

AGENDA 2029

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AGENDA 2029

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LET'S ACCELERATE AGENDA 2030

Our mission is to combat poverty by creating jobs in poor countries. That is why we take risks that few others are willing to take. By providing capital and competence, we develop sustainable companies in the world's poorest countries.

As the businesses grow, they can offer more decent jobs which enable people to support their families. At the same time, we can set requirements for greater equality at all levels and promote the green shift in all sectors.

We are catalysts in a market in which the potential is enormous. In partnership with companies and other sources of finance, we share the risk and show the opportunities. People want to work so that they themselves can change their own personal situation and be part of society.

We can then use the return from our investments to invest in other companies. In the long term, this means more tax-paying companies and wage earners, and more families lifting themselves out of poverty.

This is how we create change. 2029 is our way of saying that it is urgent. Let's accelerate Agenda 2030.

THE FUTURE IS NOW

WE CAN LOOK BACK on a 2016 darkened by war, terrorism, humanitarian crises and people in flight. Yet it was also a historic and exceptionally inspiring year, the first on the road towards the global goals the world agreed on in New York in 2015.

For the first time, all countries are following a common agenda – with 17 goals and 169 targets – to root out extreme poverty and counteract the climate threat.

After almost 40 years of investing in the world's poorest countries, we have invaluable knowledge, contacts and experience. Risk management is an integral part of what we do, day after day. The global goals are integrated into our business model and investment process. And our portfolio companies work under the same sustainable guidelines.

We are ideally placed to inspire and clear the way for other players and providers of finance. Entrepreneurship, investment and job creation are vital tools in ensuring development and security. It is also very clear that new forms of partnership between business, politics and civil society are required to realise the global goals more rapidly and more effectively.

THE CHALLENGES AND THE NEEDS are enormous. At the same time, the opportunities to create

massive change and realise the global goals are greater than ever.

At an extraordinary general meeting in December, new owner instructions were adopted for Swedfund. The new company targets include aspects which Swedfund already measures, e.g. tax and equality, but also contain new target indicators for areas such as economic objectives and the portfolio's CO₂ footprint. The new company targets reinforce our clear ambition to measure, follow-up and deliver results in each of the company's pillars; impact on society, sustainability and financial viability.

With a capital injection of SEK 400 million, we were able to accelerate our investments during 2016, focusing on projects which create both direct and indirect development impact.

ENERGY IS A PRIORITY area, in which, for example, we finance a wind power project – The Lake Turkana Wind Power Project – in Kenya. When the project comes on stream in 2017, it will supply one million Kenyan households with clean electricity.

During the year, we also expanded our commitment in a number of projects focusing on women and women-owned businesses. One example is Cambodia's leading bank, Acleda, a pioneer in developing services and products for women entrepreneurs. Another is the Women Entrepreneurs Debt Fund, in which we invested SEK 166 million in 2016. A third example is Swedfund's talent programme, Women4Growth, in which we promote equality issues and women's career opportunities in our portfolio companies.

To gain even greater leverage in our investments, we are constantly looking for new strategic and financial partners.

STOCKHOLM, MARCH 2017



ANNA RYOTT
CEO, SWEDFUND

Partners who share our vision, and are as committed to human rights, and to working on equality, climate and sustainability issues, as we are.

DURING 2016, Swedfund agreed new investments amounting to SEK 860 million in equity, loans and funds in our three prioritised sectors. We are reporting an operating profit of SEK 1.5 million. Our focused efforts to balance the portfolio are beginning to impact on our financial viability. Risk-taking however continues to be a core aspect of our mission. The average growth in jobs in our portfolio companies was 2.7 percent. Our work on sustainability is also producing results: 96 percent of the companies state that they have a sustainability or environmental policy, 79 percent that they adhere to the ILO Core Conventions and 83 percent that they have an anti-corruption policy. During 2017 we will continue to implement the ten UN Global Compact principles regarding human rights, labour, environment and anti-corruption in our portfolio companies.

These issues are essential in achieving Agenda 2030. But time is short. We have 14 years to go. It will be done! Swedfund's contribution to achieving the global goals will be continued investment in sustainable businesses for job creation and an inclusive growth, in places in the world where few others are prepared to take the risk, and where we can do the most good.

Agenda 2029 is our way of saying that it is urgent – the more we invest today, the greater our chance of achieving the global goals.

SWEDFUND'S MISSION

SWEDFUND IS THE SWEDISH STATE development finance institution. Through the Ministry for Foreign Affairs, the Swedish government has assigned Swedfund (corporate ID number 556436-2084) to be Sweden's development finance institution for investments in poor countries. Swedfund is managed by Sweden's Ministry of Enterprise and Innovation.

Our mission is to reduce poverty through sustainable business.

Our activities shall contribute towards achieving the goals for Sweden's Policy for Global Development.

In collaboration with strategic partners, we shall participate in economically, socially and environmentally sustainable investments that create better conditions for people living in poverty and under repression.

With our strategic partners, we shall participate in investments which are not considered to be realisable through purely commercial financing. The company's activities shall promote progress towards equality. Our overarching and most important goal is to create jobs with good work environments and good working conditions.

ABOUT THIS REPORT

Swedfund's integrated report for 2016 is a fully integrated annual report. In the Directors' Report, information relating to sustainability is integrated with financial information, and vice versa.

The Integrated Report is published by the Board of Directors of Swedfund International AB, corporate ID number 556436-2084. The entire report is subject to verification with a reasonable level of reliability, i.e. auditing. A glossary can be found on page 114.

INTEGRATED REPORTING <IR>



INVESTMENT PRODUCES GENUINE CHANGE

Environmental and climate issues are central to Agenda 2030. Someone with extensive experience of developmental and environmental issues is Erik Solheim, Executive Director of the United Nations Environment Programme, UNEP, and former Chair of the OECD's Development Assistance Committee, DAC, and also former Norwegian Minister for the Environment and Minister of International Development. What are the challenges and opportunities he sees, and how can Swedfund and other development finance institutions contribute to achieving the goals? Here is an excerpt from a conversation between Swedfund's CEO, Anna Ryott, and Erik Solheim.

We are all very much aware of the massive challenge we are facing – what do you see as the most central issue in achieving sustainable change?

"First of all, it is essential to take account of the major changes which have taken place in recent years, not least in relation to increased life expectancy and reduced child mortality. But we are still faced with the enormous challenge of reducing poverty and dealing with the climate threat in line with Agenda 2030. In my view, a united political leadership is absolutely essential to achieving the goals. This means that every leader in the world must put the environment and the impact on society at the top of the agenda."

What role will companies and the business sector play?

"Private investment, along with taxes, is the most important source of finance. There is significantly more capital in circulation in the private sector than in the aid operations. A concrete example of this trend is Tanzania, where aid has rapidly fallen from 40 to 11 percent."

How can private investment be accelerated further?

"The main factor in real change and attracting private finance is the countries' ability to convert tax revenue into investment in health, education and infrastructure. I would also like to see more countries using their aid as a leverage for private investment, partly to deal with the

problems of corruption, currency risk and political risk."

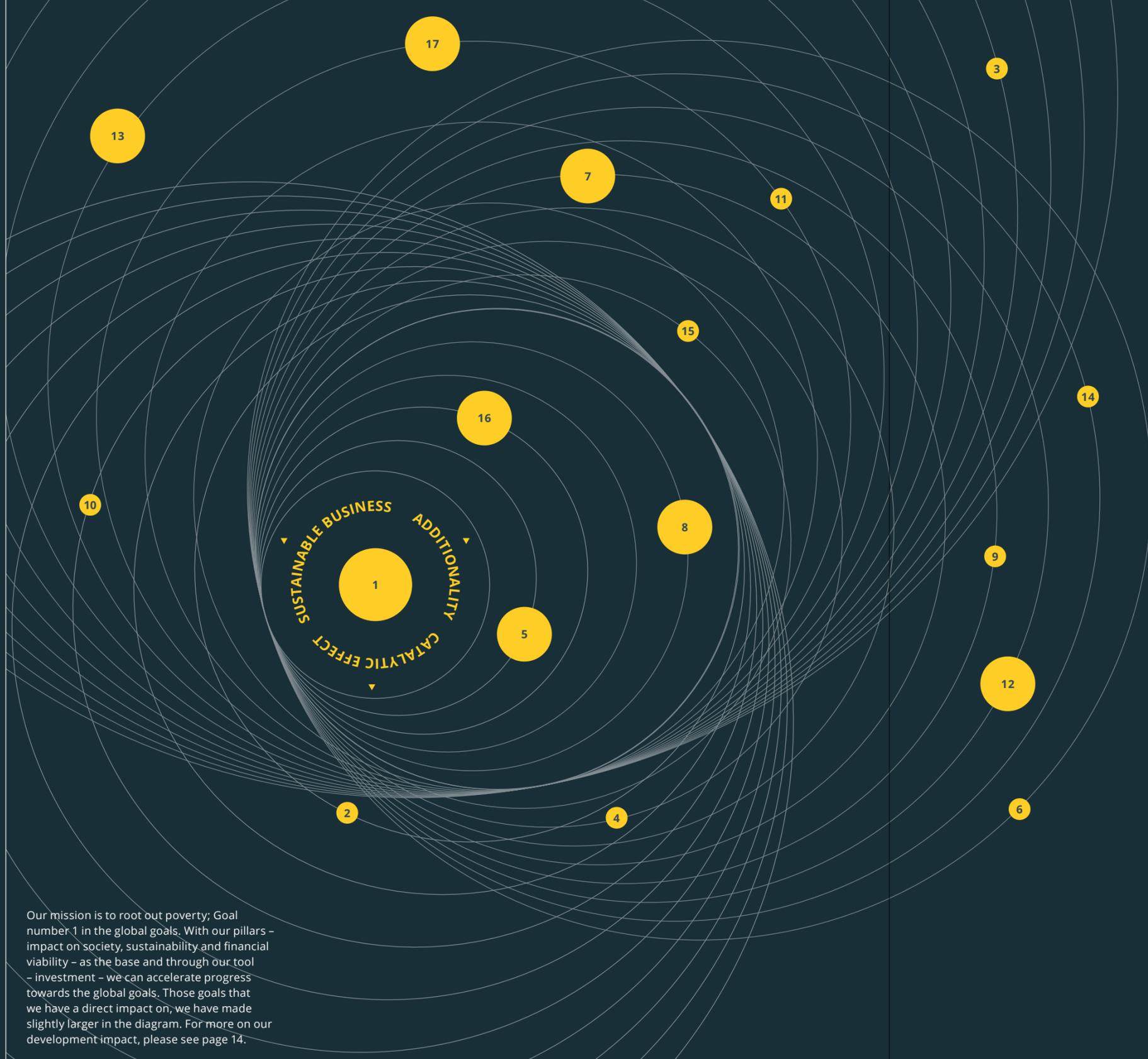
Swedfund's three thematic priorities are job creation, increased equality and combating climate change. How can we – given these priorities – contribute to the implementation of Agenda 2030?

"A serious mistake in the debate on climate change is that it is regarded as a cost instead of a business opportunity. A better question is how can we create jobs and promote development with minimum impact on the environment? This is where Swedfund can set a good example with its agenda and investment process, which really does deal with all the components: how to create jobs, how to lift people out of poverty and how to make the world and the environment more sustainable."



ERIK SOLHEIM
EXECUTIVE DIRECTOR, THE UNITED NATIONS ENVIRONMENT PROGRAMME, UNEP

THE CHALLENGE



Our mission is to root out poverty; Goal number 1 in the global goals. With our pillars – impact on society, sustainability and financial viability – as the base and through our tool – investment – we can accelerate progress towards the global goals. Those goals that we have a direct impact on, we have made slightly larger in the diagram. For more on our development impact, please see page 14.

10 percent of the world's population lives in poverty. Agenda 2030 and its 17 goals are aimed at achieving sustainable development without poverty. Swedfund's mission is to reduce poverty, the first of the global goals, by investing in and developing sustainable business.

We create more decent work opportunities, and this in turn helps achieve sustainable societies with an increased ability to achieve all the global goals. We also contribute directly towards realising the goals by investing in businesses which have a direct impact on a specific global goal, such as hospitals or energy.

THE GLOBAL GOALS FOR SUSTAINABLE DEVELOPMENT:

- | | |
|--|---|
| 1 NO POVERTY | 10 REDUCED INEQUALITIES |
| 2 ZERO HUNGER | 11 SUSTAINABLE CITIES AND COMMUNITIES |
| 3 GOOD HEALTH AND WELL-BEING | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION |
| 4 QUALITY EDUCATION | 13 CLIMATE ACTION |
| 5 GENDER EQUALITY | 14 LIFE BELOW WATER |
| 6 CLEAN WATER AND SANITATION | 15 LIFE ON LAND |
| 7 AFFORDABLE AND CLEAN ENERGY | 16 PEACE, JUSTICE AND STRONG INSTITUTIONS |
| 8 DECENT WORK AND ECONOMIC GROWTH | 17 PARTNERSHIPS FOR THE GOALS |
| 9 INDUSTRY, INNOVATIONS AND INFRASTRUCTURE | |

THE OPPORTUNITY

Our joint ability to mobilise finance is decisive if we are to achieve the global goals. The traditional sources of finance are insufficient: the amount invested must go from billions to trillions. This makes private finance essential.

DEVELOPMENT FINANCE INSTITUTIONS such as Swedfund have a key role: We invest where few others will, and we prepare the way for other financiers. And we develop sustainable businesses which, through their own operations and investments, contribute to achieving the goals.

In the past year, the International Community has clearly indicated that private investment is decisive in how quickly the global goals can be achieved. In this, Swedfund and other development finance institutions have a more important role than ever.

Development finance institutions are experts in assessing and reducing risk in complex investments. This means that our projects do not just generate profits in themselves, but also attract capital from other private investors. This *catalytic* ability means that development finance institutions act as accelerators for increased financing.

INCLUSIVE GROWTH ON A BROAD FRONT

Rooting out extreme poverty is at the heart of the global goals. Achieving this, requires inclusive economic growth. We know that a strong development of the private sector can rapidly lift a country out of poverty. This has already happened in South-east Asia, and is happening in many countries in Latin America and Africa.

Economic growth gathers speed when decent work are created on a broad front. Then large parts of the workforce are included, and even the poorest are given the opportunity of employment and a better standard of living.

In a global survey, "Voices of the Poor"¹, 70 percent of respondents stated that a job was the best way out of poverty.

WOMEN AND YOUNG PEOPLE IN FOCUS

Giving women access to paid work is one way of accelerating development. A woman who is given a job in the formal sector lifts an entire family out of

poverty. Every month, one million young people come onto the tough African labour market. Giving them a job does not just generate growth and reduce poverty, it is ultimately a matter of security. Unemployment creates alienation and instability, and is a breeding ground for violence and conflicts.

FINANCE AND ENERGY ARE KEY

At present, nine out of ten jobs in developing countries are generated in the private sector, with 80 percent of these in small and medium-sized companies. For these companies to grow and create even more jobs, it is essential that obstacles to business are removed, including lack of finance and inadequate energy supply. When companies have access to long-term and stable financing, they can grow more rapidly. And, in many cases, a reliable energy supply is a basic requirement for operating a business. If the global goals are to be achieved, it is essential that this energy supply comes from renewable sources such as solar, wind and hydropower.

ADDITIONALITY ON SEVERAL LEVELS

Development finance institutions can accelerate progress towards the global goals in a number of different ways:

- By being active in those countries which have least access to capital.
- By investing in sectors, projects and market segments that do not easily get access to other private capital.
- By remaining active during periods of

instability and recession, when other financiers withdraw.

- By being providers of finance who take a long-term view and have real staying power.
- By providing know-how and developing companies in all the dimensions of sustainability.

This is often referred to as the development finance institutions' *additionality*: the ability to provide resources which otherwise would not have been available and which are crucial to development.

Additionally is also the word used to describe the value-creating work which takes place in the businesses. Not just financially but in all the dimensions of sustainability. Partly in the evaluation of the companies but also during the investment period. By making demands on the companies we invest in and by selecting projects which, for example, benefit gender equality, the climate and technological and energy development, we can influence development towards the global goals and help in achieving them more rapidly.

And, of course, there are synergies throughout: resource-efficient companies have lower costs, companies that practice equality are more profitable and decent working conditions make everything run more smoothly. Swedfund aims to accelerate this trend, so that we can achieve the goals, preferably before 2029.



We offer financing and expertise to companies in developing countries. Our operation is additional, i.e. we take risks that few others are prepared to take. We are catalytic – by risk-sharing, we bring others along with us. And we build sustainable businesses.

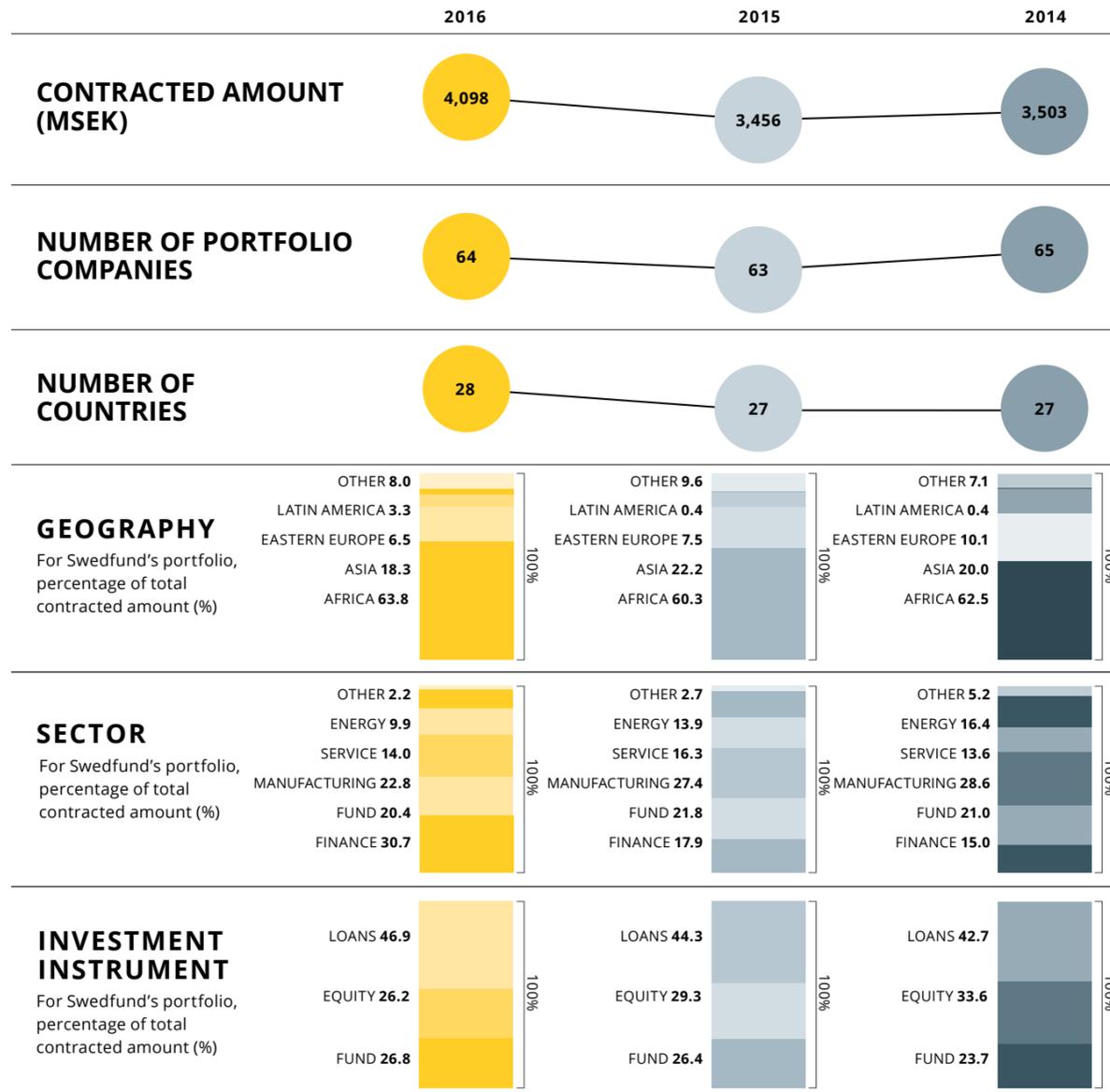
THE PORTFOLIO

In the long term, we shall generate development results in our portfolio companies, in combination with a positive result for Swedfund as a company.

We always strive for a good balance between risktaking, geographical spread and variation in investment instruments, such as equity, funds and loans. The table below shows the distribution of Swedfund's portfolio as of 31 December 2016, 2015 and 2014, respectively.

To enable us, in the long term, to generate development results in combination with a positive financial result, a new strategic approach has been adopted to build a more balanced portfolio with respect to risk, geography and investment instrument. Swedfund is committed to increasing

the proportion of loans, particularly in relation to financial institutions and funds, as well as the energy sector. We are continuing to focus on Sub-Saharan Africa. If investments approved, but not yet contracted, during 2016 are included, the proportion of loans and investments in Africa has increased.



SWEDFUND'S PORTFOLIO COMPANIES

Swedfund works actively to create results in the portfolio companies in all three pillars – impact on society, sustainability and financial viability. The results for the portfolio companies as of 31 December 2015 are presented below. For more detailed information on results and contributions, see "Portfolio companies' results" page 64.

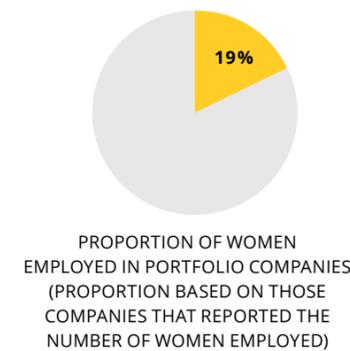
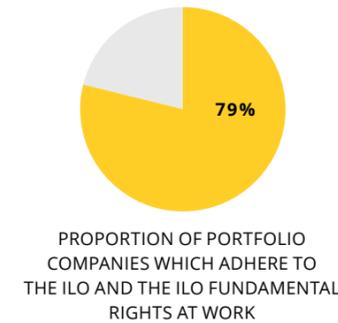
IMPACT ON SOCIETY

111,791

NUMBER OF JOBS CREATED IN PORTFOLIO COMPANIES

2.7%

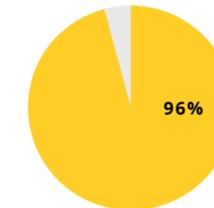
AVERAGE JOB GROWTH IN PORTFOLIO COMPANIES



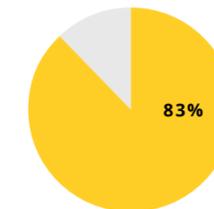
1,206

PORTFOLIO COMPANIES' REPORTED TAX (MSEK)

SUSTAINABILITY



PROPORTION OF PORTFOLIO COMPANIES WITH AN ANTI-CORRUPTION POLICY AND A PERSON RESPONSIBLE FOR IMPLEMENTING THE POLICY



PROPORTION OF PORTFOLIO COMPANIES WITH AN ANTI-CORRUPTION POLICY AND A PERSON RESPONSIBLE FOR IMPLEMENTING THE POLICY

FINANCIAL VIABILITY

7.3%

AVERAGE GROWTH

5.7%

AVERAGE PROFITABILITY

4.1%

AVERAGE RETURN

THE PARTNERSHIP

International cooperation and global partnership are essential if we are to achieve the global goals. For Swedfund, cooperation with other development finance institutions and development banks is a leverage for accelerating development.

PARTNERSHIP, A NECESSITY

Goal number 17 states: "Strengthen the means of implementation and revitalise the global partnership for sustainable development".

For us at Swedfund, the partnership concept is central. It is through collaboration with the people, communities and businesses in which we invest that we can create decent work and sustainable development. It is through partnership and shared risk with other finance providers that we can make our investments more effective and have a strong influence. It is through close dialogue with civil society that we learn and develop so that we can have even greater influence.

Read more about Swedfund's partnership approach on page 22 "The investment process", and on page 24 "The integration of ESG".

CO-FINANCING AND INFLUENCE

It is through EDFI – the Association for European Development Finance Institutions – that we are best able to carry out effective co-financing. Since 2001, annual financing from the DFIs has grown sharply: from around EUR 10 billion in 2000 to EUR 70 billion in 2014. Total commitments for 2015 amounted to EUR 40 billion for EDFI, EUR 20 billion for OPIC and EUR 80 billion for IFC. Within EDFI, we also harmonise our follow-up requirements and coordinate our advocacy, and much else. The players in EDFI can jointly – through EDFI or on their own account – participate in projects and investments in collaboration with the various development banks throughout the world.

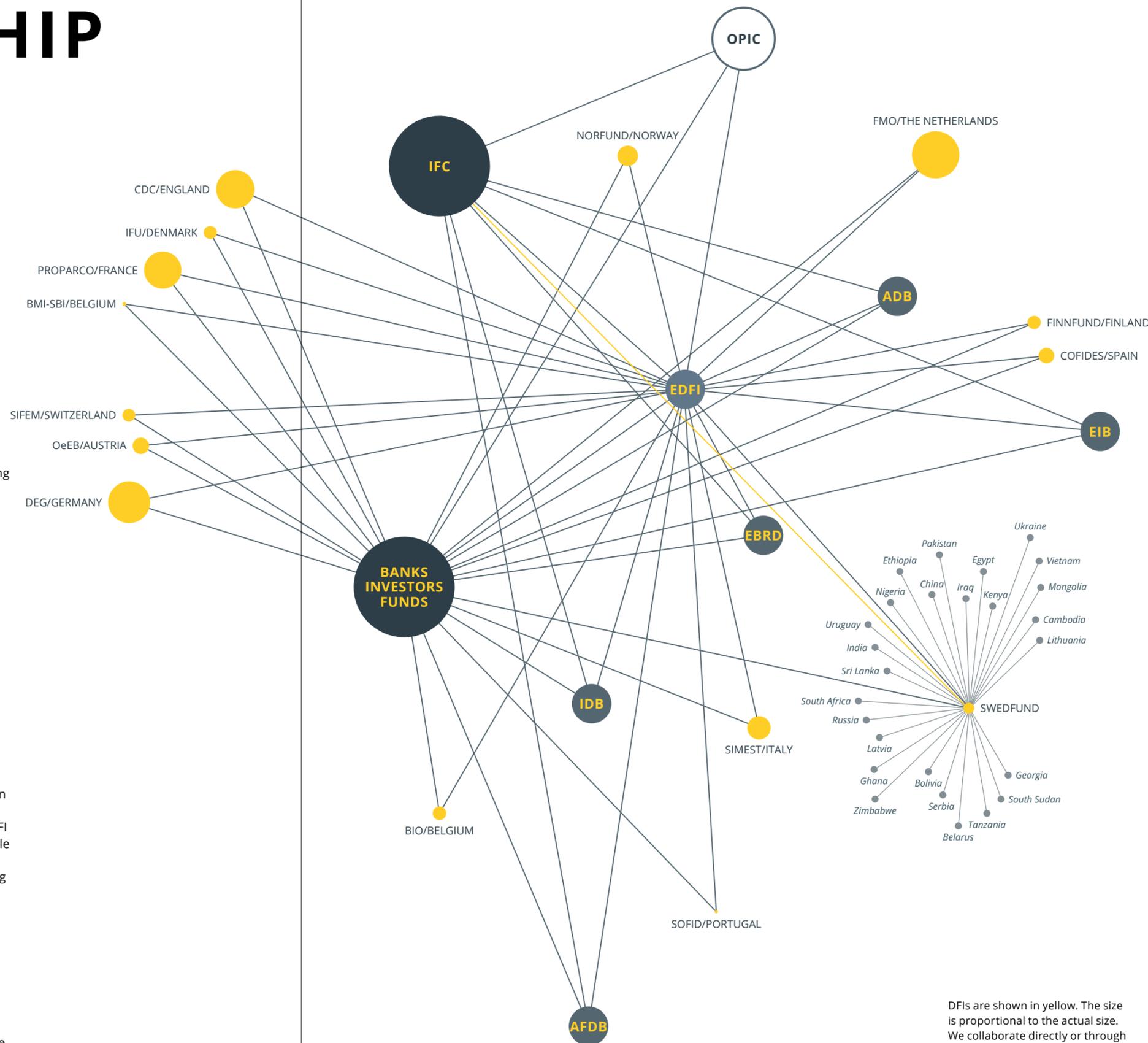
Within the framework of European cooperation, regular discussions, meetings and dialogues are held. Strategic decisions are taken there in respect of private sector development, sustainability issues and the development of new and existing facilities. The collaboration in EDFI gives us a

strong voice and our jointly developed processes provide for effective and strong partnership. As a collective, we are also in a stronger position to set standards for sustainability.

EDFI GIVES US EXTRA WEIGHT

EDFI is the foundation for a number of partnerships. One such is EFP (European Financing Partners) – a collaboration between EDFI and the EIB (European Investment Bank). Another example is ICCF (Interact Climate Change Facility) – a collaboration between EDFI, the EIB and AFD (Agence Française de Développement) aimed at increasing cooperation in relation to climate financing. Through ICCF, a development finance institution that has undertaken a project can treble its financing.

A third example is Electrifi, a collaboration between the European Commission and EDFI which was launched in 2015. Electrifi co-finances the development of renewable energy sources and energy efficient projects in developing countries, focusing on rural areas and regions which lack electricity. IFC, the World Bank's investment arm, is another player with whom Swedfund works closely. One example is the WEDF (Women Entrepreneurs Debt Fund), a fund focusing on financing businesses run by women. The development finance institutions also cooperate directly with the regional development banks in the regions in which they operate.



DFIs are shown in yellow. The size is proportional to the actual size. We collaborate directly or through EDFI. Development banks and other players are shown in blue. They also collaborate directly or through EDFI. OPIC is the US DFI. The dots around Swedfund show the markets in which we are active.

THE DEVELOPMENT IMPACT

Financing for sustainable development can come from several sources; aid, private capital, domestic tax-based financing and from development finance institutions. The sources of finance have different names and different development impact. They can be regarded as different, but complimentary, tools in the fight for sustainable development. Here we explain about the tools, focusing on what the development finance institution achieves¹.

AID

Aid, ODA (Official Development Assistance), can either be provided bilaterally (from state to state), multilaterally (from the UN, the World Bank, the EU etc.) or in cooperation with non-profit organisations.

Aid is aimed at fundamental areas such as institution building, economic development, health, human rights and democracy, as well as education, equality, environmental and humanitarian operations.

Aid continues to play a very important role in many of Swedfund's markets.

PRIVATE CAPITAL

Private investors account for an increasing proportion of development finance. More and more of them are also realising that sustainable investments generate a more secure return for both companies and employees and for society in general. Sometimes, however, private investors judge that the risks involved are too high, and then they prefer to share the risk with players such as Swedfund. For that reason, mobilising private capital often requires that a development finance institution, such as Swedfund, steps in and part-finances the project.

DOMESTIC FINANCING

The more companies that submit accounts and pay tax in the countries in which they operate, the stronger becomes the ability to provide domestic financing, and the opportunity for a country to influence its own development. The formal sector in developing countries is growing. More goods and services are in circulation. And tax revenues are increasing. But to achieve the global goals, domestic financing, i.e. the size of the tax base, must be strengthened through tax revenue from companies and individuals.

DEVELOPMENT FINANCE INSTITUTIONS

Businesses need finance to grow and develop. This is where Swedfund and other countries' development finance institutions play a vital role through investment in the form of equity and loans.

Development finance institutions make investments on commercial terms and take risks that few others are willing to take. We provide capital for countries, sectors and businesses where the investment is really needed and where it can generate benefits.

The development impact to which we contribute can be divided into direct and indirect effects:

Direct development impact

- Job creation
- Knowledge and capacity building
- Production of goods and services
- Tax revenue
- Financial returns which can be reinvested in the company
- Environmental and social effects
- Mobilisation of additional financing

Indirect development impact

Every direct job opportunity created in a company generates 7–25 indirect jobs two and three steps down the line². If a bank, for example, offers financing in the form of loans to an expanding business, this leads to increased

activity in the company, greater demand for input goods and more employees who spend their wages in the local economy. The indirect development impact is, accordingly, generated at several stages and in different parts of the economy. The effects of the employment locally and in total are greater than the direct job opportunities alone.

We raise productivity

Development finance institutions help generate direct productivity gains in their portfolio companies through knowledge transfer. Indirect productivity gains are achieved by investing in innovative and technologically-intensive businesses, as well as in sectors which have crucial effects on the future and progress of businesses and people. Energy investments which provide access to green electricity are one example.

We increase growth

There is a strong connection between the total amount that development finance institutions invest in a country, and that country's growth. Studies show that a ten percent increase in investment increases growth by 1.5 percent. The connection is particularly strong for investments in infrastructure and industry.

We reduce poverty

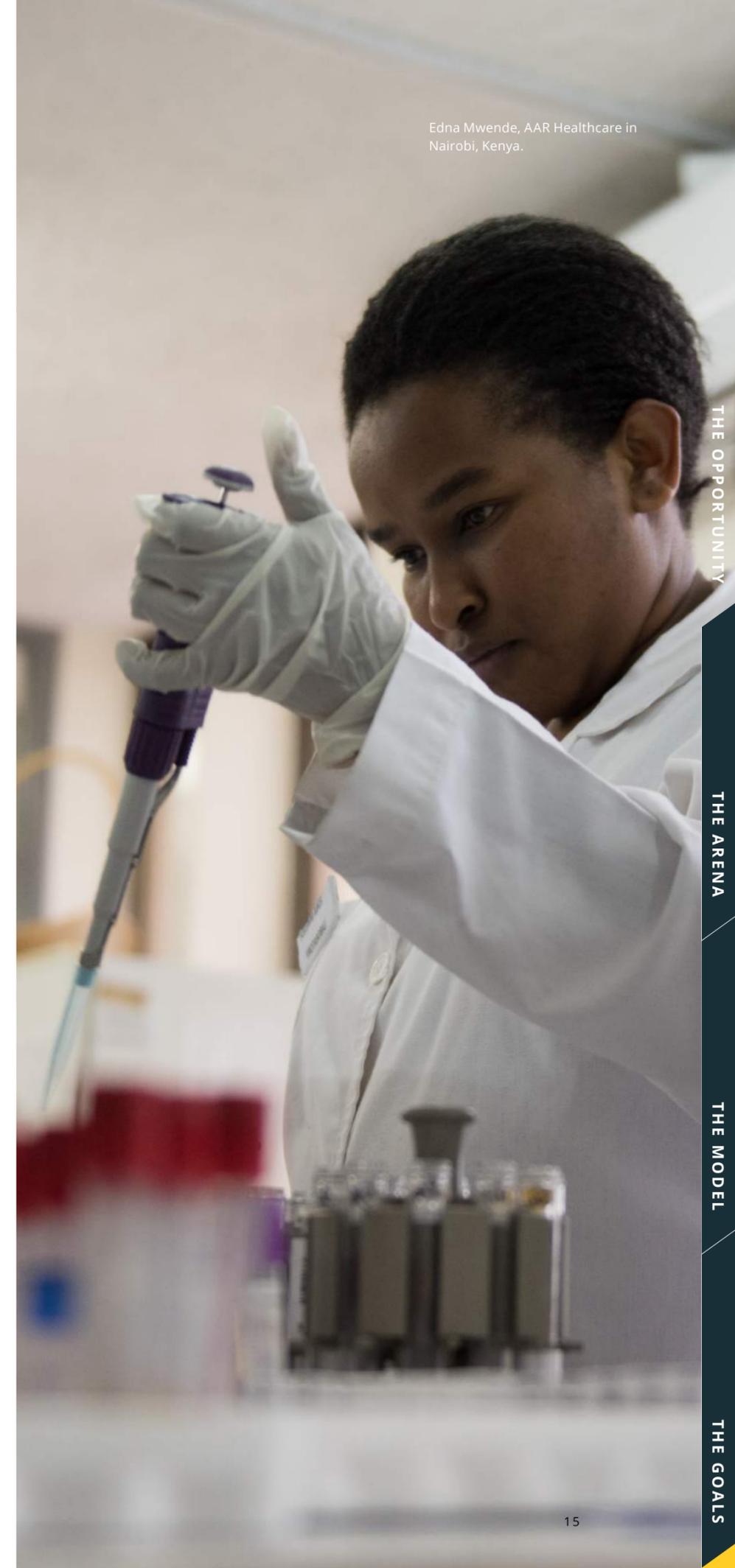
Direct development effects, in the

form of job creation, reduce poverty. The indirect development impact leads overall to a tangible reduction in poverty in the countries in which the investments are made.

We reduce the climate impact

Development finance institutions work both broadly and intensively to reduce their portfolio companies' negative impact on the environment and to increase the efficiency of resource utilisation. In certain projects – e.g. ICCF (Interact Climate Change Facility) – the CO₂savings generated by investment in renewable energy or energy efficiency improvements are measured. The CO₂savings are calculated in relation to the alternative of increasing capacity in non-renewable energy or not carrying out energy efficiency measures at all.

Edna Mwende, AAR Healthcare in Nairobi, Kenya.



THE ARENA

Swedfund invests in countries which qualify for development financing in accordance with the OECD/DAC's definition. The map shows Swedfund's portfolio as of 31 December 2016.

• **GLOBALLY**

- APIS
- EFP
- GLOBAL MEDICAL INVESTMENT GMI AB
- IFC WOMEN ENTREPRENEURS DEBT FUND (WEDF)
- INTERACT CLIMATE CHANGE FACILITY

• **BOLIVIA**
ENTELE

• **URUGUAY**
ONTUR INTERNATIONAL

• **LITHUANIA**
PIENO ZVAIGZDES

• **LATVIA**
TROLL NURSERY

• **BELARUS**
VIREO

• **SERBIA**
KOMERCIJALNA BANKA

• **UKRAINE**
ESKARO UKRAINE AB

• **GEORGIA**
TBC BANK

• **RUSSIA**
FJ LASTVAGNAR
MINT CAPITAL II

• **MONGOLIA**
XACBANK

• **CHINA**
CEF III
HSF ELECTRO MECHANIC WUXI
KSPM KUNSHAN
SEAF SICHUAN SME INVESTMENT FUND LLC

• **INDIA**
BARING INDIA FUND II
GIASF I
JACOBI CARBONS INDIA PVT LTD
MEDJCA SYNERGIE
SANGHI INDUSTRIES LTD

• **CAMBODIA**
ACLEDA

• **VIETNAM**
MEKONG BUILDING MATERIALS (VIETSTAR)

• **SRI LANKA**
JACOBI CARBONS LANKA PVT LTD

• **GHANA**
FIDELITY BANK

• **SOUTH SUDAN**
KINYETI CAPITAL

• **NIGERIA**
AZURA-EDO IPP
ECOBANK NIGERIA
GTB

• **ETHIOPIA**
ADDIS CARDIAC HOSPITAL
ADDIS QUARRY DEVELOPMENT PLC
DBI INDUSTRIES
RADISSON BLU - ADDIS ABABA (EMERALD)

• **TANZANIA**
CRDB
NMB

• **KENYA**
AAR HEALTH CARE HOLDINGS LIMITED (AAR CLINICS)
ACACIA FUND LTD
ATHI RIVER STEEL PLANT LTD
DEACONS KENYA LIMITE
NAIROBI WOMENS HOSPITAL
RADISSON BLU - NAIROBI (ERDL)
TIMSALES HOLDING LTDD

• **ZIMBABWE**
NMB ZIMBABWE

• **SOUTH AFRICA**
THE SMALL ENTERPRISE FOUNDATION (SEF)

• **AFRICA**
ADENIA III
AFRICAN DEVELOPMENT PARTNERS II (DPI)
AFRICAP II
AFRICINVEST FUND III
AFRINORD HOTEL INVESTMENTS
BAYPORT
ECP AFRICA FUND II
ECP AFRICA FUND III
INVESTEC 2 (IAPEF2)
NORSAD FINANCE

The selection consists of Swedfund's contracted investments. New investments agreed during 2016 are underlined. The investments listed under "Global" or "Africa" are investments in funds with holdings in several countries or other financing facilities with investments in several countries. Investments which are part of the portfolio but which are now in the process of being liquidated and no longer carry on operations are excluded.

OUR FOCUS

Swedfund's geographical investment focus is low-income countries, which involves a strong focus on Sub-Saharan Africa. Here we give a brief description of the challenges facing the region.

AFRICA AS A CONTINENT shows major differences, not only at regional level but also between countries and within countries. The greatest challenge is in creating inclusive growth. The global economic situation has deteriorated, and prices are falling for many of the raw materials which represent a substantial part of the continent's exports. Even so, Africa as a continent showed average growth of 3.9 percent (GDP). The growth rate differs between regions (East Africa: 6.4 percent, North Africa: 3.3 percent, Southern Africa 2.2 percent¹).

CLIMATE CHANGE

The number of people in the world in poverty as a result of climate change may reach 120 million², the majority of whom will be in Sub-Saharan Africa. Climate change leads to natural disasters – droughts as well as floods – coming with increasing frequency, and with communities unable to recover. Water shortages are a permanent and growing problem. In recent years, drought and crop failures in Southern and East Africa have destroyed the harvests. The consequences include famine and mass migration.

INCREASED DEMOCRACY

Since the 1990s, democracy has made great strides forward on the African continent. The majority of countries have multi-party elections. At the same time, there are worrying signs of setbacks.

BETTER HEALTH

Extensive vaccination programmes and improved maternity care and child health care has sharply reduced infant mortality. Both malaria and HIV are being reduced, but they are still among the most common causes of death.

INCREASING POVERTY

Between 1990 and 2010, global poverty halved, measured as the number of people living in extreme poverty. But in Sub-Saharan Africa, the situation is unclear. In relative terms, the figures fell from 1990 (57 percent) to 2012 (43 percent) – but the number of poor people, as a result of the increasing population, rose by 100 million. Formerly, the highest proportion

of poor people was found in rural areas, but as urbanisation has accelerated, there is now increasing poverty in towns and cities³.

TRADE IS ESSENTIAL

Trade cooperation and partnership for private sector development is crucial in enabling people to lift themselves out of poverty. (At the same time, development cooperation continues to play an important role in areas such as institution building, human rights, health and education.)

INCREASING NUMBERS IN EDUCATION

The number of children in school has increased substantially in the past decade. Almost all children now go to school. But the quality of teaching in basic education is so poor that many pupils do not achieve even basic knowledge, such as literacy. Far too few continue studying after basic education. For the industry to raise its value added and create more jobs higher up the value chain, a more skilled labour force is required.

INHIBITED GROWTH

In the past fifteen years, Africa has enjoyed rapid economic growth. This is now weakening in raw material exporting and oil-producing countries. Growth is continuing in many countries which are not dependent on oil exports, as well as in countries which have managed to kick-start their economies and lift themselves out of poverty. But economic growth is being inhibited by a shortage of reliable energy supplies, infrastructure, corruption and weak civil institutions, such as central banks and the justice system

etc. The economic growth will not benefit everyone.

POPULATION GROWTH

The population of Africa will double to over two billion by 2050. 70 percent of the population of Africa today is under 30 years old⁴. A continuing high birth rate is the largest cause of the population increase, but life expectancy has also begun to rise.

URBANISATION

Rapid urbanisation is resulting in major challenges for infrastructure, such as water and sewerage systems. By 2030, it is estimated that 50 percent of Africa's population will live in towns and cities⁵. Enormous shantytowns are spreading around the towns and cities, lacking all forms of infrastructure and services. This is where Africa's youth are growing up.

DIGITALISATION

Africa's people are online. Mobile penetration is around 70 percent in Sub-Saharan Africa⁶. IT development will totally transform communities and sectors. This presents major opportunities, but also challenges.

SHORTAGE OF JOBS

A million people in Africa are coming onto the labour market every month. The current level of job creation is lagging behind, partly because the growth rate in jobs is not sufficiently high in relation to population growth, and partly because part of the growth is "jobless growth".

SOCIAL EXCLUSION

A growing population, rapidly being urbanised, with inadequate access to

work, combined with large permanent refugee groups, means that urban areas are facing increasing social exclusion. This is a breeding ground for destabilising society and a recruiting base for extremism.

CONFLICTS

In many cases, current conflicts are both fragmented – multiple groups fighting each other – and internationalised. And therefore difficult to resolve. Others have ethnic undertones. These conflicts are generating massive refugee flows, which are placing a major strain on the receiving countries. In addition, the conflicts lead to weak demand, which hits the countries' economies hard.

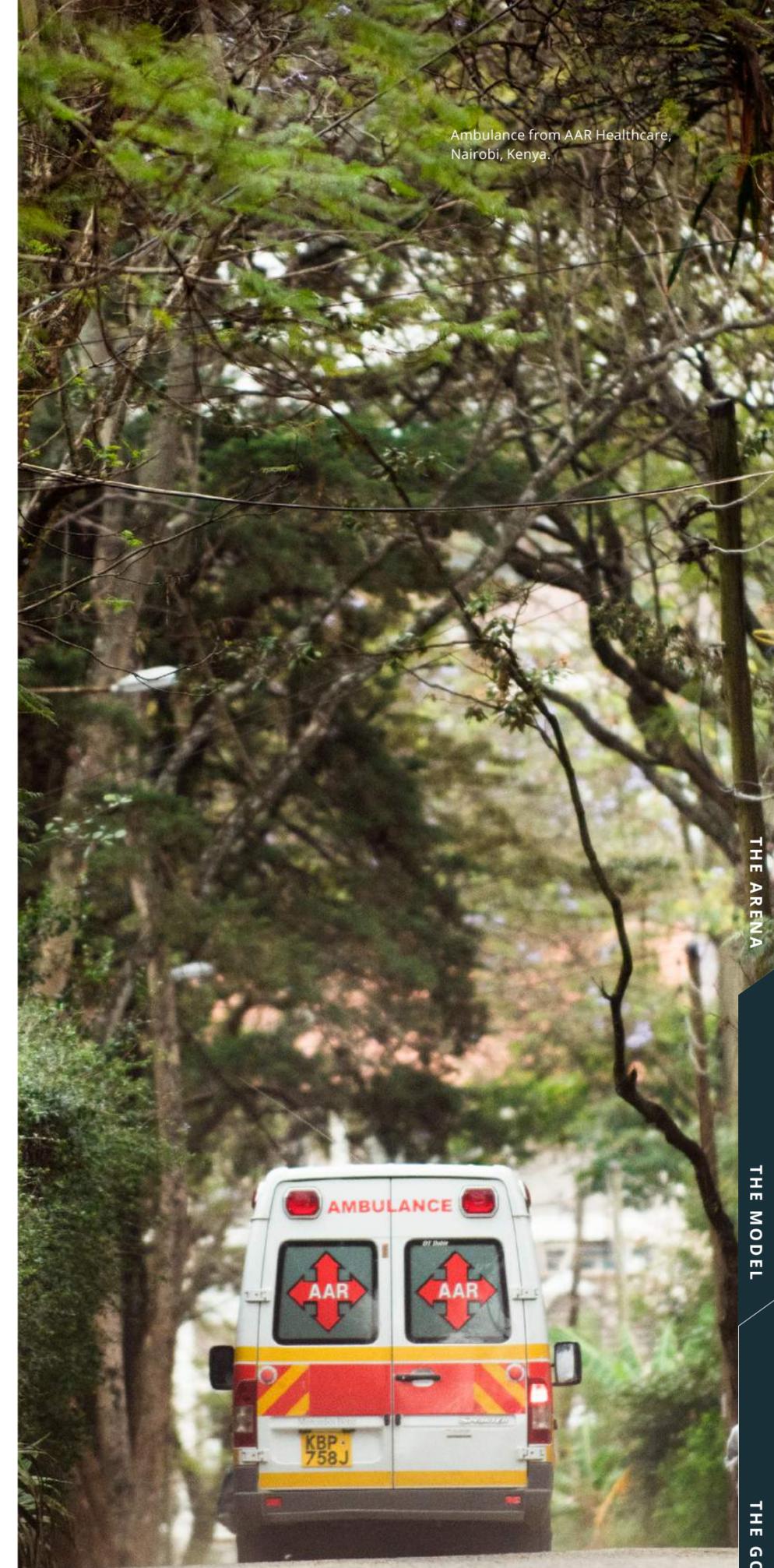
GROWING SHORTAGE OF RESOURCES

Population growth, economic growth and climate change are increasing the demand for natural resources such as water, arable crops and energy. Dealing with these shortages will be one of the greatest development challenges into the future. Food safety is a high-priority issue.

CORRUPTION

Corruption – equivalent to the world's third largest economic sector – continues to present an obstacle to development and economic growth. Companies are prevented from growing, and investors and entrepreneurs are reluctant to start businesses in countries where the business climate is affected by corruption.

Ambulance from AAR Healthcare, Nairobi, Kenya.



THE MODEL

Our pillars influence every step of the investment process, the entire monitoring phase, the follow-up of all development effects and final exit.

IMPACT ON SOCIETY

Swedfund shall contribute to the creation of jobs with good work environments and good working conditions.

- ▼ JOB CREATION
- ▼ TAX
- ▼ KNOWLEDGE AND CAPACITY BUILDING

SUSTAINABILITY

Swedfund shall contribute to the creation of long-term sustainable businesses in the world's poorest countries, and shall make proactive efforts to tackle corruption internally and within portfolio companies.

- ▼ ENVIRONMENT/CLIMATE
- ▼ WORKING CONDITIONS
- ▼ BUSINESS ETHICS AND ANTI-CORRUPTION

FINANCIAL VIABILITY

Swedfund shall contribute to the creation of businesses that are profitable in the long term and, therefore, financially viable, in the world's poorest countries.

- ▼ GROWTH
- ▼ PROFITABILITY
- ▼ RETURN ON EQUITY

CRITICAL PARTS OF OUR BUSINESS MODEL

Our business model integrates the global goals through our pillars. But it also manages risks, the inputs we make and the investments we take on and the results we generate.

RISK SHARING

Risk-taking is central to Swedfund's mission as a development finance institution. We invest in the world's poorest countries, where investment is needed most, and where few other commercial investors are prepared to take the risk. Risk is a source of returns. At the same time, it is essential to limit risk-taking to avoid unnecessary losses and to achieve more stable returns. For that reason, Swedfund always shares risks with one or more investment partners. For more information on how we manage risks, see page 27.

TIME PERSPECTIVE

We always invest with a long-term perspective, usually between seven and ten years. A vital long-term objective for our investments is that they must always contribute to realising the glob-

al goals. Our strategic sustainability targets relate to a three-year period, which is the medium term for us. The long term approach and our perseverance form an important part of our additionality.

GEOGRAPHY

Our mission is to invest in businesses and countries which qualify for development financing in accordance with the OECD/DAC's definition. We prioritise investment in low-income and post-conflict countries. We shall invest where the need is greatest.

SKILLS

The company's skills package consists of the staff's expertise in finance, investment, ESG (Environmental, Social and Governance) and law, as well as within specific sectors and the intangible values enshrined in the many years of development of Swedfund's business model, with its associated management systems and processes.

NETWORKS

Resources and skills are brought to-

gether through Swedfund's networks, such as EDFI, IFIs, UN-GC and UN PRI.

PARTNERS

Our investments are based on partnership and cooperation with other companies and development finance institutions. The partner must have the necessary financial strength and structural capital, and must also share our vision of how a sustainable company should be operated and managed.

FINANCIAL CAPITAL

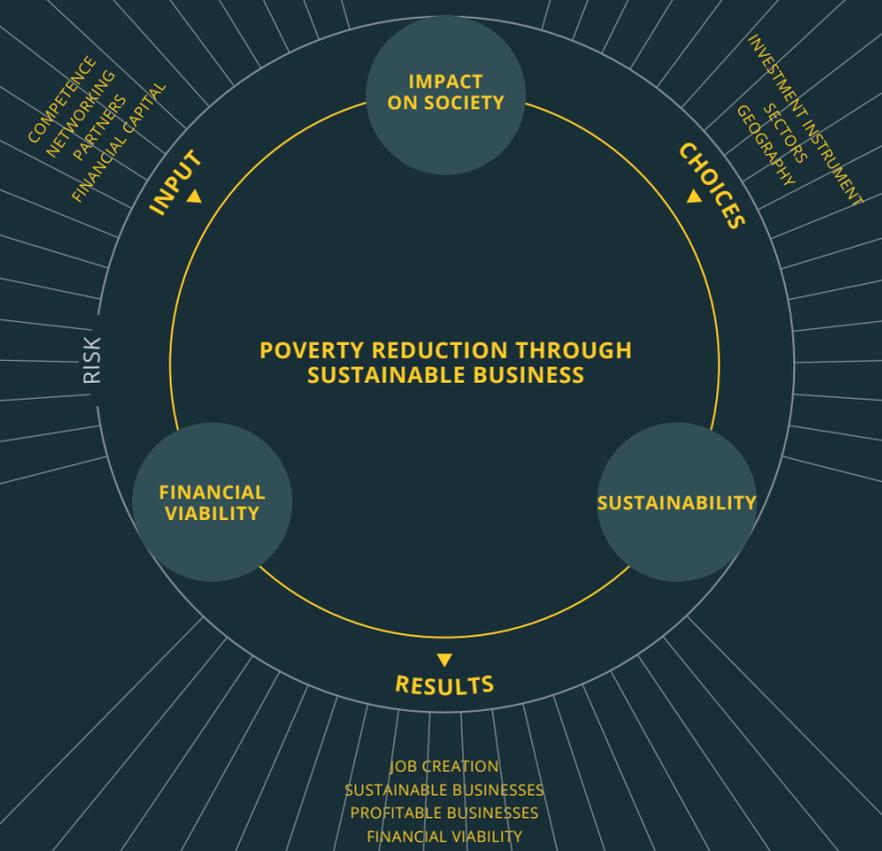
Refers to the financial capital Swedfund has available for investment.

FINANCING INSTRUMENTS

We aim for a good balance of equity, loans and funds. The choice of instrument depends on the respective portfolio company's financing requirements.

SECTORS

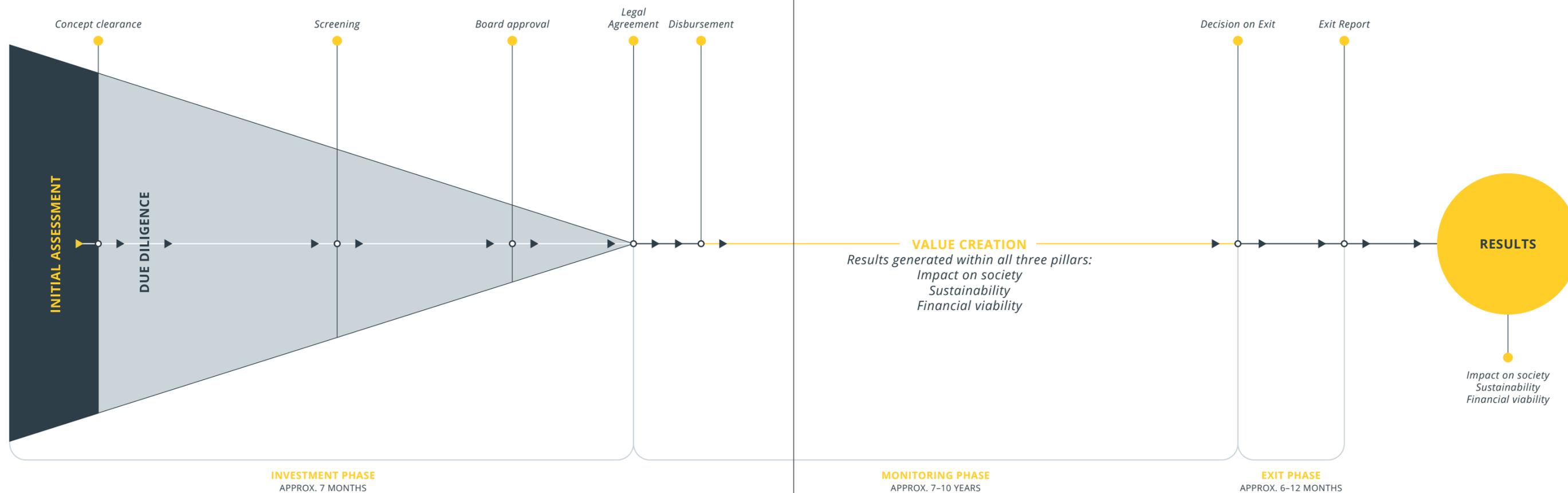
Our three priority investment sectors are energy, financial institutions & funds, and manufacturing & services.



Swedfund's business model is based on generating results within the three pillars of impact on society, sustainability and financial viability.

THE INVESTMENT PROCESS

Swedfund invests in the world's poorest countries; in developing countries and in markets involving high risk. Our investment process is based on almost 40 years' knowledge and experience of these complex markets.



EACH PROJECT PROPOSAL which comes to us is assessed, analysed and followed up in detail. Our Senior Investment Managers and Analysts, in collaboration with the ESG team, carry out a thorough analysis of market data, business plans, financial history and investment partners. The analysis is then reviewed by Swedfund's investment committee and by the Board of Directors.

Every investment must meet the targets set within our three pillars, impact on society, sustainability and financial viability.

INITIAL ASSESSMENT
An overall assessment of the country, the company, strategic partners and Swedfund's role. We review, for example, the company's business plan and check it against a list of excluded sectors.

CONCEPT CLEARANCE
A first assessment of the ability of the project to meet the targets set within the three pillars: impact on society, sustainability and financial

viability. If approval is given by the investment committee, the preparations for the investment project continue.

DUE DILIGENCE
Review and in-depth analysis of the business idea, business plan, market, financial history and forecasts, capital investment appraisal, partner collaboration, legal aspects, expected development results and ESG issues. This work continues until the investment is disbursed.

SCREENING
In a more detailed analysis in the light of Swedfund's three pillars, the investment committee decides whether or not to continue the preparation of the investment. Further issues may be raised. If approval is given by the investment committee, the proposal is further prepared for presentation to the Board of Directors for approval.

BOARD DECISION
Swedfund's Board of Directors, on the basis of Swedfund's three pillars, makes the investment decision, after which a legal agreement is negotiated.

LEGAL AGREEMENT
After the Board of Directors has made its decision, the legal agreement can be signed. In addition to the customary legal aspects, the legal agreement also covers sustainability and reporting requirements.

DISBURSEMENT
Disbursement takes place after the legal agreement is signed, and when the conditions have been fulfilled.

ACTIVE VALUE CREATION
After the legal agreement is signed, the work which began earlier in the investment phase continues. We work actively with our portfolio companies, focusing on the issues, both commercial and sustainability-related, that were identified during due

diligence. Through proactive management, we focus our efforts on creating value within all three pillars. We are in close contact with companies through ongoing financial monitoring, frequent visits to the businesses, participation in the work of Boards of Directors and ESG audits. We monitor compliance with the ESGAP in our ongoing dialogue with the company, through active board work and through the company's annual tax return (Swedfund Portfolio Company

Sustainability Report). Our ESG work is described in greater detail on the next page.

THE PARTNERSHIP IS ENDED
When we consider that a portfolio company can continue its development without Swedfund's assistance, our exit process is initiated. Swedfund sells its holding in the company. We compile an internal exit report, presenting an analysis of the results of the investment, and draw any appropriate lessons.

THE INTEGRATION OF ESG

Giving proper consideration to environmental and social issues, and adopting a sound corporate culture, are essential for a business venture to be sustainable and profitable in the long run.

IN 2010, SWEDFUND adopted a sustainability policy (a combination of Swedfund's environment policy from 1998 and ethics policy from 2003), and, since then, the sustainability requirements have been continuously made more stringent. The sustainability policy has been updated regularly, most recently in 2015. For more information on the development of our policies and processes, see page 30. The ESG assessment is part of our analysis of potential investments, and is an integral part of the investment process and the investment team.

NEW INVESTMENTS ARE ASSESSED

Swedfund's investment team is responsible for evaluating new investments and for ensuring active value creation in portfolio companies. ESG Managers are part of the investment team. They are specifically responsible for evaluating environmental issues, social issues, corporate governance and anti-corruption in portfolio companies. During the period in which Swedfund is a shareholder in or lender to a portfolio company, the Senior Investment Manager responsible is tasked with monitoring and ensuring compliance with the sustainability

policy, the anti-corruption policy, the strategic sustainability targets and the ESG Action Plan, ESGAP.

AN ACTION PLAN IS DRAWN UP

For each individual portfolio company which Swedfund finances, an ESGAP is prepared and implemented. The action plan includes a timetable and detailed descriptions of what the company needs to do to obtain financing. It also describes the changes which the company needs to implement over time. The action plan may, for example, include a requirement that the portfolio company carry out a risk analysis of its supply chain and take any necessary measures. The sustainability requirement may also be a condition for the disbursement of financing.

REQUIREMENTS SET OUT IN THE LEGAL AGREEMENT

ESGAP constitutes a part of the legal agreement. This means that Swedfund cannot set the same requirements for older portfolio companies that it sets for new ones. In companies with older legal agreements, we try to highlight the importance of issues that may not be included in our legal agreement.

To ensure that business ventures are sustainable and profitable over the long term, an ESGAP is an important tool, both for investment approval and monitoring.

MONITORING THROUGH DIALOGUE

The active value creation within the ESG area consists of monitoring the action plan through our ongoing dialogue with the company, in our work on the Board and through the company's annual self-declaration and our feedback on this. Through this, we have a good picture of the issues which should be prioritised in the future, and how well the company is complying with our requirements.

ESG AUDITS

In addition, we carry out regular site visits and/or internal and third-party audits as part of our commitment in the ESG area. For more information on audits and site visits during 2016, see page 73. Monitoring also takes place continuously within the framework of the Senior Investment Managers' regular dialogue and visits to portfolio companies.

Participants in the second round of the talent programme, Women4Growth, Radisson Blu, Addis Ababa, Ethiopia.



THE RISKS

In Swedfund's mission as a development finance institution, risk plays a central role in our activities. We are highly experienced in evaluating and managing risk in challenging markets.

PARTNERSHIP AND RISK-TAKING are central to our operations. Risk is a source of returns, and a necessity in enabling us to fulfil our mission. At the same time, it is essential to limit risk-taking to avoid unnecessary losses or damage. Our greatest risks are linked to our investments.

THE BOARD OF DIRECTORS' RESPONSIBILITY AND POLICIES

Swedfund's Board of Directors is responsible for defining and managing risks. By working actively within our three pillars, we strive to generate results and long-term value. At the same time, we manage all the risks arising in our investment operations.

To aid us in this, there are a number of control instruments, including Swedfund's policies (see Swedfund's ethical compass, page 30) and the delegation of responsibility to office holders and management bodies in the organisation (see corporate governance report page 101).

MAIN RISKS

Swedfund's main risks are the following:

- **Strategic risks:** Large-scale risks related to our mission at an overall level
- **Investment risks:** Risks associated with Swedfund's investments in equity, loans and funds, as well as the management of short-term funds
- **Investment risks (sustainability):** Risks related to our undertakings in accordance with our ethical compass including those related specifically to our strategic sustainability targets
- **Operational risks:** Risks linked to day-to-day operations



Market in Kitwe, Zambia.

Employees of Twiga Cement, Dar-es-Salaam, Tanzania.

STRATEGIC RISKS

Strategic risks refer to large-scale and structural risks related to our mission at an overarching level.

RISKS IN THE BUSINESS ENVIRONMENT AND THE REGULATORY SYSTEM

Any shortcomings in strategy and implementation or inability of the portfolio companies to react adequately to changes in the regulatory system and business environment can reduce their ability to have a positive development impact in the investment countries. This could lead to a fall in confidence or a change in the mandate for the operation.

Risk management Swedfund manages strategic risks through business intelligence, value-creating collaboration with the portfolio companies and dialogue with stakeholders. For more information on our stakeholder dialogue, see page 34.

We also take into consideration country risk and concentration risk, i.e. imbalance in the allocation between countries/regions, sectors and instruments. These risks are managed primarily through limits and other restrictions and balancing. Given the limitations of our portfolio size, we risk being more severely affected by micro-risks than larger DFIs are.

INVESTMENT RISKS

Investment risks are risks associated with Swedfund's investments in equity, loans and funds, as well as the management of short-term funds.

COMMERCIAL RISK AND PARTNER RISK

Commercial risk and partner risk are risks related to, for example, business idea, market and financial viability. It also includes risks linked to the choice of partner with whom Swedfund intends to invest.

Risk management Takes place continuously during the investment process, which lasts throughout the life of each holding. The initial assessment of each prospective investment may lead to an investment proposal. This is followed by an in-depth analysis (Due Diligence), for the purpose of analysing the identified risks, not least those relating to the partner with whom Swedfund wishes to invest (e.g. integrity check). The risks are evaluated and thereafter managed within the framework of the legal agreement. Swedfund's investment team is responsible for managing risks in portfolio companies through work on the Board, site visits and other forms of monitoring.

LIQUIDITY RISK AND CREDIT RISK

Any limitations on the ability of portfolio companies to pay dividends and interest, refinance assets or meet other demands on the supply of cash and cash equivalents may be of a temporary nature (liquidity risk) or reflect a more serious problem in the operation and the ability to meet obligations in the long-term (credit risk).

Risk management These risks are managed by the Investment Department which regularly analyses the holding's cash flows, liquidity, returns and other financial matters.

CURRENCY RISK AND INTEREST RATE RISK

Fluctuations in exchange rates can affect the value of investments in equity, funds and loans. Interest rate risk stems primarily from lending to portfolio companies, as well as to borrowing for the purpose of lending to portfolio companies.

Risk management Swedfund does not hedge against currency risk on investments in equity and funds, but does strive to minimise the currency risk on loans to portfolio companies. Swedfund matches investments in loans in its investment operation with borrowing for the corresponding period in order to eliminate interest rate risk.

RISKS IN FUNDS MANAGEMENT

Swedfund is provided with funds from its investments in the form of dividends, interest payments, fees and sales proceeds, as well as through equity injections from our owner. Inflows and outflows are only partly within Swedfund's control. For that reason, Swedfund always manages a certain amount for disbursements of approved and agreed investments. This management of funds is exposed to certain financial risks.

Risk management The liquid funds may only be invested through the Swedish National Debt Office, bank deposits or interest-bearing securities, and with limitations as to counterparties.

INVESTMENT RISKS (SUSTAINABILITY)

Sustainability risks are related to our sustainability targets.

STRATEGIC SUSTAINABILITY RISKS

Swedfund runs the risk of making prioritisation errors, and, consequently, of investments not contributing to value creation in the long-term in both individual holdings and at portfolio level.

Risk management Sustainability risks are managed through active management, such as by setting standards for systems and processes aimed at managing risks and the impact on the companies, as well as through action plans and monitoring. These risks are managed and monitored through our strategic sustainability targets.

COMPLIANCE RISKS

Compliance risks refers to individual holdings failing to fulfil their obligations in accordance with the strategic sustainability targets, as well as other expected ESG aspects of an investment.

Risk management These risks are managed through Swedfund setting standards for compliance with the strategic sustainability targets through ESGAP for all new investments. In addition, these companies' compliance is monitored through their annual reporting to Swedfund. We cannot set the same requirements for older investments. However, Swedfund tries to highlight the importance of issues that may not be included in the older legal agreements.

OPERATIONAL RISKS

Operational risks are risks linked to day-to-day operation.

SECURITY AND PERSONNEL RISKS

These risks are primarily associated with personnel, information, IT systems and other systems.

Risk management To safeguard Swedfund's ongoing operation, we make continuous efforts to limit and deal with these risks, partly through Swedfund's Code of Conduct, as well as through clear guidelines for managing conflicts of interest.

RISKS ASSOCIATED WITH INTERNAL CONTROLS

Inadequate procedures can lead to losses.

Risk management Over time, Swedfund has built up thorough processes and approaches to ensure good internal controls and monitoring. The corporate governance report, page 101, gives a detailed report on Swedfund's internal governance and controls in respect of financial reporting.

In addition, during 2016, we launched a whistleblower system, which enables both Swedfund employees and employees of our portfolio companies to report any irregularities with full anonymity.

THE COMPASS

Our ethical compass consists of the policies, international obligations, guidelines and transparency undertakings with which we comply. This is a result of a close dialogue with our owners, partners and civil society organisations.

SWEDFUND'S ETHICAL COMPASS is rooted in our mission and the needs we ourselves identify, in close dialogue with our owners, partners and other stakeholders. The dialogue with our stakeholders is vital, and we depend on it to ensure that we are continuously challenged and continue to improve. Read more on our materiality and stakeholder analysis on page 34.

Swedfund's Code of Conduct and sustainability policy are core policies in our work, and are the responsibility of the Board of Directors. These obligations go further than compliance with relevant legislation, in that they support voluntary international ethical guidelines, which are listed on the right, in the ethical compass.

It is essential that Swedfund's employees comply with and implement Swedfund's Code of Conduct, sustainability policy and anti-corruption policy if Swedfund is to fulfil its mission as a responsible investor. Swedfund's ethical compass is a central component in the induction of new members of staff and new directors of Swedfund International AB. In addition, separate educational courses for employees are arranged regularly, in respect of human rights, anti-corruption, corporate governance, IFC Performance Standards, Swedfund's ESG Toolkit and sustainability policy.

Policies and obligations included in the ethical compass deal with aspects both within Swedfund as a company, and externally, i.e. in Swedfund's portfolio companies. The content of several of the policies and obligations overlap to some extent.

DURING 2016, WE HAVE FURTHER DEVELOPED THE FOLLOWING POLICIES AND AREAS:

Anti-corruption policy

During 2015, responsibility for anti-corruption issues was clarified internally within Swedfund, as well as regarding their implementation in the portfolio companies, along with the associated procedures. During 2016, as a further stage in the continuing process, the Board of Directors adopted a revised anti-corruption policy intended to reflect Swedfund's more stringent requirements on anti-corruption efforts both internally and in our portfolio companies. The revised anti-corruption policy does not involve any change in the sense that Swedfund's view of corruption has long been that of zero tolerance. Read more on the continuing work on the datasheet on anti-corruption on page 43.

Tax policy

For a number of years, Swedfund has worked actively on tax issues, and has also held regular dialogues with our stakeholders on this subject. As a result of this, and to demonstrate clearly where we stand on various issues in respect of taxation, Swedfund adopted a tax policy during 2016 which has been published on Swedfund's website. Read more on tax issues on the datasheet on page 41.

NEW OWNER INSTRUCTION AND NEW CORPORATE TARGETS

In December 2016, new owner instructions for Swedfund were adopted at an extraordinary general meeting.

The new owner instruction is available at swedfund.se. The decision was preceded by an owner-driven target project – an analysis of the company's developmental targets, sustainability targets and financial targets. The new targets cover aspects which Swedfund already meets (e.g. tax and equality), but also involves new target indicators (e.g. the financial targets as well as the portfolio's CO₂ footprint). The first performance report reflecting the new targets will be that for reporting period 2017, in addition to the financial targets reported on page 80 and onwards of this annual report.

Students at HDECOVA (Heavy Duty Equipment Construction Vocational Academy) in Addis Ababa, Ethiopia.

ETHICAL COMPASS

POLICIES

- ▼ THE STATE'S OWNERSHIP POLICY AND GUIDELINES for companies in state ownership
- ▼ SWEDFUND'S CODE OF CONDUCT
- ▼ SWEDFUND'S POLICY FOR SUSTAINABLE DEVELOPMENT
- ▼ SWEDFUND'S ANTI-CORRUPTION POLICY
- ▼ SWEDFUND'S POSITION ON CHILDREN'S RIGHTS
- ▼ SWEDFUND'S WORK ENVIRONMENT POLICY
- ▼ SWEDFUND'S TAX POLICY

INTERNATIONAL OBLIGATIONS

- ▼ UN GLOBAL COMPACT
- ▼ UN PRINCIPLES FOR RESPONSIBLE INVESTMENT
- ▼ THE EDFI PRINCIPLES ON RESPONSIBLE FINANCING
- ▼ THE WORLD BANK GROUP'S CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK
- ▼ EDFI EXCLUSION LIST

TRANSPARENCY OBLIGATIONS

- ▼ GLOBAL REPORTING INITIATIVE (GRI) SUSTAINABILITY REPORTING GUIDELINES (G4)
- ▼ UN GLOBAL COMPACT COMMUNICATION ON PROGRESS (COP)
- ▼ UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) REPORTING FRAMEWORK
- ▼ THE INTERNATIONAL FRAMEWORK FOR INTEGRATED REPORTING
- ▼ OPEN AID
- ▼ IFIs' HARMONIZED DEVELOPMENT RESULTS INDICATORS for Private Sector Investment Operations

GUIDELINES WHICH SWEDFUND FOLLOWS

- ▼ IFC PERFORMANCE STANDARDS on Environmental and Social Sustainability
- ▼ IFC ENVIRONMENTAL, HEALTH AND SAFETY GUIDELINES
- ▼ EDFI HARMONIZED ENVIRONMENTAL AND SOCIAL STANDARDS for Direct Investments, Financial Institutions and Fund Investments
- ▼ EDFI GUIDELINES for OFCs
- ▼ UN GUIDING PRINCIPLES (UNGPs) on Business and Human Rights
- ▼ OECD GUIDELINES for Multinational Enterprises
- ▼ OECD CONVENTION on combating bribery of foreign public officials in international business transactions
- ▼ OECD GUIDELINES on Corporate Governance of State-owned Enterprises
- ▼ JOINT INTERNATIONAL FINANCE INSTITUTIONS COMMUNIQUÉ: Contributing to Creating More and Better Jobs



ANTI-CORRUPTION POLICY

During 2016, the Board of Directors adopted a revised anti-corruption policy with more stringent standards for anti-corruption work both internally and in our portfolio companies. The revised anti-corruption policy does not involve any change in our view of corruption; we have zero tolerance.

THERE IS A SUPPLEMENT to the policy: an explanation of Swedfund's fourth sustainability target which deals with anti-corruption. In consequence of the anti-corruption target, the policy is no longer divided between the requirements applicable to Swedfund's internal operations and the requirements applicable to the portfolio companies. Instead, all operations are subject to the same requirements. The concept of corruption has also been expanded to cover money-laundering and financing terrorism, as well as cronyism. The policy covers the following categories within Swedfund's operation; employees and members of Swedfund's Board of Directors, as well as external Board Members of portfolio companies, and consultants. The policy also covers Swedpartnership's borrowers. The policy now stresses that serious offences can now be reported via Swedfund's whistleblower system.

During 2016, we have also adopted a policy on gifts, hospitality and inappropriate benefits. This is also a stage in our efforts to combat corruption and one way of ensuring that Swedfund complies with the "Code on gifts, rewards and other benefits in business."

UNDER DEVELOPMENT: CLIMATE STRATEGY

Given Swedfund's mission – combating poverty through sustainable businesses – and the importance of climate issues for our investment activities, during 2016, Swedfund decided to begin the development of a climate strategy.

THE PURPOSE OF A climate strategy is to intensify Swedfund's climate-related work, particularly through the company's investments, but also internally. It is, however, important to emphasise that Swedfund already integrates the environment and climate into its work. The preparation of the document had taken account of a number of different areas: owner instructions and the capital injection received for 2016, the Swedish government's view on climate in Sweden's cooperation with the development banks, the European development finance institutions' policies and objectives in the climate area. As part of this approach, a stakeholder dialogue on climate was held during March 2016, with representatives from the WWF, Naturvårdsverket (the Swedish Environmental Protection Agency), SIWI, Kvinna till Kvinna (Woman to Woman) and Fores, to identify civil society's view of the issue.

According to Swedfund's owner instruction all investments shall be environmentally and climate sustainable. Swedfund shall measure CO₂ per investment and within three years a relevant target level for the company shall be decided. In many cases, our markets are immature in their approach to handling issues which involve climate impact. That is why we intend to provide training on and promote environmental and climate-smart solutions to our portfolio companies.

During the first quarter of 2017, after an enquiry from the owners, Swedfund is investigating how the company would be affected if, within the energy sector, it invested solely in renewable energy. With the conclusions drawn from this investigation, the development of our climate strategy will probably be completed during 2017.

MATERIALITY & STAKEHOLDER ANALYSIS

Swedfund's material aspects follow from our mission as a development finance institution, our owner instruction and the needs, challenges and opportunities we ourselves see in investments, in collaborations and in the countries in which we operate.

THROUGH A CLOSE DIALOGUE with our owner, partner and other stakeholders, we aim to develop in the most essential aspects of our operations: decent work opportunities, equality, environment and climate, tax issues, business ethics and anti-corruption, and human rights. Our stakeholders help us to prioritise and guide us in our efforts to develop our investment strategy. We depend on them to ensure that we are continuously challenged and continue to improve. Firmly anchored in

our three pillars, our investment process and our prioritised material aspects (see dashboards on page 38 and onwards), we work to deliver in line with our mission – poverty reduction through sustainable business. Our material impact takes place both within Swedfund as a company and externally, i.e. in Swedfund's portfolio companies. We focus especially on the materiality aspects of our investment operation and in our portfolio companies. The materiality aspects are also important within Swedfund

as an organisation, and a precondition for enabling us to achieve our mission. But it is in the portfolio companies that we aim to have the greatest impact, and it is in the portfolio companies that we want to generate development results. Our materiality analysis is refined continuously in close dialogue with our stakeholders. The schematic diagram below lists our stakeholders and our most important response and results in 2016.

STAKEHOLDER CATEGORY	STAKEHOLDER	STAKEHOLDER ISSUES AND FOCUS	TYPE AND FREQUENCY OF DIALOGUE	SWEDFUND'S RESPONSE AND RESULTS
OWNER who defines Swedfund's mission and finances Swedfund through the aid budget.	THE GOVERNMENT (Ministry of Enterprise and Innovation, and Ministry for Foreign Affairs).	<ul style="list-style-type: none"> Updated owner instruction during 2016, adding some new corporate targets e.g. focusing on climate and equality. Corporate governance, administration and monitoring. Sustainable business: human rights, environment, working conditions, anti-corruption, business ethics, equality and diversity. 	Annual general meeting, owner instruction, individual meetings and network meetings.	<ul style="list-style-type: none"> Ongoing process for development of a climate strategy. Active participation in target-related projects to develop Swedfund's new corporate targets. Further development of Women4Growth to work proactively on equality in more portfolio companies. Participated in discussions on New policy framework for Swedish aid etc. Participated in Swedish delegation to UN meeting on investing in the least developed countries, as well as the World Bank meeting 2016.
POLITICIANS who decide the policy for global development and approve the government budget.	PARTIES IN THE RIKSDAG, THE SWEDISH PARLIAMENT	<ul style="list-style-type: none"> Swedfund's role in the development agenda, in Swedish aid, the aid budget and decisions on capital injections. Notification of capital injection 2016 and proposal for capital injection 2017-2018. 	Through meetings with representatives of the parties, and with Riksdag committees.	<ul style="list-style-type: none"> Presentation and participation in the Foreign Affairs Committee, the Commerce Committee and the Tax Committee.
BUSINESS PARTNERS who, in close collaboration with Swedfund, finance and manage the companies in Swedfund's portfolio.	CORPORATE PARTNERS	Financing, marketing matters, strategy and business models.	Interaction and lobbying.	<ul style="list-style-type: none"> New investment decisions, as well as active lobbying on shared investments. Partnership with Scania on a biogas plant in India. Partnership with H&M on the establishment of sustainable textile industry in Ethiopia.
	DEVELOPMENT FINANCE INSTITUTIONS (DFIs, IFIs).	Private sector development, co-financing and development impacts.	Ongoing contacts and meetings in collaboration groups.	<ul style="list-style-type: none"> Legal agreements.
	EDFI (European Association of DFIs).	Policy issues for European DFIs.	Reference group meetings at multiple levels: CEO, HR, ESG, Development Effects, Legal etc.	<ul style="list-style-type: none"> ICCF - decision on increased financing to ICCF, facility for investment in renewables and energy efficiency.
CIVIL SOCIETY ORGANISATIONS AND TRADE UNIONS who, like Swedfund, carry on development aid assignments in Swedfund's markets.	CIVIL SOCIETY AID ORGANISATIONS <ul style="list-style-type: none"> Action Aid Diakonia Forum Syd WWF Naturskyddsföreningen (the Swedish Society for Nature Conservation) Svenska kyrkan (The Church of Sweden) Swedwatch We Effect Kvinna till Kvinna (Woman to Woman) 	Policy issues e.g. human rights, development impacts, transparency and tax issues.	Stakeholder dialogues, see notes at swedfund.se.	<ul style="list-style-type: none"> Increased transparency and responsiveness. Stakeholder dialogue on tax, as well as decision on Swedfund's tax policy. Stakeholder dialogue on climate strategy. Stakeholder dialogue on Swedfund's performance report.
	TRADE UNIONS <ul style="list-style-type: none"> IF Metall LO LO TCO Biståndsnämnd (Union to Union) 	The "decent work" agenda.	Stakeholder dialogues.	<ul style="list-style-type: none"> Ongoing discussion on the opportunity for joint projects in portfolio companies or in specific markets.
	INTERNATIONAL NGOS <ul style="list-style-type: none"> Eurodad IBIS 	Development impact, transparency and tax issues.	Roundtable discussions and conference.	<ul style="list-style-type: none"> Support for country-by-country tax reporting. Stakeholder dialogue on tax, as well as decision on Swedfund's tax policy.
	CHILDREN'S RIGHTS ORGANISATIONS <ul style="list-style-type: none"> Plan Sverige Rädda Barnen (Save the Children) UNICEF 	The children's rights perspective (Global Compact's Children's Rights Principles).	Previous experience approach.	<ul style="list-style-type: none"> Carried out an audit in the portfolio company's value chain regarding the potential risk of child labour.
MEDIA AND MULTIPLIERS whose reporting reaches and influences the general public and other stakeholders.	<ul style="list-style-type: none"> Dagens Industri Svenska Dagbladet Veckans Affärer Aktuell Hållbarhet Miljörapporten Social media 	Monitoring Swedfund as a development finance institution.	Planned communication, discussions and meetings for knowledge transfer.	<ul style="list-style-type: none"> Openness to dialogue. Promoting responsible and sustainable investment.
SWEDFUND'S EMPLOYEES who use their knowledge, experience and networks to implement Swedfund's mission.	<ul style="list-style-type: none"> Members of staff Employees' representatives 	Employee issues, organisational, strategic and resource issues.	Staff meetings, career appraisals, salary discussions and Swedfund University.	<ul style="list-style-type: none"> Development of Swedfund's work environment policy. Implementation of Swedfund University during the year (KPA Pension on Sustainable investment and Linklater's on "Influencing & Negotiations").

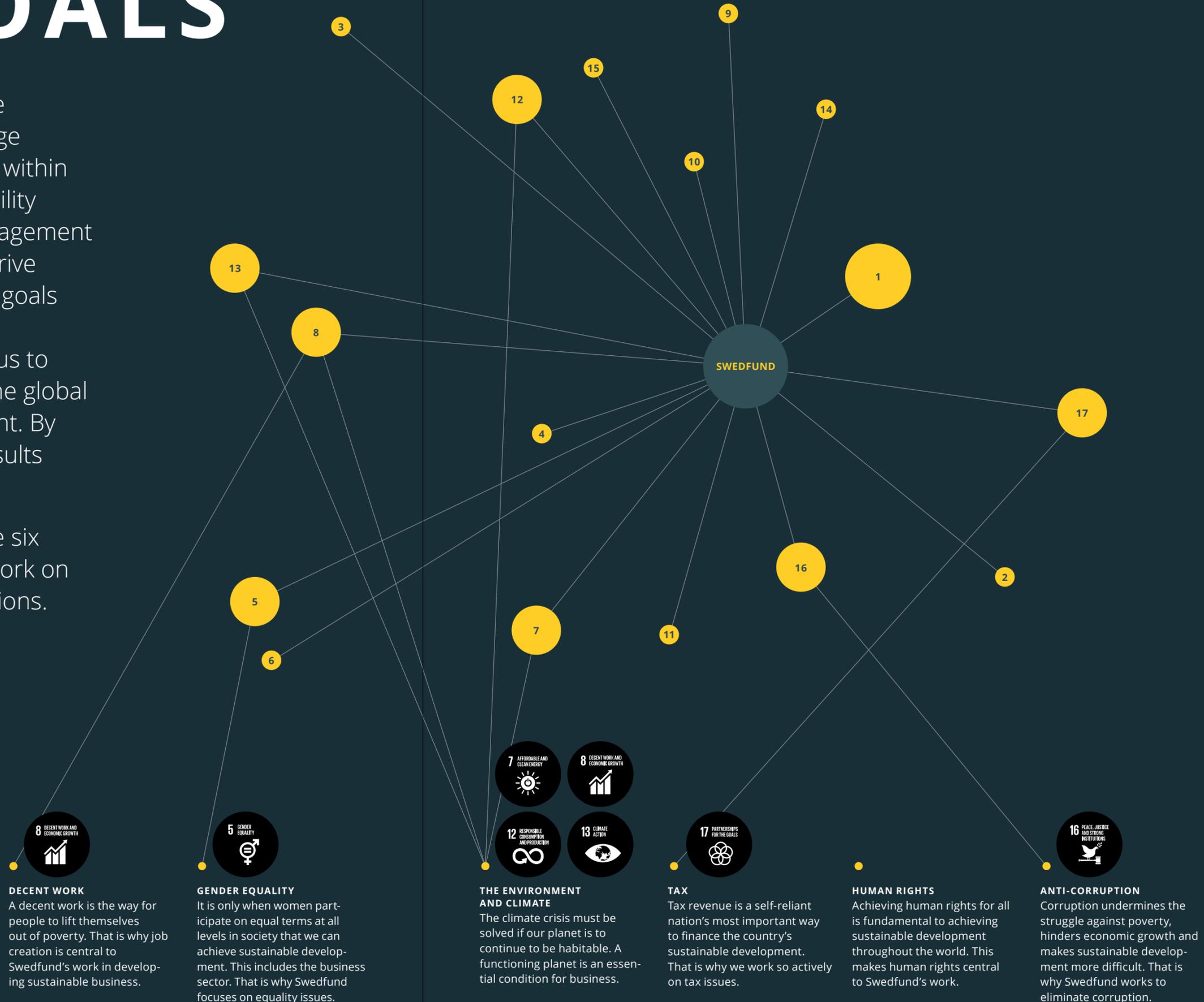
THE GOALS

Our starting point for sustainable business is to analyse and manage business opportunities and risks within what are for us central sustainability dimensions. Through active management of our portfolio companies, we drive development towards the global goals and, more specifically, towards a number of targets. This enables us to contribute to the realisation of the global goals for sustainable development. By investing now, we will achieve results right through to 2029.

On the following pages, there are six fact sheets which illustrate our work on our central sustainability dimensions.

THE GLOBAL GOALS FOR SUSTAINABLE DEVELOPMENT:

- 1 NO POVERTY
- 2 ZERO HUNGER
- 3 GOOD HEALTH AND WELL-BEING
- 4 QUALITY EDUCATION
- 5 GENDER EQUALITY
- 6 CLEAN WATER AND SANITATION
- 7 AFFORDABLE AND CLEAN ENERGY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 10 REDUCED INEQUALITIES
- 11 SUSTAINABLE CITIES AND COMMUNITIES
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION
- 14 LIFE BELOW WATER
- 15 LIFE ON LAND
- 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
- 17 PARTNERSHIPS FOR THE GOALS



DECENT WORK

8 DECENT WORK AND ECONOMIC GROWTH



INTRODUCTION

In the region which Swedfund focuses on, Sub-Saharan Africa, most people still live in rural areas and farm the land, even though the trend is moving rapidly towards urbanisation.

Over the next few decades, the population of Africa is expected to double. All these young people eventually need to find work, and, at present, nine out of ten of them find it in the informal sector. This is particularly the case with women. It leaves them with an uncertain income and without social security.

The strong growth we are currently seeing in Africa is often taking place without new jobs. This is due to the fact that the economies are based on raw materials which are not processed within the country. So other types of jobs must be created.

This is something we want to alter. We will ensure that people come onto the labour market. But not into just any work, but to decent work through sustainable investment, and in sustainable production. In sustainable, innovative companies which produce goods and services that can be purchased locally by consumers, or processed and exported to generate export income and the inflow of foreign currency, and to strengthen the country's competitiveness. That is why we invest in selected companies with selected partners in the

world's poorest countries. There we contribute to sustainable industrialisation and sustainable production of goods and services, and companies providing decent work.

Lake Turkana Wind Power Project in Kenya.



DATA

"Youth unemployment is a time bomb."

PATRICE TALON
President, Benin



4 OUT OF 5 WORKERS IN DEVELOPING COUNTRIES ARE IN VULNERABLE FORMS OF EMPLOYMENT²

IN SUB-SAHARAN AFRICA, THE LACK OF PRODUCTIVE OPPORTUNITIES FOR BOTH YOUNG PEOPLE AND ADULTS MEANS THAT

247 MILLION PEOPLE
WERE IN
VULNERABLE EMPLOYMENT

IN 2016

VULNERABLE EMPLOYMENT IS CONSISTENTLY HIGHER FOR WOMEN IN AFRICA, THE ASIA-PACIFIC REGION AND THE ARAB COUNTRIES³

WHAT SWEDFUND DOES

THROUGH INVESTMENT:

▼ Through investment in the private sector, directly or through financing banks and funds who finance SMEs – where the majority of all jobs in our markets are generated – we help create more jobs.

▼ During our Due Diligence, we look at whether the company complies with the ILO's core conventions and the ILO's basic terms and conditions of employment. If deficiencies are identified, these are addressed through an ESGAP (Environmental Social Governance Action Plan), with a set date for rectifying the situation. ESGAP forms a part of the legal agreement with the portfolio companies.

▼ By developing financially sustainable businesses, we create the conditions for continued and additional employment in companies that survive and progress.

WE MEASURE RESULTS:

▼ We measure the number of jobs in our portfolio companies, and one of our objectives is that they must increase over time.

▼ We measure and set requirements for the portfolio companies' compliance with the ILO's Core conventions and the ILO's fundamental working conditions.

THE SUSTAINABLE DEVELOPMENT GOALS IN FOCUS THROUGH OUR WORK:

▼ SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, partly through focusing on high-value added and labour-intensive sectors.

▼ SDG 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

▼ SDG 8.7: Take immediate and effective measures to eradicate forced labour, and modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers. End child labour in all its forms by 2025.

▼ SDG 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

GOVERNING POLICY & RESPONSIBILITY:

▼ Sustainability policy

▼ The Directors of Investment Operations

GENDER EQUALITY

5 GENDER EQUALITY



INTRODUCTION

Women comprise half the population of our world, and, therefore, represent half its potential.

But when a girl grows up in one of the world's poorest countries, she is far less likely to have been educated than her brother is. And when she grows up to be a poorly-educated woman, she often works in the home, or in some form of informal and vulnerable employment. That we must change. For if the woman is offered proper employment, she is more likely to use her wages to lift her family out of poverty. This means that giving a woman a job triggers a long chain of positive effects,

for society, for the prospects for peace and for democracy. In this way, we can reverse generations of living in poverty.

If we increase the number of women at all levels in the company, this increases the company's ability to make a profit. And if we can help create greater equality in this way throughout a country, it is highly likely that growth will increase in that country. When a large number of women in a country are given work, poverty is reduced and the country benefits from greater social fairness. This brings it a step nearer to sustainable development. That is what makes equality so important to us.

Promoting equality for women can add USD 12 trillion to global growth¹.

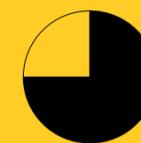
Florence Kimanhi,
AAR Healthcare,
Nairobi, Kenya.



DATA



50% OF EMPLOYED WOMEN IN THE WORLD ARE IN VULNERABLE EMPLOYMENT, OFTEN OUTSIDE THE PROTECTION OF LABOUR LEGISLATION²



75% OF ALL UNPAID WORK IN THE WORLD IS CARRIED OUT BY WOMEN³

WOMEN

HAVE AN IMPACT ON PRODUCTIVITY AND COMPETITIVENESS FOR FUTURE GENERATIONS BY REINVESTING

90% OF THEIR INCOME
IN THE FAMILY AND THEIR CHILDREN'S DEVELOPMENT⁴

WHAT SWEDFUND DOES

THROUGH INVESTMENT:

▼ Swedfund invests in companies which have employing women as an explicit goal.

▼ We invest in banks which focus on lending to women-owned or women-managed SMEs.

▼ In our Due Diligence in preparation for an investment, we analyse the company's approach to equality such as the availability of parental leave, equal pay for equal work and non-discrimination. We start from the ILO's core conventions and the ILO's basic terms and conditions of employment.

▼ Through Women4Growth, a talent development programme for women employed in our portfolio companies, we make targeted interventions to strengthen

them in a professional role and to further develop them to achieve leading positions.

WE MEASURE RESULTS:

▼ We set requirements and constantly measure key ratios linked to compliance with the ILO's core conventions and the ILO's basic terms and conditions of employment.

▼ We measure:
1) Compliance with the ILO's core conventions and basic terms and conditions of employment.

2) Equality in the form of proportion of women
a) among employees
b) in leading positions
c) on the Board of Directors

In this way, we highlight women in our data. We know that what is measured, is visible. And highlighting facts is the start of change!

SUSTAINABLE DEVELOPMENT GOALS IN FOCUS THROUGH OUR WORK:

▼ SDG 5.1: End all forms of discrimination against all women and girls everywhere.

▼ SDG 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

GOVERNING POLICY & RESPONSIBILITY:

▼ Sustainability policy

▼ The Directors of Investment Operations

THE ENVIRONMENT & CLIMATE

7 AFFORDABLE AND CLEAN ENERGY



8 DECENT WORK AND ECONOMIC GROWTH



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



INTRODUCTION

2015 a legally-binding climate agreement, the Paris Agreement, was adopted. The agreement means that all the countries of the world now have a common plan to reduce emissions.

The rising global temperatures must be kept well below 2 degrees, and every effort must be made to limit it to 1.5 degrees. Developing countries must receive continued support to limit their emissions and adapt their societies to climate change.

Climate change and poverty go hand in hand, and hit the world's poorest people hard. The preparations to deal with the effects, such as gradually rising sea levels,

stronger tropical storms, extreme drought, more unpredictable rainfall and more extensive and longer-lasting heat waves, are inadequate. It is essential that different types of investment do not contribute to binding countries into energy solutions which increase the negative impact.

Using new technology, it is possible to create new solutions and commercial arrangements.

Climate change has gender-differentiating effects, and, in many ways, exacerbates the existing limitations on women who are dependent on agriculture for survival.



Biofuel bus in Nagpur, India.

DATA



1 PERSON IN 5 IN SUB-SAHARAN AFRICA HAS ACCESS TO ELECTRICITY³

A FURTHER
120 MILLION PEOPLE
MAY BE FORCED
TO LIVE IN POVERTY
IF NOTHING IS DONE TO STOP
CLIMATE CHANGE¹

THE TOTAL INSTALLED
GENERATING CAPACITY
IN AFRICA'S 48 SUB-SAHARAN
COUNTRIES IS ONLY
68 GIGAWATT
- WHICH IS NO MORE THAN SPAIN'S²

WHAT SWEDFUND DOES

THROUGH INVESTMENT:

▼ In our Due Diligence in preparation for an investment, we analyse the company's resource utilisation and impact on the environment.

▼ We work actively to minimise resource use and negative environmental impact. We place requirements on the implementation of environmental and social management systems within three years from the date of the investment.

▼ Swedfund invests in projects for the production of renewable energy.

▼ DFIs fulfil an important role as sources of finance in the early stages of high-risk energy projects. In this, we act as catalysts and accelerate private investment within the renewable energy sector in Africa.

WE MEASURE RESULTS:

▼ We set requirements on and measure the degree of implementation of environmental and social management systems in our portfolio.

▼ We measure GWh of renewable electricity generated.

THE SUSTAINABLE DEVELOPMENT GOALS IN FOCUS THROUGH OUR WORK:

▼ SDG 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix.

▼ SDG 8.4: Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework

of programmes on sustainable consumption and production, with developed countries taking the lead.

▼ SDG 12.2: By 2030, achieve the sustainable management and efficient use of natural resources.

▼ SDG 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

▼ SDG 13.3: Improve education, awareness and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

GOVERNING POLICY & RESPONSIBILITY:

▼ Sustainability policy

▼ The Directors of Investment Operations

TAX

17 PARTNERSHIPS FOR THE GOALS



INTRODUCTION

Healthcare, education and transport: Tax revenue creates the conditions for countries to build up their own structures for important social functions themselves, and thus lay the foundations for sustainable development.

The Mbeki Panel¹ states that Africa loses an estimated USD 50 billion a year through illicit financial flows. This includes

everything from corruption and money laundering to tax evasion. The total is roughly equivalent to the amount Africa received in aid during the same period. The UN-agreed Addis Ababa Action Agenda (the framework for financing Agenda 2030) states that a significant increase in domestic public sector funds is critical to achieving sustainable development and meeting the sustainable development goals. It stresses that combating tax evasion is central to success.

Swedfund's mission is to combat extreme poverty through sustainable business. The tax revenues from our portfolio companies in the countries in which we are

tasked to operate are vital. Paying tax is a matter of development and fairness. There are, however, many challenges in our operational countries related to the like of defective tax structures. For that reason, it is important that the efforts to construct strong institutions which can administer the taxes which investment and business generate, continues.

Combating corruption is another issue linked to taxation. Reduction in corruption can contribute to more of the tax flows benefiting citizens.

DATA

EVERY YEAR, DEVELOPING COUNTRIES LOSE
USD 100 BILLION
IN REVENUE AS A RESULT OF
TAX EVASION
BY MULTINATIONAL COMPANIES²

AFRICA LOSES AN ESTIMATED
USD 50 BILLION
EACH YEAR THROUGH
ILLICIT FINANCIAL FLOWS
THIS INCLUDES EVERYTHING FROM
CORRUPTION AND MONEY LAUNDERING
TO TAX EVASION³

DEVELOPING COUNTRIES
LACK
USD 2.5 TRILLION
IN ANNUAL INVESTMENT WHICH WOULD
BE NEEDED TO ENABLE THEM TO REACH
THE GLOBAL GOALS⁴

WHAT SWEDFUND DOES

IN SWEDFUND'S INVESTMENT PROCESS:

▼ Tax forms part of Swedfund's Due Diligence. This means that, in preparation for an investment, we review the project and its structure from a tax perspective. Swedfund will not, for example, invest in corporate structures which lead to unjustified profit transfers from the operating country to another country, leading to an unbalanced tax situation. We also require that our portfolio companies submit reports on their tax situation. In the course of its normal activities, Swedfund will encourage its portfolio companies to act responsibly on taxation matters.

WE MEASURE RESULTS:

▼ Swedfund reports the taxes reported by portfolio companies in its annual report, and aims to record information on the amount of tax paid by the companies, using a harmonised definition.

▼ We also report the amount of tax which our portfolio companies declare in their annual reports in an aggregate country-by-country report.

SDG IN FOCUS THROUGH OUR WORK:

▼ SDG 17.1: Strengthen domestic resource mobilisation, including through international support to developing countries,

to improve domestic capacity for tax and other revenue collection.

GOVERNING POLICY & RESPONSIBILITY:

▼ Swedfund's owner instruction

▼ Swedfund's tax policy

▼ The Chief Legal Counsel and the Directors of Investment Operations are responsible for tax issues in portfolio companies.

SWEDFUND'S TAX POLICY

SWEDFUND HAS TAKEN AN active approach to tax issues for a number of years. We also have regular discussions with stakeholders on tax. During 2016, we adopted a tax policy, which has been published on Swedfund's website. We put a great deal of work into this, and it is one way for us to make our view abundantly clear.

FOR SOME CONSIDERABLE time, Swedfund has had two rules on taxation in place in its owner instruction: Firstly, Swedfund is not permitted to invest in intermediary jurisdictions which have been assessed within the framework of the OECD Global Forum Peer Review Process and that have thereby not been approved in phase 1, or have been deemed Partially Compliant or Non Compliant in phase 2. Secondly, Swedfund shall only invest in sound and transparent corporate

structures which do not contribute to tax evasion. Swedfund's adopted policy is not aimed at changing Swedfund's position on tax issues.

DURING 2016, SWEDFUND decided to report our portfolio companies' domicile, including the domicile of any intermediary company, on our website. This decision will be implemented during 2017. Swedfund's tax policy may be read on our website, swedfund.se.

HUMAN RIGHTS

INTRODUCTION

Protecting human rights for all is fundamental to achieving sustainable development throughout the world. That is why human rights permeate the global goals.

Even though progress has been made in certain areas, the human rights situation continues to be exceptionally serious in many countries. This is due, for example, to factors such as the refugee situation, war crimes, freedom of speech and freedom of the press. But it also involves

issues of labour law, water rights, the rights of women and children, as well as the rights of migrant workers. Companies have an obligation and a great opportunity to contribute to protecting human rights.

In 2008, the UN adopted the "Protect, Respect and Remedy" framework on business and Human Rights developed by John Ruggie. In June 2011, the United Nations Human Rights Council adopted the "UN Guiding Principles on Business and Human Rights" (UNGPs). Following that, the Swedish government drew up a national action plan for business and human rights. The UNGPs encompass the three guiding principles from the UN:

- The state duty to protect human rights.

- The corporate responsibility to respect human rights.

- People must have access to remedy if their rights have been breached.

"There is no peace without development, no development without peace and neither peace nor development without respect of human rights."

JAN ELIASSON
UN Deputy Secretary-General

WHAT SWEDFUND DOES

THROUGH ITS INVESTMENT OPERATIONS

▼ Swedfund's responsibility to respect human rights has been long enshrined in the guidelines and duties that guide us. These include Sweden's national action plan for business and human rights, the State's Ownership Policy, the UN Global Compact and the OECD guidelines. In 2014, we began the implementation of the UN Guiding Principles on Business and Human Rights by updating Swedfund's sustainability policy in the light of these principles.

▼ Human rights are an integral part of the Due Diligence which covers all our new investments, see our Integrated Report 2015, pages 18–19.

▼ For more information on targeted interventions, such as the audit of the supply chain to check on the occurrence of child labour, see the results section on page 73 of this report.

WE MEASURE RESULTS:

▼ Last year, we produced our first report on Swedfund's work on human rights, inspired by the UN Guiding Principles on

Business and Human Rights Reporting Framework. We are continuing in this path, and we report below on the gap analysis carried out during the year and on the human rights issues we are involved in. In next year's report, our ambition is to report on our salient human rights risks.

GOVERNING POLICY & RESPONSIBILITY:

▼ Swedfund's sustainability policy and Sweden's National Action Plan for Business and Human Rights.

▼ The Directors of Investment Operations

SWEDFUND'S GAP ANALYSIS

TO ENSURE that Swedfund complies with the UN Guiding Principles on Business and Human Rights, and Sweden's National Action Plan, we carried out a gap analysis of our approach to human rights during 2016. The aim of the project was to support Swedfund by:

- Developing procedures to evaluate and manage human rights risks and consequences in new investments and in the investment portfolio, including on exit;
- To identify shortcomings and areas for improvement.

Two of the prioritised recommendations address:

HUMAN RIGHTS DUE DILIGENCE:

- Swedfund should ensure that it carries out HR Due Diligence, at least in high-risk situations, and prioritise remedies for serious consequences.
- Assessments should be made at the beginning of the project, and then on a continuous basis throughout an investment, when the

circumstances may change, as well as on exit.

- To identify and define high-risk situations, i.e. situations which trigger an in-depth investigation on human rights, where there is a high risk that the project may have a negative impact on human rights, e.g. investments in repressive regimes, dictatorships, post-conflict areas, famine or drought.

- Swedpartnership: To implement capacity building, and integrate human rights throughout the processes, i.e. in risk assessments, partner meetings and site visits to the project.

During 2017, Swedfund intends to prioritise and implement selective recommendations. The work will begin by mapping high-risk situations, followed by the implementation of a number of Human Rights Impact Assessments during different phases of the investment cycle (pre-investment, monitoring and exit) at those portfolio companies which are deemed to have the highest risk in relation to human rights.

We will also identify salient risks in our operation as a part of developing our approach.

HUMAN RIGHTS ISSUES DURING THE YEAR

During the year, we worked more intensively on human rights in a couple of investment projects, as well as in existing portfolio companies:

- In carrying out Due Diligence on a new investment, we identified risks related to shortage of water, both for surrounding communities and for the company itself. As a result, an in-depth study of water supplies in the area was carried out, as well as of future water provision in the area. As a result of the study, the company undertook to implement a number of measures to reduce the water stress.
- During Due Diligence on another investment, risks relating to land acquisition and land-use were identified, as well as the rights of the local people to practice their religion. As a result, it was decided to carry out an in-depth study on land use. The study is ongoing.

ANTI-CORRUPTION

INTRODUCTION

Corruption exists in every market. It hits those countries especially hard where people live in vulnerability and poverty.

For Swedfund, anti-corruption work in portfolio companies is a strategic sustainability target, and our anti-corruption policy is clear: zero tolerance. Corruption undermines the struggle against poverty. It inhibits sound competition and a sound investment climate, thereby hindering economic growth and sustainable development. Resources for public services and products such as healthcare and

education are diminished. Corruption is not solely a problem in poor countries, but exists in every market, and takes a variety of forms. It hits those countries especially hard where people live in vulnerability and poverty. The more companies which show that it is possible to do business honestly, the more this approach will spread. Other companies in these markets can see that it is actually possible to carry on business without resorting to unhealthy business methods, and may adopt our model.

"If corruption was an economic sector, it would be the third largest in the world, equivalent to 5 percent of global GDP or USD 3 trillion."

UN Global Compact, 2015

WHAT SWEDFUND DOES

IN SWEDFUND'S INVESTMENT PROCESS

▼ Swedfund applies zero tolerance to all forms of corruption. In all legal agreements entered into by Swedfund, it is made clear that zero tolerance applies. There is a high prevalence of corruption in Swedfund's markets. In the event of a serious case of corruption, Swedfund ultimately has the right to withdraw from the investment.

▼ In every Due Diligence carried out on all new investments, corruption risks are analysed, as is the company's approach to combating corruption. For each direct investment, an ESG Action Plan is drawn up, with measures to ensure that the companies comply with Swedfund's sustainability policy and anti-corruption policy.

▼ To make things easier for the portfolio companies, Swedfund has produced a template for an anti-corruption policy, which portfolio companies are welcome to use.

▼ Education and skills development on anti-corruption issues, internally and

in portfolio companies, are other important components of Swedfund's anti-corruption work.

WE MEASURE RESULTS:

▼ Swedfund requires that portfolio companies implement a management system in respect of anti-corruption issues. This is one of Swedfund's strategic sustainability targets. Read more in the results section on page 72.

SDG IN FOCUS THROUGH OUR WORK:

▼ SDG 16.5: Substantially reduce corruption and bribery in all their forms.

GOVERNING POLICY & RESPONSIBILITY

▼ Swedfund's anti-corruption policy.

▼ The Chief Legal Counsel is responsible for this work internally at Swedfund, and the Directors of Investment Operations are responsible for the work in the portfolio companies.

SWEDFUND'S GAP ANALYSIS

DURING 2016, SWEDFUND initiated a project to work even more actively on combating corruption in our portfolio companies. With the assistance of an external consultant, we developed a number of tools which will initially be offered to the portfolio companies on a voluntary basis. The project will provide our portfolio companies with tools to introduce procedures which counteract

and detect corruption. In addition, they will have support in working preventatively, and in handling cases of corruption that do arise. Training of Swedfund's personnel and selected personnel from the portfolio companies is also included in the project, which is being launched during 2017.

WHISTLEBLOWER SERVICE

IN JUNE 2016, Swedfund's whistleblower service was established, to provide the opportunity to report serious irregularities in Swedfund's and the portfolios companies' operations, anonymously. The service, which is accessed via swedfund.se, is aimed at employees, contractors, trainees etc., at Swedfund and the portfolio companies. Many of Swedfund's portfolio companies have their own systems for handling irregularities, but Swedfund's system can still work as a complement to this if, for example, the employee is not comfortable with reporting through the portfolio company's system.

Portfolio companies which do not yet have any system in place, are encouraged to establish one. Since Swedfund's system has been made available to the portfolio companies, employees and others in those companies are already able to report irregularities anonymously.

