

ANNUAL REPORT 2016



INVESTMENT FUND FOR DEVELOPING COUNTRIES

CONTENTS

PAGE	INTRODUCTION	PAGE 3 - 7
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3	Letter from the CEO
4	IFU in brief
6	Executive summary 2016
7	Financial highlights

PAGE	MANAGEMENT'S REVIEW	PAGE 9 - 31
------	---------------------	-------------

9	Investments in 2016
10	IFU as a fund manager
12	Investments contracted in 2016
14	IFU's mandate revised
15	New Danish Agribusiness Fund launched
15	IFU's 50 year anniversary
16	Sustainable growth and development impact
19	Sustainability reporting
25	Organisation
26	Financial review
27	Risk management
28	Events after the balance sheet date
28	Outlook for 2017
29	Statement by the management on the annual report
30	Independent auditors' report

PAGE	FINANCIAL STATEMENTS	PAGE 33 - 67
------	----------------------	--------------

33	Income statement
34	Balance sheet
36	Cash flow statement
37	Notes

PAGE	MANAGEMENT	PAGE 69 - 72
------	------------	--------------

69	Board of directors
71	Executive management
72	Staff
72	Global presence

LETTER FROM THE CEO



DEAR READER

In 2016, IFU and IFU managed funds contracted investments of DKK 1,116m, which is an all-time record.

IFU achieved a satisfactory financial net result of DKK 218m. The gross yield from share capital was 11.1 per cent, and from loans the gross yield was 7.9 per cent.

IFU's ambition is to escalate IFU's positive development footprint further by increasing external funding and continuously raising our investment level from year to year. In 2016, we got off to a good start launching the Danish Agribusiness Fund, which based on a public-private capital commitment of DKK 800m is expected to create agricultural investments in developing countries of around DKK 6bn.

For several years, IFU has been engaged in microfinance, which brings essential opportunities for poorer people to get risk capital that can grow their small businesses. In 2016, IFU invested together with Norfund in the Nordic Microfinance Initiative. The longer term ambition is to expand this cooperation hand in hand with private investors across all the Nordic countries.

Generally, there are good business opportunities for Danish businesses in developing countries and emerging markets. However, very often interesting business ideas are not developed because projects in these locations are associated with high risks resulting from political instability, uncertain market conditions, legislative and regulatory as well as technical challenges. Against this background, Danida

allocated DKK 50m in 2016 for IFU to create a Project Development Programme that can co-finance the costs of developing projects and reduce the associated risks. IFU has already engaged in two development projects in Africa and Latin America.

Measuring and keeping track of our development impact in developing countries is a key priority. In 2016, we developed and introduced a new Development Impact Model focusing on our contribution to the United Nations Sustainable Development Goals.

During 2017, IFU will as a new initiative seek to establish a Sustainable Development Goals Fund. The ambition behind this new fund is to engage public and private financial resources at the level of DKK 5-6bn, which can support further commercially and sustainable viable investments in developing countries. Our hope is that the Sustainable Development Goals Fund will be operational in late 2017/early 2018, placing Denmark in a leading innovative role when it comes to creating solutions for the fulfilment of the Sustainable Development Goals.

Stepping into our 50th anniversary year IFU is in good shape. For five decades we have contributed to improving living conditions in the developing countries and assisted more than 900 Danish partners in entering new commercial ground. We look forward to continuing the journey and stepping up our efforts for a better and more sustainable world.

Tommy Thomsen, CEO

IFU IN BRIEF

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

A five-step investment process

In every investment, IFU strives to engage with our partners to establish viable and sustainable project companies with an ongoing positive development impact. For that purpose, IFU has set up a five-step investment process. More information on the process is available on our website www.ifu.dk.

Sustainability policy

IFU has a dedicated focus on sustainability in our investments. The purpose of our sustainability policy is to create

fair conditions for employees, safeguard the environment and uphold basic human rights, etc. IFU is a signatory to the UN Global Compact and is in the process of implementing the UN Guiding Principles on Business and Human Rights across our portfolio.

One access – six funds

IFU acts as fund manager for a number of investment funds and facilities based on public and private capital: the Danish Climate Investment Fund, the Danish Agribusiness Fund, IFU Investment Partners, the Investment Fund for Central and Eastern Europe, the Arab Investment Fund and the Ukraine Investment Facility.

Over time, IFU and IFU managed funds have invested in more than 1,200 projects covering more than 100 different countries in Africa, Asia, Latin America and Europe.

IFU's five-step investment process

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



INVESTMENT FUND FOR
DEVELOPING COUNTRIES



KIF DANISH CLIMATE
INVESTMENT FUND



DAF DANISH
AGRIBUSINESS FUND



IIP IFU INVESTMENT
PARTNERS



AIF THE ARAB
INVESTMENT FUND

The total expected investment in these projects is DKK 178bn, with IFU and IFU managed funds contributing DKK 19bn.

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

Statutory framework

IFU was established by the Danish State in 1967 and is

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

As per 2016, total capital under management by IFU was 6.0bn. Capital under management is comprised by IFU's equity of DKK 3bn, IØ's and AIF's equity of DKK 0.4bn and committed capital in DCIF, DAF, IIP and UFA of DKK 2.6bn.

Fiberline, high tech composites, China.





EXECUTIVE SUMMARY 2016

IFU and IFU managed funds

- IFU and IFU managed funds contracted investments totalling a record high DKK 1,116m
- At year-end 2016, the funds had an active portfolio of 212 project companies
- In total, IFU and IFU managed funds have engaged in 1,236 investments in 100 countries
- Close to 30,000 people are employed in project companies included in the active portfolio
- Total capital under management was DKK 6.0bn

IFU

- 25 new projects signed with a total of DKK 874m in contracted investments
- Additional financing of DKK 229m contracted in 16 ongoing projects
- IFU launched the Danish Agribusiness Fund
- The Project Development Programme was established
- Gross yield from investments was 11.1 per cent on share capital and 7.9 per cent on loans
- Net income of DKK 218m

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS 2012 - 2016

	2016 DKKm	2015 DKKm	2014 DKKm	2013 DKKm	2012 DKKm
INCOME STATEMENT					
Gross contribution from projects ¹	269	249	202	130	144
Operating income ²	220	194	147	71	81
Net income for the year	218	194	149	72	84
BALANCE SHEET AT 31 DECEMBER					
Share capital investment in projects at cost	1,621	1,565	1,385	1,238	1,114
Project loans at cost ³	1,102	1,018	1,008	939	868
Total investment in projects at cost	2,723	2,583	2,393	2,177	2,001
Accumulated value adjustments	82	(3)	(137)	(279)	(133)
Investments in projects, net ¹	2,805	2,580	2,256	1,897	1,868
Cash and bonds, net	191	202	341	396	357
Paid-in capital during the year	14	0	0	0	57
Repaid capital during the year	0	0	0	(75)	(75)
Total equity capital	2,984	2,802	2,608	2,459	2,462
Total balance	3,125	2,892	2,667	2,500	2,517
ADDITIONAL DATA					
New projects contracted (no.) ⁴	25	16	21	22	25
Portfolio of projects end of year (no.) ⁴	184	188	191	207	207
Investments contracted	1,103	660	681	566	524
Investments disbursed	667	499	528	432	521
Undisbursed contracted investments incl. guarantees	1,395	1,012	919	962	890
Binding commitments not yet contracted	347	581	196	399	3532
KEY RATIOS					
Gross yield from share capital investments ⁵	11.1%	12.7%	11.4%	13.0%	11.8%
Gross yield from project loans and guarantees ⁵	7.9%	7.7%	6.8%	(4.0)%	2.6%
Gross yield from projects (total) ⁵	10.0%	10.3%	9.7%	6.9%	7.7%
Net income for the year/Average total equity capital	7.5%	7.2%	5.9%	2.9%	3.5%
Solidity ratio	95.5%	96.9%	97.8%	98.3%	97.8%
Average number of full-time employees	78	72	71	68	67

¹ Information about composition of the contribution from projects including value adjustments can be found in "Financial review" on page 26.
Investments are valued at fair market value in accordance with the Danish Financial Statements Act.

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

³ Project loans at cost for the period 2012 to 2014 are not currency exchange rate adjusted.

⁴ Figures for "New projects contracted (no.)" and "Portfolio of projects end of year (no.)" for the period 2012 to 2013 have been adjusted, as IFU no longer includes indirect projects in the count. Indirect projects are typically majority-owned subsidiaries of existing IFU projects.

⁵ Gross contribution from projects/Average investment in projects - value adjusted.

Gross contribution from share capital investments/Average share capital in projects - value adjusted.

Gross contribution from project loans and guarantees/Average project loans - value adjusted.



In 2016, IFU set an
all-time record
investing DKK 1,116m

**A new
Nordic Microfinance
Initiative** was
established in 2016

MANAGEMENT'S REVIEW

INVESTMENTS IN 2016

During the year, IFU continued to contract investments in a variety of sectors across Africa, Asia, Latin America and Europe. The project companies are expected to generate solid development effects by means of jobs, training, technology transfer, tax revenue and financial services.

In 2016, IFU contracted 25 new investments at a total of DKK 874m. DKK 212m was invested in the Danish Agribusiness Fund, which is a public-private partnership managed by IFU. IFU provided additional financing to 19 ongoing project companies at a total amount of DKK 229m.

Nine of the new investments were made in Africa, six in Asia, two in Latin America and two in Europe. The remaining four projects have a global perspective and can invest in all 146 DAC countries.

One of the global investments was in the Nordic Microfinance Initiative (NMI), which is a Norwegian-based microfinance institution creating essential opportunities for poorer people to obtain risk capital to grow their small businesses. IFU's investment is the first step in making NMI a

truly Nordic platform engaging DFIs as well as private and institutional investors from all the Nordic countries.

On average, IFU's investments in new projects measured against total expected investments in the projects have a leverage factor of eight to nine, which indicates IFU's ability to mobilise additional capital.

Over a rolling period of three years, at least 50 per cent of IFU's investments must be made in poorer developing countries being countries with a maximum GNI per capita of USD 3,300 in 2016. The threshold is calculated as 80 per cent of the upper limit for Lower Middle Income Countries, according to the World Bank's classification.

In 2016, 55 per cent of the investments were below the threshold. Included in this figure is the total investment in projects having a regional focus covering countries above as well as below the threshold. Seen over the three-year period 2014-2016, the share of investments below the threshold is 64 per cent.

>

More than 800 investments

Counting the 25 new investments, IFU has now engaged in a total of 817 projects.

IFU's total contracted investment in the 817 projects is DKK 13bn.

IFU's net income

IFU generated net income of DKK 218m in 2016.

IFU AS A FUND MANAGER

IFU is acting as fund manager for a number of investment funds based on public or public-private capital. These are the Danish Climate Investment Fund, the Danish Agribusiness Fund, the Arab Investment Fund, IFU Investment Partners and the Investment Fund for Central and Eastern Europe. Moreover, IFU and Danida have set up the Ukraine Investment Facility and the Project Development Programme.

To give an overview of IFU's activities, relevant information on the IFU managed investment funds is provided in this annual report.

The Danish Climate Investment Fund

The Danish Climate Investment Fund (DCIF) is based on a public-private partnership, which includes the Danish State, IFU and five institutional and private investors: PensionDanmark, PKA, PBU, Dansk Vækstkapital and Aage V. Jensen Charity Foundation. The fund was established in January 2014 with a total committed capital of DKK 1.3bn and has a targeted net return to investors of 12 per cent.

In 2016, DCIF made three new investments at a total of DKK 161m and provided DKK 26m in additional financing for two ongoing projects. At year-end, the fund had invested in 14 projects with total contracted investments of DKK 553m.

The Danish Agribusiness Fund

The Danish Agribusiness Fund (DAF) was launched in early January 2016. The new fund is a public-private partnership, which includes the Danish State, IFU, PensionDanmark, PKA and PFA as investors, and will invest in agribusiness across the value chain from farm to fork. The total committed capital is DKK 800m, and DAF has a targeted net return to investors of 10 per cent.

In 2016, DAF made its first investment at a total of DKK 71m.

Parque Solar Sol Del Norte/Parque Solar Luna Del Norte, Chile.



IFU Investment Partners

IFU Investment Partners (IIP) is managed by IFU and capitalised by the two pension funds PKA and PBU. The total commitment from the two pension funds is DKK 500m. The fund, which was established in 2012, serves as a co-investor in large IFU projects and as a tool for raising additional equity funding in a one-stop process.

In 2016, IIP did not make any new investments. During the years, IIP has contracted investments of a total of DKK 223m.

The Investment Fund for Central and Eastern Europe

Due to the decision in 2010 to wind down the Investment Fund for Central and Eastern Europe (IØ), the fund continued its divestments in 2016. At year-end, IØ had a remaining active portfolio of 17 investments.

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

In 2016, IØ repaid an additional DKK 75m to the Danish State. This brought the total accumulated capital repayment made by IØ to the State since 2004 to DKK 3,525m¹. As at 31 December 2016, IØ had equity amounting to DKK 252m.

IØ received a total of DKK 1,898m from the Danish State during the period 1990-2001.

The Arab Investment Fund

The Arab Investment Fund (AIF) was set up in 2011 to contribute to the economic development of seven specific countries in North Africa and the Middle East. Danida and IFU have committed DKK 50m and DKK 100m, respectively, to AIF.

AIF made one additional financing in an ongoing project in 2016. AIF has invested in a total of five projects with an aggregate contracted investment of DKK 150m.

The Ukraine Investment Facility

The Ukraine Investment Facility (UFA) was established by the Danish Ministry of Foreign Affairs with the aim of creating more growth and jobs in Ukraine and Denmark. UFA is a four-year programme running from 2015 to 2019. A total of DKK 30m has been allocated to UFA.

Active portfolio at 31 December 2016

IFU	184
DCIF	13
DAF	1
IIP	4
IØ	17
AIF	3
UFA	2
Total *	212

* 12 projects are excluded in the total due to inter-fund investments, or because they have received financing from more than one fund.

In 2016, UFA contracted two new investments at a total of DKK 8m.

The Project Development Programme

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

In 2016, IFU engaged in two development projects, which when matured could receive further financing from IFU or one of the IFU managed funds.

IFU and IFU managed funds overall

Total contracted investments by IFU and IFU managed funds amounted to DKK 1,116m in 48 projects in 2016. These figures are excluding inter-fund finance in two projects.

At year-end, the active portfolio covering all funds contained 212 project companies.

In total, IFU and IFU managed funds have contracted investments in 1,236 projects, excluding inter-fund investments.

1) Figures are in nominal prices.

INVESTMENTS CONTRACTED IN 2016

IFU INVESTMENTS CONTRACTED IN 2016

Project name	Country	IFU's contracted investments in DKKm			Expected direct employment (people)
		Shares*	Loans**	Total	
New projects					
AFRICA					
1 FIPA II	Angola	34.0		34.0	0
2 Gomspace Ghana	Ghana	34.0		34.0	9
3 BeautyClick	Kenya	1.1	2.1	3.2	30
4 Insta Products	Kenya		26.8	26.8	48
5 BWSC Kayes Mali	Mali	4.4	65.1	69.5	80
6 Albatros Zebra Lodge	South Africa		10.0	10.0	72
7 Afro Farm	Tanzania	4.4		4.4	7
8 Aller Zambia	Zambia		46.8	46.8	50
9 Betternow Finance Corporation	Zambia		3.3	3.3	15
Subtotal Africa		77.9	154.1	232.0	311
ASIA					
10 Equilibrium	China	6.3		6.3	150
11 Jyden Bur China	China	12.3		12.3	20
12 Zentropa China	China	3.8	10.0	13.8	50
13 Desmi India	India	3.6		3.6	53
14 Foss India	India	2.0		2.0	20
15 Zoe Concepts	India		1.9	1.9	15
Subtotal Asia		28.0	11.9	39.9	308
EUROPE					
16 LM Wind Power Turkey	Turkey		111.6	111.6	370
17 Halychyna-Zahid IFU	Ukraine		59.6	59.6	10
Subtotal Europe		0.0	171.2	171.2	380
GLOBAL					
18 Danish Agribusiness Fund	DAC Developing Countries	212.0		212.0	1
19 EMOF I	DAC Developing Countries	21.0		21.0	30
20 Nordic Microfinance Initiative Fund	DAC Developing Countries	146.8		146.8	0
21 Nordic Microfinance Initiative	DAC Developing Countries	22.3		22.3	6
Subtotal Global		402.1		402.1	37
LATIN AMERICA					
22 Dynatest South America	Colombia	9.4	7.4	16.8	56
23 BoConcept Uruguay	Uruguay		4.2	4.2	35
Subtotal Latin America		9.4	11.6	21.0	91
PDP PROJECTS					
24 BWSC Benin	Benin	5.0		5.0	
25 C2SI Biomass Guatemala	Guatemala		3.0	3.0	
Subtotal PDP		5.0	3.0	8.0	
Total new projects		522.4	351.8	874.2	1,127
Additional financing of ongoing projects		IFU's contracted investments in DKKm			Actual direct employment (people)
AFRICA		Shares*	Loans**	Total	
26 Kosan Crisplant	Cameroon		6.0	6.0	67
27 Al Quseir Hotel Company	Egypt		1.5	1.5	182
28 Radisson Blu Nairobi	Kenya	28.1		28.1	254
29 DanMoz	Mozambique		2.6	2.6	63
Subtotal Africa		28.1	10.1	38.2	566
ASIA					
30 Fiberline China	China		5.2	5.2	22
31 Rockwool Guangzhou	China	9.9		9.9	296
32 Scandinavian Farms Pig Industry	China	7.9	20.7	28.6	165
33 Compact India	India	16.9	7.0	23.9	77
Subtotal Asia		34.7	32.9	67.6	560
EUROPE					
34 Newtelco Georgia	Georgia	0.2		0.2	4
35 Danico	Ukraine		3.0	3.0	134
36 Danosha IFU	Ukraine		74.6	74.6	654
Subtotal Europe		0.2	77.6	77.8	792

Additional financing of ongoing projects			IFU's contracted investments in DKKm			Actual direct employment (people)
GLOBAL			Shares*	Loans**	Total	
37	MicroCred SA	DAC Developing Countries	30.3		30.3	3,396
Subtotal Global			30.3	0.0	30.3	
LATIN AMERICA						
38	Gustu Restaurant	Bolivia		1.7	1.7	41
39	Exact Brazil	Brazil		7.5	7.5	611
40	Nordic Fitness	Colombia	3.0		3.0	18
41	Ingemann Food Nicaragua	Nicaragua		2.6	2.6	50
Subtotal Latin America			3.0	11.8	14.8	720
Total additional financing			96.3	132.4	228.7	6,034
Grand total IFU			618.7	484.2	1,102.9	

Project name	Country	Contracted investments in DKKm				
		Shares*	Loans**	Total		
DCIF investments contracted in 2016					Expected direct employment (people)	
42	Asia Clean Capital	China	66.8		66.8	162
43	Roserve ETP BOOT India	India	15.8		15.8	65
44	Karpatsky Wind Farm	Ukraine		78.1	78.1	6
Total new projects			82.6	78.1	160.7	233
DCIF additional financing of ongoing projects					Actual direct employment (people)	
45	Nordic Power Partners	DAC Developing Countries		13.7	13.7	3
46	AVK Valvulas do Brasil	Brazil	5.4	7.0	12.4	15
Total additional financing			5.4	20.7	26.1	18
Grand total DCIF			88.0	98.8	186.8	

DAF investments contracted in 2016						
47	Scandinavian Farms Pig Industry	China	58.1	13.1	71.2	
Grand total DAF			58.1	13.1	71.2	

UFA investments contracted in 2016					Expected direct employment (people)	
48	Bank Lviv	Ukraine		7.5	7.5	50
49	Ektos Ukraine	Ukraine		0.6	0.6	15
Grand total UFA			0.0	8.1	8.1	65

AIF additional financing of ongoing projects					Actual direct employment (people)	
50	Aller Aqua Egypt	Egypt		29.8	29.8	116
Grand total AIF			0.0	29.8	29.8	116

Total IFU+DCIF+DAF+UFA+AIF+PDP investments contracted in 2016

Project name	Country	Contracted investments in DKKm			
		Shares*	Loans**	Total	
31	Total new projects	658.1	448.1	1,114.2	1,425
19	Total additional financing	101.7	182.9	284.6	6,168
Grand total IFU and IFU managed funds		764.8	634.0	1,398.8	
Interfund financing and transfers:					
(1)	DAF	IFU investment in DAF	(212.0)		(212.0)
(1)	Scandinavian Farms Pig Industry	Transferred from IFU to DAF	(58.1)	(13.1)	(71.2)
Total interfund financing and transfers:			(270.1)	(13.1)	(283.2)
48	GRAND TOTAL CONSOLIDATED		494.7	620.9	1,115.6

Totals may not add up due to rounded figures.
 *) Including overrun commitments
 **) Including guarantees



Coffee beans at Shangri-La Estate, Tanzania.

IFU'S MANDATE REVISED

In December 2016, the Danish Parliament approved the amended Act on International Development Cooperation, which regulates IFU's mandate.

One of the results is that IFU has been legally untied from only making investments with a Danish partner or a Danish interest.

Moreover, the new mandate has led to the introduction of a dividend policy, and in 2017 IFU will pay a dividend of DKK 50m to the Danish State based on the 2015 result. For 2016 it is proposed to distribute a dividend of DKK 50m to be paid out in 2018.

Included in the revised mandate is a provision that enables the Danish State to issue a guarantee on debt financing obtained by IFU. This will make it possible for IFU to fund its growth by raising additional capital at an interest rate close to Danish government debt.

Finally, the current obligation of IFU to follow international standards, including specifically the United Nations Guiding Principles on Business and Human Rights (UNGP), is now also included in the Act.

NEW DANISH AGRIBUSINESS FUND LAUNCHED

In January 2016, IFU launched the new Danish Agribusiness Fund (DAF) based on a public-private partnership. The Danish government and IFU have in collaboration with the three pension funds PensionDanmark, PKA and PFA committed a total of DKK 800m to the new fund.

The Danish Agribusiness Fund will invest risk capital in projects in Asia, Africa, Latin America and parts of Europe, and it is expected that total investments generated will be around DKK 6bn. IFU is fund manager for the Danish Agribusiness Fund and has set up a dedicated investment team to carry out the investments. The fund operates on market terms.

DAF can co-invest with companies as well as developers wishing to supply technology to, develop or operate businesses within the entire agribusiness value chain from farm to fork. This could be:

- Primary production (crops and livestock, etc.)
- Treatment, drying and storage of crops
- Processing of food and beverages
- Processing of waste products and waste
- Production of machinery and equipment
- Production of feed, vitamins and other ingredients for feed production
- Production of fertilizers
- Production of veterinary products
- Aqua-culture (land and sea)
- Logistics
- Consulting

The Danish Agribusiness Fund has experienced strong interest from companies in developing countries as well as in Denmark. The fund has made its first investment in a large pig farm in China and has a solid pipeline.

IFU'S 50 YEAR ANNIVERSARY

In June 1967, the Danish Parliament voted in favour of establishing IFU with capital based on the annual revenue received from customs duty on coffee import to Denmark. Consequently, IFU was for many years better known as the Coffee Fund.



The first investment was made in Turkey in 1969, and in the following years the number and volume of annual investments increased. In 2016, IFU and IFU managed funds reached a record high investment level of just above DKK 1.1bn.

Today, IFU and IFU managed funds have invested in more than 1,200 project companies in 100 countries and engaged with 900 different Danish partners. The total expected investment in the projects is DKK 178bn with IFU and IFU managed funds contributing DKK 19bn.

The investments have contributed to a solid development impact creating economic growth, a high number of jobs, transfer of technology, training of employees and tax income for the investment countries.

A 50 year anniversary conference will be held in Copenhagen on 6 June 2017.

SUSTAINABLE GROWTH AND DEVELOPMENT IMPACT

IFU's mission is in line with the Sustainable Development Goals (SDGs) as set forward by the UN General Assembly in 2015.

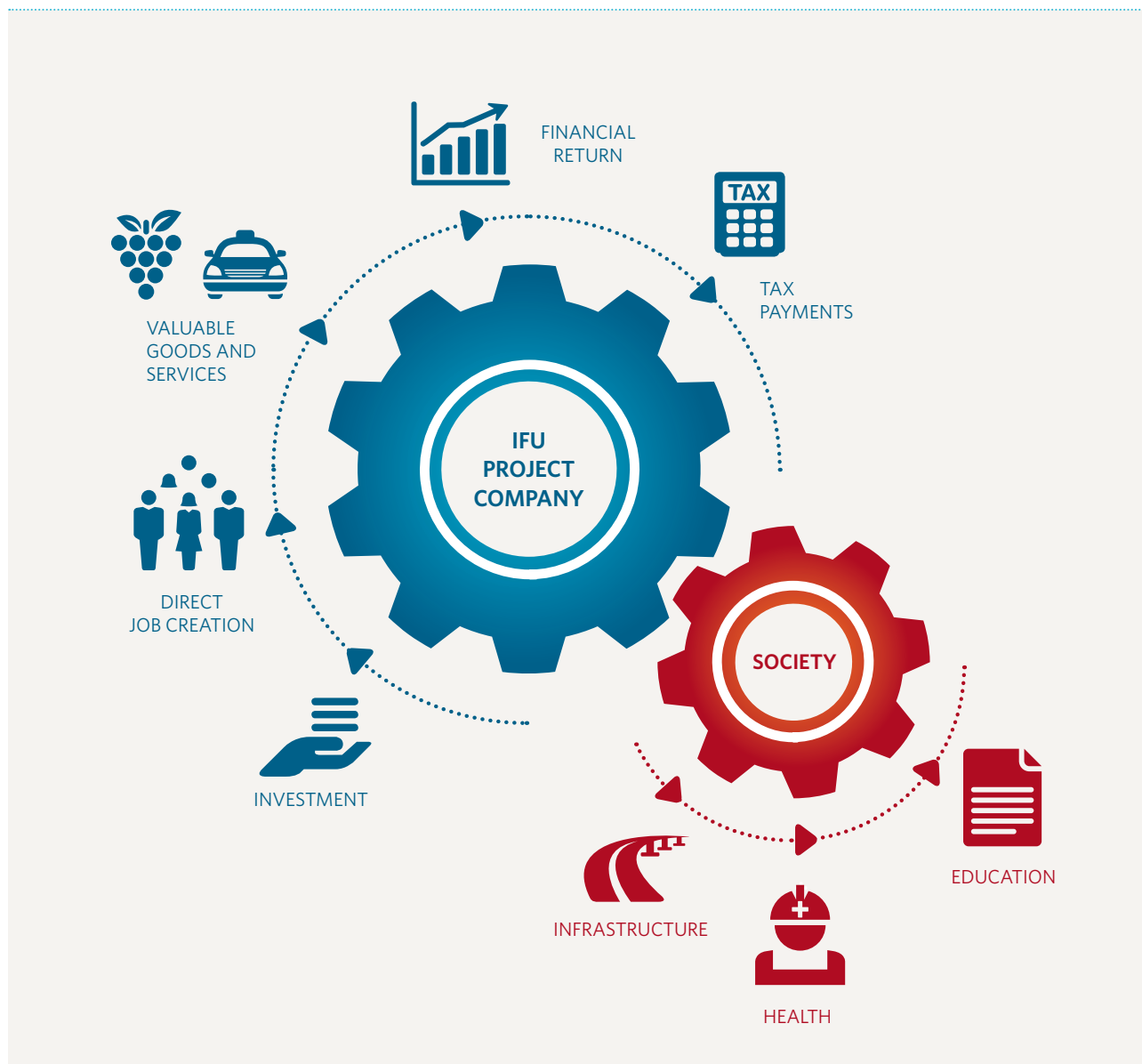
By providing risk capital and advisory services IFU supports commercially viable companies, which due to their profitability create a return on investment as well as a lasting positive development impact through creating jobs, producing products and services and paying taxes to society.

The spin-off is increased income for workers, transfer of technology, company sponsored employee training, interac-

tion with local businesses and funding for the public sector, which can be invested in education, healthcare and in important infrastructure.

Consequently, IFU's investments have direct as well as indirect effects on achieving the Sustainable Development Goals. Creating jobs helps to end poverty, investing in agricultural projects reduces hunger and erecting wind farms and producing solar energy reduce CO² emissions.

IFU is driving change





Employment alleviates poverty

One of the most important development effects is employment, because it provides opportunities for people to escape poverty and improve their standard of living by increasing their earnings, giving them higher purchasing power as well as the possibility to invest in their future.

In each project, IFU estimates the expected direct employment effect. When a project becomes operational, it has to report its actual number of employees to IFU on an annual basis until the project is exited.

New projects contracted by IFU and IFU managed funds in 2016 are estimated to generate more than 1,400 direct jobs once in full operation.

Projects contracted before 2016, and which are not yet divested by IFU and IFU managed funds, employs a total of close to 30,000 people. More than 9,000 people are employed in Africa and close to 13,000 people in Asia, while projects in Latin America, Europe and projects with a global focus account for the remaining jobs.

In total, IFU and IFU managed funds projects have had an expected employment effect close to 230,000 direct jobs.

Direct employment is, however, only part of the development impact. According to UN research, every direct job created creates one to two additional jobs for instance in local supply chains or with service companies. Counting both direct and indirect jobs, projects under IFU and IFU managed funds have over the years contributed to creating and preserving more than 570,000 jobs in developing countries.



Investments create economic growth

IFU projects also benefit the economy in host countries by implementing new technology, training employees and paying taxes.

IFU project companies paid DKK 265m in taxes

New technology implemented

Transfer of technology plays an important role for developing economies. Implementing modern technology helps enable developing countries to create more advanced products and services. It makes the countries more competitive and cost efficient, which also leads to higher incomes for individuals, companies and society.

Implementing modern technology will normally also benefit the environment, because it is less polluting and more energy efficient.

More than 70 per cent of the new projects contracted in 2016 are expected to implement world class technology.

Training enhances skills

In countries where formal vocational education is scarce, company-sponsored employee training is essential. This will contribute to boost the general level of education and enhance the skills of people in poor countries. Consequently, people receiving such training will be better qualified and more employable in the labour market.

Close to 90 percent of new projects contracted in 2016 have plans for running training programmes for their employees.

Sound businesses pay taxes

Since 2013, IFU has collected information on corporate taxes reported by the projects in the active portfolio. These figures do not include taxes paid by employees and VAT.

For 2016, IFU has information on taxes from 164 companies. Tax information for investments in funds, projects under establishment, in the process of being exited or with no activity is not included.



Dynatest South America, pavement engineering services.

Total reported taxes from the 164 companies amount to DKK 265m.

The figures presented above are primarily related to the financial years 2015 and 2016.

Greenfield projects have a high impact

So-called greenfield projects are often seen as having the highest development impact because they introduce new business into the host country. At the same time, greenfield projects normally involve higher risk, making it essential to obtain risk sharing and co-investments from external institutions like IFU when setting up such projects.

In 2016, more than half of the new investments were greenfield projects.



Climate investments reduce greenhouse gas emissions

The aim of the Danish Climate Investment Fund is to reduce CO₂ emissions in developing countries and emerging markets. The three new projects signed in 2016 are expected to reduce CO₂ emissions by approximately 12,500,000 tons during their lifetime.



New agribusiness fund to help combat hunger

For several years, IFU has invested in agribusiness projects in developing countries. In early 2016, IFU launched a new

agribusiness fund that will invest in agribusiness projects along the entire value chain from farm to fork.

In the coming years, IFU will report on the development effects related to these investments.

New development impact model

To better capture the development effects of its investments and improve its ability to report on the SDGs, IFU has upgraded its previous Success Criteria Model to a new more comprehensive Development Impact Model (DIM).

This new DIM consists of 38 indicators in total, which are measured across the investment portfolio. The indicators are categorised into general development indicators and three types of more strategic indicators.

Some of the development indicators are general such as direct employment and tax contribution, and some of them are sector-specific related to climate change mitigation, renewable energy, agribusiness and micro-finance. The strategic indicators are divided into three groups related to additionality, catalytic effect and project sustainability. Additionality includes elements like employee training provided, technology transfer, board membership, etc. Indicators for catalytic effect are related to leverage and third-party investors. Finally, project sustainability is measured on environmental, social and governance scores as well as risk ratings and IRR.

The system will be fully operational from the beginning of 2017.

SUSTAINABILITY REPORTING

Sustainability policy

IFU's sustainability policy provides the framework for the environmental, social and governance (ESG) requirements for the companies in which IFU invests. IFU is committed to ensuring that the project companies reduce sustainability risks, contribute to sustainable development and achieve high sustainability standards, which IFU believes adds value to the project companies and enhances business opportunities.

IFU's sustainability policy framework contains the sustainability policy, IFU's policy on corporate governance for investments as well as guidelines on sustainability in the investment process, anti-corruption, responsible supply chain management, the use of animals for farming and other commercial purposes and HIV/AIDS.

IFU is a signatory to the UN Global Compact, and our commitment to this important initiative remains undiminished. This annual report constitutes the mandatory Communication on Engagement for 2016 to be submitted to the UN Global Compact and shows the practical actions IFU has taken to support the UN Global Compact principles. The report will be uploaded on <https://www.unglobalcompact.org>.

IFU promotes the Global Compact principles through its investments and thereby strives to create shared value by:

- respecting and promoting all basic human rights, including labour rights and occupational health and safety, and addressing adverse human rights impacts that the investment may cause or contribute to as outlined in e.g. the UN Guiding Principles on Business and Human Rights;
- enhancing positive development effects, including the creation of jobs and income, payment of taxes, contribution to government revenue, transfer of know-how and cleaner technologies, training and education, gender equality, community health and food security and other corporate social responsibility-related activities;
- securing corporate governance and business ethics including anti-corruption, anti-fraud, transparency and stakeholder engagement;
- improving environmental performance through a preventive and precautionary approach that addresses environmental challenges, including climate change, loss of biodiversity and land use changes;
- ensuring good animal welfare, including proper treatment of animals used for food production and for other commercial purposes and testing.

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Gustu Restaurant, Bolivia.

The investees must continuously work towards achieving satisfactory long-term results within sustainability, and such activities must be anchored in their business plan.

Sustainability throughout the investment process

IFU is aware of potential challenges and dilemmas in relation to sustainability. Consequently, addressing significant sustainability issues in the business plan is crucial for a project company to achieve satisfactory long-term results, and it is the objective of IFU's sustainability efforts that our partners set up clear sustainability strategies that benefit the company.

Identifying sustainability impacts is an integral part of IFU's investment process as shown in IFU's sustainability workflow model below.

The screening phase involves initial assessment of potential projects that IFU and IFU managed funds are considering investing in. The sustainability policy of the project sponsor, if such a policy exists, is considered together with information about the project sponsor's track record, commitment and competences to work with sustainability issues. Project-related sustainability risks and impacts to be assessed during the due diligence phase are identified, and projects are categorised in terms of environmental and social risk. IFU uses the risk categories A, B+, B and C, which is a proven concept defined and used by all EDFIs (European

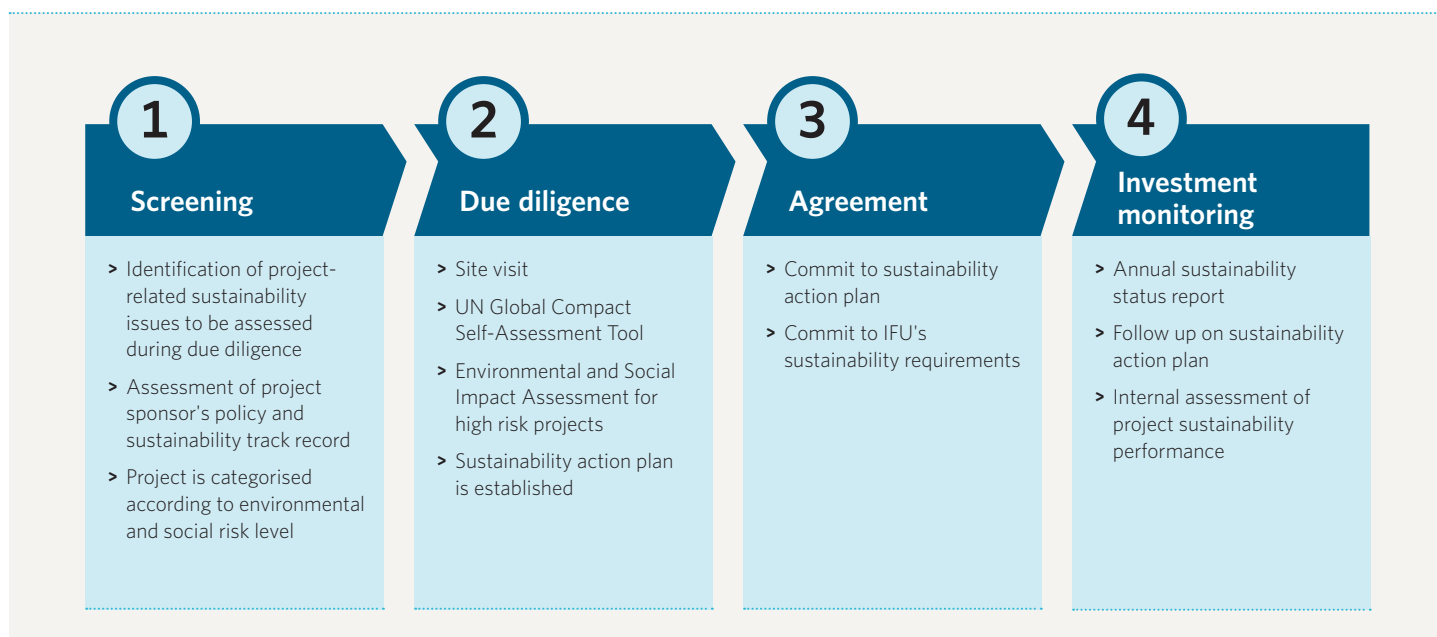
Development Finance Institutions). A projects are projects with significant potential adverse environmental or social impacts or risks, e.g. thermal power plants and cement manufacturing. Contrary to this, C projects are projects with minimal or no adverse social or environmental impacts or risks, e.g. offices or IT development companies.

Based on the categorisation, the due diligence phase includes a comprehensive assessment of sustainability risks, impacts and mitigation measures related to the specific project. On-site visits are made to all potential projects, and project representatives must answer questions in the Global Compact Self Assessment Tool. For A and B+ projects IFU will require a full Environmental and Social Impact Assessment (ESIA) in accordance with IFC Performance Standards

This helps to identify gaps in the current performance or planned measures in the project and indicates which improvements are necessary. The results of the assessment are written in an action plan that describes the measures to be implemented within an agreed time frame. The action plan is used as a management tool for IFU to monitor the sustainability performance of the project company.

Project companies must comply with national regulations in the country in which they operate and have to work towards implementing relevant international standards.

IFU's sustainability workflow model



Risk management aspects

IFU identifies potential risks and impacts of the project companies' activities in order to avoid, mitigate and manage the risks and impacts as a way of doing business in a sustainable way. This includes:

Management of environmental and social risks and impacts	<i>Is there an effective environmental and social management system in place?</i>
Labour and working conditions, including occupational health and safety	<i>How are the working conditions, and do they comply with international conventions, and how is the occupational health and safety conditions related to the specific sector?</i>
Resource efficiency and pollution prevention	<i>How are the resources used and managed to avoid or reduce the impact on human health and the environment, with regard to energy, water, air and waste?</i>
Community health, safety and security	<i>What are the risks for the community, and who are the vulnerable groups?</i>
Land acquisition and involuntary resettlement	<i>Are there any affected people that would need to be physically or economically displaced?</i>
Biodiversity	<i>Is there any biodiversity that is impacted and should be protected?</i>
Indigenous people	<i>Are any indigenous people affected?</i>
Cultural heritage	<i>Are there any cultural sites being affected?</i>
Anti-corruption	<i>How is anti-corruption managed?</i>

Further specification of IFU's sustainability requirements can be found in IFU's sustainability policy and handbook.

When entering into an agreement, IFU requires project companies to implement the agreed action plan and to:

- adopt a written sustainability policy approved by their board of directors or similar governance body, and communicated to relevant stakeholders;
- appoint a person with overall responsibility for sustainability, including the management of activities and resources and delegation of tasks;
- establish a system to ensure continuous improvement and implement sustainability decisions relevant to the company size and sector as well as the environmental, economic, cultural and social context in which the activity operates;

- promote sustainability issues in interaction with suppliers and business partners;
- prepare an annual report that provides a status on sustainability issues.

Throughout the investment period, project companies must comply with sustainability requirements agreed with IFU. Project companies are monitored during the investment management phase on their progress in implementing the action plan. IFU's representative on the board of a project company plays a particularly important role. As mentioned above, the project companies are required to prepare an annual sustainability status report to be submitted to the

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Annual assessment of sustainability performance

Sustainability classification	Total score (%)	Environment (%)	OHS (%)	Human rights and labour practices (%)	Anti-corruption (%)
Excellent	30	35	30	34	22
Good	53	45	53	52	60
Fair	13	16	13	11	14
Poor	4	5	3	3	4
Critical	0	0	0	0	0

Totals may not add up due to rounded figures.

board of directors for review and approval. The report is to serve as a tool for the annual stocktaking by its board of directors of sustainability issues relevant to the project company. IFU also conducts an annual internal classification of the sustainability performance of all projects to get an overview of the development status and to be able to focus on the projects that are not performing as planned.

Assessment of sustainability performance

The annual classification of project companies is based on an assessment of their sustainability performance. The classification is a combination of four separate areas within sustainability: 1) environment, 2) occupational health and safety (OHS), 3) human rights and labour practices and 4) anti-

corruption. Each project company is classified into one of five categories as follows: Excellent, Good, Fair, Poor and Critical.

Project companies with the classification Good are in compliance with local legislation and relevant international standards in terms of applicable and relevant significant sustainability issues. Project companies with the classification Excellent go beyond this and are active in local communities, have high-quality and publicly available reports and certified management systems. Project companies with the classification Fair, Poor or Critical are given extra attention, and IFU will engage in discussions with the partners on how a project company can improve its performance. In 2016, internal assessments were carried out for 172



African Coffee Roasters, Kenya, received a Danida CSR Training Grant in 2016.

projects under IFU and IFU managed funds. The exercise did not include 25 projects that were in the process of being established and 15 being inactive.

The ratings in 2016 are very similar to those of 2015. As seen in the figure on page 22, the majority of projects are classified as Good or Excellent. In fact, on average 83 per cent of the projects have Good and Excellent ratings. The ratings across the different areas do not differ significantly, although it appears that anti-corruption is an area where there is a potential to move projects from Good to Excellent.

More project companies increased their sustainability awareness

IFU requires annual sustainability status reports from the project companies, and since 2014 IFU has required new project companies in our portfolio to prepare their own sustainability policy. A written sustainability policy has been used as a key performance indicator since 2009, and every year since the number has increased. In 2016, 78 per cent of the companies that have submitted an annual status report have a sustainability policy. The project companies' annual status reports show an increased focus on sustainability. These reports are used in the ongoing dialogue with the project companies in order to improve their sustainability performance.

Stakeholder engagement and partnership

IFU participates in several fora in order to monitor stakeholder expectations and keep up-to-date on developments in standards for good ethical conduct, dilemmas and risks. For this purpose, IFU is a member of the Danish Ethical Trading Initiative (DIEH).

IFU's own initiative is the IFU Sustainability Advisory Board, which has five members, each representing important IFU stakeholder issues: human rights, environment, development and corporate policy. The advisory board meets regularly to discuss and advise on key issues, such as due diligence tools, supply chain dilemmas, anti-corruption, facilitation payments, and media communication. Topics discussed in 2016 include corporate governance, the devel-

ANTI-CORRUPTION TRAINING

All IFU's employees have conducted an online anti-corruption course developed by the Danish Ministry of Foreign Affairs and are now better equipped to recognise and respond to various forms of corruption, including bribery, embezzlement, fraud and extortion. New employees will be required to complete the course.

Corruption is recognised as one of the main obstacles to sustainable development with a disproportionate impact on developing countries. Fighting corruption is therefore a key element in order to reduce poverty and an important element for IFU and the investments we enter.

Tommy Thomsen, CEO, IFU.

IFU has developed its own 'Anti-corruption Guidelines', which are based on Danish law, the UN Convention against Corruption, OECD's Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the UN Global Compact's Principle 10: 'Businesses should work against corruption in all its forms, including extortion and bribery.'

opment impact model and hearing responses to the concept note for the Sustainable Development Goals Fund.

The Sustainability Advisory Board members are:

- Lars Engberg-Pedersen, Senior Researcher, DIIS
- Nanna Callisen Bang, Programme Manager, Tuborgfondet
- John Nordbo, Head of Conservation Department, World Wildlife Foundation, WWF
- Allan Lerberg Jørgensen, Department Director, Danish Institute of Human Rights
- Malene Østergaard, Director, Group Sustainability, Danfoss

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Sustainability indicator from annual status reports

Indicator	2016 (172 projects)	2015 (156 projects)	2014 (157 projects)
Written sustainability policy	78%*	76%*	71%

* The figure includes projects contracted before 2014, when it became compulsory for projects to have a written sustainability policy.

Partnership with the Danish Family Planning Association

IFU and the Danish Family Planning Association have joined forces in a partnership to promote women's rights and health in developing countries. The goal of the partnership is to show that strengthening women's rights and health benefits both the female employees and the business in IFU's project companies. Through the partnership, concrete tools will be developed for IFU's project companies as well as other companies to use in order to promote women's rights and health.

The partnership started in 2016 and will run for two years. The objective is to motivate companies to invest in the health of their employees by demonstrating how and why

A strong sustainability policy adds value and enhances business opportunities

companies benefit from these investments and by providing the companies with the necessary tools and guidelines to take action on this agenda.

By investing in women's health and rights in the workplace, companies typically get USD 3 in return for every USD 1 they invest. These investments can for example be related to the provision of health insurance, maternity leave, access to health facilities or information. The companies benefit both socially and financially from these investments as they may reduce absenteeism, increase retention of female employees and create higher productivity.

Danida CSR Training Fund

IFU manages the Danida CSR Training Fund. Through this fund IFU can support project companies to meet sustainability objectives and contribute to capacity building. There are two types of grants; an assessment grant (of up to DKK 75,000), which may be provided to cover actual costs of an expert assessment of significant sustainability issues and training needs at the company and/or at key suppliers; and a main grant (of up to DKK 500,000), which may be provided to implement sustainability measures, technical assistance and sustainability training.

In 2016, eight projects received grants, of which one was an assessment grant and seven were main grants. As an example, a main grant was given to the large wind farm project Lake Turkana, focussing on training in HIV/AIDS awareness and family planning. Another main grant was given to a coffee roasting project to carry out a human rights impact assessment as a part of the UNGP due diligence process for the operation. The operation is in Kenya, but the impact assessment will also include in-depth review of a number of sourcing countries.

NEW HANDBOOK ON CORPORATE GOVERNANCE



Corporate governance refers to the structures and processes by which a company is directed and controlled. IFUs' board of directors approved a policy on corporate governance in 2016. To operationalise this policy in our investment preparation and execution process, IFU has developed a corporate governance toolkit as well as a handbook on board work and corporate governance, which is available on our website.



ORGANISATION

Investment activity

IFU's investment teams, five regional and two sector teams, work closely together on developing new investments as well as managing the existing investment portfolio. In 2016, an investment team for Danish SME partners was established. The SME investment team assists SMEs in gaining access to enhanced advisory support and hand-held guidance during the preparation and the initial critical years of a project's life-cycle with the goal of securing more successful projects.

IFU's regional offices in Asia, Africa, Latin America and Europe are all part of a regional team with investment professionals located in Copenhagen as well as in the respective regions. In 2016, IFU transferred its China office from Beijing to Shanghai. The office in Cairo was closed, and the MENA region is now fully serviced by the regional team primarily based in Copenhagen.

Widening core competences

IFU held a two-day investment seminar for all investment professionals and others working closely with the investments, as well as all IFU advisers. The focus of this bi-annual investment seminar is networking and training on selected topics. On this year's agenda was a discussion of the future of the development agenda as well as IFU's development impact and how this is measured. Corporate governance in the project companies is an important topic, and a new policy as well as a toolkit were presented. This was followed up by internal training sessions during the autumn.

Gender composition

IFU's policy and objectives for the gender composition of the board and leadership positions in IFU follow the guidelines of the Danish Business Authority, Section 11 (2) of the

Employee turnover*	7.2%
Retention (five years of seniority or more)*	68%
New people on-boarded*	9

*Excluding students and others on hourly wage

Danish Gender Equality Act and Section 99 b of the Danish Financial Statements Acts.

IFU's board of directors consists of up to ten members and is appointed by the Minister for Development Cooperation. In order to have a balanced composition on the board of directors, the objective is to have representation of at least one third of each gender. Currently, the objective is not met, as the board consists of six members and one observer², of whom five are male (86 per cent) and one is female (14 per cent). It is expected to meet the objective during 2020 at the latest.

The objective for the gender composition of leadership positions at IFU is the same as the above. IFU met the objective in 2016, given the 62/38 per cent split between males and females. It is IFU's policy to increase the share of the under-represented gender in leadership positions.

HR statistics

IFU had 78 full-time employees and on average 39 advisers working on projects in 2016.

15 different nationalities are represented among IFU's employees, and 21 per cent of the full-time employees are based at IFU's regional offices. The average age of IFU's employees is 43 years, and the average seniority is nine years. There is a 53/47 percentage split between male and female employees.

2) Observers are not included as per the guidelines from the Danish Business Authority.

FINANCIAL REVIEW

IFU recorded net income of DKK 218m in 2016, above the result of DKK 194m in 2015 and also ahead of expectations a year ago. The result was due to a continued strong performance from both share capital investments and loans. Gross yield on share capital investments decreased slightly, but remained at double digits at 11.1 per cent against 12.7 per cent in 2015. Gross yield from loans contributed 7.9 per cent, up from 7.7 per cent in 2015. Other contribution from project activities was around nil, a large improvement over DKK (16)m in 2015 due to provisions.

Net operating expenses were lower than in 2015. Net financial income was slightly negative.

IFU's equity end of year 2016 was DKK 2,984m.

Dividend policy approved and proposed dividend distribution for 2016

As mentioned on page 14, the Act governing IFU was amended in 2016, among other things to include the possibility of IFU distributing dividends to the State. A dividend policy was agreed between the board and the Minister for Foreign Affairs and based on this, the board in 2016 recommended and the Minister for Foreign Affairs approved that a dividend of DKK 50m for the year 2015 is to be paid out in 2017. The dividend was approved after the approval of the 2015 annual accounts and is therefore not reflected as a dividend distribution for that year. It is included as a payable in the 2016 accounts.

For 2016, the board recommends a dividend of DKK 50m to be paid out in 2018.

Contribution from projects

Total contributions from IFU's primary project-related activities were DKK 269m against DKK 249m in 2015.

Share capital investments contributed DKK 190m in 2016, identical to 2015.

Half of the contribution (DKK 96m) was due to value adjustments on the portfolio, while the rest is split between contribution from divestments and dividends. Value adjustments are made in accordance with the fair market value principle and IFU guidelines.

Project loans and guarantees contributed DKK 80m in 2016 against DKK 74m in 2015. Value adjustments were positive



Niebuhr China, production of gearwheels

DKK 13m as provisions made in previous years could be reversed. In 2015 value adjustments were just about nil. Net effect of exchange rate adjustments and hedges was DKK (1)m against DKK 15m in 2015. Interest and fees income, after provisions but before hedging arrangements, were DKK 66m, an increase compared to DKK 59m in 2015.

Interest and fee income measured against the average loan and guarantee portfolio was 6.6 per cent and 6.2 per cent for 2016 and 2015, respectively.

Other contributions from projects were DKK (1)m in 2016 against DKK (16)m in 2015, the latter being due to provisions on receivables.

Operating expenses

Net operating expenses for IFU in 2016 were DKK 49m, lower than DKK 55m in 2015.

Overall gross expenses covering both IFU and IFU managed funds rose to DKK 95m from DKK 87m in 2015. The in-

crease was in particular due to higher salary expenses at the head office, as IFU staffed up to cope with increasing activity and management tasks. Full year effect of the expansion will add an extra DKK 2m to expenses and further increases in staff are planned in 2017. IT expenses also grew markedly in 2016. Detailed expense figures can be seen in note 4 in the accounts.

Overall income from IFU managed funds (besides IØ) and operating activities were DKK 42m, a substantial increase from DKK 27m in 2015, mainly due to DAF management fees.

The resulting net operating expenses of DKK 53m (DKK 60m in 2015) are divided between IFU and IØ based on size of average total project commitment. IØ's part of the expenses decreased to DKK 4m from DKK 5m in 2015, as the fund continues to divest its portfolio. IFU's part was DKK 49m. Measured against average total project commitments, the expense ratio fell to 1.2 per cent in 2016 from 1.4 per cent in 2015. The large decline reflects both lower net expenses for IFU and a large increase in average total project commitment due to the high activity level in 2016. IFU expects increasing expenses in 2017 and an expense ratio closer to the level of 2015.

Financial income, cash flows and balance sheet items

Net financial income was DKK (2)m compared to DKK (0)m in 2015. The result reflects among other things the negative interest rate environment during the year.

IFU disbursed a record DKK 667m to new investments in 2016 and at the same time kept net cash flow for the year more or less in balance with DKK (11)m. Amounts received from project investments were DKK 688m. Cash end of year was DKK 202m, and undisbursed commitments were DKK 1,742m.

The high level of commitments compared to cash underlines the need for stringent management of IFU's liquidity

position. Commitments, however, only translate into disbursements over a multi-year period, and according to IFU's liquidity policy the aim is to always have a positive cash position. Further, the liquidity position is backed by a DKK 300m credit facility shared with IØ (DKK 282m available for drawing at end of 2016). Including the credit facility total liquidity resources available to IFU amounted to DKK 484m at year-end 2016. It is noted that the Danish Finance Act for 2017 includes a capital injection to IFU of DKK 200m as well as an ear-marked contribution of DKK 100m to the proposed SDG fund. In addition, IFU is exploring possible avenues for debt funding.

As per 31 December 2016, IFU had equity of DKK 2,984m, up from DKK 2,802m at 31 December 2015. The net change reflects the net income of DKK 218m in 2016 plus paid-in capital of 14m related to the Project Development Programme (PDP) and less the approved dividend of DKK 50m for 2015.

Risk management

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

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

In preparing the financial statements, management makes a number of estimates and assumptions of future events that will affect the carrying amount of assets and liabilities. The areas where estimates and assumptions are most critical to the financial statements are the fair value measurement of share capital investments and the fair value measurement of project loans. The note on accounting policies and note 26 on fair value measurement basis provide more details.

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

	2016	2015
Average total project commitment (DKKm)	4,242	3,800
Operating expenses (DKKm)	49.0	54.5
Expense ratio (%)	1.2	1.4

Distribution of project commitments as at 31 December 2016 – five largest single country portfolios

Country	2016 (%)	2015 (%)
China	10.0	13.1
Kenya	6.5	4.1
India	5.8	6.8
Ukraine	5.0	4.2
Vietnam	5.0	5.4

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

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

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

Details on equity, credit, currency, interest rate risk and liquidity risk are provided in notes 20 to 24 to the financial statement.

Events after the balance sheet date

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

Outlook for 2017

In 2017, IFU expects to invest in the range of DKK 450-500m. The figure includes additional financing to existing investments and takes into account that investment levels will be increasing in other IFU managed funds – particularly in DCIF and DAF. IFU expects a somewhat lower profit level in 2017 than in 2016.

Including IFU managed funds, IFU expects to invest in the range of DKK 1,250-1,350m, a further increase over the record level achieved in 2016.

Haldor Topsøe Catalyst, China.



STATEMENT

STATEMENT BY THE MANAGEMENT ON THE ANNUAL REPORT

The executive management and the board of directors have today considered and approved the annual report of the Investment Fund for Developing Countries (IFU) for the financial year 1 January – 31 December 2016.

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

In our opinion, the annual report gives a true and fair view of IFU's financial position as per 31 December 2016 and of the results of IFU's operations and cash flows for 2016.

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

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

Copenhagen, 6 April 2017

EXECUTIVE MANAGEMENT:



Tommy Thomsen, CEO



Torben Huss, Executive Vice President

BOARD OF DIRECTORS:



Michael Rasmussen, Chairman



Lars Andersen, Deputy Chairman



Jens Jørgen Kollerup



Bjarne H. Sørensen



Dorrit Vanglo



Mads Kjær

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of IFU for the financial year 1 January – 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of IFU's financial position at 31 December 2016 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. In addition, the audit was performed in accordance with generally accepted public auditing standards and the agreement regarding the audit of IFU between the Ministry of Foreign Affairs and the Auditor General. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of IFU in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IFU's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on IFU's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause IFU to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management's review

Management is responsible for the management's review.

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

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

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

Based on our procedures, we conclude that the management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did

not identify any material misstatement of the management's review.

Report on other legal and regulatory requirements

Statement on compliance audit and performance audit

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

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

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

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

Copenhagen, 6 April 2017

Ernst & Young

Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Lars Rhod Søndergaard
State Authorised Public Accountant



Henrik Barner Christiansen
State Authorised Public Accountant



In 2016, IFU achieved
a satisfactory **financial**
net result of DKK 218m

Income statement

	2016	2015
Note	DKK 1,000	DKK 1,000
2/ Contribution from share capital investments	190,135	190,822
3/ Contribution from project loans and guarantees	79,578	74,270
4/ Other contributions from projects	(560)	(16,498)
Contribution from associates	<u>0</u>	<u>10</u>
GROSS CONTRIBUTION FROM PROJECTS	<u>269,153</u>	<u>248,604</u>
5/ Operating expenses, net	<u>(48,952)</u>	<u>(54,536)</u>
OPERATING INCOME	<u>220,201</u>	<u>194,068</u>
6/ Financial income, net	<u>(2,020)</u>	<u>(396)</u>
NET INCOME FOR THE YEAR	<u>218,181</u>	<u>193,672</u>

Balance sheet at 31 December

Assets

	2016	2015
Note	DKK 1,000	DKK 1,000
FIXED ASSETS		
Share capital investment in projects at cost	1,620,763	1,565,008
Value adjustments	<u>149,682</u>	<u>99,049</u>
^{7/} Share capital investment in projects	1,770,445	1,664,057
Project loans at cost	1,101,886	1,017,761
Value adjustments	<u>(67,279)</u>	<u>(102,168)</u>
^{8/} Project loans, net	1,034,607	915,593
^{9/} Investment in subsidiaries	1,680	1,130
^{10/} Fixed assets and leasehold improvements	<u>4,010</u>	<u>4,483</u>
Total fixed assets	<u>2,810,742</u>	<u>2,585,263</u>
CURRENT ASSETS		
^{11/} Interest receivable related to projects	17,268	16,604
^{12/} Other receivables	94,871	88,034
Cash	<u>202,191</u>	<u>202,286</u>
Total current assets	<u>314,330</u>	<u>306,924</u>
TOTAL ASSETS	<u>3,125,072</u>	<u>2,892,187</u>

Balance sheet at 31 December

Liabilities and equity

	2016	2015
Note	DKK 1,000	DKK 1,000
EQUITY		
Paid-in capital	1,166,342	1,152,342
Repaid capital	(1,250,000)	(1,250,000)
Proposed dividend	50,000	0
Retained earnings	<u>3,017,396</u>	<u>2,899,215</u>
^{13/} Total equity	<u>2,983,738</u>	<u>2,801,557</u>
PROVISION FOR LOSSES		
Guarantees	2,367	3,054
CURRENT LIABILITIES		
Drawn on bank credit facility	10,745	0
^{14/} Other current liabilities	<u>128,222</u>	<u>87,576</u>
	<u>138,967</u>	<u>87,576</u>
Total liabilities	<u>138,967</u>	<u>87,576</u>
TOTAL EQUITY, PROVISION FOR LOSSES AND LIABILITIES	<u>3,125,072</u>	<u>2,892,187</u>

^{1/} ACCOUNTING POLICIES

^{15/} UNDISBURSED COMMITMENTS TO PROJECTS AND CLEARANCES IN PRINCIPLE

^{16/} CONTINGENT LIABILITIES

^{17/} RELATED PARTY DISCLOSURES

^{18/} RECOMMENDED APPROPRIATION OF PROFIT

^{19/} FINANCIAL HIGHLIGHTS, INVESTMENTS CONTRACTED IN 2016 AND SUSTAINABILITY CLASSIFICATION

^{20/} FINANCIAL RISK MANAGEMENT

^{21/} EQUITY AND CREDIT RISK

^{22/} CURRENCY RISK

^{23/} INTEREST RATE RISK

^{24/} LIQUIDITY RISK

^{25/} CLASSIFICATION OF FINANCIAL INSTRUMENTS

^{26/} FAIR VALUE MEASUREMENT BASIS

Cash flow statement

	2016	2015
	DKK 1,000	DKK 1,000
CASH FLOW FROM OPERATING ACTIVITIES		
Dividends from projects received	29,310	50,240
Interest from projects received	56,767	50,814
Other project related payments	9,642	12,287
Operating expenses, net	(42,833)	(43,340)
Net payments related to financial income and expenses	<u>(1,769)</u>	<u>(221)</u>
Net cash from operating activities	<u>51,117</u>	<u>69,780</u>
CASH FLOW FROM (TO) INVESTING ACTIVITIES		
Received from sale of shares	394,712	101,981
Received from project loans	222,401	208,138
Received from derivatives, loans	(25,258)	(19,313)
Paid-in share capital in projects	(351,034)	(345,016)
Disbursement of project loans	(316,228)	(154,393)
Paid-in capital in subsidiaries	<u>(550)</u>	<u>0</u>
Net cash from (to) investing activities	<u>(75,957)</u>	<u>(208,603)</u>
CASH FLOW FROM (TO) FINANCING ACTIVITIES		
Paid-in capital received during the year	<u>14,000</u>	<u>0</u>
Net cash from (to) financing activities	<u>14,000</u>	<u>0</u>
NET CHANGE IN CASH	(10,840)	(138,823)
NET CASH BEGINNING OF YEAR	<u>202,286</u>	<u>341,109</u>
NET CASH END OF YEAR	<u>191,446</u>	<u>202,286</u>
- Shown as cash in current assets	202,191	202,286
- Shown as drawn on bank credit facility	(10,745)	0

Note

1/ Accounting policies

This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

Implementation of new accounting legislation

With effect from 1 January 2016, IFU has implemented the changes to the Danish Financial Statements Act as required by the changed act dated 1 June 2015.

With this implementation, IFU applies the accounting principles described in the Danish Financial Statements Act section 37 art. 5, on measurement of financial assets and liabilities in accordance with the International Reporting standards 'IFRS' as adopted by the EU.

Financial assets and liabilities comprise:

- Share capital investment in projects
- Project loans
- Interest receivables related to projects
- Other receivables
- Cash
- Derivative financial instruments
- Current liabilities
- Financial guarantees and commitments

The IFRS principles for recognition and measurement of financial instruments (IAS 39) are compatible with IFU's existing accounting policies. Accordingly, the implementation did not give rise to changes to IFU's accounting policies as applied in previous annual reports.

Below, the accounting principles for each class of financial asset and liability are outlined.

Presentation and classification

To better reflect IFU's activities, the presentation of the income statement and balance sheet as well as the order of the line items in the income statement deviate from the standard tables in the Danish Financial Statements Act. By presenting the primary statements on the basis

of IFU's special character as an investment fund (long-term investments), the financial statements hereby provide the reader with the best possible clarity of IFU's activities. The deviation is in concurrence with Section 23 (4) of the Danish Financial Statements Act.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to IFU, and provided that the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when IFU has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of IFU, and the value of the liabilities can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Adjustment subsequent to initial recognition is effected as described below for each item.

Information brought to IFU's attention before the time of finalising the presentation of the annual report, and which confirms or invalidates affairs and conditions existing at the balance sheet date, is considered at recognition and measurement.

Income other than value adjustments is recognised in the income statement when earned, just as costs are recognised by the amounts attributable to this financial year. Value adjustments of financial assets and liabilities are recognised in the income statement as value adjustments.

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction

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

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

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

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

Foreign currency adjustment

Foreign currency transactions are initially recognised in DKK using the exchange rate at the transaction date. Loans, receivables, payables and other monetary items denominated in foreign currencies, which have not been settled at the balance sheet date, are converted into DKK using the exchange rate at the balance sheet date. All exchange rate adjustments, including those that arise at the payment date, are recognised in the income statement as contribution from projects or financial income and expenses, depending on their nature.

Non-monetary items

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

Derivative financial instruments

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

Changes in the fair value of derivative financial instruments are recognised in the income statement as either "Contribution from project loans and guarantees", if related to economical hedging of project loans, or "Other contributions from projects", if related to economical hedging of receivables from sale of shares.

INCOME STATEMENT

Contribution from share capital investments

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

Contribution from project loans and guarantees

Contribution from project loans and guarantees includes interest, value adjustments, including exchange rate adjustments in relation to the portfolio, the effect of derivatives and other value adjustments, principally of interest receivables.

Other contributions from projects

Other contributions from projects include value adjustments, including exchange rate adjustments in relation to receivables, the effect of derivatives and interest from receivables.

Operating expenses, net

Operating expenses, net are total operating expenses in-

curring by IFU less income received for management services rendered by IFU, other than from the Investment Fund for Central and Eastern Europe (IØ), and income related to operating activities. Operating expenses, net are divided at year-end between IFU and IØ proportionate to average total project commitments during the year (the sum of outstanding investments at cost, remaining commitments and binding commitments).

Operating expenses comprise expenses for management, administrative staff, office expenses, depreciation of fixed assets and leasehold improvements, etc. Income related to operating activities includes board member fees, etc.

Income from investments in associates and subsidiaries

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

Financial income, net

Financial income, net comprises interest income on cash and bonds, realised and unrealised capital gains and losses on bonds, interest expenses, exchange rate adjustments on cash and bank charges.

BALANCE SHEET

Share capital investment in projects

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

Share capital investments in projects where IFU has significant influence are associates and are accounted for as share capital investments.

Project loans

Project loans are designated as loans and receivables and are recognised when they are disbursed. Project loans are initially recognised at cost, which is fair value and are

subsequently measured at amortised cost less any allowance for impairment.

Investments in subsidiaries and associates

Investments in subsidiaries are included in the balance at cost less accumulated impairment losses. Subsidiaries are insignificant in size and consolidated accounts have not been made. Associates that are not share capital investments in projects are disclosed as associates.

Fixed assets and leasehold improvements

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

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

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

Interest receivable related to projects and other receivables

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

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

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

Cash and cash equivalents

Bonds are stated at the official prices quoted on the balance sheet date except for drawn bonds, which are stated at par value. Realised and unrealised gains or losses on

bonds are recognised in the income statement under financial income, net.

Impairment of financial assets

IFU assesses at a continuing basis whether a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. The carrying amount of the asset is reduced through individual impairment on separate allowance accounts, and the amount of the loss is recognised in profit or loss as either "Contribution from project loans and guarantees" or "Other contributions from projects".

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has

been transferred to IFU. If a previous write-off is later recovered, the recovery is credited to either "Contribution from project loans and guarantees" or "Other contributions from projects", respectively.

Current liabilities

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

CASH FLOW STATEMENT

The cash flow statement has been prepared in accordance with the direct method and shows IFU's cash flow from operating, investing and financing activities as well as IFU's cash position at the beginning and end of the year.

Cash comprises cash at hand less short-term bank debt.

Commitments

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

Notes

	2016	2015
Note	DKK 1,000	DKK 1,000
^{2/} <u>Contribution from share capital investments</u>		
Dividends from projects	28,370	34,024
Contribution from divested share capital investments	65,972	63,442
Value adjustments, portfolio	<u>95,793</u>	<u>93,356</u>
Contribution from share capital investments	<u>190,135</u>	<u>190,822</u>
^{3/} <u>Contribution from project loans and guarantees</u>		
Interest income and fees related to project loans and guarantees	69,450	62,742
Value adjustments, loan portfolio	13,451	(227)
Value adjustments, guarantees	689	278
Exchange rate adjustments, project loans	14,702	58,197
Value adjustments, derivatives	(15,692)	(43,293)
Value adjustments, interest and fees	<u>(3,022)</u>	<u>(3,427)</u>
Contribution from project loans and guarantees	<u>79,578</u>	<u>74,270</u>
^{4/} <u>Other contributions from projects</u>		
Value adjustments, receivables, excl. exchange rate adjustments	(409)	(18,783)
Exchange rate adjustments, receivables	(210)	2,677
Interest from receivables	1,305	575
Other income and expenses	<u>(1,246)</u>	<u>(967)</u>
Other contributions from projects	<u>(560)</u>	<u>(16,498)</u>

Notes

	2016	2015
Note	DKK 1,000	DKK 1,000
^{5/} <u>Operating expenses, net</u>		
<u>Expenses</u>		
Salaries, head office	46,554	41,371
Rental expenses	7,000	6,594
Travelling expenses	4,583	5,651
Regional office expenses	14,637	15,218
Fees for board of directors	989	1,016
Fees for external assistance	4,661	3,971
IT expenses	6,319	4,633
Office expenses	1,370	1,285
Various expenses	6,666	6,099
Depreciation of fixed assets and leasehold improvements (note 10)	988	834
Total expenses before non-refundable VAT/taxes	93,767	86,672
Non-refundable VAT/taxes	1,133	515
Total expenses	94,900	87,187
<u>Income</u>		
Management fees	(41,725)	(26,734)
Board member fees	(386)	(208)
Various income	(244)	(225)
Total income	(42,355)	(27,167)
Total operating expenses, net (IFU and IØ)	52,545	60,020
Operating expenses, net charged to IØ	(3,593)	(5,484)
IFU's part of operating expenses, net	48,952	54,536
Fee to the auditor of the funds included in "Fees for external assistance" and "Various expenses":	1,056	594
- hereof audit fees	593	515
- hereof other assurance engagements	139	0
- hereof tax and VAT advice	31	20
- hereof other non-audit services	293	59

Notes

	2016	2015
Note	DKK 1,000	DKK 1,000
Specification of personnel expenses (salaries etc.)*		
Salaries, remunerations etc.	50,266	46,123
Pension contributions	4,329	4,156
Other expenses for social security	251	232
Payroll tax	<u>1,140</u>	<u>552</u>
Personnel expenses in total	<u>55,986</u>	<u>51,063</u>
*) The figures are included in "Salaries, head office", "Travelling expenses", "Regional office expenses", "Fees for board of directors" and "Non-refundable VAT/taxes".		
Remuneration to the board of directors:		
Michael Rasmussen, Chairman	255	253
Lars Andersen, Deputy Chairman	188	186
Other board members *)	<u>546</u>	<u>577</u>
Total remuneration to the board of directors	<u>989</u>	<u>1,016</u>
Remuneration to the executive board:		
Salaries and pension **)	3,458	3,570
Performance remuneration	<u>579</u>	<u>539</u>
Total remuneration to the executive board	<u>4,037</u>	<u>4,109</u>
Total remuneration to the board of directors and executive board	<u>5,026</u>	<u>5,125</u>
*) Four members (Five members in 2015)		
**) Hereof pension 453 (444 in 2015). The figure for 2015 includes a non-recurring one-time payment of 156.		
Average number of employees, head office	62	56
Average number of employees, regional offices	<u>16</u>	<u>16</u>
	<u>78</u>	<u>72</u>

Notes

	2016	2015
Note	DKK 1,000	DKK 1,000
^{6/} <u>Financial income, net</u>		
<u>Financial income</u>		
Interest income, cash and bonds	<u>(118)</u>	<u>354</u>
Financial income	<u>(118)</u>	<u>354</u>
<u>Financial expenses</u>		
Interest expenses, bank charges and exchange rate adjustments	<u>(1,902)</u>	<u>(750)</u>
Financial expenses	<u>(1,902)</u>	<u>(750)</u>
Financial income, net	<u>(2,020)</u>	<u>(396)</u>

Notes

	2016	2015
Note	DKK 1,000	DKK 1,000
7/ <u>Share capital investment in projects</u>		
Share capital investment in projects beginning of year at cost	1,565,008	1,384,709
Paid-in share capital in projects during the year	351,034	345,016
Project loans or interest converted into share capital during the year	3,200	10,321
Proceeds from divestment of shares	(409,611)	(176,014)
Income from divestment of shares relative to cost, net	<u>111,132</u>	<u>976</u>
Share capital investment in projects end of year at cost	<u>1,620,763</u>	<u>1,565,008</u>
Accumulated value adjustments beginning of year	99,049	(55,096)
Reversed value adjustments, divested share capital investments	(45,160)	62,465
Value adjustments, portfolio during the year	95,793	93,356
Value adjustments related to conversions during the year	<u>0</u>	<u>(1,676)</u>
Accumulated value adjustments end of year	<u>149,682</u>	<u>99,049</u>
Share capital investment in projects end of year	<u>1,770,445</u>	<u>1,664,057</u>
Herof associated companies:		
Share capital investment in projects end of year at cost	713,664	585,695
Accumulated value adjustments end of year	<u>3,267</u>	<u>(87,037)</u>
	<u>716,931</u>	<u>498,658</u>
Accumulated value adjustments end of year are comprised of:		
Positive value adjustments	432,545	381,807
Negative value adjustments	<u>(282,863)</u>	<u>(282,758)</u>
	<u>149,682</u>	<u>99,049</u>

Notes

Note

Investment in subsidiaries comprises of:

DKK 1,000

Name/domicile:	Form of company:	IFU's ownership interest (%)	2016	
			Result According to the latest approved annual report	Equity
Africa Coffee Roasters Limited, <i>Kenya</i>	Ltd.	20.00%	N/A	N/A
AfriNord Hotel Investment A/S, <i>Denmark</i>	A/S	20.00%	311	4,302
Afro Farm Limited, <i>Tanzania</i>	Ltd.	40.22%	N/A	N/A
Al Quseir Hotel Company SAE, <i>Egypt</i>	SAE	20.00%	(133)	33,357
Aller Aqua China A/S, <i>Denmark</i>	A/S	40.00%	(698)	40,084
Arab Investment Fund K/S, <i>Denmark</i>	K/S	33.33%	(3,858)	143,084
AVK Foundry Holding ApS, <i>Denmark</i>	ApS	34.20%	(9,215)	52,788
BC Design Holding Ltd., <i>Hong Kong</i>	Ltd.	40.00%	(129)	20,214
Birger Christensen China Holding A/S, <i>Denmark</i>	A/S	40.00%	(451)	2,155
Bukkehave Distribution ApS, <i>Denmark</i>	Aps	40.00%	(7,606)	(4,941)
CDM Ukraine ApS, <i>Denmark</i>	ApS	49.00%	(407)	49
ClickBeauty International ApS, <i>Denmark</i>	ApS	25.00%	N/A	N/A
Compact India Pvt. Ltd., <i>India</i>	Ltd.	38.40%	(8,724)	13,454
Conveyor Teknik India, <i>India</i>	Pvt. Ltd.	40.80%	(368)	2,428
Dagens Bedste Udviklingslande ApS, <i>Denmark</i>	ApS	50.00%	(1,672)	8,354
Danish Microfinance Partners K/S, <i>Denmark</i>	K/S	24.92%	79,330	443,976
DanMoz Holding A/S, <i>Denmark</i>	A/S	25.00%	(5,418)	54,000
Danper Agricola La Venturosa S.A.C., <i>Peru</i>	S.A.C.	45.00%	(26,681)	75,110
Danper Agricola Olmos S.A.C., <i>Peru</i>	S.A.C.	25.00%	21,737	141,198
DESMI India LLP, <i>India</i>	LLP	30.00%	N/A	N/A
DSC Denmark Holding ApS, <i>Denmark</i>	ApS	33.33%	(1,831)	4,169
Efact Holding ApS, <i>Denmark</i>	ApS	49.00%	(12,645)	2,765
Elgon Road Developments Ltd, <i>Kenya</i>	Ltd.	27.18%	(9,955)	292,651
EMF Cooling Systems Hong Kong Limited, <i>Hong Kong</i>	Ltd.	26.77%	4,675	54,870
Falck Lanka (Pvt.) Limited, <i>Sri Lanka</i>	Ltd.	41.90%	(4,078)	(10,023)
Falck Medical Services Africa A/S, <i>Denmark</i>	A/S	20.00%	N/A	N/A
Farm and Garden Technologies Pvt. Ltd., <i>India</i>	Ltd.	35.19%	(362)	4,414
Fertin India Private Limited, <i>India</i>	Ltd.	25.00%	(1,291)	24,254
Fiberline Asia Limited, <i>Hong Kong</i>	Ltd.	24.89%	343	(652)
Fibertex South Africa, <i>South Africa</i>	Pty. Ltd.	25.80%	(433)	1,763
Frontier Trading Co. Ltd., <i>China</i>	Ltd.	40.00%	N/A	N/A

Notes

Note

Investment in subsidiaries comprises of:

DKK 1,000

Name/domicile:	Form of company:	IFU's ownership interest (%)	2016	
			Result According to the latest approved annual report	Equity
Ghana Emulsion Limited, <i>Ghana</i>	Ltd.	26.10%	N/A	N/A
Gustu Gastronomía S.A., <i>Bolivia</i>	S.A.	45.00%	(1,117)	6,579
Haldor Topsøe Catalyst (Tianjin) Co. Ltd., <i>China</i>	Ltd.	20.64%	(68,289)	153,475
HASLE Refractories India Pvt. Ltd., <i>India</i>	Ltd.	40.00%	(1,164)	(1,360)
Helnan International Hotels A/S*, <i>Denmark</i>	A/S	64.75%	(31,137)	7,872
HortiQ (Thailand) Company Limited, <i>Thailand</i>	Ltd.	40.00%	500	6,045
House of Odin Ltd., <i>Nigeria</i>	Ltd.	20.20%	(773)	9,263
IBF Uganda ApS, <i>Denmark</i>	ApS	35.64%	(1,072)	(17)
Jema Autolife Co., Ltd, <i>China</i>	Ltd.	44.01%	(2,112)	(1,972)
Kenya Property Holding ApS, <i>Denmark</i>	ApS	49.00%	N/A	N/A
Kosan Crisplant Cameroun S.A., <i>Cameroun</i>	S.A.C.	21.92%	(2,181)	4,083
Merkur Udviklingslån A/S, <i>Denmark</i>	A/S	50.00%	383	16,052
Mim Cashew & Agricultural Products Limited, <i>Ghana</i>	Ltd.	20.00%	(2,644)	98,922
Mocotex Mozambique, <i>Mozambique</i>	S.A.	50.00%	N/A	N/A
Motorcare Services Holding A/S*, <i>Denmark</i>	A/S	83.33%	(2,642)	31,406
Newtelco Georgia Ltd., <i>Georgia</i>	Ltd.	20.00%	(834)	(488)
Niebuhr Gears (Tianjin) Co., Ltd, <i>Hong Kong</i>	Ltd.	25.00%	1,738	29,356
Nordic Microfinance Initiative AS, <i>Norway</i>	A/S	33.30%	N/A	N/A
Nordic Microfinance Initiative Fund III KS, <i>Norway</i>	K/S	24.40%	N/A	N/A
Normeca International (Thailand) Co.Ltd., <i>Thailand</i>	Ltd.	25.00%	372	2,703
Orana India Pvt Ltd, <i>India</i>	Ltd.	36.95%	(2,845)	1,135
Protena International A/S, <i>Denmark</i>	A/S	23.00%	(7,856)	(5,439)
Rabai Power Holdings Limited, <i>United Kingdom</i>	Ltd.	20.00%	142,123	330,608
RM Asia ApS, <i>Denmark</i>	ApS	23.86%	(4,712)	3,055
Starco Lanka Pvt. Ltd., <i>Sri Lanka</i>	Ltd.	39.74%	(322)	3,493
Wagner China ApS, <i>Denmark</i>	ApS	40.00%	N/A	N/A

*) IFU contributes with B-shares and does not have control.

Notes

	2016	2015
Note	DKK 1,000	DKK 1,000
8/ <u>Project loans, net</u>		
Project loans beginning of year at cost	1,017,761	1,051,384
Disbursements during the year	316,228	154,393
Interest and fees converted into project loans during the year	357	1,301
Repayments during the year	(222,401)	(208,138)
Project loans converted into share capital during the year	(3,200)	(10,321)
Exchange rate adjustments, project loans	14,702	58,197
Project loans transferred to other receivables during the year	0	(6,766)
Write-offs during the year	<u>(21,561)</u>	<u>(22,289)</u>
Project loans end of year at cost *	<u>1,101,886</u>	<u>1,017,761</u>
Accumulated value adjustments beginning of year	(102,168)	(124,885)
Reversed value adjustments, loans written off	(23,666)	(17,424)
Value adjustments	58,677	39,485
Value adjustments related to conversions during the year	<u>(122)</u>	<u>656</u>
Accumulated value adjustments end of year	<u>(67,279)</u>	<u>(102,168)</u>
Project loans, net end of year	<u>1,034,607</u>	<u>915,593</u>
*) Project loans end of year at cost are comprised of:		
Senior project loans	971,610	881,376
Subordinated loans	96,770	103,220
Equity loans	<u>33,506</u>	<u>33,165</u>
	<u>1,101,886</u>	<u>1,017,761</u>

Notes

2016

2015

Note

DKK 1,000

DKK 1,000

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

	2016	2015		
	Currency	Currency		
DKK			149,614	158,130
USD ¹	73,882	77,970	521,075	532,535
EUR	51,732	37,460	384,596	279,545
Other currencies			<u>46,601</u>	<u>47,551</u>
			<u>1,101,886</u>	<u>1,017,761</u>

¹⁾ USD 51.2m is hedged against DKK (USD 49.5m in 2015).

Notes

2016

2015

Note

DKK 1,000

DKK 1,000

9/ Investment in subsidiaries

Investment in subsidiaries beginning of year at cost	1,130	1,130
New investments during the year	<u>550</u>	<u>0</u>
Investment in subsidiaries end of year at cost	<u>1,680</u>	<u>1,130</u>
Accumulated value adjustments end of year	<u>0</u>	<u>0</u>
Investment in subsidiaries, net end of year	<u>1,680</u>	<u>1,130</u>

Investment in subsidiaries comprises of:

2016

Name/domicile:	Form of company:	IFU's ownership interest (%)	Result <i>According to the latest approved annual report</i>	Equity
IFU Investment Komplementar, Copenhagen, <i>Denmark</i>	ApS	100%	12	120
IFU Investment Partners GP, Copenhagen, <i>Denmark</i>	P/S	100%	(19)	442
DCIF I GP Komplementar, Copenhagen, <i>Denmark</i>	ApS	100%	6	62
DCIF I GP, Copenhagen, <i>Denmark</i>	P/S	100%	(11)	482
DAF I GP Komplementar, Copenhagen, <i>Denmark</i>	ApS	100%	N/A	N/A
DAF I GP, Copenhagen, <i>Denmark</i>	P/S	100%	N/A	N/A

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

Notes

	2016	2015
Note	DKK 1,000	DKK 1,000
10/ <u>Fixed assets and leasehold improvements</u>		
Cost beginning of year	9,696	9,014
Additions during the year	515	682
Disposals during the year	<u>(167)</u>	<u>0</u>
Cost end of year	<u>10,044</u>	<u>9,696</u>
Depreciation beginning of year	5,213	4,379
Depreciation for the year (note 5)	988	834
Depreciation for disposal of the year	<u>(167)</u>	<u>0</u>
Depreciation end of year	<u>6,034</u>	<u>5,213</u>
Book value end of year	<u>4,010</u>	<u>4,483</u>
11/ <u>Interest receivable related to projects</u>		
Interest receivable related to projects before value adjustments	30,700	29,099
Value adjustments	<u>(13,432)</u>	<u>(12,495)</u>
Interest receivable related to projects	<u>17,268</u>	<u>16,604</u>
12/ <u>Other receivables</u>		
Dividend receivables	83	931
Receivables from sale of shares	104,502	84,992
Receivables from sale of loan	1,859	3,731
Receivable front-end fees	1,477	1,689
Other project-related receivables	<u>705</u>	<u>1,293</u>
	108,626	92,636
Value adjustments	<u>(20,859)</u>	<u>(20,694)</u>
	87,767	71,942
Derivatives *)	252	0
Administrative receivables	4,605	13,855
Current accounts	0	0
Rental deposits	2,247	2,237
Deferred income	<u>0</u>	<u>0</u>
	<u>94,871</u>	<u>88,034</u>

*) Stated amount for 2016 concerns a hedged amount of USD 4.9m with term from 2016 to 2023.

Notes

	2016	2015
Note	DKK 1,000	DKK 1,000
^{13/} <u>Total equity</u>		
Paid-in capital beginning of year	1,152,342	1,152,342
Paid-in capital during the year	<u>14,000</u>	<u>0</u>
Paid-in capital end of year	<u>1,166,342</u>	<u>1,152,342</u>
Repaid capital beginning of year	<u>(1,250,000)</u>	<u>(1,250,000)</u>
Repaid capital end of year	<u>(1,250,000)</u>	<u>(1,250,000)</u>
Dividend proposed for the year	<u>50,000</u>	<u>0</u>
Retained earnings beginning of year	2,899,215	2,705,543
Dividend regarding previous year	(50,000)	0
Transferred income for the year	<u>168,181</u>	<u>193,672</u>
Retained earnings end of year	<u>3,017,396</u>	<u>2,899,215</u>
Total equity end of year	<u>2,983,738</u>	<u>2,801,557</u>
^{14/} <u>Other current liabilities</u>		
Other project-related debt	<u>4,895</u>	<u>13</u>
Derivatives *)	44,586	53,900
Dividend regarding previous year	50,000	0
Administrative debt	26,363	30,044
Current accounts	1,163	883
Deferred income	<u>1,215</u>	<u>2,736</u>
	<u>128,222</u>	<u>87,576</u>

*) Stated amount for 2016 concerns a hedged amount of USD 46.4m with term from 2016 to 2024.

Notes

2016

2015

Note

DKK 1,000

DKK 1,000

^{15/} Undisbursed commitments to projects and clearances in principle

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

Amounts payable on share capital and loan agreements	1,366,309	970,468
Guarantees*	29,118	41,604
Binding commitments	<u>346,726</u>	<u>580,503</u>
Undisbursed commitments to projects	<u>1,742,153</u>	<u>1,592,575</u>
Clearances in principle for new projects amount to	<u>908,396</u>	<u>1,030,850</u>

*) Net outstanding guarantees after provision for losses amount to 26,752 (38,549 in 2015)

^{16/} Contingent liabilities

The total lease and rental commitments amount to DKK 7.7m (DKK 8.1m in 2015)
- hereof due within the following year DKK 7.7m (DKK 8.1m in 2015).

^{17/} Related party disclosures

IFU project investments - shares and loans

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

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

Board of directors and executive board

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

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

^{18/} Recommended appropriation of profit

Dividend proposed for the year	50,000	0
Transferred to reserve under equity	<u>168,181</u>	<u>193,672</u>
	<u>218,181</u>	<u>193,672</u>

Note

- ^{19/} Financial highlights, Investments contracted in 2016, Developmental highlights and Sustainability classification
 Financial highlights (table) - see page 7
 Investments contracted in 2016 (table) - see page 12
 Sustainability classification (table) - see page 22

- ^{20/} Financial risk management

Introduction

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

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

- ^{21/} Equity and credit risk

Equity risk

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

Credit risk

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

Managing equity and credit risk

At the portfolio level, IFU mitigates equity risk and credit risk by investing in a variety of countries and by limiting the concentration of risks per partner. IFU assesses concentrations of risk on the basis of total commitments, which include acquisition cost of both share capital investments and project loans, binding commitments and amounts payable on share capital and loan agreements. Further IFU through the due diligence process assesses the specific risks for each share capital investment and project loan and seeks to mitigate associated equity and credit risks. For some of IFU's share capital investments, IFU has the opportunity to sell the shares through pre-agreed exit agreements. In this way, IFU mitigates the risk of not being able to exit the investments. See note 25 for fair value measurement basis.

On an ongoing basis, the credit quality of the projects is assessed based on among other things:

- Specific terms as agreed
- Current and expected operational results of the company
- Expected sales value and pledges
- Historical records of debt service

Notes

Note

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

2016	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%
2	230,521	14%	114,300	10%	344,821	13%	101,221	6%
3	109,564	7%	282,057	26%	391,621	14%	113,482	7%
4	90,222	6%	57,532	5%	147,754	5%	183,876	11%
5	158,748	10%	31,156	3%	189,904	7%	102,189	6%
6	273,919	17%	442,264	40%	716,183	26%	236,791	14%
7	74,895	5%	167,658	15%	242,553	9%	338,155	19%
Africa regional	409,941	25%	6,919	1%	416,860	15%	145,349	8%
DAC	223,491	14%	0	0%	223,491	8%	470,918	27%
Asia regional	49,462	3%	0	0%	49,462	2%	50,172	3%
Total	1,620,763	100%	1,101,886	100%	2,722,649	100%	1,742,153	100%

2015	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%
2	230,011	15%	90,381	9%	320,392	12%	222,323	14%
3	157,090	10%	261,167	26%	418,257	16%	177,833	11%
4	72,580	5%	36,354	4%	108,934	4%	14,771	1%
5	164,872	11%	47,718	5%	212,590	8%	156,198	10%
6	214,353	14%	390,864	38%	605,217	23%	85,299	5%
7	89,241	6%	182,174	18%	271,415	11%	114,425	7%
Africa regional	478,630	31%	9,103	1%	487,733	19%	174,403	11%
DAC	116,639	7%	0	0%	116,639	5%	590,683	37%
Asia regional	41,592	3%	0	0%	41,592	2%	56,640	4%
Total	1,565,008	100%	1,017,761	100%	2,582,769	100%	1,592,575	100%

Note

Credit quality/impairment

The table below shows the project loans at cost that are either past due or value adjusted.

DKK 1,000	2016	2015
Project loans, neither past due nor value adjusted	1,000,158	861,180
Project loans, past due but not value adjusted	12,322	18,749
Project loans, value adjusted	89,406	137,832
Total	1,101,886	1,017,761

The table below illustrates the credit quality by OECD Country risk for project loans that are neither past due nor value adjusted.

DKK 1,000	2016	2015
OECD 2	107,111	74,731
OECD 3	256,796	211,448
OECD 4	56,183	36,354
OECD 5	31,156	46,352
OECD 6	408,916	357,165
OECD 7	133,077	126,023
Africa regional	6,919	9,107
DAC	0	0
Asia regional	0	0
Total	1,000,158	861,180

The table below shows the distribution according to due date.

2016 DKK 1,000	Not value adjusted	Value adjusted	Project loans at cost	Value adjustments	Project loans, net
Project loans, not past due	1,000,158	66,790	1,066,948	(45,230)	1,021,718
Project loans, past due up to 12 months	5,556	5,727	11,283	(5,193)	6,090
Project loans, past due more than 12 months	6,766	16,889	23,655	(16,856)	6,799
Total	1,012,480	89,406	1,101,886	(67,279)	1,034,607

2015 DKK 1,000	Not value adjusted	Value adjusted	Project loans at cost	Value adjustments	Project loans, net
Project loans, not past due	861,180	99,265	960,445	(66,738)	893,707
Project loans, past due up to 12 months	21	9,522	9,543	(6,697)	2,846
Project loans, past due more than 12 months	18,728	29,045	47,773	(28,733)	19,040
Total	879,929	137,832	1,017,761	(102,168)	915,593

Note

Maximum exposure to credit risk

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

	2016		2015	
DKK 1,000	Carrying amount	Maximum credit exposure (contractual cash flow)	Carrying amount	Maximum credit exposure (contractual cash flow)
Project loans	1,034,607	1,101,886	915,593	1,017,761
Interest receivable related to projects	17,268	30,700	16,604	29,099
Other receivables	94,619	115,478	88,034	108,728
Derivatives	252	252	0	0
Cash	202,191	202,191	202,286	202,286
Commitments	0	477,128	0	343,390
Total	1,348,937	1,927,635	1,222,517	1,701,264

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

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

- Pledges
- Indemnities and counter-guarantees

The fair value of the pledges is DKK 257m (2015: DKK 142m) and for indemnity and guarantee commitments DKK 276m (2015: DKK 144m).

^{22/} Currency risk

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

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

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

IFU primarily uses cross currency swaps to hedge the exposure towards changes in foreign exchange rates on project loans. As exchange rate adjustments of the hedged item and fair value adjustments of the derivative financial instruments are recognised in the income statement, hedge accounting in accordance with IAS 39 is not applied.

Note

Currency exposure and sensitivity

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

2016

DKK 1,000	Project loans	Interest receivables	Other project related receivables	Hedged	Provision for losses Guarantees	Other project related debt	Net exposure	Increase in foreign exchange rates	Effects on profit or loss
USD	505,412	5,749	948	(361,285)	(2,367)	(26)	148,431	10%	14,843
EUR	358,828	7,363	65,506	0	0	(260)	431,437	1%	4,314
DKK	138,854	2,030	2,744	361,285	0	(4,609)	500,304	N/A	0
Other	31,513	2,126	18,569	0	0	0	52,208	10%	5,221
Total	1,034,607	17,268	87,767	0	(2,367)	(4,895)	1,132,380		

2015

DKK 1,000	Project loans	Interest receivables	Other project related receivables	Hedged	Provision for losses Guarantees	Other project related debt	Net exposure	Increase in foreign exchange rates	Effects on profit or loss
USD	496,089	7,188	1,125	(337,852)	(3,054)		163,496	10%	16,350
EUR	248,865	7,124	68,994	0	0		324,983	1%	3,250
DKK	138,725	1,919	890	337,852	0	(13)	479,373	N/A	0
Other	31,914	373	933	0	0		33,220	10%	3,322
Total	915,593	16,604	71,942	0	(3,054)	(13)	1,001,072		

Note

^{23/} Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Most of IFU's investments in project loans carry variable interbank interest rates, thus changes in interest rates will mainly affect future cash flows and income.

Interest rate exposure and sensitivity

The annual effect of changes in the interest rate only affects the fair value of fixed rate loans. For variable rates loans, the effect on profit and loss will be a change in the interest payments for the coming year.

The annual effect of an increase in the interest rate of 100 basis points is shown in the table below for fixed and variable interest rate loans.

2016					
DKK 1,000	Project loans	SWAP	Net exposure	Increase in interest rates	Effect on profit or loss
Fixed	69,950	(21,948)	48,002	100 bp	0
Variable	964,657	21,948	986,605	100 bp	(9,866)
Total	1,034,607	0	1,034,607		

2015					
DKK 1,000	Project loans	SWAP	Net exposure	Increase in interest rates	Effect on profit or loss
Fixed	66,342	(25,356)	40,986	100 bp	0
Variable	849,251	25,356	874,607	100 bp	(8,746)
Total	915,593	0	915,593		

^{24/} Liquidity risk

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

IFU has no external funding and is equity financed except for current liabilities comprised of administrative debt and negative fair value of derivative financial instruments.

IFU's primary exposure to liquidity risk arises from commitments to disburse share capital investments and project loans.

To meet these and other obligations, IFU, apart from capital contributions net of dividends, relies on a continuous positive cash flow from interest and repayments on project loans as well as dividends and sales of share capital investments to meet its obligations. It is IFU's policy to maintain a positive cash position. A DKK 300 million credit facility shared with IØ is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, DKK 282 million was available for drawing.

Note

Contractual maturities

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

2016							
DKK 1,000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	1,034,607	1,101,886	34,938	238,531	755,667	72,750	0
Interest receivable related to projects	17,268	30,700	30,700	0	0	0	0
Other receivables	94,619	115,478	2,422	92,242	0	0	20,814
Derivatives	252	252	0	12	189	51	0
Cash and cash equivalents	191,446	191,446	51,446	140,000	0	0	0
Total assets	1,338,192	1,439,762	119,506	470,785	755,856	72,801	20,814
Liabilities							
Derivatives	44,586	44,586	0	14,930	28,190	1,466	0
Other current liabilities	83,636	83,636	0	83,636	0	0	0
Provision for losses	2,367	2,367	0	0	0	0	2,367
Total liabilities	130,589	130,589	0	98,566	28,190	1,466	2,367
Off-balance							
Guarantees		29,118	0	0	0	0	29,118
Amounts payable on share capital and loan agreements		1,366,309	1,366,309	0	0	0	0
Binding commitments		346,726	0	346,726	0	0	0
Total off-balance		1,742,153	1,366,309	346,726	0	0	29,118

Notes

Note

2015

DKK 1,000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	915,593	1,017,761	35,583	261,537	639,858	80,783	0
Interest receivable related to projects	16,604	29,099	29,099	0	0	0	0
Other receivables	88,034	108,728	70	105,228	1,193	0	2,237
Derivatives	0	0	0	0	0	0	0
Cash and cash equivalents	202,286	202,286	52,286	150,000	0	0	0
Total assets	1,222,517	1,357,874	117,038	516,765	641,051	80,783	2,237
Liabilities							
Derivatives	53,900	53,900	0	16,333	36,377	1,190	0
Other current liabilities	33,676	33,676	0	33,676	0	0	0
Provision for losses	3,054	3,054	0	0	0	0	3,054
Total liabilities	90,630	90,630	0	50,009	36,377	1,190	3,054
Off-balance							
Guarantees		41,604	0	0	0	0	41,604
Amounts payable on share capital and loan agreements		970,468	970,468	0	0	0	0
Binding commitments		580,503	0	580,503	0	0	0
Total off-balance		1,592,575	970,468	580,503	0	0	41,604

Note

25/ Classification of financial instruments

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

2016				
DKK 1,000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Other liabilities at amortised cost	Total
Financial assets				
Share capital investment in projects	1,770,445	0		1,770,445
Project loans	0	1,034,607		1,034,607
Interest receivable related to projects		17,268		17,268
Other receivables	85,845	8,774		94,619
Derivatives	252			252
Cash and cash equivalents		191,446		191,446
Total financial assets	1,856,542	1,252,095	0	3,108,637
Financial liabilities				
Current liabilities:				
Derivatives	44,586			44,586
Other current liabilities			83,636	83,636
Total financial liabilities	44,586	0	83,636	128,222
2015				
DKK 1,000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Other liabilities at amortised cost	Total
Financial assets				
Share capital investment in projects	1,664,057	0		1,664,057
Project loans	0	915,593		915,593
Interest receivable related to projects		16,604		16,604
Other receivables	68,130	19,904		88,034
Derivatives	0			0
Cash and cash equivalents		202,286		202,286
Total financial assets	1,732,187	1,154,387	0	2,886,574
Financial liabilities				
Current liabilities:				
Derivatives	53,900			53,900
Other current liabilities			33,676	33,676
Total financial liabilities	53,900	0	33,676	87,576

Note

The carrying amount of project loans with fixed interest terms amounts to DKK 70m (2015: 66m). The fair value of these project loans amount to DKK 72m (2015: DKK 67m) measured as the net present value of the future cash flow. The inputs used to measure the fair value for project loans are all level 2 inputs in the fair value hierarchy, for more information see disclosure on fair value measurement, note 26. For other loans and receivables and other liabilities the carrying amount is measured at amortised cost a reasonable approximation of fair value.

^{26/} Fair value measurement basis

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3 inputs are unobservable inputs that have been applied in valuing the respective assets or liabilities.
- In the following sections a short description of the overall principle for IFU's calculation of fair value is provided. For all investments the value determined by using the methods described below will be adjusted, if considered necessary and appropriate, by taking the following factors into account:

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

Share capital investments

Most of IFU's fair value estimates are based on unobservable market data (level 3).

Indirect investments through financial intermediaries where the underlying investments are valued according to a fair value principle will be valued at intrinsic value according to the most recent financial statement received by IFU. Financial intermediaries include own managed funds, loan facilities, (externally managed) funds where IFU has a managerial role and externally managed private equity funds. For own managed funds, IFU has made the fair value assessment of the indirect investments following the same principles as described here.

Note

Direct investments are valued as follows:

- In the initial phase all investments are valued at cost price less any impairment adjustment, as this is deemed to provide a good indication of fair value. Hereafter investments will be valued at either the Discounted Cash Flow method (DCF), by an earnings multiple if appropriate and reliable transaction/earnings multiples are available, or by the net assets methodology, if appropriate. For smaller investments, see below.
- If IFU during the 12-month period prior to the reporting date has received a binding offer in writing from a third party or a significant transaction has taken place, the shares will normally be valued based on the offer or the recent transaction.

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

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

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

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

Note

2016				
DKK 1,000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	1,440	0	1,662,617	1,664,057
Transfers into the level	0	0	3,200	3,200
Transfers out of the level	0	0	0	0
Total gains/ losses for the period included in profit or loss ¹	1,793	0	159,972	161,765
Paid-in share capital in projects	0	0	351,034	351,034
Proceeds from divestment of shares	0	0	(409,611)	(409,611)
Closing balance	3,233	0	1,767,212	1,770,445
Other receivables				
Opening balance	0	68,130	0	68,130
Closing balance	0	85,845	0	85,845
Derivative financial instruments (Assets)				
Opening balance	0	0	0	0
Closing balance	0	252	0	252
Derivative financial instruments (Liabilities)				
Opening balance	0	53,900	0	53,900
Closing balance	0	44,586	0	44,586
Total recurring fair value measurements	3,233	130,683	1,767,212	1,901,128

1) Recognised in Contribution from share capital investments.

Hereof DKK 94m (2015: DKK 94m) is attributable to assets held at 31 December for level 3.

Note

2015

DKK 1,000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	1,746	0	1,327,867	1,329,613
Transfers into the level	0	0	8,645	8,645
Transfers out of the level	0	0	0	0
Total gains/losses for the period included in profit or loss ¹	(306)	0	157,103	156,797
Paid-in share capital in projects	0	0	345,016	345,016
Proceeds from divestment of shares	0	0	(176,014)	(176,014)
Closing balance	1,440	0	1,662,617	1,664,057
Other receivables				
Opening balance	0	10,881	0	10,881
Closing balance	0	68,130	0	68,130
Derivative financial instruments (Assets)				
Opening balance	0	0	0	0
Closing balance	0	0	0	0
Derivative financial instruments (Liabilities)				
Opening balance	0	29,919	0	29,919
Closing balance	0	53,900	0	53,900
Total recurring fair value measurements	1,440	122,030	1,662,617	1,786,087

1) Recognised in Contribution from share capital investments.

Hereof DKK 94m (2015: DKK 94m) is attributable to assets held at 31 December for level 3.


Notes

Note

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

2016					
DKK 1,000 Type of investment	Fair value at 31/12/2016	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Indirect investments through financial intermediaries					
Own managed funds, loan facilities and funds where IFU has a managerial role	507,503	Net assets value			
Externally managed funds	550,722	Net assets value			
Direct investments	278,559	Cost			
	198,935	Binding offers/ transaction/ exit terms			
	146,750	Discounted Cash Flow	WACC Growth in terminal value	+10% - 20%	(9,737) (981)
	84,743	Intrinsic value (small investments)			
Share capital investments	1,767,212				

2015					
DKK 1,000 Type of investment	Fair value at 31/12/2015	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Indirect investments through financial intermediaries					
Own managed funds, loan facilities and funds where IFU has a managerial role	445,171	Net assets value			
Externally managed funds	467,015	Net assets value			
Direct investments	278,603	Cost			
	278,551	Binding offers/ transaction/ exit terms			
	124,676	Discounted Cash Flow	WACC Growth in terminal value	+10% - 20%	(8,874) (996)
	68,601	Intrinsic value (small investments)			
Share capital investments	1,662,617				



**The Danish Climate
Investment Fund** contributed
to reduce CO₂ emissions
by 12,500,000 tons

MANAGEMENT

BOARD OF DIRECTORS

The Danish Minister for Development Cooperation appoints the chairman, the deputy chairman and the other members of the board of directors for three-year terms. Each appointment is personal.

According to Section 9 of the Danish Act on International Development Cooperation, IFU's board is appointed for a three-year period. The current three-year term ends on 31 July 2018.

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

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

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

Further it is noted that IFU in 2016 had business transactions with Nykredit Bank A/S (part of the Nykredit group, in which the chairman is CEO), with Kjaer Group A/S, which is majority owned by board member Mads Kjær, and with Royal Danish Fish Group A/S, in which board member Jens Jørgen Kollerup is a board member.

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



Michael Rasmussen, Chairman, board member since 2000

MSc (Economics). CEO, Nykredit.

Other board memberships: Nykredit Bank A/S (chairman), Totalkredit A/S (chairman), Finance Denmark (chairman).



Lars Andersen, Deputy Chairman, board member since 1994

MSc (Economics). Managing Director, The Economic Council of the Labour Movement.

Other board memberships: Industripension Holding A/S, Industriens Pensionsforsikring A/S, Arbejdernes Landsbank A/S.

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Jens Jørgen Kollerup, board member since 2009

MSc (Dairy Science).

Managing Director, Ormholt A/S.

Other board memberships: Arctic Group A/S, Vermund Larsen A/S (chairman), Royal Danish Fish Group A/S.



Bjarne H. Sørensen, board member since 2012

MSc (Civil Engineering). Ambassador (retired).

Other board memberships: Care Danmark.



Dorrit Vanglo, board member since 2012

MSc (Economics). CEO, Lønmodtagernes Dyrtidsfond.

Other board memberships: Kapitalforeningen LD (chairman), EKF - Danmarks Eksportkredit (vice chairman), Eksportkreditfinansiering A/S, Investeringsforeningen Lægernes Invest, Kapitalforeningen Lægernes Invest, Det Danske Hedeselskab, Dalgas Group A/S, Komiteen for god Fondsledelse.



Mads Kjær, board member since 2015

Managing Director, The Way Forward ApS.

Other board memberships: Kjaer Group A/S (chairman and owner), Udsyn A/S (chairman), Ejendomsselskabet Svendborg ApS, Lunar Way A/S.



Morten Elkjær, board observer since 2013

MSc (Economics). Ambassador, Head of Department, Ministry of Foreign Affairs.

EXECUTIVE MANAGEMENT

The Danish Minister for Development Cooperation appoints the CEO.



Tommy Thomsen, CEO

Management/shipping trainee education, A.P. Møller – Maersk Group.

Harvard Business School, International Senior Management Program.

Board memberships: Port of Singapore International, Panama Canal Advisory Board, Danish Maritime Fund (chairman), Lauritzen Foundation, Chemical Transportation Group.



Torben Huss, Executive Vice President

MSc (Political Science and Public Administration), Copenhagen University,

PhD (Business Economics), Copenhagen Business School.

Board memberships: JØP.

STAFF AND GLOBAL PRESENCE

STAFF - SEE WWW.IFU.DK - [CLICK HERE](#)

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