSMENT of the investment is made in relation to Swedfund's investment criteria. Swedfund's ESG team (Environment, Societal and Governance) is brought in and they categorise the project based on the environmental and social effects, as well as assessing risk in the project. A proposal is presented to the investment committee. The responsible Senior Investment Manager writes a memorandum – called concept clearance – that gives an overview of the investment and its potential ESG risks, and presents this to the investment committee.

CASE NAIROBI WOMEN'S HOSPITAL (NWH) >>>

DISCUSSIONS BEGIN

In the autumn of 2012 Swedfund talked to Nairobi Women's Hospital (NWH) about a potential investment. In February 2013 the Senior Investment Manager makes a decision that NWH meets the criteria for investment by Swedfund. An immediate check is made to see that Swedfund's aims and goals are met, and that NWH comes within the framework of the investment terms that Swedfund has received from its owners, the Swedish state.

"I had several talks with NWH's owner to ensure that the company shares Swedfund's values for maintaining a long-term business that did not compromise on ESG issues. The local owners are very devoted and they want to build a hospital that can give low and middle income earners in Kenya access to high quality healthcare. Providing healthcare for everyone was the owner's dream," says Jonas Armtoft, Senior Investment Manager at Swedfund.

Time: 2–4 weeks

CATEGORISATION

The women's hospital has been categorised as environmental and social category B, and therefore assessed as medium low impact/risk, which means that the company has a generally limited potential for negative social or environmental impact or risk that is site-specific and which can therefore be handled simply with proven methods and measures. In this phase, risk is calculated during the handling of waste, preparedness for emergencies and the assurance of good working conditions.

Time: 4 weeks

Jonas Armtoft, Swedfund.

ENT PROCESS

DUE DILIGENCE

SWEDFUND MAKES an assessment of the entire project in the areas of market, financial information, other partners, legal aspects, development and work on ESG issues. Preliminary terms for legal agreement are discussed.

Assessments in these different areas are sometimes done in parallel, going into greater depth as necessary. Due diligence runs throughout the entire investment process up to final disbursement.

SCREENING

AS THE ANALYSIS goes into greater detail, Swedfund's investment committee assesses the risks, impacts, financial returns and expected development effects. Other aspects will be considered at this stage as the case is prepared for a decision by the Board.

BOARD DECISION

SWEDFUND'S BOARD makes the final decision leading to final negotiation of a legal agreement.

Swedfund's investment process varies over time depending on the investment.

EVALUATION

Swedfund submits its standard questions to NWH. Which documents and systems are being used? To verify the business and define how the investment will generate impact on society, Swedfund requests copies of permits and protocols from previous inspections.

"Because public healthcare is very limited in countries where Swedfund invests, private healthcare is a key complement. Private healthcare also creates jobs for doctors and nurses in those countries where we invest," says Jonas Armtoft.

During the spring a consultant is hired to check the hospital's ESG activities. During a visit by the Senior Manager ESG Affairs in September 2013, the final information is collected and Swedfund sets the requirements that Nairobi Women's Hospital must meet, including improvements in staffing, organization and ESG. The agreement includes an action plan for environmental and social issues.

"This means immediate improvements and a well-prepared ESG plan for the next 24 months with clearly defined goals and deadlines," says Jonas Armtoft.

Time: 6 months

APPROVAL

The identified risks and impacts and the measures outlined in the action plan to deal with them are approved by the investment committee with a series of requirements and recommendations.

Time: 7 months (from start)

DECISION AND PAYMENT

Swedfund's Board reached a decision on the investment on 16 April 2013. A legal agreement was signed on 13 November 2013 (reported as a contingent liability). A payment was made in November 2013 (reported on balance sheet). It was the largest investment in private healthcare in Kenya at the time.

"The long process meant that prior to the investment Swedfund had already participated in a series of changes and improvements in the hospital's organization and internal processes. The company thus had better opportunities to develop into a successful hospital in Kenya," says Jonas Armtoft.

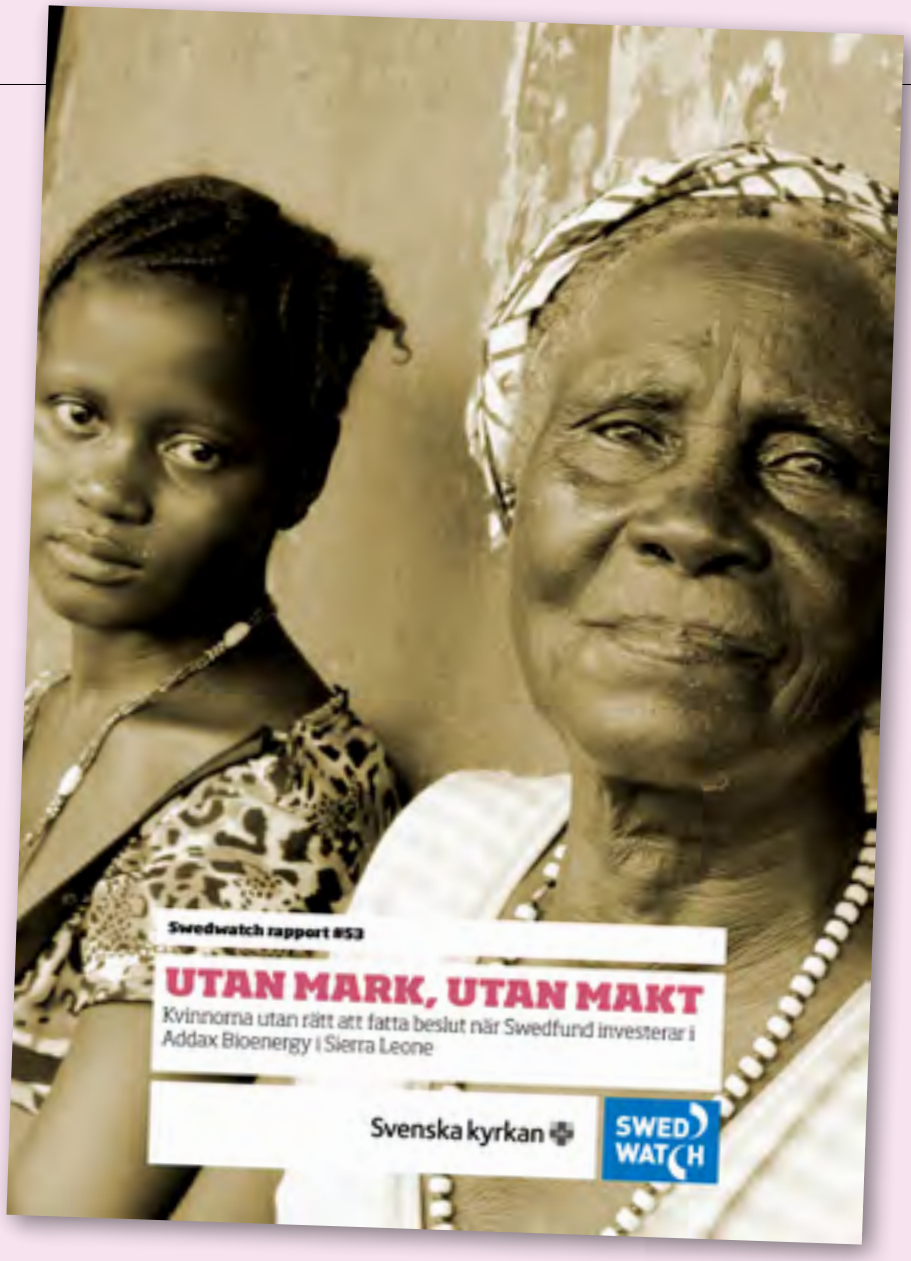
In future, Swedfund will appoint a Board representative with a background in the health sector. Annual follow-up will ensure that NWH fully implements its ESG plan.

Time: 8 months (from start)

TEXT BENGT NILSSON

THE DILEMMA OF INVESTING IN A COMPLEX MARKET

STATE-OWNED DEVELOPMENT FINANCE INSTITUTIONS MUST PERFORM A DELICATE BALANCING ACT WHEN INVESTING TAXPAYERS' MONEY IN COMPLEX ENVIRONMENTS AND TRYING TO DEVELOP PROFITABLE COMPANIES. THIS SWEDFUND AND ADDAX BIOENERGY LEARNED IN SIERRA LEONE.



◂ Read Swedfund's response to Swedwatch's report claiming that women's rights were compromised when Addax Bioenergy negotiated landowner rights.

See Swedfund's film on Sierra Leone here.

Swedfund's portfolio company, Addax Bioenergy, is the first bioenergy company to gain sustainability certification in Sierra Leone, West Africa. It is also classified as a Clean Development Mechanism project under the UN's Kyoto protocol (see box). The project is viewed by the UN's farming body, the FAO, as a great example, but that doesn't mean that all stakeholders are happy with it. In 2012 Swedwatch published a report entitled "No land, no power" claiming that women's rights were being compromised. According to Swedwatch, few women have had the opportunity to benefit from the project as they had limited influence in land negotiations and seldom shared in tenancy income.

"This is a serious matter and it is our belief that women's rights are being ignored," said Viveka Risberg, Swedwatch to Swedish radio.

Women are a very vulnerable group in Sierra Leone and death during labour is amongst the highest in the world. Literacy is at 30% and the government estimates that 66% of its population are poor with an expected lifelength of just 48. In 2013 Sierra Leone was ranked 177th out of 187 nations in the Human Development Index.

The country is thus one of the world's least developed and corruption is a significant problem. Unemployment for young people is around 60%, amongst the highest in West Africa. The informal economy is predominant and according to the FAO food supplies are in jeopardy.

Extremely weak infrastructure combined with many farmers leaving their farms during the war are two reasons for the current state

SUSTAINABILITY CERTIFICATE

In February 2013 Addax Bioenergy was certified through the Roundtable on Sustainable Biomaterials, RSB. This was the first and still the only time a bioenergy company in Africa had received such an award. Peter Tyus, RSB's CEO, said that Addax Bioenergy was a shining example of sustainable gender projects in Africa and his views were echoed by the African Development Bank and the UN's FAO. In October 2013 Addax Bioenergy received an additional certificate, with the UN classifying the company as a Clean Development Mechanism project. ▸

"Swedfund's various activities are surrounded by challenges."
LENA ALGERIN

Lena Algerin

Jörgen Sandström

ADDAX BIOENERGY
Business: Integrated agriculture and bioenergy project in Sierra Leone.
No. of employees: around 2,000
Investment year: 2011
Swedfund's investment: EUR 10 million in share capital
Other shareholders: Addax & Oryx Group and FMO.
Key development results: Energy supplies from renewable energy sources, jobs, capacity building, improved infrastructure and a boost to the country's balance of trade.

of the country. Most of the working population are still employed in small-scale farming. There is a considerable lack of modern farming methods, with inefficient slash-and-burn still predominant, seriously impacting on biological diversity. There is a massive need for investment in infrastructure, education, healthcare and agriculture.

IN THIS COMPLEX environment Swedfund invested SEK 90 million in Addax Bioenergy, an integrated agriculture and bioenergy project that consists of a sugarcane plantation, an ethanol refinery and a biomass powerplant that will be commissioned in 2014. Electricity is essential for making progress in Sierra Leone and the bioenergy plant is expected to account for 20% of the country's power production. Addax Bioenergy also manages the country's largest private development scheme for small farmers.

– Swedfund's various activities are surrounded by challenges. But we cannot step back and refrain from investing just to avoid all criticism. We must listen, put things right and then learn from our experience, says Lena Algerin, Senior Investment Manager, who has extensive experience of development financing at Swedfund.

Lena says that it is a tough call, maybe even an impossible one, for Addax Bioenergy acting alone to change local culture and traditions in a short time.

IN A REPORT entitled 'Broken promises' ActionAid, an international non-profit organization, writes that Addax Bioenergy made thousands of people destitute. ActionAid in London argued that, according to local residents, food production fell and people starved in areas where Addax Bioenergy started its bioenergy project. It was also claimed that people lost their land and received very little compensation from the company. ActionAid considered it wrong that this happened in the EU's name and was called green policy.

The report created headlines in the British media. Jörgen Sandström, Head of External Business Affairs at Addax Bioenergy, faced quite a challenge answering the hard and sometimes sweeping criticism while seeking to explain the complex environment in which the company operates.

– The toughest criticism to meet is ideological and political, he says, confirming that

malnutrition has been and still is a well-documented problem for many in this poor country.

Jörgen Sandström says that Addax Bioenergy has not seen any proof that hunger has increased in the region. On the contrary the company's and the Ministry of Agriculture's estimates are that farming area has increased tenfold in the area through the company's development programme and the construction of new roads.

Jörgen Sandström identified a clear political agenda behind the criticism from ActionAid. The report was published just days before a key vote in the European parliament about the future mandate and directive for biofuels in the EU. Strong forces, including ActionAid, wanted to see limits on biofuels produced on agricultural land.

ADDAX BIOENERGY claimed that ActionAid's criticism of the project in Sierra Leone was not factually or scientifically based, but rather was about earning political points in Brussels. In its answer to ActionAid, in the form of an open letter, the management for Addax Bioenergy wrote that it was apparent that method, facts and figures did not matter for ActionAid. The political agenda was the objective.

According to Addax Bioenergy, ActionAid used harvest data that was three years old to support their arguments even though more

◂ ActionAid's report was picked up mainly by the British media. The criticism was hard and at times sweeping.

recent data indicating a different picture was available.

– It was clear that this was a political campaign. ActionAid did not want to meet us, they did not ask us what we were doing, how we were doing it or what the real challenges were. Our door is always open for anyone who wants to know how we work and the programmes we run, says Jörgen Sandström.

LENA ALGERIN says there have been improvements since the project started. New roads have opened up the region for more farming and the number of new houses, new sheet metal roofs, mobile phones and motorbikes on the streets are small signs, but significant ones that household economies are improving.

– Addax Bioenergy employs and trains a lot of people, but unfortunately cannot employ everyone in the region. For many it's the first real job they get in an area where the economy is largely informal, which is a big challenge that means the company must educate a majority of its employees."

The project has great potential and Lena Algerin says that her visits to the site have made her very proud of how Swedfund has been able to contribute to the fact that so many previously unemployed people have now got real and sustainable jobs. ⦿

ADDIS CARDIAC HOSPITAL

Dr Fikru Maru waiting for trial

IN MID MAY 2013, the founder of Addis Cardiac Hospital (ACH), Dr Fikru Maru, was arrested. The reason for the arrest was unclear. Via various sources over a period of time Swedfund learnt that Dr Maru was alleged to have participated in some form of bribery together with several other suspects. In addition to the arrest, the authorities froze ACH's bank account.

THE TRIAL DATE and the wording of the alleged crime have changed frequently while Dr Maru has remained in prison under stressful conditions. Swedfund has visited the Swedish foreign ministry several times regarding this case. On the first trial date, 4 November, Sweden's ambassador to Ethiopia was in attendance together with Swedfund's representatives who had commissioned lawyers to act on Dr Maru's behalf.

WHILE THE TRIAL gets postponed, the hospital has suffered in Dr Maru's absence. Advanced and vital operations have been delayed, as Dr Maru's skills are irreplaceable in the near future. ACH is the only cardiac hospital in Ethiopia. To date it has treated 11,000 patients.

ACH HAS BEEN a well-functioning activity for several years. Swedfund is a part-owner and it has been involved in the company since the decision to make the investment in 2008.

BUSINESS IN HIGH-RISK AREAS

Stakeholders who become dependent on conflict pose a dilemma in many countries where Swedfund's portfolio companies operate. These stakeholders can include businesses, investors, organizations (including civil society organizations) and the authorities. Dependency may lead to the intensification of the conflict, hinder development and create risks for society and commerce.

INVESTORS and businesses that identify and avoid these risks increase opportunities to improve impact on society. In order to learn more and exchange experiences around these issues, Swedfund participated in 2013 in the reference group to a project entitled Corporate Responsibility in Conflict-Affected and High-Risk Areas. This project was managed by Diakonia together with the School of Business, Economics and Law, the School of Global Studies (both Gothenburg University) and Church of Sweden.

ON TOP OF sharing knowledge and experience, companies and investors also learnt more about risk management tools for regions in conflict, as listed in the final report from the project, see link above.

Swedfund's risk management

SWEDFUND'S MISSION IS BASED ON HAVING THE COURAGE TO TAKE RISKS WHEN FEW OTHERS ARE WILLING TO DO SO. CORRUPTION, A LACK OF A LEGAL FRAMEWORK AND THE LOCAL FINANCIAL MARKETS PRESENT CHALLENGES, BUT NOT BARRIERS.

Swedfund's mission, contributing to the reduction of poverty through sustainable business, means making investments with a significant element of risk.

Swedfund is a complementary investor, which means that we invest where few commercial investors are inclined to put their money. Our portfolio companies operate in countries with defective financial systems, imperfect legal frameworks and where human rights are not always at the top of the political agenda. Corruption and political instability are other factors that can jeopardise business.

Events in Egypt are an example of the political risks that can negatively impact on investment in a country as revenues fall and payment flows are disrupted.

Another example is in South Sudan where the political situation affects our investment in Kinyeti Capital in various ways.

A large part of Swedfund's resources are focused on minimising various forms of risk.

By describing a number of investments we will show how our efforts, despite a difficult investment environment, can succeed in achieving results in all three of our key areas.

WHAT SWEDFUND DOES TO MEET RISK:

During the year a new unit (Development and Portfolio Management) was formed with the task of describing and proposing measures within all three cornerstones of our mission, both aggregated at portfolio level and in individual investments. Results will be presented every six months in Portfolio Reviews.

PRIOR TO INVESTMENT

Careful checks of the parties in the investment.

- Financially stable strategic partner
- Survey of ESG risks

IN CONNECTION WITH CONTRACT NEGOTIATIONS

Legally correct agreements

- Well-planned contract terms for payments, especially for handling ESG risks.

(Read more about the investment process for Nairobi Women's hospital on page 29.)

DURING THE LIFETIME OF THE INVESTMENT

Swedfund's Senior Investment Managers handle risks through board activity and other measures while monitoring the company.

(Read about Lena Algerin's work on the board of Addax Bioenergy on page 32.)

AT EXIT

Through a responsible exit Swedfund contributes to the continued success of its investment.

FINANCIAL RISKS

The aim is to minimise financial risks as far as possible.

INTEREST RATE 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 rate risks and, 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 rate risk exposure may not exceed 18 months.

At the year-end, the average term was 11 months.

CURRENCY RISK

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

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.

The net exposure reported in the balance sheet at year-end amounted to MSEK 28. The maximum permitted exposure was MSEK 100. The specification of the distribution of exposure per currency is presented in the table below[1]. Contracted but not disbursed commitments amounted to MSEK 575 (381).

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

Surplus liquidity shall be invested in Swedish krona.

Maximum permitted currency risks regarding lending to portfolio companies

(MSEK)	Of which in USD (translated to MSEK)	Of which in EUR (translated to MSEK)	(Counter value in MSEK) Other currencies (translated to MSEK)
Lending (net after write-downs)	Unlimited	Unlimited	Unlimited
Borrowing for hedging purposes	Unlimited	Unlimited	Unlimited
Maximum volume (net of lending/ borrowing translated to MSEK)	-200<X<200	-100<X<100	-20<X<20 per currency

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

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.

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.

Restrictions on investment of liquid assets

Category Counterparty	Instrument	Lowest permissible rating	Limited criteria: Per category counterparty	Limited criteria: Per individual counterparty
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 of 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

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 2,337 (2,158). 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.

Maximum permitted borrowing risk

(MSEK) (Future payments received -+; future outgoing payments --)	0-6 months	7-12 months	>1-2 years	>2-3 years	>3-5 years	>5-10 years	>10 years
+ Lending to portfolio companies in foreign currency (net)	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
- Borrowing for lending to portfolio companies in foreign currency	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
Subtotal: net of borrowing/ lending in MSEK	-100<X<100	-100<X<100	-100<X<100	-100<X<100	-100<X<100	-100<X<100	-100<X<100
- Expected payments for contracted but not disbursed lending in foreign currency [1]	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	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.

At the end of the year, the borrowing risk (net) amounted to MSEK 36, allocated so that the maximum amount for any time period amounted to MSEK 91.

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 451 (420) at year-end.

HOW WE WORK AT SWEDFUND

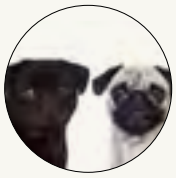
During the year Swedfund developed a strategy based on its mission: *reducing poverty through sustainable business*. In this work we were guided by our experience of the investment situations where we can be a complement and our assessment of which markets and sectors have the most need for Swedfund's know how and capital. The key areas from a strategic perspective include geography, sector, financing form (type of invested capital), investment partners and size of investment.

1 GEOGRAPHY

Over the years 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 further concentrate our investments to Africa. Our goal is to increase our African investment portfolio to more than 60 per cent (approx. 54 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.

2
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, and 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 as well as being important for individual households.



3
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 are essential for meeting the increased requirements set by stakeholders, including Swedfund, especially with regard to ESG compliance.

4
FINANCING MODEL

Swedfund's portfolio currently comprises 41 (49) per cent shares (i.e. equity capital), 35 (21) per cent loans, 23 (18) per cent funds (share capital) and one (1) 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 agreements and active board participation. In addition, investing equity capital has a catalytic effect, encouraging other investors; boosting a company's equity capital increases its chances of acquiring bank loans.

** Calculated from book value.*

5
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 60 million per investment.

STRATEGIC SUSTAINABILITY GOALS

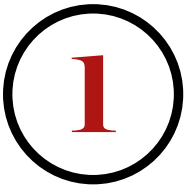
From the big questions about sustainable development to Swedfund's contribution to sustainable business

In recent years the struggle against global poverty has taken significant steps forward. Hundreds of millions of people have been lifted out of absolute poverty and the UN's millennium targets, that were to be met by 2015, are within reach in many countries. The creation of new jobs is central to helping poor countries to make progress. IFC's Joint International Finance Institutions communiqué.

WE ARE INUNDATED WITH INFORMATION and warnings about the results of new research. The issues can vary widely, from the risk of pandemics and global oil shortages, to concerns about rising sea levels or population increases. The UN's International Panel on Climate Change (IPCC), which employs 2,500 researchers, warned in its 2007 report that the climate is changing more rapidly and more dramatically than originally feared.

THE THEME FOR THE UN'S INTERNATIONAL PEACE DAY in 2013 was sustainable peace for a sustainable future. Peace, development, democracy and human rights are closely linked and are a precondition for successful global activities on sustainability and the environment. In this connection, corruption is also a scourge that must be beaten.

IN THE LIGHT OF THE ABOVE, Swedfund's board adopted four strategic sustainability targets in 2013 based on our mission – to reduce poverty – which remains one of the biggest challenges in the context of sustainable development that the world faces. Swedfund's contribution to reducing poverty comes from our involvement in the establishment of sustainable businesses, which is why sustainability targets are focused on Swedfund's investments.



IMPACT ON SOCIETY

Swedfund shall contribute to the creation of jobs with a good working environment and good employment terms.

INDICATOR: Fulfilment of the ILO's core conventions and ILO Basic Terms and Conditions of Employment plus a growing number of jobs within Swedfund's portfolio companies.

TARGET: Fulfilment of ILO's core conventions in all companies within three years of the start of financing. On average for all of Swedfund's investments the number of jobs shall increase every year. This target will be continually verified as follows:

- **SELF-ASSESSMENT:** An annual survey will be sent to the portfolio companies to check on compliance with the ILO's core conventions.
- **SITE VISITS:** Swedfund's staff will annually visit at least one third of the total number of portfolio companies to verify target fulfilment by asking questions and making observations.
- **INDEPENDENT CHECKS:** In a few special cases external consultants may be commissioned and their work may include checks of compliance with the ILO's core conventions.
- **REPORTING:** Each investment shall report annually or more frequently on the number of full-time employees and contract-based employees in the business and Swedfund will in turn report aggregated results of direct job creation as well as an estimate of indirect job creation to senior managers and the board.

SUSTAINABILITY

Swedfund shall contribute to the creation of long-term sustainable companies in the world's poorest countries.

INDICATOR: Implementation in all portfolio companies, and within Swedfund too, of a management system for sustainability issues, which include environmental issues and societal issues where relevant, and within all companies' Corporate Governance.

TARGETS: Management systems shall be implemented in each company within three years of the start of financing. These systems should define the seven following main points:

- **POLICY:** A sustainability policy shall be established and adopted by the managers of the portfolio company.
- **IDENTIFICATION OF RISKS AND IMPACTS:** A system or routine shall be established so that environmental and social risks can be identified at regular intervals.
- **RESULTS ASSESSMENT:** The company's results in identified risk and impact areas shall be measured and assessed continually in order to measure and improve results over time.
- **RESPONSIBILITY AND COMPETENCE:** An individual within the management team shall have overall responsibility for sustainability issues. Competence in handling environmental, social and anti-corruption issues shall be established and maintained through continual training of staff exposed to these areas.
- **EMERGENCY PLANNING:** Where the company's business is based at a fixed site, plans must be made for handling accidents and emergencies.
- **REPORTING:** Reports shall be sent regularly and annually as a minimum to managers and directors within the portfolio company and to Swedfund.
- **STAKEHOLDERS:** Internal and external stakeholders shall be identified, be consulted in situations that affect them, and be given relevant information as appropriate.

FINANCIAL VIABILITY

Swedfund shall contribute to the creation in the world's poorest countries of profitable companies over the long-term that are thereby financially viable.

INDICATOR: Return on equity.

TARGETS: Average return on equity[1] before tax shall exceed the average interest rate for Swedish government debt over one year. Return shall be measured over rolling seven-year periods.

- **REPORTING:** Reports shall be sent annually to Swedfund's management team and board.

ANTI-CORRUPTION

Swedfund shall make proactive efforts to tackle corruption internally and within portfolio companies.

INDICATOR: Adoption and implementation internally and within portfolio companies of management system for handling anti-corruption issues.

TARGETS: Adoption and implementation of management system for handling anti-corruption issues shall be completed at Swedfund in 2014 and, for portfolio companies, within three years of the start of financing. Implementation shall cover the following:

- **ANTI-CORRUPTION POLICY:** Shall be established as origin for a management system devoted to anti-corruption issues.
- **RESPONSIBILITY:** Appointment within management team.
- **SYSTEM:** Processes, procedures or controls for detecting corruption.
- **COMPETENCE:** Identification and training of key staff (i.e. those most exposed).
- **REPORTING:** Regular, minimum of annual reporting.

NEXT PAGE: EMMA IHRE COMMENTS ON SUSTAINABILITY TARGETS ▶

[1] Refers to equity in Swedfund International AB

Emma Ihre keeps a check on sustainability issues at state-owned companies and considers Swedfund to be a leader in this area.

EMMA IHRE, SWEDISH MINISTRY OF FINANCE, HAS ANALYSED SWEDFUND'S NEW STRATEGIC SUSTAINABILITY TARGETS

"Swedfund is setting a good example"

Emma Ihre is responsible for sustainability business issues at Sweden's Ministry of Finance. She has followed Swedfund for many years in previous positions, including when she was at Amnesty Business Group. She sees a clear willingness to make changes at Swedfund, strong commitment from the board of directors, and believes that the company understands the value of transparency. On Swedfund's behalf she has analysed the new sustainability targets and her verdict is that they are clear and positive, and also very ambitious.

"Swedfund is facing a huge challenge that will require a lot of effort throughout the organization. Swedfund has worked in one way for 30 years and now it must develop its processes to meet new targets," says Emma Ihre.

EMMA IHRE SAYS that since Swedfund invests in some of the toughest markets in the world and the demands for sustainability business are rising, this new strategy has extra importance.

"It's important that sustainability issues are given consideration at director level and become a business strategy issue. There can be strong commitment out in the companies, but if the board doesn't get this issue then nothing of value will happen. I think Swedfund is setting a good example here."

Emma Ihre finds a lot of positives with the targets, like the focus on core business, the investments, and that the starting point is the specific, and according to her unique, social assignment. There are practical explanations for how the targets will be implemented and she also considers that there is awareness that Swedfund works with difficult and challenging investments.

"For an outsider it might seem that three years is a long time for Swedfund to implement its advocacy and changes in new projects. But I think this is realistic to let this work take a couple of years or so to have an effect."

THERE REMAIN A COUPLE OF QUESTIONS about the strategy, says Emma Ihre.

"There is a great deal to do in just three years! While implementing values and sustainability policies in the new investments they will have to work in parallel with the older investments."

Emma Ihre says its is a much tougher, but vital task to maintain the same high level of ambition across the entire portfolio, because existing contracts in older investments do not give Swedfund the same possibilities to advocate these issues now being focused on in new contracts.

"It's a matter of being clear and open in the communication about what can and cannot be done with the old, existing contracts. Otherwise there is a risk that audits will flag up criticism that goals have not been met." ⊙

EMMA IHRE
is an economist who is responsible for sustainability business issues at Sweden's Ministry of Finance. Previously she was at Ethix SRI Advisors where she acted as a consultant on responsible investment. During her time as a financial analyst she helped to start KPA's ethical funds.

TEXT ANNE-CHARLOTTE ERIKSSON PHOTO SAMIR SOUDA

Financial results

LONG-TERM FINANCIAL RESULTS

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.

SWEDFUND HAS MADE LOSSES in all of the past five years, which means the company no longer meets its long-term profit targets. The main reason has been the large write-downs in the investment portfolio with emphasis on one investment especially.

The investment in the Raffia companies, with their activities in Kenya, Tanzania, Mozambique and South Africa, has impacted significantly on results over the years. Since 2006 the total loss is MSEK 458. The investment was liquidated in 2011 and 2012, partly though the sale of assets in Tanzania and Kenya, and partly through the sale of the subsidiary in South Africa, to two different buyers. The new owners have taken over operation of the business. At the end of 2013 the formal re-registration of the assets in Tanzania and the final divestment of the company still remained to be performed. This investment, now fully written down, will be reported gross in the notes up until the company is finally liquidated or sold. Legal and tax issues remain to be settled and reserves have been set up to cover these areas. Swedfund may be required to cover decommissioning costs in the company via loans. Production has continued at the sold companies that employ up to 1,000 people. In its ownership, Swedfund has taken significant responsibility for the survival of the company and secured jobs. For further information, please refer to the 2011 sustainability report, under the heading "Responsibility at a price", and page 61 of the 2012 annual report. If the Company is to fulfil its financial objectives in the coming years, a significant increase in profit is required, which can only be achieved through sales of portfolio companies and an extension of the loan portfolio. Swedfund has been in an investment phase for a long time, which has meant a low number of companies mature enough for exit. The normal ownership period is 7 to 10 years.

THE COMPANY has deferred tax assets relating to deficit deductions amounting to SEK 34,811,000. Our assessment, based on analyses of future sales figures, is to attain sufficient capital gains within one investment cycle (7–10 years) to be able to utilise the tax assets.

PROFIT LEVELS in companies that engage in development financing may fluctuate considerably over the years, depending on the company's achieved sales results and its prevailing investment phase. Sales of shares, dividends and the net result of reversals and write-downs, form the determining parameters for the company's earnings trend.

THE TABLE ON THE NEXT 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.

TABLE 1

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
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%
2013	-2.95%	-1.93%	0.94%	1.76%

INVESTMENT BUSINESS 2013

In 2013 the company made a loss before tax of MSEK -92.8 (-217.6) due to write downs in the investment-portfolio and negative sales results from the share portfolio. Swedfund is active in the world's poorest countries and this means assuming large credit risks and share losses in companies that are sometimes negatively affected by political and financial developments.

WRITE DOWNS

Write-downs were carried out on shares, loans and interest, in accordance with the valuation principles described on page 87, for a total of MSEK 98.2 (269.3). Reversals amounted to MSEK 1.8 (11.0).
The largest write-downs were in the following companies:

Company	Amount, SEK 000
NS India Holding	20,264
Raffia	19,834
Baring India Fund II	19,602
Global Medical Investments GMI AB	15,329

The write-down of Baring India Fund II is mainly related to the weakening of the Indian currency.

Of a total of twelve exits, eight constitute sales of participations in funds. Two shareholdings were sold in their entirety. In one shareholding, bankruptcy was concluded without Swedfund receiving any proceeds. One fund reached full maturity. The sold shareholdings and participations in funds have resulted in a net loss of a total of MSEK -6.3 (+14.2). Three loans reached full maturity, of which two were repaid in full. One loan was partially converted into shares.

THE FOLLOWING INVESTMENTS WERE EXITED IN 2013:

Company	Country	Industry	Type	Form	Share in %	Duration, years	Invested amount, MSEK	Exit amount, MSEK	Profit	Internal rate of return
Advakom[1]	Russia	Electronics	Establishment	Loan	-	12	5.8	3.3	-2.5	-18.27%
Belarusian Bank for Small Business[2]	Belarus	Financial, Microfinance	Establishment	Shares	11.64%	5.25	13.5	5.2	-8.3	-24.40%
CAIF[3]	Central Amerika	Fund	Establishment	Shares	11.38%	18	7.8	0.1	-7.8	
Haripur Power[4]	Bangla-desh	Gas power plant	Establishment	Loan	-	10	39.7	52.6	12.9	6.35%
Millicom (EFP)	Tanzania	Telecoms	Establishment	Loan	-	4	2.8	3.1	0.3	2.95%
Oatly	China	Food	Establishment	Shares	25%	3.5	4.3	2.3	-2	-46.30%
Somalia Telecom[5]	Somalia	Telecoms	Establishment	Shares	19%	5.75	26.3	-	26.3	

[1] Bankruptcy concluded in 2013. [2] Swedfund has continued involvement via loans. [3] Financed 67% via Sida through loans .
[4] See page 77. [5] Bankruptcy concluded in 2013.

Several of the investments were written down in previous years and did not therefore impact on this year's income statement.

ADVAKOM: The business concept was to develop and manufacture cables and components for Russian system suppliers of high-speed data communication equipment. The company thereby contributed to technology transfers of both components and systems for the Russian market within the high-tech sector that was otherwise underdeveloped.
Between 2001 and 2008 the company had 75 employees. Advakom initially operated at a profit but due to major increases in the price of raw materials, mainly steel and copper, the company operated at a loss for several years, leading to bankruptcy in January 2009. Swedfund awaited the final reconciliation from the bankruptcy trustee.

BELARUSIAN BANK FOR SMALL BUSINESS: A final report will be submitted when the loan is paid in full.

CAIF: Central American Investment Fund (CAIF) was formed in 1996 by CDC, other Development Finance Institutions and Central American banks. CAIF was managed by Aureos. CAIF's business concept was to invest in small and medium sized companies in Central American countries. The fund invested in 10 portfolio companies. CAIF has sold all these portfolio companies.

MILLICOM (EFP): A DFI loan of a total of MUSD 40 with Proparco providing MUSD 15 and other DFIs in the EFP venture providing MUSD 25. The loan enabled the expansion of Millicom's existing GSM network. The loan was prepaid when Millicom had the opportunity to issue a corporate bond.

OATLY: The business concept for this Chinese company was to sell oat milk to schools and thus introduce a lactose-free alternative to milk on the Chinese market. In addition to good health benefits, the company would launch a new food in China.

The main driving forces behind the investment was the need in Chinese schools for milk, preferably oat-based, the fact that the Chinese have significant lactose intolerance problems, and that China is a large producer of oats, which are primarily consumed in the countryside.

For two years Ceba tested oat milk in two Chinese schools with good results for child growth and health. All the results showed that oat milk improved schoolchildren's health. Sample sales in Huaibei by Swed-Oat Trading Co established a technology and know-how transfer through training of key staff and distributors while demonstrating the results in terms of healthier school children. Swedfund's contribution included environmental and ethical regulatory frameworks.

Sales of samples ended in the summer of 2013. School milk sales could not compete with the local dairy. The main owner, Ceba, decided to end its investment in China. Swedfund sold its shares to Ceba on 5 September 2013.

SOMALIA TELECOM: STG was aiming to expand a small telecoms network in Puntland, Somalia, in 2007 when the TGF government in Mogadishu appeared to have brought stability to the region. FMO led the investment process and invited Swedfund to participate with Ericsson as equipment supplier. The situation in the country deteriorated quickly with bombings in Mogadishu and Somaliland. Due to the lack of legal structures, banking system, roads and virtually all other modern infrastructure, STG faced great difficulties. However the company tried to continue with the project. The political risks (employing soldiers to guard telecoms towers, pirates using the network, the involvement of Al Qaida in business ownership) made it impossible to continue.

INVESTMENT DECISIONS MADE BY THE BOARD/CEO IN 2013 (SEK 000)

	Amount	Country	Sector
	41 757	ACP countries[1]	Co financing
	26 077	Kenya	Hospital
	2 446	Kenya	Hotel
	31 753	Sierra Leone	Energy
	98 937	Several African countries	Risk capital fund
	8 640	Several African countries	Packaging
	63 723	Kenya	Steel works
	98 092	Nigeria	Power plant
Total Africa	**371 425**		
	20 861	India	Battery production
	52 908	India	Hospital
Total Asia	**73 768**		
	4 303	Belarus	Renewable energy
	65 958	Georgia	Bank
Total Eastern Europe	**70 261**		
	12 500	Global	Hospital
Total Global	**12 500**		
Total	**527 954**	**(451 398)**	

[1] Primarily former colonies of EU countries in Africa, Caribbean and Pacific - ACP

INVESTMENTS AGREED IN 2013 (SEK 000)

	Amount	Country	Sector
	86 384	Indian Ocean and West Africa[1]	Fund for small and medium businesses
	19 313	Kenya [2]	Hospital
	8 640	Several African countries	Packaging
	98 265	Sub-Saharan Africa [3]	Fund
	43 471	ACP countries [4]	Co financing EDFI
	26 621	Kenya [5]	Hospital
	64 223	Kenya	Steel works
Total Africa	**346 917**		
	43 132	India [6]	Hospital
Total Asia	**43 132**		
	4 414	Belarus	Renewable energy
	2 170	Russia	Auto components
	65 510	Georgia [7]	Bank
Total Eastern Europe	**72 094**		
	35 480	Global	Co financing EDFI
	10 000	Global	Hospital
Total Global	**45 480**		
Total	**507 623**	**(258 825)**	

[1] Link to press release. [2] Link to press release. [3] Link to press release. [4] Primarily former colonies of EU countries in Africa, Caribbean and Pacific - ACP. [5] Link to press release. [6] Link to press release. [7] Link to press release.

Total payments in the period amounted to MSEK 302,203 (360,317).

Six of the agreed investments are new. For information about them, see the links to the press releases. Other agreed investments in the period were for additional investment in existing portfolio companies.

During the fiscal year the reported value of the portfolio, including guarantee commitments, increased from MSEK 1,405.2 to MSEK 1,571.2.

IMPACT ON SOCIETY, SUSTAINABILITY AND FINANCIAL VIABILITY

The Company prepares a sustainability report in accordance with GRI's reporting framework, version G4 and sector supplement GRI G4 Sector Disclosures, Financial Services, Core level.

SWEDPARTNERSHIP

Through the Swedpartnership brand (see page 55), Swedfund offers financial support for small and medium-sized Swedish companies. 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/

During the period, 36 loans worth a total of SEK 18,316,000 have been written off, i.e. the project has ended in accordance with the project plan. One loan for SEK 239,000 was repaid. Due to bankruptcy proceedings, reservations were made for two loans worth SEK 725,000.

FUNDS FOR TECHNICAL ASSISTANCE (T/A)

Funds can be used for support in the following two areas:

- Quality-enhancing ESG measures in existing and exited portfolio companies
- Follow-up and analysis of development results for completed investments

This support should not be used to finance measures considered to be part of the ongoing investment activity.
In 2013 funds were awarded to:

- Addis Cardiac Hospital, Ethiopia
- Deacon chain store, Kenya
- External ESG audits in existing portfolio companies

At the end of the year MSEK 4.1 remained available for further measures.

EQUAL OPPORTUNITIES

The company has fulfilled its equal opportunity targets established in the equal opportunities plan of 2011. This plan is reviewed every three years, so the next review will be in 2014. The gender distribution for various types of roles and work assignments at the company is well-balanced. Measures have been implemented to enable both male and female employees to combine work and parenthood.

FINANCING OPERATIONS

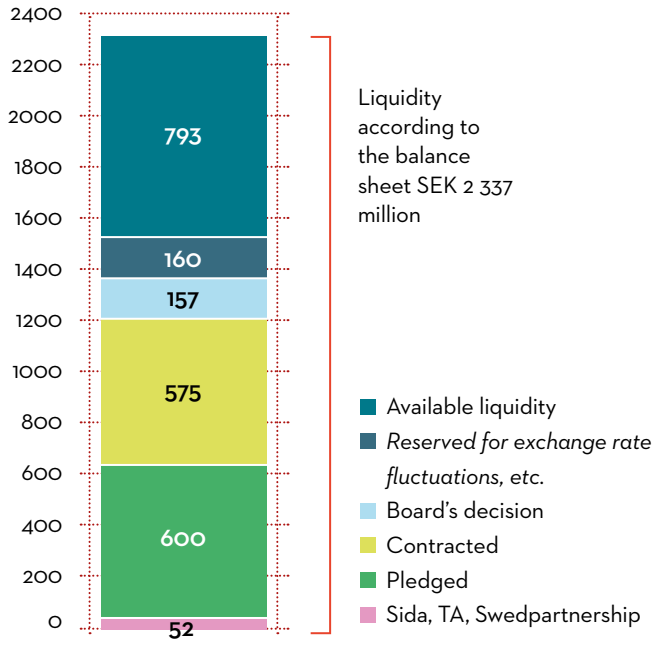
With the exception of Swedpartnership and funds for technical assistance, the Company is financed entirely with shareholders' equity. Long-term and short-term loans are utilised to limit the Company's currency risks and interest rate risks when lending in foreign currency. Refer also to the section on financial risks on page 38.
The Company's current investments have yielded a return of 0.86% (1.71%).
The Company has a sound financial position. The equity/assets ratio is 85.9% (84.9%). During the year, the Company received a shareholders' contribution of MSEK 400 in order to develop and expand the business. Current liabilities amount to 7.7% (7.5%) of total assets.
The portfolio investments correspond to 38.6% (37.4%) 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 2,337. A large portion of this liquidity is reserved for contracted, but not disbursed, portfolio commitments, decided but not agreed investments, pledged security, etc. These funds are distributed in accordance with Figure 1.
As of 31 December 2013, the Company had surplus liquidity of MSEK 793 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 regarding disbursement. 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 all types of return flows. See figure 1.

EVENTS AFTER THE CLOSING DATE

The Swedish Finance Ministry took over ownership responsibility for Swedfund from the Swedish Ministry of Foreign Affairs on 1 February 2014, with the Minister for Financial Markets becoming the responsible minister. Swedfund's role in Swedish development initiatives has not changed. Technical issues and "all matters relating to aid policy" remain within the responsibility of the Swedish Ministry of Foreign Affairs.

FIGURE 1, LIQUIDITY 31 DECEMBER 2013



TEXT ANNE-CHARLOTTE ERIKSSON
PHOTOS MO JIANJIAN

A boost for business development

Check Point China, a new company based in Nässjö, Sweden, grew by 60% in 2012. The company's founder and CEO, Andreas Fälth, claims the spurt in growth was partly due to the support from Swedfund that is designed for small to medium-sized companies.

"The support from Swedfund involved a lot more than we expected," confirms Andreas Fälth, founder and CEO of Check Point Chin

The company has three full-time employees in Nässjö, Sweden, and 25 employees at a subsidiary in China that works with purchasing and quality-assurance of industrial components for Swedish companies.

"We had a three-year plan for what we wanted to achieve and the idea was that we would establish the structure before we started marketing ourselves," explains Andreas.

IN 2011 he saw an advert in a publication called Sweden-China Trade Council where Swedpartnership announced it was looking for interesting projects to invest in. Andreas Fälth put together an application and then went to some interviews. Following careful evaluation and visits, Swedpartnership accepted his proposal.

"When Swedpartnership supported our investment in equipment and competence transfer it added a mark of quality to our business. Market acceptance increased considerably. 2012 was a great year for growth and we managed to increase sales by 60%."

ANDREAS FÄLTH centre, founder and CEO of Check Point China, with two colleagues from China, Sun Jianlei and Yu Jinjin.

Swedpartnership, Swedfund's offer to small and medium-sized companies, is unique on the Swedish market. The support meets a need, because it is very difficult for smaller businesses to gain external financing for risk-filled projects in developing countries. The overall goal for Swedpartnership is to contribute to fighting poverty and the strategy is to use knowledge transfers and economic support to help Swedish companies develop new or existing business in developing countries.

"Swedish technology and knowledge can help to create sustainable, financially viable businesses that generate jobs and improve wel-

fare," says Staffan Ahl, head of Swedpartnership.

The support means faster start-up, higher quality in the project and reduced risk. Swedpartnership pays 40% of the project cost. For Check Point China this meant a loan of SEK 250,000.

"On top of loans and marketing help from Swedfund, we were required to work in a structured way when we planned training. We listened carefully and we are now much better at documenting what we do and performing follow-up," says Andreas Fälth.

ANOTHER BENEFIT of support from Swedpartnership is that their partner, Cixi Anderui Import and Export Co. Ltd could be registered as a subsidiary of Check Point China in 2012. That means the company can import directly from China to Swedish companies in the US, which opens up bigger markets.

"Without Swedpartnership things would have taken a lot longer. In just one year we have secured our environmental vision and Code of Conduct in the subsidiary, built up competence, technology and financial viability – and recorded great growth alongside that," says Andreas Fälth. ⊙

Footnote: When Dagens Industri listed its fastest-growing businesses in 2013, Check Point China's strong growth gave it a strong seventh place in Jönköping county.

THIS IS SWEDPARTNERSHIP

- With its Swedpartnership brand, Swedfund offers loans to small and medium-sized Swedish businesses for ventures in Swedfund's partner countries.
- The loan is for knowledge building and equipment when starting a new business partnership.
- In addition to loans, Swedpartnership provides expertise for investing in developing and growth markets, external verification, and meeting requirement in planning financial viability and sustainability (ESG policies).
- 135 companies have received support since Swedpartnership started in 2009.

ANNUAL REPORT

DIRECTORS' REPORT

Swedpartnership

These operations are financed entirely by the Swedish state through the allocation of separately-budgeted funds.

LOANS CONTRACTED DURING THE PERIOD (SEK 000)

	Amount	Region	Share
	26,811	Asia	83%
	2,024	Latin America	6%
	3,424	Eastern Europe	11%
Totalt	**32,259**		

LOANS PAID OUT DURING THE PERIOD (SEK 000)

	Amount	Region	Share
	16,314	Asia	77%
	2,103	Africa	10%
	1,012	Latin America	5%
	1,800	Eastern Europe	8%
Totalt	**21,229**		

During the period, 36 loans worth SEK 18,316,000 were written off, which means the project was concluded as planned. One loan worth SEK 239,000 was paid back. Reservations were made for two loans worth SEK 725,000 in total due to bankruptcy proceedings.

The primary Swedish ordinance that regulates activities can be found here: www.riksdagen.se

CLEAN WATER WITH SOLARWAVE

Clean water at Vikenge Primary School in Morogoro province, Tanzania.

PHOTO TATIANA BOLDYREVA

Tanzania needs clean water. With support from Swedpartnership, Solarwave from Gävle, Sweden, can provide people in Tanzania with water purification technology powered by solar energy. The portable and eco-friendly water purifier is simple to use. It has purification capacity of 700 litres of water per hour during sunlight, a maximum of around 5,000 litres per day. The battery can also be used to charge a mobile phone or power lighting.

"The company has strong owners and long-term plans for products that are in demand on developing markets," says Anna Långström, Senior Loan Manager at Swedfund.

MIRIS AB

SWEDISH INNOVATION MEANS BETTER MILK IN BANGLADESH

Miris AB is doing very well in Asia. The company from Uppsala, Sweden, recently won a large order from the biggest dairy in Bangladesh. According to Miris' CEO it would not have been possible without support from Swedpartnership.

Tony Malmström (centre) demonstrates the analysis instrument for employees of the dairy in Bangladesh.

At the end of 2013 Miris AB received its first ever order. The headline in the company's press release did not hold back: "Breakthrough in the dairy industry with a significant order in Bangladesh paves the way for global success". State-owned Bangladesh Milk Producers Cooperative Union Limited (Milk Vita), had placed an order worth around SEK 4.1 million.

"The order was four times bigger than anything we had previously received," says a happy Tony Malmström, CEO of Miris AB.

SINCE ITS START-UP in 2001 the company has worked with milk analysis instruments, initially checking nutrient and protein levels in cow milk and then later focusing on the more profitable market for nutrition analysis of breast milk.

"But now we are back to where we started and our business rests on two stable activities, which improves our chances of future success," says Tony Malmström.

MIRIS STARTED considering the dairy industry in Bangladesh two years ago. The country has problems with the water content of milk, which means that dairies are forced to buy expensive milk powder on global markets.

Miris' measurement instruments are an investment that quickly pays off to ensure that supplied milk has the right quality. The instruments are based on Mid Infrared technology and they detect manipulated milk. The instrument weighs just 4 kg and costs a fraction of the cost of the gigantic, 100-kg machines used by dairies in western countries.

"OUR TECHNOLOGY OFFERS THE SAME INNOVATION IN A SMALLER FORMAT AND AT A MUCH MORE REASONABLE PRICE"

"In developing countries they cannot afford these large-scale machines, but we can offer the same innovation in a smaller format and at a much more reasonable price," says Tony Malmström.

MIRIS WORKS together with Viola Vitalis in Bangladesh. Viola's founder studied in Sweden and got to know staff at Miris. Tony Malmström got in touch and the two businesses decided to collaborate. Viola Vitalis told Miris about the major procurement project that Milk Vita was engaged in. However, entering the bidding process required financing and who would lend money to a risk-filled project in a country where there can be a general strike every other day?

"The loan from Swedpartnership was decisive in winning the deal," says Tony.

A number of requirements were attached to the financing. The owners of Miris were forced to do a fundamental survey of the business, environmental and sustainability aspects of the company, and establish a Code of Conduct. Swedpartnership's representatives provided support at every stage.

"Swedpartnership has a standard for acceptable behaviour for Swedish companies when they do business overseas. These requirements have helped develop both the company and ourselves as individuals," says Tony Malmström.

Nils Marcks v Würtemberg, Senior Loan Manager at Swedfund, considers that Miros' venture in Bangladesh is a good example of how Swedfund can use financing to share the risk when a Swedish company wants to establish business on a new growth market. ⦿

TEXT: ANNE-CHARLOTTE ERIKSSON PHOTO: XXX

Reporting of development results

IMPACT ON SOCIETY PAGE 56 | SUSTAINABILITY PAGE58 | FINANCIAL VIABILITY PAGE 63

What is the impact on society in the places where Swedfund's portfolio companies are active? How sustainable and financially viable are these businesses? The development results give a clear picture. For the first time this year we are reporting tax payments per country.

Swedfund reports development results from business activities based on the three cornerstones of our mission: impact on society, sustainability and financial viability. The most important indicators in each area are as follows: impact on society– jobs, tax, knowledge transfer; sustainability – environment, employment terms, business ethics and anti-corruption; financial viability – growth, profitability and return on investment. During the year, Swedfund adopted strategic sustainability targets (see pages 44-47). These targets combine and integrate a number of our selected indicators within our three cornerstones:

1) IMPACT ON SOCIETY – Swedfund shall contribute to the creation of jobs with a good working environment and good employment conditions.
2) SUSTAINABILITY – Swedfund shall contribute to the creation of long-term sustainable companies in the world's poorest countries.
3) FINANCIAL VIABILITY – Swedfund shall contribute to the creation of long-term profitable and thereby financially viable companies in the world's poorest countries.
4) ANTI-CORRUPTION – Swedfund shall perform proactive anti-corruption activities internally and within portfolio companies.

Follow-up and reporting of results for fulfilment of strategic sustainability targets will be presented in next year's integrated report.

Development results are generated in the portfolio companies and in the fund companies' portfolio companies. The indicators that we have chosen to report here are both quantitative and qualitative, direct and indirect.

RESULT INDICATORS

During 2013 Swedfund continued to participate in international initiatives carried out by development finance organizations with the aim of harmonising indicators, and their definitions, used in the analysis of development results. We have done further work on the development and application of the model in annual follow-ups and when reporting projects that have been concluded. Together with 31 other DFIs we have undertaken to take inspiration in our choice of indicators from the IFIs Harmonized Development Results Indicators for Private Sector Investment Operations. The IFI's Memorandum illustrates the established view on methods for analysis, follow-up and reporting of development results now emerging internationally. The methodology used by Swedfund is thus in agreement with how other development finance institutions work.

RESTRICTIONS

The investments that form the basis for reporting of the results on the next page are divided among Swedfund's investments in shares[1], funds[2] and loans[3] .

See footnotes on page 66.

IMPACT ON SOCIETY

JOBS • TAX • KNOWLEDGE

JOBS

SHARES	FUNDS	LOANS
AT THE END OF 2012 THE NUMBER OF DIRECT JOBS[4] IN PORTFOLIO COMPANIES WAS	AT THE END OF 2012 THE NUMBER OF DIRECT JOBS[4] IN FUNDS WAS	AT THE END OF 2012 THE NUMBER OF DIRECT JOBS4 IN LOAN-FINANCED PORTFOLIO COMPANIES WAS
13,571	**78,209**	**12,610**

AT THE END OF 2012, SWEDFUND'S INVESTMENTS HAD A TOTAL OF **104,390** DIRECT JOBS[5]

To this number shall also be added a great number of indirect jobs generated through the companies' distribution and supply chains. We do not monitor or report on the number of indirect jobs generated in this way. The IFC, however, estimates that the number of indirect jobs created in the IFC's portfolio companies is 7–25 per direct employment. The IFC further concludes that many of those indirect jobs are beneficial for uneducated and poor people. We therefore conclude that the effects on job creation are significantly greater than the direct jobs reported by the portfolio companies in this report. Using the IFC's calculations, the number of indirect jobs at the end of 2012 is estimated at between 700,000 and 2.5 million.

In total, therefore, Swedfund's portfolio companies contributed at the end of 2012 somewhere between 800,000 and 2.6 million jobs.

KNOWLEDGE TRANSFER

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 of the work is an active knowledge transfer that is conducted in dialogue with a portfolio company's stakeholders and the portfolio company itself.

Apart from Board expertise, through its part-ownership of the portfolio company, Swedfund can contribute with experience 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 guidelines and the guidelines for Swedish development co-operation.

Business knowledge, strategic competence and organizational development are also important elements of building knowledge in portfolio companies. This contribution to knowledge building takes place at a strategic level through board participation, at operational level through site visits and through Action Plans as well as at the technical level through the introduction of management systems, among other factors. In 2013 six site visits were carried out by the ESG team while producing Action Plans in collaboration with managers at the portfolio companies. One ESG training course was performed in October in Nairobi with six employees from three of Swedfund's portfolio companies in the region, one employee from Swedpartnership and two from Swedfund.

Swedfund's portfolio companies many times act as a good example that can inspire other businesses.

TAX

SHARES

THE PORTFOLIO COMPANIES' AGGREGATED REPORTED TAX IN 2012 AMOUNTED TO

249,9

MSEK

LOANS

THE LOAN-FINANCED PORTFOLIO COMPANIES' AGGREGATED REPORTED TAX IN 2012 AMOUNTED TO

117,4

MSEK

TAX REPORTED PER COUNTRY

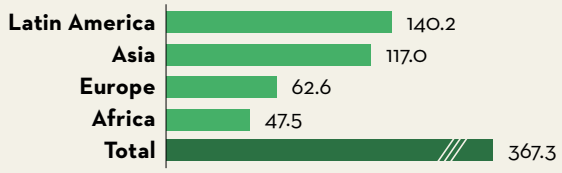
Due to government offers of tax holidays during company start-ups and also due to tax planning by companies, many developing countries currently miss out on a large portion of the potential tax revenue available to them.

In 2013 Swedfund initiated a dialogue on tax issues with aid organizations. Consequently, in October 2013 we decided to report on a per-country basis tax at an aggregated level for our directly-owned portfolio companies in our integrated report for 2013[8]. Notes from dialogues with stakeholders and aid organizations are available here.

In the investment countries this tax can be used to finance social and economic infrastructure such as schools, hospitals, authorities and in other areas for the benefit of the country's citizens, as well as creating better conditions for doing business.

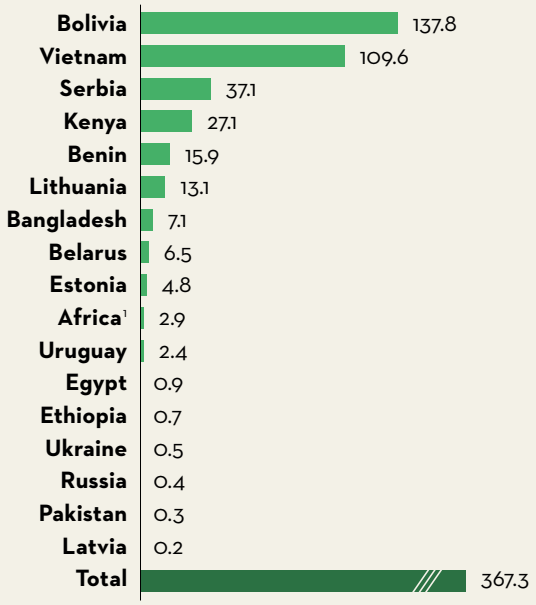
REPORTED TAX, PER REGION

MSEK, aggregate for each company from their most recent annual accounts



REPORTED TAX, PER COUNTRY

MSEK, aggregate for each company from their most recent annual accounts



[1] Other African nations than those named

SUSTAINABILITY

ENVIRONMENT • WORKING CONDITIONS • BUSINESS ETHICS & ANTI-CORRUPTION

In 2012 Swedfund introduced a new routine requiring portfolio companies to annually report key indicators for sustainability/ESG (Environment, Social, Governance) entitled *Swedfund Portfolio Company Sustainability Key Performance Report*[9]. This is therefore the second year that we have asked portfolio companies to submit a self-assessment, so we can now report changes between the two years.

The self-assessment was expanded ahead of this year's report from five to ten questions. The new questions cover incident reporting, number of employees and tax payments, questions that have not always been presented in their annual reports. We have now established a routine for both internal and external reporting in these areas.

The focus in reporting development results for sustainability rests on policies, responsibility and management systems. This focus was chosen because this information provides a general picture of how the company approaches sustainability. Energy and climate issues take priority as these have been the key environmental issues for some time.

This report of development results for sustainability and the choice of indicators may be changed with reference to the decisions on strategic sustainability targets, and their follow-up, taken in 2013 and reported on page 42.

RESTRICTIONS

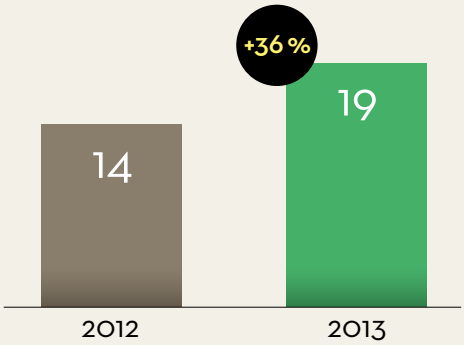
The investments that form the basis for reporting of development results in this report are distributed among Swedfund's investments in shares and loans across a total of 28 portfolio companies. The selection is the same one made for the 2012 report but has been adjusted with an additional investment and two investments that have ended. Three companies had not submitted answers by 31 January 2014, so the response frequency was 89%.

Swedfund's investments in funds and financial institutions are not included in this reporting.

It should be remembered that the data comes from a self-assessment and has not been independently verified.

SUSTAINABILITY OR ENVIRONMENTAL POLICY

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 the operation of the business)?



RESULTS

76% of the portfolio companies contacted had an Environmental Policy, compared with 49% in 2012. The majority had their own policies, while one company observes its parent company's policy and another follows the general principles set by their main customer.

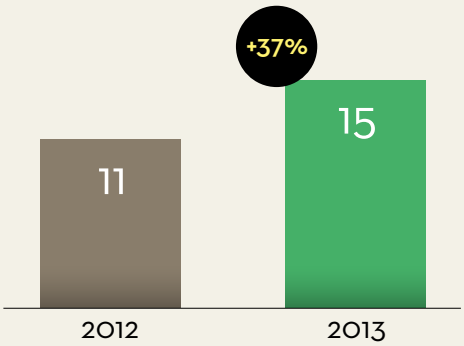
COMMENTS

Swedfund's portfolio companies operate in a variety of sectors, including hotels, healthcare and manufacturing. Some of them are parts of larger groups while others operate alone. This explains why there is a difference in focus in policy descriptions across Environment, Health & safety, Quality, Working Environment and Sustainable Development. The format differs too, from simpler statements to comprehensive corporate policy documents. Comparisons with last year show that Swedfund's efforts have borne fruit, even though a lot of work still remains for the portfolio companies to continuously implement adopted policies in their operations.

A quarter of the companies still have no policies for the environment or sustainable business, so significant potential for improvement remains as Swedfund increases its advocacy efforts in this area.

ANTI-CORRUPTION POLICY

Does your company have an Anti-corruption Policy (a policy to minimize the risk of management and employees engaging in corrupt practices, i.e. bribery, kickbacks, fraud etc.)? If yes please submit the policy.



RESULTS

60% of the companies contacted confirmed that they had an anti-corruption policy, compared with 36% in 2012. Five companies follow their parent company's policy while one company follows the performance code of their main customer.

COMMENTS

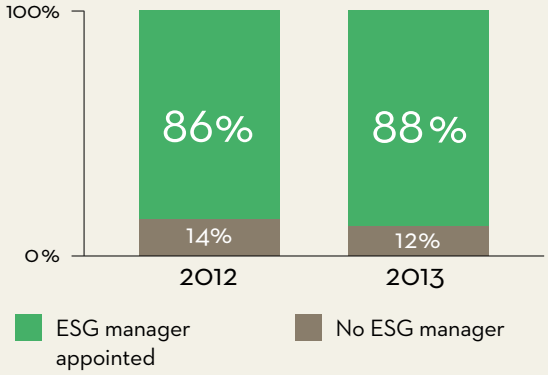
The results suggest that the advocacy efforts made by Swedfund regarding policy for anti-corruption during the year were successful. The policy structure varies, with some companies choosing a separate policy while others including anti-corruption in other steering documents. Depending on the company's policy maturity, Swedfund has different possibilities for influencing the adoption and implementation of anti-corruption policies.

Anti-corruption is a key area for Swedfund and has been for many years. Anti-corruption clauses are and have been included in Swedfund's loan and shareholder agreements, according to which the portfolio company certifies that it has not traded, and will not in future trade, in any way that could be described as corrupt.

Following the adoption of Swedfund's anti-corruption policy in 2012, our portfolio companies must commit to adopt and implement their own anti-corruption policies. To help them help themselves, Swedfund set up a Portfolio Anti-Corruption Policy Model in 2012.

ESG MANAGER

Does your company have a designated manager or board member specifically responsible for ESG issues?



RESULTS

88% of the companies contacted had an ESG manager, compared with 86% in 2012. All those answering yes named an individual in the senior management team. Seven of the companies have ESG managers at several organizational levels.

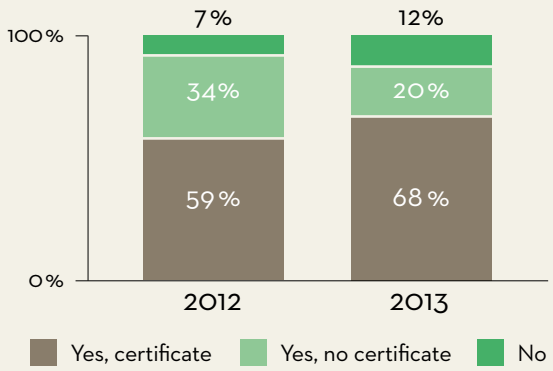
COMMENTS

The companies report that responsibility rests either at board level, senior management level or at operational level. Responsibility for ESG issues often is part of a wider management responsibility, which may be reflected in results. The portion of companies with an ESG manager increased only marginally between the years, which is difficult to interpret. An integrated approach might be one reason why ESG issues are part of a manager's responsibility. Resource and cost aspects could be another reason.

MANAGEMENT SYSTEM

(ISO 14001, OHSAS, SA8000)

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 14001, OHSAS 18001, SA 8000)?



RESULTS

32% of the companies contacted confirmed that they had management system, of whom 12% had independent certification compared with 42% and 7% respectively in 2012. Two companies that were not certified in 2012 had received certification during the year.

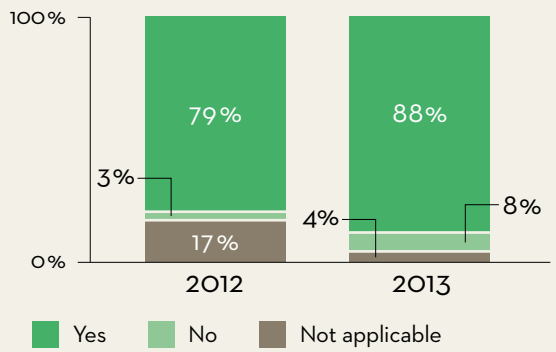
COMMENTS

With only three companies having certified management systems, the noteworthy statistic here is that around two thirds of the companies have no system whatsoever. It may also be noted that the two companies where investment ended during the year (and which are therefore not included in statistics for 2013) had implemented a management system. Implementation and certification of a management system is a process that takes some time, which means that Swedfund's efforts to exert an influence do not achieve quick results. Experience also tells us that the smaller companies have bigger problems than the medium-sized or larger ones in building knowledge about the management system that is needed for implementing it.

As far as Swedfund is concerned, systematic work on the environment, health and safety are essential. Observing legal requirements at a minimum, striving for continuous improvement, reducing the environmental impact and improving the working environment are central issues for a sustainable business.

REPORTING OF ENERGY CONSUMPTION

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

88% of the companies have reported their energy consumption compared with 80% in 2012. Reported energy consumption covers electricity, diesel and oil. Two of the companies reporting energy consumption this year did not do so in 2012.

COMMENTS

That the companies de facto report their energy consumption indicates a maturity in their view of the climate impact of their business. Only when the reporting is well established can realistic goals be set for energy savings.

"We encourage PRI signatories and non-signatories, to both monitor, and engage on, the ESG performance of the companies in which they invest, and to publicly report their activities each year. Transparency is key to building trust to stakeholders interested in responsible investment" Fiona Reynolds, Managing Director, UN PRI

SERIOUS INCIDENTS AND FATALITIES AT THE PORTFOLIO COMPANIES

During the year Swedfund improved its procedures concerning the reporting of incidents by portfolio companies to get a better insight into operations, understand the risks and thus be capable of contributing to improved preventive measures. Three fatalities were reported during the year, compared with two in 2012[10]. Of these three deaths, one was an employee of a portfolio company while two were civilians involved in a traffic accident relating to a portfolio company's activities. Two fires were reported during the year and fortunately there were no injuries connected to them. These tragic incidents place further demands on Swedfund to encourage portfolio companies to establish better routines and preventive measures. The target is of course to completely avoid all accidents and injuries.

FOLLOW-UP AND INFLUENCE

Swedfund's views on business ethics, as expressed in adopted international frameworks, performance codes and policies, create a platform for Swedfund's activities, ensuring that over the long term we make investments that contribute to impact on society and sustainability. Sustainability is a cornerstone for Swedfund and decisive for achieving value development in a portfolio company. For more information about Swedfund's ethical compass or the frameworks and standards that Swedfund observes, and encourages the portfolio companies to observe too, see pages 20-21.

In practice the IFC Performance Standards on Environmental and Social Sustainability are the standard tools that Swedfund uses to identify risks in the due diligence process prior to making an investment and for proactively via dialogue and influence contributing to continuous improvements by the portfolio companies. The standards are used to prevent, reduce and handle environmental and social risks and impacts. There are eight IFC Performance Standards on Environmental and Social Sustainability:

1. Assessment and Management of Environmental and Social Risks and Impacts.
2. Labor 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.

SELF-ASSESSMENTS, RISK ANALYSIS, SITE VISITS AND ADVOCACY

Swedfund's monitoring of sustainability shows whether a portfolio company follows responsible business practices with regard to the environmental, 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, and become an even better partner, Swedfund continually develops the tool that we use in this work, Swedfund Self-Assessment Sustainability Report. It contains 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, link to self-assessment.

The self-assessment was sent to 28 manufacturing and service sector companies. Responses were received from all but three companies, one of which Swedfund was in the process of exiting from and one company reported in a corresponding manner to another DFI. The answers formed the basis for planning the 2013 ESG verifications and advocacy. After internal ESG analysis and dialogue with the relevant Senior Investment Manager at Swedfund, Monitoring visits and Audits 2013 were established and implemented as shown in the table on the next page.

MONITORING VISITS AND AUDITS 2013

COMPANY	COUNTRY	VISIT DATE	INTERNAL/EXTERNAL	SWEDFUND REP	CONSULTANT
Polygenta Technologies	India	11–12 February	Internal	K. Sjöblom, A. Alte	No
Artheon Batteries	India	12–13 February	Internal	K. Sjöblom, A. Alte	No
Norsad	Southern Africa	1–15 May	External consultant	R. Liywalii	EBS
Kinyeti Capital	South Sudan	21–23 October	Internal	T. Lund (Norfund)	No
Fors	Estonia	5–7 November	External consultant	H. Carlsson	Sweco
Eskaro	Ukraine	13–15 November	External consultant	K. Thorsson	Sweco

MONITORING ROUTINES

Sustainability/ESG monitoring in the selected companies was conducted by Swedfund's ESG Managers singlehandedly, or together with Swedfund's Senior Investment Manager in each company respectively. External consultants (EBS and Sweco) were tendered for three monitoring assignments. Based on the agreement signed with the companies and the self-assessment 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 and Action Plans for prioritised sustainability and ESG activities. This work is ongoing throughout the management phase with the ambition to contribute to continuous improvements and development of values.

In addition to the ESG team's visits during the year (reported here), the investment team also made regular visits in which sustainability issues were discussed explicitly and implicitly.

While Swedfund's ethical principles and sustainability policy are being implemented in the new investments, we are working in parallel with advocacy in existing investments. This is formally a tougher task as no reference can be made to current agreements, but it is nevertheless important to work with the same high level of ambition with all portfolio companies.

SWEDFUND'S CARBON FOOTPRINT

Swedfund's main environmental impact occurs at the portfolio companies. However, the environmental impact 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 for in some way. These trips are important for our business. To be on the ground 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 2013 Swedfund's flights resulted in 224 tonnes of CO2 emissions (215 tonnes in 2012 and 270 tons in 2011). However, the disparity among the years cannot be analysed due to the changes in the portfolio.

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 assessments in this context include purchase of carbon offsets and CDM projects as compensation for the environmental impact that our air travel causes.

FINANCIAL VIABILITY

GROWTH • PROFITABILITY • RETURN

One of the prerequisites for achieving development results through business activity is that the company is financially viable, i.e. profitable. This is why it is of course highly relevant to analyse and report on how companies perform financially and this is preferably done for each company individually based on the companies' specific conditions in the markets in which they operate. The analysis is performed internally and is an important part of the investment manager's work. Collecting financial data for portfolio companies is also of interest as it shows their size and extent. We have chosen to present data below about the selected portfolio companies' growth[11], profitability[12] and return on investment[13].

Reporting of growth, profitability and return on investment is based on the most recently available annual accounts and differ depending on fiscal year. Currencies were translated using the exchange rate on 31 December 2013.

Average measurements are hard to analyse considering how the companies differ so widely in terms of countries they operate in, level of maturity (start-up, established business, etc.) risk level of the business, sector, currency, market, regulatory climate, etc. Swedfund will continue to develop this part of our annual report.

GROWTH

Average growth per company (shares and loans, not funds) was **4.3%** compared with the previous year.

PROFITABILITY

Average profitability per company fell in the loan-financed companies by **0.4%** and fell in the share-financed companies by **0.2%**. A number of companies reported losses due to being in their early start-up phase. This is not surprising given the risk level and the market challenges. Experience suggests that it takes time for new businesses to start making profits.

RETURN

The average return on investment per company fell in the loan-financed companies by **0.3%** and rose in the share-financed companies by **0.2%**.

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 members is a continuous process, and training within the board has high priority. During the fiscal year three Senior Investment Managers completed the certified training course for board directors offered to EDFI members under the administration of DEG.

Responsibility in a board is always personal. The basis for working in a board is Swedfund's mission, ethical compass 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 Development Framework. A plan for this work was agreed upon in 2012 and managers have been appointed to start implementing this framework.

In 2013 responsibility for Swedfund's implementation of this framework for corporate governance was assigned to Niclas Düring, Swedfund's Portfolio Director.

FOOTNOTES

[1] Business that was not completed and companies that were written off have been excluded. A write-off means there is no further financial exposure and no more active management creating value. Instead the focus is on an accelerated liquidation. The reporting thereby covers the 31 companies in which investment has been concluded and which had positive book value at the end of 2013.

[2] When reporting funds, the old fund portfolio is reported as well as the investment made by Swedfund in funds in 2013 after the renewed mandate was given to Swedfund to once again invest in funds. Ten funds are included in this reporting.

[3] Swedfund's loan portfolio comprises a total of 28 loans. A number of these loans are not included in this reporting:
• Two of the loans are facilities (ICCF and EFP) which cannot be analysed and compared with normal company loans as they are a different form of loan.
• 11 of the loans are in combination with shares and they are included in reporting of shares.
• One loan has yet to be disbursed.
• Three loans are excluded from this reporting as Swedfund intends to exit from these loans.
11 loan-financed portfolio companies are therefore not included in this reporting.

[4] Swedfund applies the International Financial Institution's (IFI) definition of direct employment. See Memorandum;http://www.ifc.org/wps/wcm/connect/d7d1128041773cdb9af3b-b9e78015671/Harmonization+MOU.pdf?MOD=AJPERES

[5] The number of jobs reported as above does not include jobs in projects yet to be performed and does not include companies that have been written off.

[6] IFC's study, IFC Jobs Study – Assessing private sector contributions to job creation and poverty reduction.

[7] Reported tax is the total of all tax reported by portfolio companies in their annual accounts. The annual accounts used were the most recently available and differs depending on fiscal year. Currencies were translated using exchange rates on 31 December 2013.

[8] Reported tax per country is the total of all tax reported by portfolio companies in their annual accounts. The annual accounts used were the most recently available and differs depending on fiscal year. Currencies were translated using exchange rates on 31 December 2013.

[9] This self-assessment complements the more extensive self-assessment used for several years by Swedfund to analyse its advocacy efforts: Swedfund ESG Monitoring Report (previously Swedfund Annual Self-Assessment Sustainability Report).

[10] This can be placed in relation to statistics for mortalities per workplace in the EU, where in 2011 4,103 deaths were reported for a workforce of approximately 335 million people. This is a frequency of 0.0012%, compared with the frequency in Swedfund's portfolio companies of 0.0029%. The EU statistics may be found here.

[11] Growth is defined as the percentage increase in the company's sales turnover from one year to the next.

[12] Profitability is defined as a company's profit margin and can be measured gross (before tax) or net (after tax). Profitability in this case is measured net (after tax).

[13] Return on investment is defined as the company's profit after tax for the year divided by invested capital.

[14] The annual accounts used are those most recently made available and can differ due to fiscal year. Currencies were translated using exchange rates on 31 December 2013.

UN PRI RESPONSIBLE INVESTMENT TRANSPARENCY REPORT

With the adoption of the UN Principles for Responsible Investment (UN PRI), which Swedfund signed in 2012, we have undertaken to report annually the results of our work directly on-line within the UN PRI Reporting Framework. Swedfund's first RI Transparency Report will be published both on the UN PRI website, www.unpri.org, and on Swedfund's website once the accounting is completed in spring 2014.

TEXT BENGT NILSSON

A PARADIGM SHIFT IS WAITING TO HAPPEN. NEW ORGANIZATIONS ARE **REWRITING THE FOREIGN AID MAP** AND PRIVATE INVESTMENTS ARE BECOMING MORE IMPORTANT THAN EVER BEFORE. ACCORDING TO DIAKONIA AND CHRISTIAN AID, SWEDFUND HAS AN IMPORTANT ROLE TO PLAY.

Traditional foreign aid coming to an end

The relationship between rich and poor countries is changing character. Following around fifty years of a fairly traditional approach to tackling poverty, we are starting to see new organizations with new methods take the stage. In some cases it is hard to know if their actions are aimed at fighting poverty, even when they say that their objective is to achieve economic growth in poor countries. Bo Forsberg, General Secretary of Dikonia in Sweden, has a clear view:

"Foreign aid will disappear," he says when asked about the future of international development aid.

He believes that the global context has changed. For a long time the view was that rich countries should try to help poor ones by transferring resources.

"Today we are seeing a shift in economic power. China, Russia and South Korea have become more important. China is investing in Africa and wants access to raw materials.

They make investments and are less interested in human rights," says Bo Forsberg.

He sees clear examples of how our part of the world is coming to terms with this.

"Norway, Canada and the Netherlands have abolished their foreign aid ministers. That's a clear sign. Foreign aid is increasingly a part of foreign policy, conducted with economic considerations."

BO FORSBERG DOES NOT APPEAR to be dejected by these trends, he is just explaining what is going on. Private investors have become more important than before. Gunilla Carlsson, Sweden's former Foreign Aid Minister, was very keen about this issue. She wanted business leaders to be more involved. In this context Bo Forsberg believes that Swedfund has an important role to play.

"The business of Swedfund is to use invest-

"Norway, Canada and the Netherlands have abolished their foreign aid ministers. That's a clear sign."

BO FORSBERG

ment to create profitable companies and thus boost economic growth in poor countries. Obviously, that can be problematic when you combine it with general demands for fairness."

KATHARINE TEAGUE, Principal PS Adviser of Christian Aid in the UK believes that Swedfund is on a positive journey.

"Swedfund has decided to take a lead on engaging on key societal issues including tax and foresees that they can achieve changes in their policy and practice as an investor," she says. "It's very interesting to see what the company has done so far."

Bo Forsberg agrees. Diakonia previously had a rather infected debate with Swedfund, but Forsberg contends that Swedfund has since taken large steps forward.

"They have to invest and make a profit but also care about human rights. We trust them now. We have different roles to play, and they understand that."

Bo Forsberg says that Diakonia's job is to be the guard dog, making sure that private companies behave themselves in poor countries.

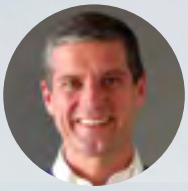
BRIAN GANSON IS A RESEARCHER at the Africa Centre for Dispute Settlements at the University of Stellenbosch in South Africa. He, too, is convinced that private business will play an increasingly important role in the efforts of poor countries to achieve economic growth.

"The global financial crisis has meant that less money is being transferred from rich countries to poor ones and that has meant it is now more important to involve the private sector in development activities," he says. He says that if we look at the private sector globally there are both good and bad examples of behaviour.

"We can see clearly that big companies understand how their behaviour will affect how they minimise economic risks and avoid the risk of having a bad reputation."

The latter is important in the event of a company acquisition. A business that behaves irresponsibly with regard to social issues becomes less attractive on the market. There is now a clear understanding about how economic risks can be reduced while investing in poorer countries by collaborating closely with the communities that are affected. Co-operation between civil society and the business world makes things much easier for both sides, says Brian Ganson.

"I believe we can see a healthy trend where

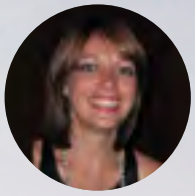


"Private business will play an increasingly important role."

BRIAN GANSON

different actors feel more comfortable with each other and realise the mutual benefits of collaborating. We are also seeing how these actors share their plans about the future and think about how they can work together in the long term."

KATHARINE TEAGUE EMPHASIZES that there is the opportunity for early adopters and thought-leaders in the business community and is encouraged by Swedfund's actions. Transparency and accountability is crucial, importantly so that rights and entitlements are delivered more systematically, markets are more difficult to manipulate, and the benefits of economic growth are more widely shared. She adds it helps when there is close co-operation between investors and civil society. It should be possible to follow flows of finance and understand impacts and risks for instance on the environment and human rights. There are examples starting to emerge within agriculture, health and finance. However, private investors need to be prepared to do the groundwork and adjust thinking so that profit is not the overriding objective but long-term sustainable development is key.



"Swedfund has decided to take a lead on engaging on key societal issues including tax."

KATHARINE TEAGUE

TAX IS A KEY ISSUE. Katharine Teague and Bo Forsberg took part in Swedfund's dialogue with stakeholders about the principles for responsible tax payments in October 2013. Bo Forsberg thinks this is a problem that must have a global framework that can only be established by politicians.

"To tackle the big problems we must work together with the private actors to create solutions," says Katharine Teague.

She believes that dynamic and challenging partnership can be forged between civil society, government, churches and private sector actors including multinational companies and microfinance institutions, since not one group can solve these problems alone.

"Partnerships work well when everyone pulls in the same direction, sets clear objectives and believes that change is possible," says Katharine Teague. ⊙

Ask 4

Does Swedfund communicate well with stakeholders?

CIVIL SOCIETY ORGANIZATIONS RESPONDING

ANNIKA SOHLSTROM, GENERAL SECRETARY, FORUM SYD

Swedfund has an important mission to promote sustainable business in terms of the environment, human rights and tax issues. When aid is paid out, special demands are placed on companies. It is highly positive that Swedfund took the initiative to work on tax avoidance.

Forum Syd welcomes the fact that Swedfund has opened up to dialogue with Swedish civil organizations. Constructive dialogue is important as we have different roles and perspectives on the issues. Organizations like ours can help Swedfund by gaining support with local partners and rights activists in many countries. We can bring a perspective to Swedfund's activities that might not otherwise be represented when an investment is analysed, with land investments being a good example.

VIVECA RISBERG, OFFICE MANAGER, SWEDWATCH

Swedwatch has been invited to two stakeholder meetings with Swedfund, one in May 2013 and the other later in the autumn, when we could not attend. Swedwatch also had a dialogue with Swedfund during research into two reports, one on the Addax project in Sierra Leone and one about Buchanan Renewables/Vattenfall in Liberia. After these reports were published Swedfund was invited to two separate roundtable meetings to discuss the findings with Swedwatch's member organizations.

In 2013 Swedfund and Swedwatch thus came a bit closer together. We appreciate the willingness to have a dialogue and Swedfund's openness concerning the criticism we have made. There has been a desire to do things better, improve processes and routines in order to live up to the demands that civil society (and the government) place on Swedfund.

ERIK LYSÉN, INTERNATIONAL MANAGER, CHURCH OF SWEDEN

A lot of positive things have happened at Swedfund in recent years, with new managers and new guidelines. Swedfund has invited dialogue with stakeholders about questions in its own sustainability reporting and in other important development issues, such as tax reporting by companies in developing countries.

Meanwhile Swedfund is investing in difficult environments, which places extra demands on responsibility and sustainability. In 2013 the Church of Sweden and Swedwatch released two reports on Swedfund's investments in Sierra Leone and Liberia. Both reports revealed that a lot remains to be done to ensure that Swedfund's investments produce good development effects. These cases illustrate the importance of having a broad development perspective and a genuine, inclusive dialogue with the people affected by investment.

CHRISTINE VON SYDOW, GENERAL SECRETARY, ACTIONAID

Sustainable business is central for global development that also includes those living in poverty. Swedfund has gained an increasingly important role as views have changed on foreign aid. With its mission Swedfund has the opportunity to be a leader among investors and show what sustainable business can achieve. It is therefore gratifying to see that Swedfund is open for a broader dialogue with Sweden's civil society groups in key development issues such as how companies report tax in various countries. ActionAid has followed Swedfund's investment in Sierra Leone. We can see that among the companies Swedfund invests in there needs to be improvements in communication with the parties affected. Swedfund can make a contribution here.

WHO CARES?

Development financing is complex and not everyone finds it interesting. Swedfund does not operate in a vacuum. We engage in a debate with several key stakeholders about our mission, the conditions facing poor people in the countries we work in, and how we can best create long-term sustainable jobs and businesses.

JOURNALISTS

WHOSE REPORTING REACHES AND INFLUENCES THE GENERAL PUBLIC

BUSINESS PARTNERS

WHO, TOGETHER WITH SWEDFUND, FINANCE AND OPERATE THE COMPANIES IN SWEDFUND'S PORTFOLIO

CIVIL SOCIETY AID ORGANIZATIONS

WHO, LIKE SWEDFUND, ENGAGE IN DEVELOPMENT VENTURES ON SWEDFUND'S MARKETS

OWNERS AND POLITICIANS

WHO SET SWEDFUND'S MISSION AND FINANCE SWEDFUND THROUGH THE FOREIGN AID BUDGET

CIVIL SOCIETY AID ORGANIZATIONS

Swedfund holds a dialogue with aid organizations in civil society. Their perspective on aid issues and how well they think we do our job is important to us. Read the discussion about the future of aid on page 57 and on the previous page how four representatives of aid organizations feel we manage this dialogue. Many of them are cautiously optimistic after the dialogue and seminars carried out in 2013. Read the notes here.

JOURNALISTS

Journalists are also stakeholders, because media reports influence the general public's view of Swedfund. Contacts with journalists have intensified during the year, without any formal channels being established. Our blog, swedfundfrankly.se, is one way we try to meet our objective of being more open and transparent.

BUSINESS PARTNERS

In most of its investments, Swedfund works with one or more European Development Finance Institutions, DFIs. This enables the sharing of information, knowledge and experience, but also of risk. Swedfund's ambition is to achieve openness and we continually analyse opportunities for releasing extensive information on our website. Not everything can be made available to the general public, however, as it could compromise a business agreement. As a minority owner or lender we cannot always take the decision to publish information about individual investments.

FIFTEEN COUNTRIES in Europe have established bilateral institutions that, like Swedfund, perform private sector development in developing nations and growth markets.

These Development Finance Institutions (DFIs) promote economic, environmental and socially sustainable development by financing and investing in sustainable business in the private sector and they are important business partners in many of Swedfund's investments. By collaborating with other DFIs we have established a strong voice to influence development targets in global private sector development.

EUROPEAN DEVELOPMENT FINANCE INSTITUTIONS

NUMBER OF INVESTMENTS AND INVESTED AMOUNTS

Development Finance Institution	Country	Year started	Total investment at end of 2012, EUR m	No. of investments	New investment in 2012, EUR m
BIO	Belgium	2001	462	129	126
CDC	UK	1948	4 018	1 250	261
COFIDES	Spain	1990	700	163	162
DEG	Germany	1962	5 958	705	1 328
FINNFUND	Finland	1980	453	143	56
FMO	Holland	1970	6 281	851	1 390
IFU	Denmark	1967	474	253	45
NORFUND	Norway	1997	1 134	110	168
OeEB	Austria	2007	501	42	229
PROPARCO	France	1977	4 467	451	728
SBI	Belgium	1971	23	25	3
SIFEM	Switzerland	2005	356	69	22
SIMEST	Italy	1991	849	414	115
SOFID	Portugal	2007	8	9	6
SWEDFUND	Sweden	1979	311	91	19

SOURCE: HTTP://WWW.EDFI.BE/PUBLICATIONS/ALL.HTML

OWNERS AND POLITICIANS

Swedfund holds regular discussions with representatives of our owners and with politicians in the foreign affairs ministry. Because many of Swedfund's stakeholders are curious about how our owners view Swedfund's role as an aid organization we asked Hillevi Engström, Sweden's new Foreign Aid Minister in 2013, to write about her expectations, which you can read on the following page. Emma Ihre, responsible for sustainable business at the Swedish Finance Ministry gives her views on Swedfund's new strategic sustainability targets on page 47.

HILLEVI ENGSTROM

"The government wishes to increase cooperation with the private sector"

What is the most important issue for you as Sweden's new Minister for International Development Cooperation?

"I want to continue in the direction this government has established. That means improving the transparency, efficiency and the results of Swedish development cooperation. Everything is aimed at making a difference for poor and oppressed people.

"Sweden is one of the world's most generous providers of development finance. We are one of few countries that have succeeded in achieving the target of allocating 1% of GNI to international development. That means around SEK 38 billion. It's my job and the government's job to ensure that these funds are used correctly in an orderly manner. Fundamentally it's about maintaining and increasing trust by ensuring that funds are beneficial and reach their intended targets.

"Increased equality, women's and children's rights and their role in development are all issues that appeal to me. These are also high priority areas for the government with regard to development finance. I will prioritise this area and refer to it in all contexts. When women are involved in all processes and at all levels it has a big effect, in addition to increased equality being a goal in itself. Other controversial issues are also important for me, such as SRHR and HBTQ issues."

Hillevi Engström, Minister for International Development Cooperation, is not afraid of the challenges ahead.

What do you think about the prospects for the private sector in Sweden's development financing?

"Well-developed business is a prerequisite for prosperity, more jobs and thus battling poverty. This lies behind Sida's 'Business for Development' initiative to work with the private sector.

"WHEN WOMEN ARE INVOLVED IN ALL PROCESSES AND AT ALL LEVELS IT HAS A BIG EFFECT"

The government wants to increase cooperation with private actors within the framework for Sweden's international development efforts. We can do more to use business resources and expertise to tackle poverty. Meanwhile it is important that activities do not conflict with the government's principles about collaborating with businesses, including the requirement that all activities financed within the framework for international development must contribute to meeting the targets for development finance. This finance must always be unrestricted and it should not distort the market. The key point is that the needs and priorities of poor people are the starting point for all the activities."

How do you view Swedfund's future?

Swedfund is one of the government's tools for distributing development finance. Swedfund's work in strengthening business in poor countries can create jobs and economic growth. It is positive that greater emphasis is now being given to transparency and sustainability and that results will be reported in relation to the government's political targets for development finance. I believe this will be favourable for Swedfund's future efforts." ⦿

LARS-OLLE LARSSON,
SENIOR MANAGER, ESG AFFAIRS, SWEDFUND

WE DO CARE!

IT'S VERY IMPORTANT FOR US at Swedfund what stakeholders think of the work we do. It's equally important what the stakeholders in our portfolio companies think. We believe that there is agreement, acceptance and approval for how we go about our work. Every now and then there will be a difference in opinion about what Swedfund's focus should be. Politicians and owners believe the same as we do, that it is important to balance the three cornerstones of our mission. Our business partners are generally more interested in seeing that Swedfund applies resources for financial viability rather than sustainability or impact on society. That is diametrically opposite to what civil society groups want. Our results are thus focused on by all stakeholders, but in different ways.

"THE KEY ISSUE FOR SWEDFUND IS TO BALANCE THE THREE CORNERSTONES"

IN ADDITION TO REPORTING RESULTS in the fight against poverty, our owners, politicians and business partners probably have a bigger focus on how Swedfund performs in terms of its financial results over a business cycle. Civil society wants greater transparency than Swedfund can deliver as a company entering a business agreement with other partners due to confidentiality rules.

When it comes to business ethics, politicians, owners and civil society have the same high levels of ambition as Swedfund. But our strict demands for policies and management systems can be seen by some business partners as a barrier, especially by smaller companies.

SWEDFUND'S EFFORTS to establish and implement policies and guidelines have intensified in recent years. One problem in this context is the delay in the implementation of new policies and guidelines which is due to the fact that Swedfund's portfolio covers both old and new investments. In all new projects we can set demands that a business follow our policies and guidelines in order to receive a loan or equity. But for our older investments we must stick to the original contract and try to influence behaviour through proactive efforts on the board of directors.

IN SUMMARY, the key issue for Swedfund is to balance the three cornerstones – impact on society, sustainability and financial viability – in ways that are credible and acceptable for all stakeholders. One cornerstone is no more important than another. Business activities and financial reporting should therefore be balanced and transparent.

Development results and ongoing dialogue with stakeholders will provide the answers as to whether we are on the right track. ⊙

HARIPUR POWER LTD

The road to development

Bangladesh suffers from poor infrastructure and insufficient electricity supplies, both of which are affecting the country's development. Swedfund therefore saw great potential in the Haripur Power gas plant.

Bangladesh is one of the world's poorest countries. Half the population are considered to be living below the poverty line of less than USD 1.5 per day. Development is slow and it's hard to create jobs when infrastructure is bad and electricity supplies are insufficient. When Swedfund decided to invest in the Haripur Power gas plant 11 years ago the need for greater electricity generation was even bigger.

"I saw the potential in this power plant immediately when I made my first visit. It was very well run, with professional managers and competent staff," recalls Arne Georgzén, who was Swedfund's Senior Investment manager for the project for two years.

A 10-YEAR LOAN was part of a package managed by Swedfund's counterpart in the Netherlands, FMO, who had principal responsibility for the investment. Over the years Haripur has handled all repayments without any problems.

The final repayment for the loan was submitted to Swedfund in 2013 and Haripur Power's Regional Country Manager, Ahmad Syahrani, is proud of the company's stable finances and the efforts of the company to protect the environment and help the local community.

"Our power plant has been profitable for many years and it is one of the most energy-efficient in the country. We regularly measure our carbon emissions to make sure we are not overstepping any limits."

Ahmad Syahrani, RCM at Haripur Power.

He explains that CSR issues (Corporate Social Responsibility) have been observed right from the start and that the company has contributed to building a hospital, providing books for schoolchildren in need, and planted fruit trees and other crops for poor farmers living close to the plant.

"Haripur Power is currently living off the natural gas supply of the region and so not just electricity but also a portion of the profit should benefit the local community," says Ahmad Syahrani.

THE FUTURE LOOKS BRIGHT. Natural gas should last for another ten years and the gas turbine is so far the most eco-friendly way to create energy from fossil fuels in Bangladesh.

"But within ten years Bangladesh needs to develop other ways to create energy in a sustainable way. That's the challenge for us as a business, and also for our country as a whole," concludes Ahmad Syahrani.

HARIPUR POWER LIMITED

Business: Operates a 360 MW combined cycle power plant in Haripur, Bangladesh. The plant includes a gas turbine, heat recycling steam generator and a steam turbine with bypass system. All the electricity is sold to Bangladesh Power Development Board.
No. of employees: 48
Investment year: 2003
Swedfund's investment: MUSD 5 in loans, paid back by 2013.
Other participants: FMO of the Netherlands.
Key development results: Sustainable electricity production (annual electricity generation sufficient for 180,000 households), jobs, tax and impact on society.

Haripur Power Ltd creates opportunities for social development.

TEXT ANNE-CHARLOTTE ERIKSSON PICTURE ARNE GEORGZÉN

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE IN SWEDFUND (CORPORATE IDENTITY NO. 556436-2084)

The Swedish state owns 100% of the company, which belongs to the group of companies with special social responsibility. The company has its head office in Stockholm and a regional office in Nairobi.

Swedfund shall "contribute to the goal of Sweden's Policy for Global Development (PGD) concerning equitable and sustainable 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.
Link to restrictions of Swedfund's activities.

THE TOOL FOR achieving the goal is tackling poverty through sustainable business. In cooperation with strategic partners, the company shall contribute to investments that are not expected to be achievable with commercial financing alone (additionality). Operations shall be conducted in a professional and business-like manner.

THE COMPANY'S STRATEGY is that each investment shall rest upon three cornerstones:

- Impact on society
- Sustainability
- Financial viability

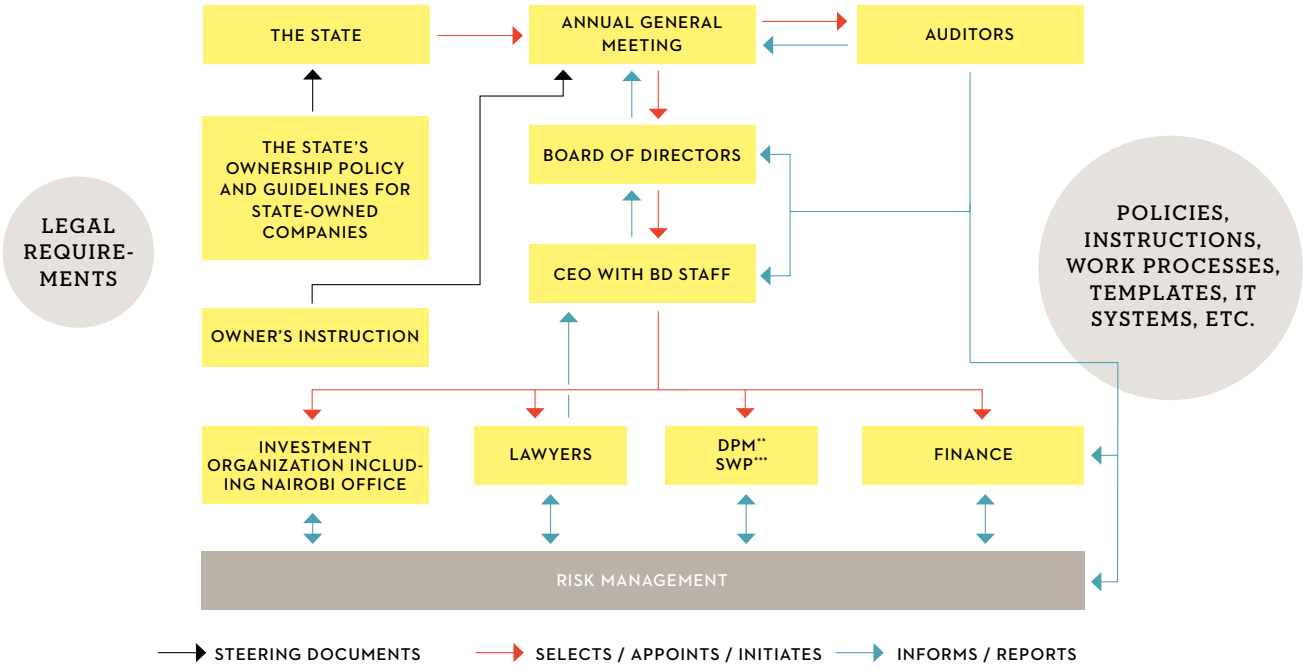
SWEDFUND APPLIES the State's ownership policy and guidelines for state-owned companies (2013). Operations are governed by the aforementioned ownership policy and the applicable Owner's Instructions as adopted at the Annual General Meeting.

THE FOLLOWING POLICIES were adopted by the company's Board in December 2012:

- Code of Conduct
- Policy for Sustainable Development
- Swedfund's Anti-Corruption Policy

THE SWEDISH STATE'S OWNERSHIP policy and guidelines for state-owned companies and the company's own policies are worked into instructions and agreements. Swedfund's staff and board members of portfolio compa-

STRUCTURE FOR CORPORATE GOVERNANCE – OVERVIEW



*BD: BUSINESS DEVELOPMENT **DPM: DEVELOPMENT AND PORTFOLIO MANAGEMENT, ***SWEDPARTNERSHIP

nies receive continual training.

THE COMPANY HAS SIGNED UP for several international conventions and regulations that affect activities in various ways (link to Swedfund house illustration on website).

THE SWEDISH STATE'S OWNERSHIP policy is not implemented in the portfolio companies. Instead, control is handled by implementing Swedfund's policies in shareholder and loan agreements. Follow-up is carried out through work on the boards, self-assessments and ESG advocacy. The rules and norm system of the local country are also applied.

With two exceptions the company only has minority stakes in portfolio companies. Any wholly-owned companies are in the process of liquidation and have been incorporated to maintain development results and protect the company's assets.

Swedfund aims to have active dialogue with stakeholders such as owners, the general public, civil society organizations, etc.

The Swedish state's ownership policy and guidelines for state-owned companies (2013) make clear the cases in which these guidelines deviate from the norms of the Swedish Code of Corporate Governance. Swedfund observes the relevant sections of the code. The Board has decided to undertake the duties that otherwise would be executed by an audit committee 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.

Because of Swedfund's size the Board finds no requirement for a special audit in the form of an internal audit. Information and documentation regarding corporate governance can be found here.

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 meeting is open to the general public and is normally held in April.

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 (2013).

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 auditors 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.

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.

CORPORATE GOVERNANCE REPORT

WORK OF THE BOARD IN 2013

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

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
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/mars
Guidelines for salaries and other remuneration to senior executives/Salary review	Annually
Strategy	Annually

The members of the Board are presented on the Company's website and on page 113.

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 Development and Portfolio Management and the Head of Business Development.

A NEW MANAGING DIRECTOR was appointed in August. Anna Ryott joined Swedfund from SOS Barnbyar. She has also been general secretary of Unicef Sweden. In the private sector she has worked for Storåkers McCann as deputy CEO, and for McKinsey and Hagströmer & Qviberg. Anna Ryott is also a member of the Anna Lindh Academy. She was born in 1972. Up to August, Anders Craft, born in 1955, was temporary CEO of Swedfund. He has worked for 7 years with the company, over the past two years as head of the company's investment transactions and investment portfolio. He has experience in international investing at 3i, among others. His current directorship at Totebo AB was approved by the Swedfund board. Neither Anna Ryott or Anders Craft have any significant business connections / ownership in any of the portfolio companies owned by Swedfund.

SIGNATORIES

THE AUTHORISED SIGNATORIES of the Company are the Board and two Board members jointly. Through the authorization by the Board, the Managing Director together with other members of the management team may sign for the Company, and two of these members jointly may in turn owns sign for the Company in the Managing Director's absence. The Board's authorization is conditional on a valid board resolution for all commitments in excess of MSEK 10. In accordance with the authorization guidelines and the Board's formal work plan, the Managing Director has sole signatory power (concerning ongoing management) for commitments up to a maximum of MSEK 10. Actions taken within the remit of the Managing Director are reported to the Board at the following meeting. When members of management have signed for the Company, this is also reported to the Board at the following meeting. Otherwise the members of the management team only have signatory authority for limited costs (maximum SEK 100,000).

REMUNERATION TO SENIOR EXECUTIVES

The Company applies the Government's Guidelines for Terms of Employment for Senior Executives, as well as the terms decided at the 2014 AGM, which also state how the guidelines are to be implemented by the portfolio companies.

Remuneration and benefits to the Managing Director and other senior executives are described in Note 1.

ORGANIZATION

IN THE AUTUMN OF 2013 the following organizational changes were made:

- Investment activities were gathered in a single department. The former temporary organization was thus made permanent. This department manages an investment through its full life cycle (from business proposition to exit).
- *The Development and Portfolio Management department* was started up. This department will perform general analysis of the overall investment portfolio by developing and applying a more comprehensive framework for risk management of financial, non-financial and operational risks, including ESG, as well as continually measuring and evaluating results in the portfolio with regard to impact on society, sustainability and financial viability.
- The Business Development staff was introduced to work directly on assignment for the CEO with business development in terms of business planning, geographic location (new local offices) etc.

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 of the portfolio is carried out annually, in which the portfolio companies are evaluated in terms of the three cornerstones of impact on society, sustainability, and financial viability based on the most recently available annual accounts from the portfolio companies and other reports. 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.

The company has an extensive investment manual to assure high quality in the planning of investment activities. 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 (SEK):

RETAINED EARNINGS	CAPITAL CONTRIBUTION
2 550 675 797	400 000 000
LOSS FOR THE YEAR	**TOTAL UN-APPROPRIATED EARNINGS**
-92 779 401	2 857 896 396

The Board proposes that the unappropriated earnings of SEK 2,857,896,396 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.

INCOME STATEMENT

Expressed in SEK 000	Note	1.1. 2013 - 31.12.2013		1.1. 2012 - 31.12.2012	
Sales of shares	4				
Sales income	2	27,564		130,317	
Acquisition costs		- 33,870	**- 6,306**	- 116,091	**14,226**
Share dividend	2		**20,153**		**19,050**
Interest and charges					
Income	2	39,928		44,000	
Expenses		- 5,043	**34,885**	- 9,337	**34,663**
Net reversals and write-downs of portfolio investments					
Reversals		1,821		10,979	
Write-downs		- 98,220	**- 96,399**	- 269,259	**- 258,280**
Services sold					
Income	2	1,944		2,055	
Expenses		-	**1,944**	- 13	**2,042**
Other portfolio income	2		**124**		**51**
Other operating income	3		**7,291**		**18,044**
Gross profit			**- 38,308**		**- 170,204**
Other external costs	3,6		**- 28,689**		**- 29,107**
Personnel costs	1,3		**- 49,779**		**- 52,971**
Depreciation of tangible fixed assets	5		**- 296**		**- 350**
Other operating costs			**- 17**		**- 767**
Operating profit			**- 117,087**		**- 253,400**
Financial items and results					
Other interest income and similar profit/loss items	7		**25,389**		**36,835**
Interest expenses and similar profit/loss items	8		**- 1,074**		**- 1,033**
Profit after financial items			**- 92,772**		**- 217,598**
Profit before tax			**- 92,772**		**- 217,598**
Tax on the profit for year	9		**- 8**		**- 6,427**
Profit for the year			**- 92,780**		**- 224,025**

BALANCE SHEET

Expressed in SEK 000	Note	31.12. 2013	31.12. 2012
ASSETS			
Fixed assets			
Tangible fixed assets			
Equipment	10	368	395
Financial fixed assets			
Other long-term holdings of securities	11, 14	1,887	1,825
Deferred tax claim	17	34,811	34,819
		36,698	36,644
Total fixed assets		**37,066**	**37,039**
Current assets			
Investments in portfolio companies			
Shares	13, 14	1,061,744	993,975
Loan claims	12, 14	486,237	388,506
		1,547,981	**1,382,481**
Current receivables			
Income taxes recoverable		8,931	5,513
Accounts receivable	14	16,175	50,022
Other receivables	14	37,548	35,470
Prepaid expenses and accrued income	15	29,671	29,142
		92,325	**120,147**
Current investments	14, 16	**2,256,356**	**2,101,565**
Cash and bank accounts	14	**80,348**	**56,545**
Total current assets		**3,977,010**	**3,660,738**
TOTAL ASSETS		**4,014,076**	**3,697,778**

BALANCE SHEET

Expressed in SEK 000	Note	31.12. 2013	31.12. 2012
SHAREHOLDERS´ EQUITY & LIABILITIES			
Shareholders' equity			
Share capital		50,000	50,000
Legal reserve		540,000	540,000
		590,000	**590,000**
Retained earnings		2,950,676	2,774,701
Profit for the year		- 92,780	- 224,025
		2,857,896	**2,550,676**
		3,447,896	**3,140,676**
Provisions			
Provisions for endowment insurances		**1,586**	**1,524**
Long-term liabilities			
Liabilities to credit institutions	14, 18	247,329	267,178
Other liabilities	14	8,310	10,977
		255,639	**278,155**
Current liabilities			
Liabilities to credit institutions, current part of long-term liabilities	14	177,733	153,170
Accounts payable	14	30,220	33,922
Other liabilities	14	84,271	70,737
Accrued expenses and prepaid income	15	16,731	19,594
		308,955	**277,423**
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		**4,014,076**	**3,697,778**

Pledged assets and contingent liabilities

Expressed in SEK 000	2013.12.31	2012.12.31
Pledged assets for liabilities to credit institutions		
Bonds and other securities	598,476	642,437
Bank accounts	1,283	1,249
Total pledged assets	**599,758**	**643,686**
Other pledged assets and securities		
Pledged endowment insurances	**1,586**	**1,524**
Contingent liabilities		
Guarantees issued for loan claims	23,181	22,670
Contracted, but not disbursed, portfolio commitments	551,515	358,567
	574,696	**381,237**

SHAREHOLDERS' EQUITY

	Share capital	Restricted reserves	Profit carried forward	Profit for the year	Total share holders equity
Shareholders' equity 31.12.2010	**50,000**	**540,000**	**2,184,250**	**- 64,325**	**2,709,926**
Appropriation of profit according to annual general meeting:			- 64,325	64,325	**-**
Capital contribution			300,000		**300,000**
Profit for the year				- 45,226	**-45,226**
Shareholders' equity 31.12.2011	**50,000**	**540,000**	**2,419,925**	**- 45,226**	**2,964,700**
Appropriation of profit according to annual general meeting:			- 45,225	45,225	**-**
Capital contribution			400,000		**400,000**
Profit for the year				- 224,025	**-224,025**
Shareholders' equity 31.12.2012	**50,000**	**540,000**	**2,774,700**	**- 224,025**	**3,140,676**
Appropriation of profit according to annual general meeting:			- 224,025	224,025	**-**
Capital contribution			400,000		**400,000**
Profit for the year				- 92,780	**-92,780**
Shareholders' equity 31.12.2013	**50,000**	**540,000**	**2,950,675**	**- 92,780**	**3,447,896**

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

CASH FLOW STATEMENT

Expressed in SEK 000	1.1.2013-31.12.2013	1.1.2012-31.12.2012
Ongoing operations		
Profit after financial items	-92,772	-217,598
Adjusted for non-cash items	106,350	287,359
	13,578	69,761
Tax paid	-3,418	-1,397
Cash flow from current operations before changes in working capital	10,160	68,364
Cash flow from changes in working capital		
Increase (+)/Decrease (-) in investment in portfolio companies	-268,635	-178,397
Increase (+)/Decrease (-) in investment in operating receivables	33,281	-34,123
Increase (+)/Decrease (-) in investment in operating liabilities	6,704	29,203
Cash flow from current operations	**-218,490**	**-114,953**
Investment activities		
Acquisition of tangible fixed assets	-269	-67
Investments in (-)/disposal of (+) financial fixed assets	42,365	206,433
Cash flow from investment activities	**42,096**	**206,366**
Financing activities		
Capital contribution	400,000	400,000
Increase (+)/Decrease (-) in loan liabilities	-2,334	-101,812
Cash flow from financing activities	**397,666**	**298,188**
Cash flow for the period	221,272	389,602
Liquid assets at the beginning of the year	1,515,674	1,126,072
Liquid assets at the end of the year	**1,736,946**	**1,515,674**

SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT

Expressed in SEK 000	1.1.2013-31.12.2013	1.1.2012-31.12.2012
Interest paid and dividends received		
Dividends received	20,153	19,050
Interest received	61,771	87,001
Interest paid	-4,690	-8,236
Liquid assets comprise:		
Cash and bank accounts	79,066	56,545
Non-pledged current investments	1,657,881	1,459,129
Total	**1,736,946**	1,515,674

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 produced 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 it 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 the Start Programme (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 activities. 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 0.3 (10.0) 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.

NET WORTH AS A PERCENTAGE OF ACQUISITION VALUE	BOOK VALUE AS PERCENTAGE OF ACQUISITION VALUE
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. Liquid funds refer to 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

	2013	of whom, men	2012	of whom, men
Board of Directors	7	5	8	4
Managing Director	1		1	1
Other senior management personnel	6	3	7	3

AVERAGE NUMBER OF EMPLOYEES

Country	2013	of whom, men	2012	of whom, men
Kenya	1.3	100%	1.5	100%
Sweden	32.9	51%	34.2	51%
Total	34.2	49%	35.7	53%

SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS

	2013		2012	
	Salaries and remuneration	**Payroll overheads**	**Salaries and remuneration**	**Payroll overheads**
	29,828	16,327	32,860	18,391
(of which pension expenses)	(111)	1.2) (6,619)	(0)	1.2) (7,437)
Total	**29,828**	**16,327**	**32,860**	**18,391**

1) SEK -33,000 (873,000 last year) of the pension expenses relate to pension insurance premium for the former MD, SEK 173,000 (504,000) relates to Acting MD, and SEK 206,000 for the current MD. **2)** For all employees, defined-premium and comparable pension premiums are paid according to law and collective agreements, which are capitalised during the year.

SALARIES AND OTHER REMUNERATION BROKEN DOWN BY COUNTRY AND BETWEEN MEMBERS OF THE BOARD AND OTHER PERSONNEL

	2013		2012	
	Board, MD and other managers	**Other employees**	**Board, MD and other managers**	**Other employees**
Sweden	7,951	20,245	11,758	19,292
(of which remuneration to the board)	(360)		(450)	
(of which salary and severance pay to former MD)	(0)		(2,732)	
(of which pension to former Acting MD)	(444)			
(of which salary to Acting MD and MD)	(1,755)		(1,654)	
(of which salary to other senior managers)	(5,391)		(6,924)	
Kenya, representative office		1,632		1,809
Total	**7,951**	**21,877**	**11,758**	**21,101**

REMUNERATION TO MEMBERS AND FORMER MEMBERS OF THE BOARD AND FORMER MANAGING DIRECTOR.

Name		Directors' remuneration	Directors' remuneration in portfolio companies
Claes Ekström	Chairman of the board	-	
Björn Börjesson	Vice Chairman of the board	90	
Renée Andersson	Board member	90	
Pernilla Bard	Board member	90	
Anna Centerstig	Board member	-	
Stefan Isaksson	Board member	-	
Bengt Kvarnbäck	Board member	90	
Anna Ryott avgick april 2013	Board member	-	
Per Östensson	Board member	-	
Tord Olofsson	Former MD subsidiary		100

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

Director	1/13	2/13	3/13	4/13	5/13	6/13	7/13	8/13	9/13	10/13
Claes Ekström	x	x	x	x	x	x	-	x	x	x
Renée Andersson	x	x	x	x	x	-	x	x	x	x
Pernilla Bard	x	x	x	x	x	x	x	-	x	x
Björn Börjesson	x	x	x	x	x	x	x	x	x	x
Anna Centerstig	x	x	-	Resigned at 2013 AGM						
Stefan Isaksson (elected April 2013)			x	x	x	x	x	x	x	x
Bengt Kvarnbäck	x	x	x	x	-	x	-	x	x	x
Anna Ryott	x	-	x	Resigned in to take up post of MD in August						
Per Östensson	x	x	x	-	x	x	x	x	x	x

ABSENCE DUE TO SICKNESS

Total absenteeism due to sickness amounted to 3.79% (0.73% 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 Anders Craft left the post in August and was replaced by the New Managing Director Anna Ryott. Craft had a fixed salary of SEK 133,333 per month. No variable component was paid. He has returned to his former post.

Anna Ryott has a fixed salary of SEK 135,245 per month. No variable component was paid.

In the event of termination by the company, the MD has an agreement for severance compensation equivalent to salary during the notice period of 6 months and 12 months' severance pay (pension provisions not included).

Severance compensation is not paid after the age of 65.

SALARIES OF OTHER SENIOR MANAGEMENT PERSONNEL

Name	Position	Earned fixed compensation	Other benefits	Pension premiums paid	Sum
Anna Ryott	Managing Director	703,926	-	200,622	904,548 [1]
Eva-Marie Andersson	Legal	1,064,018	-	428,759	1,492,777
Oscar Carlsson	Operations	547,341	-	105,330	652,671 [2]
Anders Craft	Investment Organisation	1,671,776	-	566,003	2,237,779
Niclas Düring	Development & Portfolio Management (ESG)	459,506	-	85,950	545,456 [1]
Karin Isakssson	Business Devolopment	1,056,401	-	319,589	1,375,990
Elisabeth Mattisson	Administration & Finance	1,117,406	-	427,610	1,545,016
Kai Sundström	Communication	709,658	-	106,710	816,368 [3]
Summa		**7,330,032**	-	**2,240,573**	**9,570,605**

[1] From August 2013. [2] Resigned august 2013. [3] From May 2013.

Defined-contribution and comparable pension premiums are paid for other senior management personnel and the MD. Statutory and collective agreements apply for all senior management personnel except the MD.

All pension premiums 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

NET TURNOVER PER GEOGRAPHIC MARKET

	2013	2012
Africa	34,940	143,937
Asia	20,692	26,671
Eastern Europe	31,129	21,195
Latin America	3,237	3,670
	89,997	**195,473**

NET TURNOVER PER OPERATIONAL AREA

	2013	2012
Sales of shares	27,564	130,317
Share dividends	20,153	19,050
Interest income	39,928	44,000
Services sold	1,944	2,055
Other portfolio income	408	51
	89,997	**195,473**

NOTE 3 SUPPORT FOR START PROGRAMME (SWEDPARTNERSHIP) AND TECHNICAL ASSISTANCE

	2013		2012	
HEADING IN INCOME STATEMENTS	Of which Swedpartnership			
Other operating income		4,668		4,338
Other interest income and similar profit/loss items		-		-
		4,668		**4,338**
Other external costs	-	1,626	-	1,588
Personnel costs	-	3,042	-	2,750
	-	**4,668**	**-**	**4,338**

	2013		2012	
HEADING IN INCOME STATEMENTS	Of which T/A			
Other operating income		2,335		4,748
		2,335		**4,748**
Other external costs	-	2,027	-	4,295
Personnel costs		-	-	31
	-	**2,027**	**-**	**4,325**

NOTE 4 EQUITY INVESTMENTS SOLD/WOUND-UP DURING THE YEAR

	2013		2012	
Total acquisition value of shares sold	-	64,280	-	116,974
Written-down prior to the financial year		30,410		883
Acquisition value of shares sold for the year	**-**	**33,870**	**-**	**116,091**
Payments received		27,564		130,317
Capital gain/loss for the year	**-**	**6,306**		**14,226**

NOTE 5 DEPRECIATION OF TANGIBLE FIXED ASSETS

	2013	2012
Equipment	296	350

NOTE 6 AUDITORS' FEES AND REMUNERATION

	2013	2012
PRICEWATERHOUSECOOPERS		
Audit assignments	846	455
Other assignments	241	1,058
SWEDISH NATIONAL AUDIT OFFICE	73	119

NOTE 7 OTHER INTEREST INCOME AND SIMILAR PROFIT/LOSS ITEMS

	2013	2012
Income from asset management	25,211	36,727
Income from bank balance	67	108
Endowment insurance	111	-
	25,389	**36,835**

NOTE 8 INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS

	2013	2012
Write-down, financial fixed assets	252	218
Other financial expenses	822	815
	1,074	**1,033**

NOTE 9 TAX COSTS

	2013	2012
Deferred tax reported in the Income Statement		
Adjustment of deferred tax claim because of change in tax rate	-	- 6,427
	-	**- 6,427**

Reconciliation of effective tax rate		2013		2012
Profit before tax		**-92,772**		**-217,598**
Tax as per current tax rate	22.0%	20,410	26.3%	57,228
Non-deductible costs and tax-free income	-0.1%	-124	-0.1%	-284
Latent tax on current year's loss not posted as a deferred tax claim	0.0%		0.0%	
	-21.9%	**-20,294**	23.2%	**-50,517**
	0.0%	**-8**	3.0%	**6,427**

NOTE 10 **EQUIPMENT**

Accumulated acquisition value	2013	2012
Opening value	5,329	5,634
New acquisitions	269	138
Sales and disposal	554	- 443
	6,152	**5,329**

Accumulated depreciation according to plan	2013	2012
Opening value	- 4,934	- 4,956
Sales and disposal	-554	352
Depreciation for the year on acquisition value according to plan	- 296	- 330
	- 5,784	**- 4,934**
Closing book value according to plan	**368**	**395**

NOTE 11 **OTHER LONG-TERM HOLDINGS OF SECURITIES**

	2013	2012
Shares in EDFI	118	118
Shares in EFP	130	130
Shares in ICCF	53	53
Endowment insurance policies	1,586	1,524
Book value at year-end	**1,887**	**1,825**

NOTE 12 **LOANS**

Accumulated acquisition value	2013	2012
Opening book value	619,567	712,659
Lending for the year	181,732	259,683
Repayments for the year	- 55,124	- 201,824
Reclassifications	- 3,069	- 122,818
Currency rate/translation differences for the year	1,309	- 28,133
	744,415	**619,567**

Accumulated write-downs	2013	2012
Opening book value	- 231,061	- 163,733
Write-downs for the year	- 76,262	- 112,755
Reclassifications		
Reversed write-downs for the year	48,369	32,581
Currency rate/translation differences for the year	777	12,846
	- 258,177	**- 231,061**
Book value at year-end	**486,237**	**388,506**

One loan was converted to equity during the year. The entire amount, SEK 3,069,000 is posted under reclassifications. MSEK 60 is expected to be repaid in 2014. Closing date exchange rates are used for translating repayments in foreign currencies.

BREAK-DOWN OF THE LOAN PORTFOLIO BY COUNTRY AND CURRENCY

Country	Currency	2013			2012		
		Loan amount	Of which written-down		Loan amount	Of which written-down	
Africa	USD	212,559	-	162,688	168,110	-	143,943
Africa	EUR	21,734		-	19,352	-	169
Bangladesh	USD	-		-	3,253		-
Egypt	USD	2,141	-	1,070	6,505	-	3,253
Ethiopia	EUR	30,541	-	15,271	26,673	-	6,668
Georgia	USD	64,223		-	-		-
Ghana	USD	-		-	2,732	-	2,049
India	USD	77,093	-	44,939	32,788		-
India	EUR	63,074		-	64,426		-
Iraq	USD	20,926	-	20,926	26,671	-	26,671
Kenya	USD	-		-	976	-	976
China	USD	10,122	-	5,061	10,252	-	5,126
China	SEK	667	-	667	1,333	-	1,333
Congo	SEK	840		-	1,080		-
Latin America	SEK	16,867		-	6,867		-
Macedonia	EUR	1,195	-	1,195	1,160	-	1,160
Pakistan	USD	56,534		-	64,240		-
Russia	USD	-		-	985	-	985
Russia	EUR	-		-	579	-	579
Russia	SEK	2,170		-	-		-
Sri Lanka	USD	5,641		-	7,058		-
South Africa	ZAR	12,250		-	-		-
Vietnam	USD	70,543	-	6,361	103,201	-	38,150
Belarus	USD	75,294		-	71,327		-
Total		**744,414**	**-**	**258,178**	**619,567**	**-**	**231,061**

CONVERTIBLE LOANS AND PROFIT-SHARING LOANS

Borrower	Currency	Outstanding loan amount in currency	Interest and equivalent	Conversion right
Raffia Holdings Ltd	USD	4,956	Interest	Yes
Al Quseir Hotel Company S.A.E	USD	333	Interest and royalty	No
Addis Emerald Hotel	EUR	3,105	Interest and profit share	Yes

NOTE 13 PORTFOLIO INVESTMENTS IN EQUITY

Accumulated acquisition value	2013	2012
Opening book value	1,608,667	1,441,806
Investments for the year	142,858	160,368
Reclassifications	7,165	123,466
Sales for the year	- 107,341	- 116,974
	1,651,348	**1,608,667**

Accumulated write-downs	2013	2012
Opening book value	- 614,690	- 502,158
Reversed write-downs for the year related to sales	72,630	883
Write-ups for the year	-	10,138
Write-downs for the year	- 47,544	- 123,554
	- 589,604	- 614,690
Closing book value	**1,061,744**	**993,976**

Developing Countries	Share category	Share %	Acquisition value
Africa			
AAR Healthcare Kenya Ltd	Ordinary	20.0	19,670.0
ACACIA Fund, Kenya	Ordinary	100.0	8,596.7
Addax Bioenergy S.A., Sierra Leone	Ordinary	8.0	89,162.8
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
African Development Partners II (DPI)	Fund units	5.8	1,556.5
Africap Microfinance Investment Company Ltd, Africa	Ordinary	7.4	15,344.5
AMSCO, Africa	Ordinary	5.0	4,656.9
Athi River Steel Plant Ltd, Kenya	Ordinary	19.4	85,227.1
Cimbenin, Benin	Ordinary	15.4	6,429.4
Deacons Kenya Limited, Kenya	Ordinary	13.4	7,865.9

PORTFOLIO INVESTMENTS IN EQUITY, CONTINUED

Developing Countries	Share category	Share %	Acquisition value
Africa, continued			
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	24,710.6
ECP Africa Fund II PCC	Fund units	2.2	49,170.6
ECP Africa Fund III PCC	Fund units	3.3	73,563.4
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	2,984.9
I&P Capital (III) LLC ltd.	Ordinary	10.6	20,947.8
Kinyeti Venture Capital Ltd, South Sudan	Ordinary	49.7	4,951.1
Nairobi Womens Hospital	Ordinary	19.1	26,459.2
Norsad	Ordinary	18.6	50,052.1
Raffia Holdings Ltd, Africa	Ordinary	100.0	285,353.5
Timsales	Ordinary	19.5	10,678.5
UAP, Kenya	Ordinary	7.9	72,719.0
Total Africa			**968,348.1**
Asia			
Baring India Private Equity Fund II Ltd, India	Fund units	7.1	75,678.4
Belstar Investment and Finance Ltd, India	Ordinary	7.3	3,304.0
China Environment Fund III	Fund units	4.4	72,875.1
Green Investment Asia Sustainable Fund I	Fund units	30.8	50,343.3
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	23.0	6,351.9
Medica Synergie , India	Ordinary	16.0	42,015.8
Mongolia Nord GmbH, Mongolia	Ordinary	14.3	16,159.6
NS India Holding AB, India	Ordinary	33.3	5,481.1
Prestando Co Ltd, China	Units	40.0	12,000.0
Quanadil Al Rafidain Automotive Trading, Iraq	Ordinary	24.5	35,299.0
Recupero AB, China	Ordinary	24.4	2,597.9
SEAF Sichuan SME Investment Fund	Fund units	13.3	7,510.0
Total Asia			**361,756.6**
Latin America			
Entel S.A., Bolivia	Ordinary	0.2	1,003.8
Global Medical Investments AB, Latin America	Ordinary	48.0	67,050.9
Ontur International S.A, Uruguay	Ordinary	14.0	14,076.5
Total Latin America			**82,131.2**
Eastern Europe			
Ambiente Furniture A/S, Ukraine	Preference	-	975.6
Askembla Growth Fund KB, Russia	Shares in limited partnership	6.6	18,710.3

NOTE 13 **PORTFOLIO INVESTMENTS IN EQUITY, CONTINUED**

Developing Countries	Share category	Share %	Acquisition value
Eastern Europe continued			
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
Total Central and Eastern Europe			**239,112.5**
Total acquisition value			**1,651,348.4**

NOTE 14 **FAIR VALUES**

Book and fair values of certain assets are as follows:	Stated amount		Fair value	
	2013	2012	2013	2012
Other long-term holdings of securities 2	1,887	1,825	1,887	1,825
Shares	1,061,744	993,975	1,114,530	1,045,563
Loan claims	486,237	388,506	486,237	388,506
Accounts receivable	16,175	50,022	16,175	50,022
Other receivables	37,548	35,470	37,548	35,470
Current investments	2,256,356	2,101,565	2,256,816	2,107,980
Cash and bank accounts	80,348	56,545	80,348	56,545

For other long-term holdings of securities the fair value is deemed to be Swedfund International AB's share of the portfolio companies 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	2013	2012
Prepaid costs	2,674	3,617
Accrued interest current investments	21,147	16,317
Accrued interest loan claims	12,446	13,732
Write-downs accrued interest loan claims	- 6,677	- 5,526
Other accrued income	78	1,003
	29,668	**29,142**

Accrued costs and prepaid income	2013	2012
Prepaid income (Technical Assistance)	8 475	11 471
Accrued wages	3 508	2 914
Accrued payroll charges	4 261	3 214
Accrued interest liabilities to credit institutions	- 154	199
Other accrued costs	641	1 797
	16 731	**19 594**

NOTE 16 **CURRENT INVESTMENTS**

Specification of security	Average duration in years	Fair value 2013	Book value 2013	Fair value 2012	Book value 2012
Treasury bills	0.28	1,214,022	1,213,592	1,137,855	1,137,690
Government bonds	4.78	208,067	209,249	224,794	220,690
Bonds (government guarantee)	1.18	213,958	213,759	198,646	197,931
Secured bonds	1.13	386,004	385,060	320,104	318,721
Municipal Certificates	0.12	115,877	115,838	36,955	36,948
Bank, mortgage and corporate certificates	0.11	118,889	118,857	189,625	189,585
		2,256,816	**2,256,356**	**2,107,980**	**2,101,565**

Weighted effective annual interest rate for the portfolio is 1.51%. Interest rate risk in the event of 1% change in interest rates +/- 19 098.

NOTE 17 **DEFERRED TAX RECEIVABLES AND LIABILITIES**

Stated deferred tax receivable can be attributed to	2013	2012
Machinery and equipment	113	117
Pension agreement for Managing Director	334	338
Deferred tax loss 2009	1,734	1,734
Deferred tax loss 2010	19,384	19,384
Deferred tax loss 2011	13,245	13,245
	34,811	**34,819**

The company has losses brought forward totalling SEK 464,958,000, of which a deferred tax claim has been reserved for SEK 156,198,000. 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**

Reported deferred tax assets can be divided as follows:	2013	2012
Due date, 1-5 years from balance sheet date	233,978	258,133
Due date more than five years from balance sheet date	13,351	9,045
	247,329	**267,178**

GRI/COP-INDEX

Swedfund applies Global Reporting Initiative's (GRI) reporting framework for sustainability reports, version G4, and GRI G4 Sector Disclosures, Financial Services, Core level. By committing to the UN Global Compact (GC) Swedfund is obliged to submit a Communication on Progress (COP), which presents work on implementing the GC's principles. In this GRI-/COP-index we describe where GRI and COP information can be found in this Swedfund Integrated report 2013.

GENERAL STANDARD INFORMATION

GRI	DESCRIPTION	COMMENTS	PAGE REFERENCE	UNGC PRINCIPLES
STRATEGY AND ANALYSIS				
G4-1	Statement from the most senior decision-maker		8-9	
ORGANIZATION PROFILE				
G4-3	Name of the organisation	Swedfund International AB	-	
G4-4	Primary brands, products, and/or services		24-25, 42-43, 52	
G4-5	Location of organisation's headquarters	Stockholm	-	

GRI	DESCRIPTION	COMMENTS	PAGE REFERENCE	UNGC PRINCIPLES
G4-6	Number of countries where the organization operates		26-27	
G4-7	Nature of ownership and legal form		78	
G4-8	Markets served		24-27	
G4-9	Scale of the organization		82-84, 89	
G4-10	Number of permanent employees by employment type, gender and region	On 31 December 2013 there were 37 full-time employees, 3 of whom were in temporary employment	89	6
G4-11	Percentage of total employees covered by collective bargaining agreements	All employees are covered by collective agreements	-	3
G4-12	Organization's supply chain	Swedfund buys services and products for office operations in Stockholm and Nairobi, and employs consultants for screening and monitoring of portfolio companies	-	
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership	No significant changes. An internal reorganization was completed.	81	
G4-14	Application of precautionary approach	The precautionary approach applies for assessment and handling of ESG risks in connection with investments	32-33, 38	7
G4-15	External principles, or other initiatives to which the organization subscribes		22-23	
G4-16	Memberships of associations	Swedfund is a member of European Development Finance Institutions (EDFI),	74	
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
G4-17	Group companies included in reporting	Swedfund is minority owner of portfolio companies and these are not consolidated in the accounts (covered only indirectly by reporting)	96-98	
G4-18	Process for defining the report content		4-5	
G4-19	Identified material aspects	The material aspects (cornerstones) indicated in "Information on the accounts' may be equated to the following GRI aspects: - Impact on society = Indirect Economic Impacts - Sustainability = Product portfolio, Audits and Active ownership (GRI Supplement for the financial sector) - Financial viability = refers to portfolio companies' financial development (no relevant GRI aspect)	5	
G4-20	Organization's boundaries for material aspects	Swedfund's direct impact on sustainability is considered insignificant in relation to the portfolio companies' influence, and the aspects are therefore not essential within the organization.	5	
G4-21	Boundaries for material aspects outside company	The specified aspects are essential only for portfolio companies.	5	

GRI/COPINDEX

GRI	DESCRIPTION	COMMENTS	PAGE REFERENCE	UNGC PRINCIPLES
G4-22	Restatements of information provided in previous reports	No significant changes	-	
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	In this year's report the focus has shifted more clearly from Swedfund's own organization to the portfolio companies' impact and how Swedfund is working to affect the portfolio companies' sustainability efforts.	-	
STAKEHOLDER ENGAGEMENT				
G4-24	List of stakeholder groups engaged by the organization		73-74, 76	
G4-25	Basis for identification and selection of stakeholders		73-74, 76	
G4-26	Approach to stakeholder engagement		73-74, 76	
G4-27	Key topics and concerns raised through stakeholder engagement		72-76	
REPORT PROFILE				
G4-28	Reporting period	1 January to 31 December 2013. Reporting of development results (p. 57-66) is based in some cases on the last available annual reports from portfolio companies that were published in 2013.	-	
G4-29	Date of most recent previous report	16 April 2013	-	
G4-30	Reporting cycle	Reports published annually	4-5	
G4-31	Contact point		5	
G4-32	Redovisning i enlighet med GRIs riktlinjer samt GRI index	Swedfund reports in accordance with GRI's G4 guidelines, Core level	100-103	
G4-33	Policy och tillämpning beträffande externt bestyrkande	Swedfund has chosen to allow PwC to certify the integrated Annual and Sustainability Report in its entirety. For this reason, no column in the GRI Index presents the authentication, as all the information in the report has been subject to at least a general review with regard to risk and materiality in the information provided.	4-5, 106-107	
CORPORATE GOVERNANCE				
G-34	Report of the governance structure of the organization		78-81	
ETHICS AND INTEGRITY				
G4-56	Organization's values, principles, codes of conduct		22-23	10

SPECIFIC STANDARD INFORMATION

GRI	DESCRIPTION	COMMENTS	PAGE REFERENCE	UNGC PRINCIPLES
SIGNIFICANT ASPECTS: INDIRECT ECONOMIC IMPACT				
G4-DMA	Management approach – indirect impact	Contributing to the positive indirect economic impacts is central to Swedfund's mission - poverty reduction through sustainable business	14-15, 20, 32-33, 42-45	
G4-EC8	Significant indirect economic effects	Several examples are given in the report of how Swedfund's investments create jobs and build knowledge.	2, 13, 16-18, 28-30, 34-37, 57-59, 77	
SIGNIFICANT ASPECTS; PRODUCT PORTFOLIO				
FS1	Policies with specific environmental and social components applied to business lines.		22-23	1-10
FS2	Procedures for assessing and screening environmental and social risks in business lines.		31-33	1-10
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.		63-64	1-10
FS4	Process(es) for improving staff competency to implement the environmental and social policies	ESG issues are handled within Swedfund's Development and Portfolio Management department by two Senior Managers and two Managers tasked with assisting in the DD process, training the organization, monitoring and influencing sustainability efforts in portfolio companies and developing ESG work at Swedfund.	9, 31, 58	1-10
FS5	Interactions with portfolio companies regarding environmental and social issues		60-64	1-10
FS6	Investment portfolio divided by region, size and sector		24-27	
SIGNIFICANT ASPECTS; AUDITS				
FS9	Audits to assess environmental and social policies procedures.		63-64	1-10
SIGNIFICANT ASPECTS; ACTIVE OWNERSHIP				
FS10	Percentage of portfolio companies with whom environmental or social issues have been addressed		60-64	1-10
FS11	Percentage of investments screened for environmental and social issues		31-33	1-10

SWEDFUND 10 YEARS IN BRIEF

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
NO. OF COUNTRIES IN WHICH SWEDFUND HAS INVESTMENTS	26	28	30	31	33	33	36	43	36	33	30
NO. OF INVESTMENTS AT START OF YEAR	61	54	55	66	67	69	71	81	93	90	91
NO. OF NEW INVESTMENTS	5	9	14	6	8	15	13	17	7	9	11
NO. OF INVESTMENTS ENDED	-12	-8	-3	-5	-6	-13	-3	-5	-10	-8	-6
NO. OF INVESTMENTS AT YEAR-END	54	55	66	67	69	71	81	93	90	91	96
INVESTMENT DECISIONS DURING THE YEAR (MSEK)	336	229	748	264	908	1015	639	654	269	451	528
INVESTMENT CONTRACTS DURING THE YEAR (MSEK)	183	142	575	205	418	539	628	369	339	259	508
DISBURSEMENTS MADE DURING THE YEAR (MSEK)	176	199	233	284	287	498	532	454	343	360	302

At the end of the year, 16 of the investments involved co-financing within the framework of the EFP (EUROPEAN FINANCING PARTNERS S.A.) and six within the framework of the ICCF (INTERACT CLIMATE CHANGE FACILITY S.A.).
Of new investments in 2013, two were within the framework of the ICCF and four within the framework of the EFP.
Of investments ended in 2013, one was within the framework of EFP co-financing.

Swedfund's Board herewith submits Swedfund's Integrated report including Annual Report and Sustainability / Communication on Progress (COP) Report for 2013.

The Annual Report (pages 38-41, 48-53, 55, 78-99, 105), which also includes the corporate governance report, as well as the Sustainability / COP (pages 4-5, 8-37, 42-47, 54-77, 100-103, 113-115), is prepared in accordance with generally accepted accounting principles for state-owned companies *(Guidelines for external reporting for state-owned companies)*. The submitted information reflects the real circumstances and nothing of significance has been omitted that is likely to affect the image of the company as described in the Annual Report, Sustainability / COP Report.

Swedfund's Integrated report has drawn inspiration from The International *<IR> Framework* issued by the International Integrated Reporting Council (IIRC).

STOCKHOLM 5 MARCH 2014

CLAES EKSTRÖM
CHAIRMAN

RENÉE ANDERSSON

PERNILLA BARD

BJÖRN BÖRJESSON

STEFAN ISAKSSON

BENGT KVARNBÄCK

PER ÖSTENSSON

ANNA RYOTT
MANAGING DIRECTOR

OUR AUDIT REPORT WAS SUBMITTED ON 5 MARCH 2014
PRICEWATERHOUSECOOPERS AB

PETER NILSSON
AUTHORISED PUBLIC ACCOUNTANT

AUDITOR'S REPORT AND AUDITOR'S REPORT ON REVIEW OF SUSTAINABILITY REPORT

pwc

Auditor's report

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 2013. The annual accounts of the company are included in the printed version of this document on pages 38-41, 48-53, 55, 78-99, 105.

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 2013 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 2013.

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, 5 March 2014

PricewaterhouseCoopers AB

Peter Nilsson
Authorized Public Accountant

Board-defined reporting denotes the sections of Swedfund International AB's integrated report that constitute a formal annual report and that are therefore subject to auditing.
The sections that are not part of the formal annual report constitute Swedfund International AB's Sustainability report and these sections have been subject to a review report in all parts except the sections made accessible via links.

PwC submits the audit report for the financial statements and separate review report of the sustainability report.

pwc

Auditor's report on review report of sustainability report

To the readers of the Swedfund International AB integrated report 2013

Report on sustainability report

We have been engaged by the management of Swedfund International AB ("Swedfund") to review the Sustainability Report for the year 2013. Our review covers pages 4-5, 8-37, 42-47, 54-77, 100-103, 113-115 of the integrated report.

Responsibility of the Board of Directors and Executive Management team for the sustainability report

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.

Auditor's responsibility

Our responsibility is to express a conclusion on the Sustainability Report based on our 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. Therefore, the conclusion based on a review does not provide assurance as a conclusion expressed based on an audit.

The criteria on which our review is based are the parts of the Sustainability Reporting Guidelines G4, 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. These appear on pages 4-5. We consider that these criteria are suitable for the preparation of the Sustainability Report.

We consider that the evidence we collected during our review is sufficient and appropriate in order to give us the basis for our statement below.

Statement

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

Stockholm, 5 March 2014

PricewaterhouseCoopers AB

Peter Nilsson
Authorized Public Accountant

Fredrik Ljungdahl
Specialist member of FAR

ANNEX 1: LIST OF PORTFOLIO COMPANIES

COMPANY	BUSINESS	SECTOR	LAND	YEAR	INSTRUMENT
AAR Clinics	Hospital	Healthcare	Kenya	2013	Shares
Acacia	Fund	Various sectors	Kenya	1997	Shares
Addax Bioenergi	Ethanol production and biopower plant	Energy and farming	Sierra Leone	2011	Shares
Addis Cardiac Hospital	Hospital	Healthcare	Ethiopia	2006	Shares
Addis Quarry Development	Stone quarry	Natural resources	Ethiopia	2008	Shares
Adenia III	Fund	Various sectors	Africa	2013	Shares
AfriCap	Microfinance Fund	Finance	Africa	2007	Shares
Afrinord Hotel Investments	Hotel	Infrastructure	Africa	2005	Shares and Loan
Al Quseir Hotel	Hotel	Infrastructure	Egypt	2001	Loan
Ambiente Furniture	Furniture factory	Industry	Ukraine	2005	Shares
AMSCO	Employment agency	Service	Africa	1990	Shares
Artheon Battery Company	Battery factory	Industry	India	2010	Shares and loan
Askembla Growth Fund	Fund	Various sectors	Baltic states	2003	Shares
Athi River Steel Plant	Steel plant	Industry	Kenya	2009	Shares and loan
Baring India Private Aktier Fund II	Fund	Various sectors	India	2005	Shares
Belarusian Bank for Small Business	Microfinance Institution	Finance	Belarus	2007	Loan
Belstar	Microfinance Institution	Finance	India	2010	Shares
Bhutan Dairy	Dairy	Farming	Bhutan	2004	Loan
CEF III	Fund	Various sectors	China	2008	Shares
Cimbenin	Cement factory	Industry	Benin	1991	Shares
Deacons Kenya	Retail chain	Consumer products	Kenya	2010	Shares
DPI	Fund	Various sectors	Africa	2013	Shares
ECP Africa Fund I	Fund	Infrastructure	Africa	1999	Shares
ECP Africa Fund II	Fund	Various sectors	Africa	2006	Shares
ECP Africa Fund III	Fund	Various sectors	Africa	2008	Shares
EFP *	Co-financing facility	Various sectors	Africa	2006	Loan
Energi Access Partnership	Model for energy production	Energy	South Africa	2010	Shares
Engro Energi	Gas power plant	Energy	Pakistan	2007	Loan
Entel S:A	Telecom Operator	ICT	Bolivia	2011	Shares
Eskaro	Paint factory	Industry	Ukraine	2010	Shares
FJ Holding AB	Auto components	Industry	Russia	2011	Shares
Fors MW	Engineering	Industry	Estonia	1995	Shares
Gamma Knife Center	Radio surgery clinic	Healthcare	Egypt	2000	Shares
Geratech	Zirconium production	Chemicals Industry	South Africa	2005	Shares
Global Medical Investments	Healthcare/ management company	Healthcare	Multiregional	2009	Shares and loan
Green Investment Asia Sustainable Fund I	Fund	Environment	Asia	2007	Shares

**) Within EFP a total of 16 projects are funded*

ANNEX 1: CONTINUATION, LIST OF PORTFOLIO COMPANIES

COMPANY	BUSINESS	SECTOR	LAND	YEAR	INSTRUMENT
HSF Wuxi	Components	Industry	China	2006	Shares
Ilac Hotel Uvira	Hotel	Infrastructure	Congo	2010	Loan
Interact Climate Change Fund/Facility **	Co-financing facility	Various sectors	Africa	2010	Loan
Izma Reindeer Meat	Food plant	Farming	Russia	2004	Loan
Jacobi Carbons	Chemicals Industry	Chemical Industry	India	2008	Loan
Jacobi Carbons Lanka	Chemicals Industry	Chemical Industry	Sri Lanka	2010	Loan
Karlsson Spools	Hydraulic valves	Industry	China	2005	Shares and Loan
Kinyeti Capital	Fund	Various sectors	South Sudan	2012	Shares
Komercijalna Banka	Bank	Finance	Serbia	2009	Shares
KurdMed	Eye clinic	Healthcare	Iraq	2008	Shares and Loan
Medica Synergie	Hospital	Healthcare	India	2013	Shares
Mekong Building Materials	Waste recycling	Environment	Vietnam	2013	Loan
Mint II	Fund	Various sectors	Russia	2004	Shares
Nairobi Womens Hospital	Hospital	Healthcare	Kenya	2013	Shares
Nordrus Hotel	Hotel	Infrastructure	Ryssland	2003	Shares
Norsad Finance	Credit institution	Finance	Africa	2012	Shares
Ontur International	Harbour	Infrastructure	Uruguay	2005	Shares
Phoenix Basra Co. Ltd	Anti-corrosion treatment	Industry	Iraq	2012	Shares
Pieno Zvaigzdes	Dairy	Farming	Lithuania	2001	Shares
Polygenta	Textile industry	Industry	Iraq	2009	Loan
Prestando	Auto industry	Industry	China	2007	Shares and Loan
Quanadeel Al Rafidain	Components	Industry	Iraq	2010	Shares and Loan
Radisson Blu Ulaanbaatar	Hotel	Infrastructure	Mongolia	2010	Shares
Radisson Emerald Addis Hotels	Hotel	Infrastructure	Ethiopia	2008	Shares and Loan
Radisson Nairobi	Hotel	Infrastructure	Kenya	2008	Shares and Loan
Raffia	Cement sack production	Industry	Africa	2005	Shares, Loan and Guarantees
Recupero	Aluminium recycling	Environment	Kina	2007	Shares and Loan
Sacombank	Bank	Finance	Vietnam	2011	Loan
Sanghi Industries	Heating plant	Energy	India	2007	Loan
Sichuan Investment Fund	Fund	Various sectors	China	2001	Shares
Small Enterprise Foundation	Microfinans Institution	Finance	South Africa	2013	Loan
Swedmilk Makedonija	Dairy	Farming	Macedonia	2006	Loan
TBC Bank	Bank	Finance	Georgia	2013	Loan
Timsales	Brick plant	Industry	Kenya	2013	Shares
Troll	Children's furniture	Consumer-products	Latvia	2004	Shares
UAP	Insurance company	Finance	Kenya	2012	Shares
Vireo	Renewable energy	Energy	Belarus	2012	Loan
VMG Industry	Timber industry	Industry	Belarus	2011	Loan

***) Within ICCF a total of 6 projects are funded*

ANNEX 2: SWEDPARTNERSHIP

DECIDED LOANS 2013

NAME	LAND	BUSINESS	CO-OPERATION
Scanreco Industrielektr. AB	China	Manufacture of electrical control apparatus	Subsidiary
Axjo Plastic AB	China	Manufacture of plastic packaging	Supplier
Avantime Group AB	China	IT consultants	Supplier
Systems Verification	Bosnien	Computer Computer	Subsidiary
TJB Försäljning AB	China	Sales of building components	Supplier
CJ Automotive AB	China	Manufacture of auto parts	Subsidiary
Precio Systemutveckling AB	Vietnam	IT consultants	Subsidiary
Suitopia Scandinavia AB	Vietnam	Textile industry	Subsidiary
Agellis Group AB	India	Manufacture of measuring instruments	Distributor
RTI Electronics, India	India	Electronics, measuring instruments	Distributor
Partex Marking Systems AB	India	Electronics components, labelling systems	Subsidiary
Predire Testcenter AB	China	Technology testing and analysis	Subsidiary
Investkonsult Sweden AB	India	Machine agent, non-woven and hygiene items	Joint-venture
Petersen Machinery Sweden AB	China	Manufacturing and sales of sheet metal machinery	Subsidiary
Shop Service Center i Lerum AB	China	Store fittings	Subsidiary
Hammar Maskin AB	Vietnam	Manufacture of side loaders	Subsidiary
Thoreb AB	Colombia	Manufacture of communication equipment	Distributor
Talurit AB	China	Engineering industry, manufacturing of machines and components	Subsidiary
Daymaker AB	Ukraine	Services for customer experience in stores	Subsidiary
IST Intern Software Techn. AB	China	Computer programming	Subsidiary
R.S. Biokosmetik Syd AB	Serbien	Organic skin care	Distributor
Gaia Leadership AB	China	Consultancy	Subsidiary
ASFT Industries AB	China	Manufacture of specialist machinery	Distributor
Miljö & Processteknik	China	Technical consultant	Distributor
Widespace AB	Bangladesh	Mobile advertising	Subsidiary
KG Spennare AB	China	Manufacture of portable displays	Subsidiary
Fameco Group AB	China	Trading and manufacture of fasteners	Subsidiary

ANNEX 3: TECHNICAL ASSISTANCE, TA-LIST, PROJECT 2013

REGION	ACTIVITY	SECTOR	TYPE OF TA FUNDS	PROJECT NO.	PROJECT NAME
Africa	Consultancy assignment for quality	Hospital	Quality enhancement	820085	Addis Cardiac Hospital, Docent Wiklund
Africa	Development of safety routines	Retail	Quality enhancement	820061	Deacons Kenya Ltd
All regions	Consultancy assignment for ESG auditors	All sectors	Quality enhancement	Extension	Extension of decision 6/2012

ANNEX 4: ABBREVIATIONS AND EXPLAINED WORDS

ACH ..... Addis Cardiac Hospital
ADB ..... African Development Bank
BIO ..... the DFI of Belgium (as SBI)
BNI ..... Gross National Income
BNP ..... Gross Domestic Product
BRIC-countries ..... Brazil, Russia, India, China
CC ..... Concept Clearance
CDC ..... UK:s DFI
CDM ..... Clean Development Mechanism
Civil society ..... Civil society is the part of the community where people help each other without state involvement
Code of Conduct ..... Uppförandekod
COFIDES ..... Spains DFICOP Communication on progress
CO2 ..... Carbon Dioxide
CSR ..... Corporate Social Responsibility
DAC ..... Development Assistance Committee
DD ..... Due Diligence
DEG ..... theDFI of Germany
DFI ..... Development Finance Institution
DOTS ..... Development Outcome Tracking System
EDFI ..... European Development Finance Institutions
EFP ..... European Financing Partners
EIB ..... European Investment Bank
EKN ..... Exportkreditnämnden
ERP-system ..... Enterprise Resource Planning
ESG ..... Environmental, Social, Governance
ESHIA ..... Environmental, Social, Health Impact Assessment
FAR ..... Assoc. for the accountancy profession
FAO ..... Food and Agriculture Organization
FINNFUND ..... the DFI of Finland
FMO ..... the DFI of Netherlands
UN ..... United Nations
GRI ..... Global Reporting Initiative
GVRC ..... Gender Violence Recovery Centre
HACCP ..... Hazard analysis and critical control points, livsmedelsnorm
HBTQ ..... Homosexuals, bisexuals, transpersons and queer
HR ..... Human Relations alternative Human Rights
ICT ..... Information Communication Technology
IFC ..... International Finance Corporation
IFU ..... theDFI of Denmark
ILO ..... International Labour Organization,
IM ..... Investment Manager
IMF ..... International Monetary Fund
IIRC ..... International Integrated Reporting Council
<IR> ..... Integrated Reporting
ISO ..... International Standards Organization
ISO 9001 ..... Certifiable quality management
ISO 14001 ..... Certifiable environmental management
Mezzano funding ..... A form of financing between share capital and loan
MSEK ..... Millions of Swedish kronor
MUSD ..... Millions of US Dollar
MW ..... Megawatt
Nasdaq OMX Nordic ... National Association of Securities Dealers Automated Quotations, är en helt elektroniskt baserad börs
NMC ..... Näringslivets miljöchefer
NORFUND ..... the DFI of Norway
NWH ..... Nairobi Women's Hospital
OECD ..... Organisation for Economic Co-operation and Development,
OeEB ..... the DFI of Austria
OFC ..... Offshore Financial Center
OHSAS ..... Occupational Health and Safety Assessment Standard
PGU ..... Swedens politics for Global development
PRI ..... Principles for Responsible Investment
PROPARCO ..... the DFI of France
RSB ..... The Roundtable on Sustainable Biomaterials
SA ..... Social Accountability
SADC ..... Southern African Development Community
SAREC ..... Swedish Agency for Research Cooperation with Developing Countries
SBI ..... the DFI of Belgium (as BIO)
SEF ..... Small Enterprise Foundation
SEK ..... Swedish kronor
SEC ..... Swedish Export Credit
Sida ..... Swedish International Development Cooperation Agency
SIFEM ..... the DFI of Switzerland
SIMEST ..... the DFI of Italy
SME ..... Small and Medium sized Enterprises
SOFID ..... the DFI of Portugal
SRHR ..... Sexual and reproductive health and rights
SSA ..... Sub-Sahara Africa
TA ..... Technical Assistance
UD ..... Ministry of foreign affairs
UN GC ..... United Nations Global Compact
UN PRI ..... United Nations Principles for Responsible Investment
USD ..... US Dollar
WHO ..... World Health Organization

CLAES EKSTRÖM
SWEDFUND'S CHAIRMAN

"Now we are right at the heart of events"

What will Swedfund's role be in the future?
"Africa's voice has grown stronger and is now talking about the need for long-term and sustainable investment in order to build prosperity and reduce poverty. People want jobs and states need tax revenues in order to build infrastructure and social services such as schools and hospitals. Many of the countries on the African continent have come a long way, others have only managed a few short steps and need support in order to continue their development. We can help them with our 30 years of experience of investing in risk-filled markets. Swedfund's role, now and in the future, is to work to reduce poverty by investing where others are reluctant to take the risk. Because of this we can set tougher demands that the companies we invest in meet our ESG policies."

"BUT EVEN OUR MOST SEVERE CRITICS SEE THAT WE HAVE A ROLE TO PLAY NOW."

How has Swedfund's role changed since it started?
"We have gone from being the odd one out in the foreign aid community to now being right at the heart of events. Previously the focus was on traditional handouts. Today everyone is talking about private partnerships and impact investing. Swedfund has upgraded its strategy and appointed a new leadership team. We have built up know how about sustainability issues and we are now a leader in ESG. This has made us an attractive partner for many businesses to turn to when they want guidance or start a partnership for sustainability investment in developing countries."

What is the biggest challenge?
"There is a dilemma in Swedfund's mission, because we are asked to take risks by investing in difficult environments and build long-term sustainable and financially viable companies. But even our most severe critics see that we have a role to play now. Our relevance is based on good relationships with all our stakeholders, with whom we have improved our collaboration in recent years and now have increased dialogue with."

What is the next step?
"Because Swedfund has had a low profile for many years we now need to increase our participation in the debate. We will continue to build alliances and we already have a vital dialogue with many large Swedish companies, including Scania. Collaboration with voluntary organizations in civil society must also increase. We see how there is significant curiosity about our activities, and with all our experience and knowledge we are well-equipped for the future." ⊙

Claes Ekström Pernilla Bard Stefan Isaksson Bengt Kvarnbäck Renée Andersson Per Östensson Björn Börjesson

PHOTO SAMIR SOUDA

BOARD OF DIRECTORS

CLAES EKSTRÖM, CHAIRMAN

Born: 1958
Board member since: 2008
Education: Graduate engineer, Chalmers; bachelor of economics and law studies at the university of Gothenburg.
Current position: Partner, Altor Equity Partners.
Other board assignments: 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.

PERNILLA BARD, MEMBER OF THE BOARD

Born: 1967
Board member since: 2012
Education: Master of Science from the Stockholm School of Economics.
Current position: Founder of Social Initiative.
Other board assignments: Social Initiative Norden AB.

STEFAN ISAKSSON, MEMBER OF THE BOARD

Born: 1963
Board member since: 2013
Education: Economics degree, Uppsala University, MSc London School of Economics.
Current position: Head of policy and analysis group, Ministry of Foreign Affairs, USTYR.

BENGT KVARNBÄCK, MEMBER OF THE BOARD

Born: 1945
Board member since: 2012
Education: Master degree in Materials engineering, Royal Institute Of Technology, Stockholm (1970).
Current position: Industrial Advisor, Altor Equity Partners.
Other board assignments: 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.

RENÉE ANDERSSON, MEMBER OF THE BOARD

Born: 1947
Board member since: 2012
Education: Medical secretary and autodidact.
Current position: Manager of ethics and environment, Indiska Magasinet AB, Honorary doctor at the Faculty of Engineering, Lund University.
Other board assignments: Steering Committee Of Sweden Textile Water Initiative (STWI), Ethical Advisory Board Of Robur, Swedbank (member), Blichta Association, leprosy village, Addis Ababa, 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).

PER ÖSTENSSON, MEMBER OF THE BOARD

Born: 1959
Board member since: 2010
Education: Technical College, MBA (Stockholm School Of Economics).
Current position: Director, Ministry of finance.
Former board appointments: Nefco, Swedish Export Credit (SEK).

BJÖRN BÖRJESSON, MEMBER OF THE BOARD

Born: 1951
Board member since: 2012
Education: Candidate of Law
Current position: Consultant
Other board assignments: Tredje AP-fonden (vice chairman), member of Åke Wiberg's foundation.
Former board appointments Chairman of UC AB, subsidiary of Handelsbank group and board member of Kommuninvest.

MANAGEMENT TEAM

ANNA RYOTT
Managing Director, 08-725 9407

EVA-MARIE ANDERSSON
Chief Legal Counsel, 08-725 9405

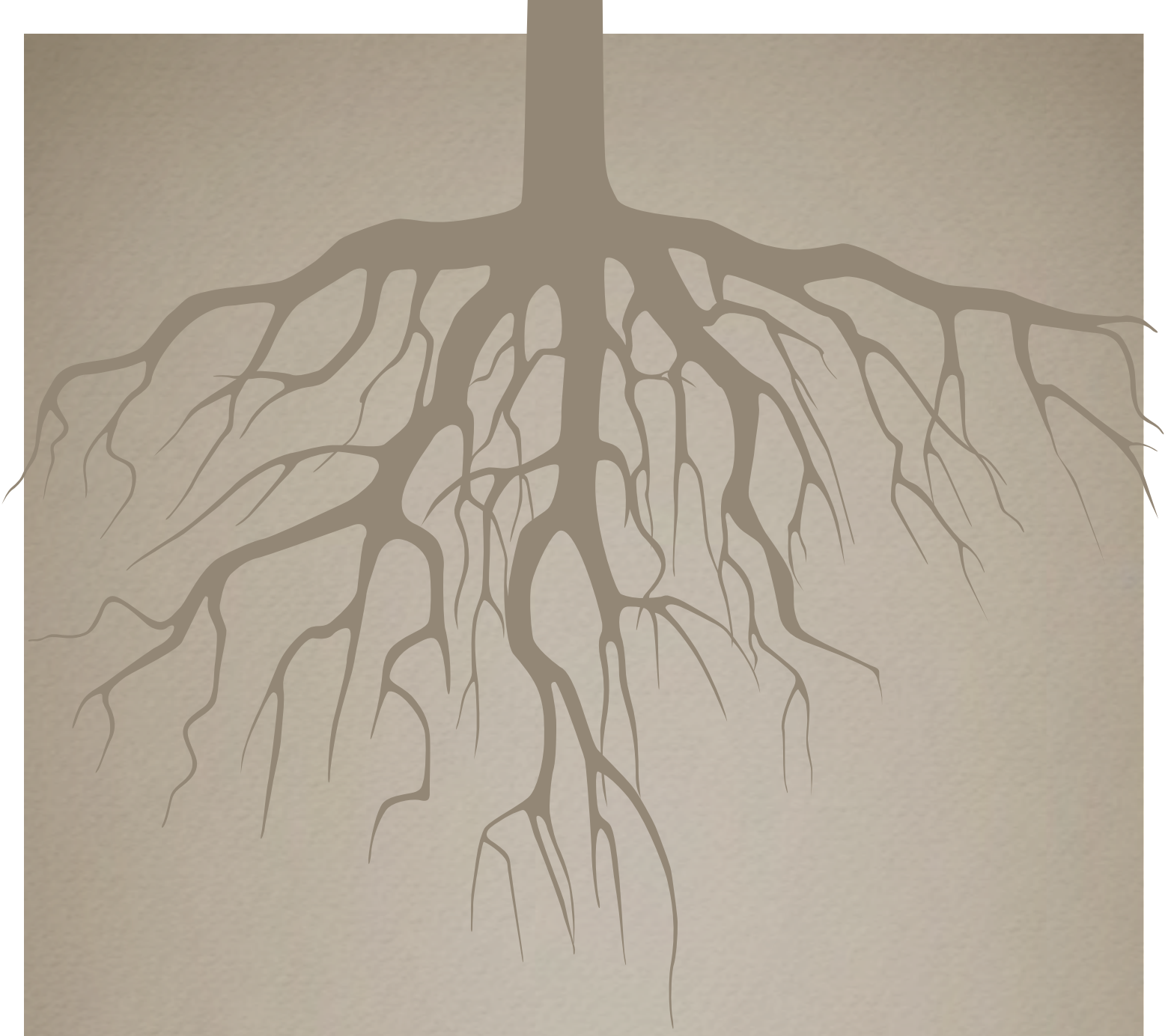
ANDERS CRAFT
Director Investment Operations, 08-725 9418

NICLAS DÜRING
Portfolio Director, 08-725 9428

KARIN ISAKSSON
Director Business Development, 08-725 9421

ELISABETH MATTISSON
Director Finance and Administration, 08-725 9404

KAI SUNDSTRÖM
Director of Communications, 08-725 9417



Swedfund

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