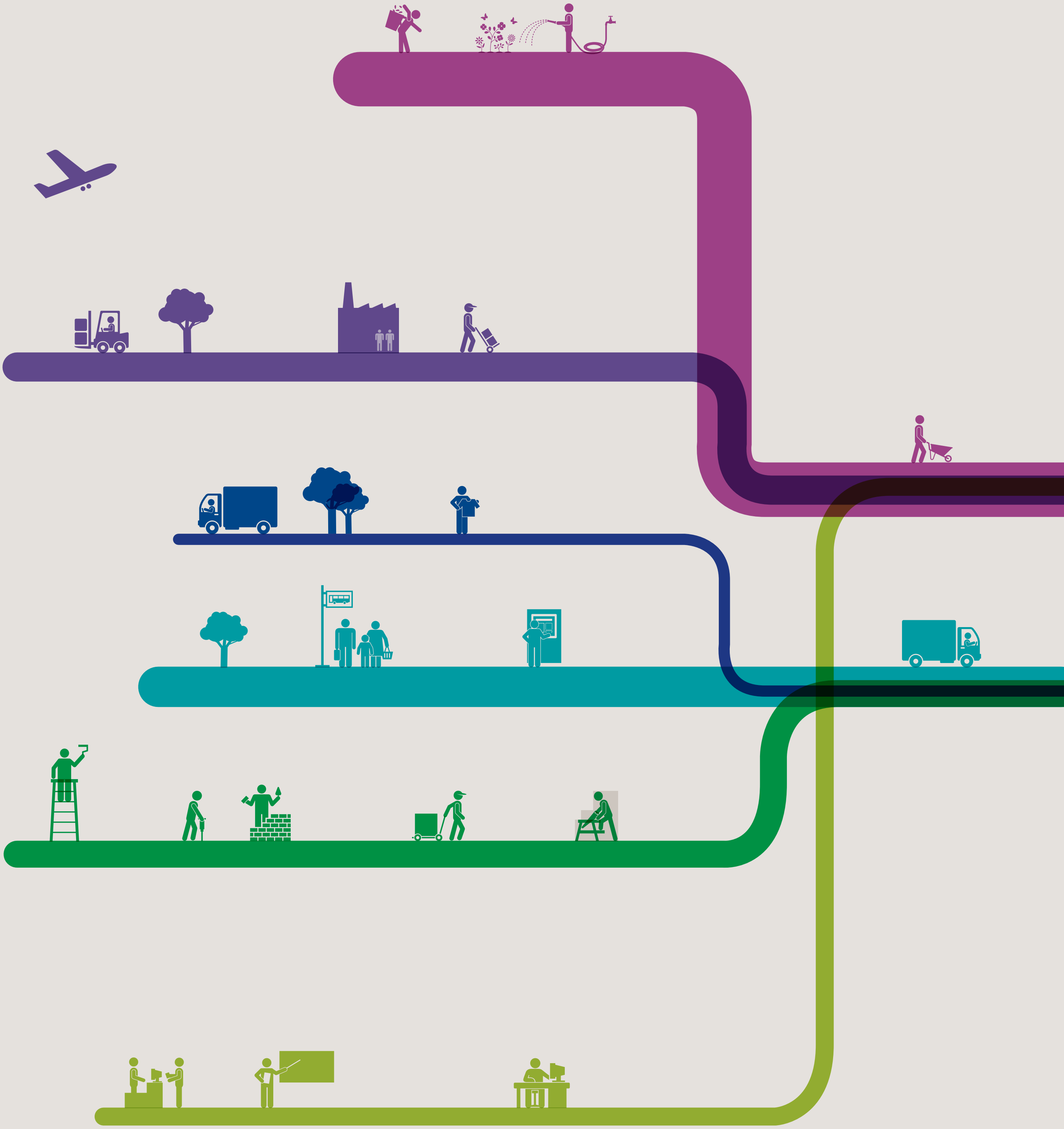
CDC Group plc
Annual Review 2013



Contents

CDC's mission is to support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places.

Further information
Throughout this report we have included guidance to show where further information on some issues can be located.

Visit www.cdcgroup.com

p1 **Refer to pages in this document**

Who we are and what we do

What is CDC?

CDC was established in 1948 as the first ever development finance institution (DFI). Wholly-owned by the UK government, we are part of the Department for International Development's (DFID) private sector strategy to alleviate poverty. Our mission is to support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places.

CDC is self-funding and we invest from our own balance sheet. All receipts and profits from our investments are recycled into future investments. This means CDC has had no new capital from the government since 1995.

What does CDC do?

CDC supports the growth of businesses and job creation across all of Africa and South Asia, especially in the harder places, because having a job is one of the first steps out of poverty. Over 70% of the world's poor people live in these regions.

We aim to invest in countries where the private sector is weak and jobs are scarce, and in sectors where growth leads to jobs – directly and indirectly – especially agribusiness, construction, education, financial institutions, health, infrastructure and manufacturing.

CDC invests to support the growth of all sizes of business, from the micro-level right up to the largest, because we believe that a balanced private sector is necessary for economic development and job creation. We add value by investing where fully commercial capital is scarce or where our skilled teams, together with our patient capital, can help a business achieve a more lasting impact.

How does CDC do it?

CDC provides capital in all its forms, including equity, debt, mezzanine and guarantees, and this capital is typically used to fund growth. We invest directly and through fund managers that we believe are aligned with our aims.

We apply high-quality commercial investment processes because development impact is well-correlated with strong financial performance. This is how our investments make a lasting difference and demonstrate to others that it is possible to invest successfully in hard places.

As a responsible investor, helping companies achieve good standards of governance, along with strong environmental and social policies, is an integral part of how we add value.

Risks

As a provider of patient capital to businesses in some of the world's most challenging investment environments, CDC accepts risks as inherent to its mission. These include not only the risk of losing the whole or part of CDC's investment capital, but also risks associated with poor environmental, social or business integrity standards, and consequential loss of reputation.

To manage and mitigate these risks, CDC ensures it has the right people and systems in place to assess and monitor how and where our capital is invested, and is committed to helping our partners improve where standards are found wanting. We recognise, however, that no matter how strong our systems and how skilled our team, the intrinsic difficulties of our markets will occasionally result in challenging scenarios. We aim to meet these head on, make changes where necessary and learn from each experience.

Total assets

£1,247.4m → **£2,948.9m**

31 December 2004* — 31 December 2013

Workers employed at CDC investee businesses

>1,100,000

Net new jobs created at CDC investee businesses, 2012-2013**

>68,000

New investment commitments, 1 January - 31 December 2013

£608.3m

Average annual return 2009-2013

5%

*In 2004, CDC adopted a fund-of-funds only strategy See www.cdcgroup.com for more information.

**Based on 826 companies for which CDC has employment data across the period 2012-2013.

Chairman's statement

In my first statement since becoming Chairman of CDC, I am pleased to report a strong year of new investment commitments as the organisation continues to make good progress against its five-year development-focused plan to 2016.

New commitments across CDC totalled £608.3m in 2013, in what was an exceptionally productive year. Each commitment has been made within CDC's new Investment Policy that steers the portfolio to exceed agreed levels of expected development impact.

CDC's £2,504m underlying investment portfolio generated an investment return of £140.9m (2012: £250.6m). This is in line with our expectations, given increasingly challenging market conditions that affected many emerging economies, especially India, and against a backdrop of exchange rate volatility. The overall result is a total return after tax of £117.3m (2012: £223.4m) and as a return on opening total net assets on a valuation basis, this represents a return for CDC's shareholder of 4.1% (2012: 8.6%) this year and an average annual return of 5.0% over the last five years.

The balance of CDC's underlying portfolio continued to move towards our preferred sectors and geographies. 72% of our capital is now deployed in Africa and South Asia and our priority sectors account for 68% of our underlying portfolio. In each new investment we make we aim to achieve significant positive development impact.

2014 is expected to present a challenging market environment for CDC, but we will remain focused on our mission. We will continue to provide debt, equity, guarantees and mezzanine capital, both directly and through funds to businesses in Africa and South Asia, with strong potential for job creation in our priority sectors of agribusiness, construction, education, financial institutions, health, infrastructure and manufacturing. While we build the CDC team to achieve this mission, we will continue to look to build new partnerships and deepen existing partnerships to help us achieve our developmental and financial mission.

The achievements of the organisation in 2013 are of course a tribute to all the team at CDC, but in particular I would like to mention our previous Chairman, Richard Gillingwater, CBE. Under his stewardship CDC entered a new phase in its development, growing from a fund-of-funds investor into a larger organisation with a development-focused mission and the ability to make direct debt and equity investments. He has left behind a strong legacy for which, on behalf of the shareholder, the Board and the employees, I thank him.

Graham Wrigley, Chairman

Chief Executive's statement

2013 was another important year in the evolution and growth of the new CDC. 2012 was the year when we agreed our strategy to focus on Africa and South Asia, to develop a balanced business able to invest all forms of capital directly as well as through funds, and to put development impact at the heart of what we do. It was also the year when we started to build the teams capable of bringing this strategy to life.

As we look back at 2013, our progress feels astonishing and is a real testament to everyone now working at CDC. We completed 26 transactions during the year, including 13 where we provided equity or debt directly to investee businesses, for a total committed capital of £608.3m. This is a big step up from nine transactions totalling £169.2m during 2012.

However, a long-term patient investor like CDC should not judge itself primarily by the amount of capital it is able to invest. We care more that this capital should genuinely achieve the development impact we seek, and support management teams as they build businesses in challenging environments. And it is equally important that we are able to look back at the investment decisions we made in 2013 in a decade's time and know that they were commercially sound and able to generate financial returns.

It is very early days but I feel that our 2013 investments will live up to the high standards we have set ourselves for achieving impact. They include businesses establishing new hospitals, constructing wind farms, re-planting palm oil estates, expanding a distribution network, building new shops, homes and a hotel, building a new chemical manufacturer and supporting the roll-out of very low cost schools.

Some of these are greenfield initiatives, emphasising our conviction that Africa and South Asia need investment in new businesses and infrastructure, and many are pre-profit, underlining CDC's ability to absorb a higher degree of risk than fully commercial investors.

Our core developmental objective however is to support the creation of jobs. Raising incomes for individuals and their families through the dignity of work is the best route out of poverty. And I am particularly proud that our investments have helped to create more than 68,000 jobs and support over one million jobs this year in some of the poorest parts of the world.

Throughout the year we have sought new ways to enhance, measure and communicate our impact. We launched a new website and produced 11 powerful case studies in written or video format. And we are now working in partnership with financial institutions around the world to help improve knowledge of and develop practical approaches to the challenge of creating more and better jobs.

Looking to 2014 and beyond, we will continue to build a balanced business, where investing through funds and supporting the establishment of new managers able to attract capital from international investors remains a central part of what CDC does, alongside our direct strategies. We will also develop our skills and capacity to manage and add value to our portfolio and support the management teams of our investee companies to help them develop their own teams.

There remains much to do, but I believe we are on the path that all of us at CDC want: to make CDC an investor that genuinely, yet humbly, is able to support the growth of businesses throughout Africa and South Asia to create jobs and make a lasting difference to people's lives in some of the world's poorest places.

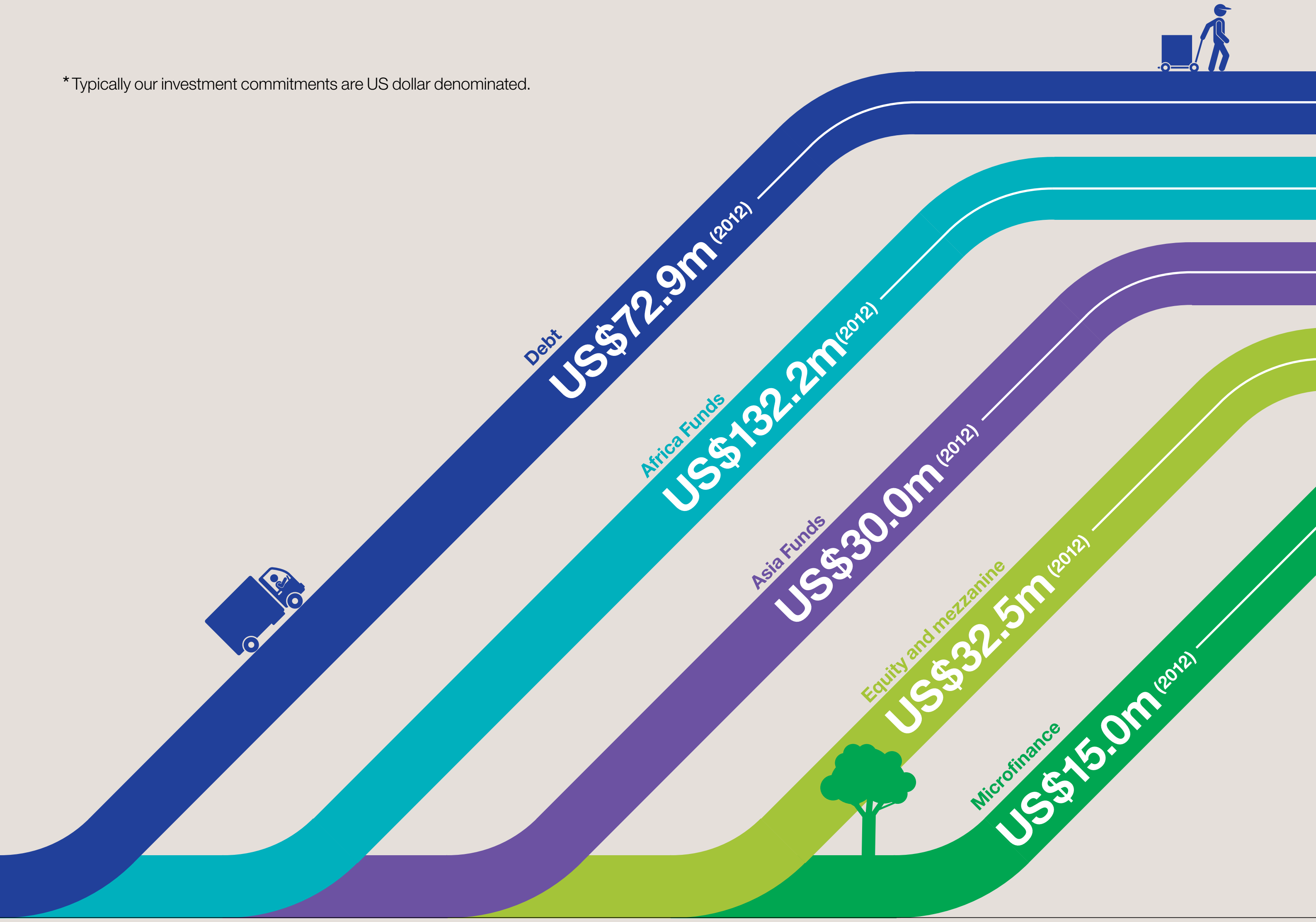
Diana Noble, Chief Executive

2013 investment commitments at a glance

In 2013, CDC made 26 new investment commitments totalling £608.3m (US$1,005.7m*).

Businesses in developing countries often struggle to find the investment they need to grow. Our job is to provide scarce and patient capital to private sector businesses in the poorer developing countries. Since 2012, CDC has provided capital in all forms – debt, equity and guarantees, both directly and through intermediaries – and we only make new investment commitments to businesses in Africa and South Asia.

* Typically our investment commitments are US dollar denominated.



Infrastructure

Percentage of portfolio

25.2%

Includes transport, water, sanitation and power generation and distribution. In 2013, CDC committed US$25.0m to Green Infra, an independent power producer that operates renewable energy assets in India, to help the company expand its wind and solar generation capacity.

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Financial Institutions

Percentage of portfolio

13.6%

Includes banks and non-bank finance companies (NBFC). In 2013, CDC agreed a debt facility of up to US$20.0m with Au Financiers, an NBFC in India that specialises in helping small entrepreneurs finance commercial vehicles.

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Trade

Percentage of portfolio

13.3%

Includes retail and wholesale trade including pharmaceuticals and food. In 2013, investment in this sector included fund manager Catalyst Principal Partners' investment into Yes Brands, a manufacturer and distributer of bottled water in Ethiopia.

Manufacturing

Percentage of portfolio

12.0%

Includes light and heavy manufacturing. 2013 saw CDC commit US$40.0m of debt finance to Indorama Eleme for the construction of a large fertiliser plant in Nigeria, creating 350 direct jobs and over 2,000 additional jobs during the construction phase.

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Business Services

Percentage of portfolio

10.3%

Includes logistics, IT support and other services. In 2013, investments in this sector included (through Ambit Pragma fund) Kelvin Cold Chain Logistics, a business in India providing logistics services to the food service, dairy, meat and pharmaceutical industries.

Construction

Percentage of portfolio

6.3%

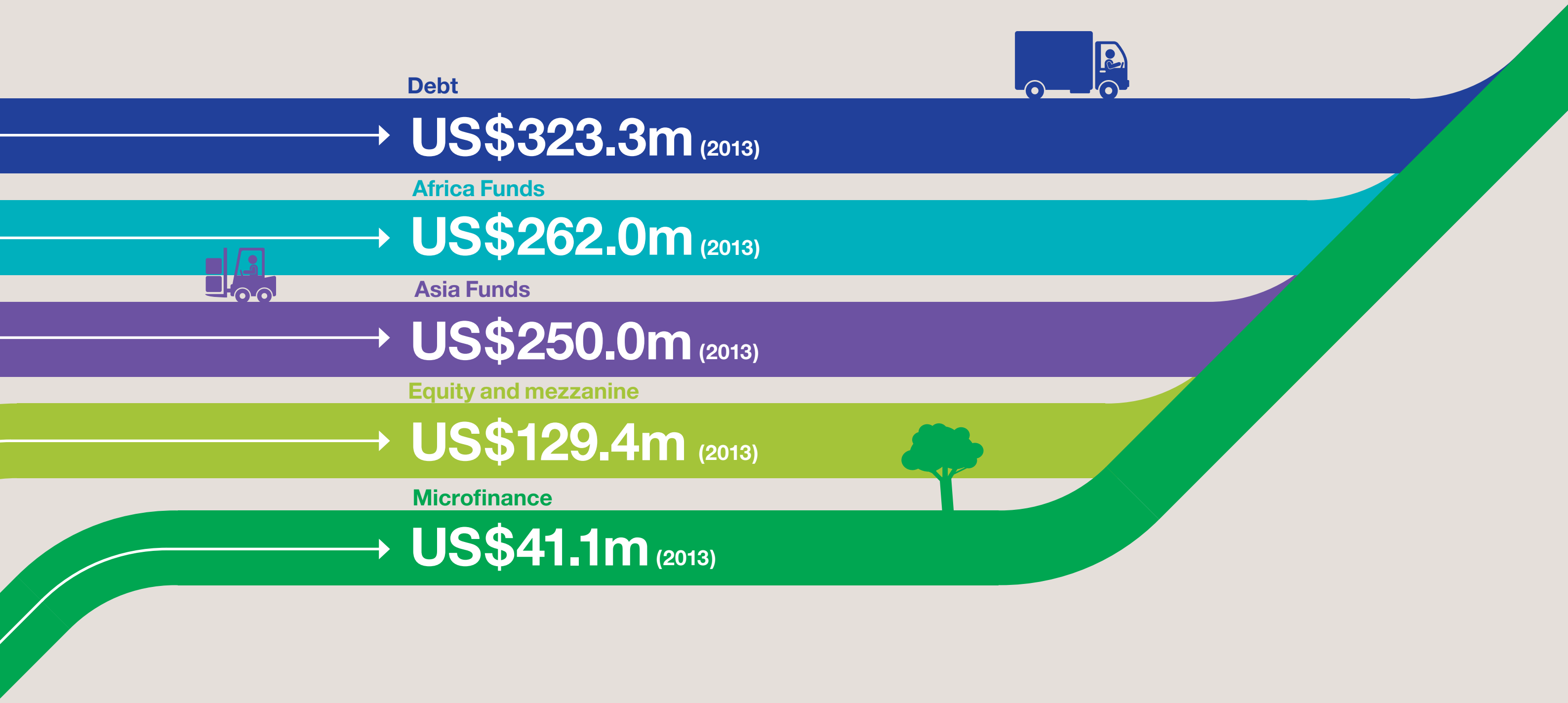
Construction is a priority sector as developing land and property frequently generates large employment. In 2013, CDC invested in Garden City, a mixed-use development in Nairobi, Kenya, that will create over 650 jobs during the construction phase and a further 800 jobs once operational.

Total businesses supported by CDC capital

1,301

Workers employed at CDC investee businesses

>1,100,000



Our portfolio by sector

In 2012, CDC chose seven priority sectors because of their greater propensity to create jobs. It will take a number of years for the priority sectors to become the dominant weighting of the CDC portfolio as CDC did not prioritise particular sectors prior to 2012. However, CDC will continue to invest outside these sectors especially in the most challenging regions as new capital supporting any sector in especially capital-starved regions is highly developmental.

● Priority sectors

Communications

Percentage of portfolio

5.0%

Includes operators and providers of communications infrastructure such as mobile phone networks. In 2013, CDC agreed a US$25.0m debt facility with Grameenphone, a leading mobile network in Bangladesh that will help the firm expand coverage in rural areas.

Agribusiness

Percentage of portfolio

4.6%

Includes crops, food processing, forestry and fisheries. In 2013 we made an investment commitment of US$18.0m to Feronia, a company developing palm oil and arable operations in the Democratic Republic of Congo.

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Mineral Extraction

Percentage of portfolio

3.6%

This is not a priority sector for CDC and our investments in this sector pre-date CDC's current Investment Policy. As a proportion of the total portfolio, mineral extraction fell from 5.1% in 2012 to 3.6% in 2013.

Health

Percentage of portfolio

3.0%

In 2013, Rainbow Hospitals, a group of specialist paediatric hospitals in India, received an equity investment commitment of US$17.5m from CDC to help the company build more hospitals and provide more beds.

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Education

Percentage of portfolio

2.6%

In 2013, CDC committed to invest US$6.0m into Bridge Academies, a provider of affordable, quality primary and pre-primary education for children from poor families. Bridge Academies operates over 250 schools in Kenya.

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Real Estate

Percentage of portfolio

0.5%

Passive real estate investments are not a priority sector for CDC as land acquisition and associated business services have a lower development impact.

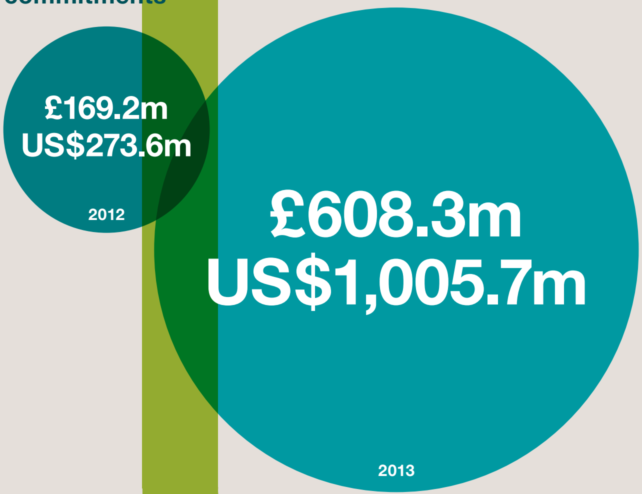
Investment strategy

Since CDC's founding, two objectives have remained constant – the need to achieve lasting development impact while generating sustainable financial returns.

Founded in 1948, CDC has been investing in developing economies for over 65 years. During this time, we have pursued an evolving strategy for a changing world, establishing and backing a number of sector-leading businesses in a wide range of countries. Two objectives have remained constant throughout this period – the need to achieve lasting development impact while generating sustainable financial returns.

CDC today does not interpret these two objectives as a trade-off, where high potential impact negates the need for financial returns or vice versa. Instead we have minimum standards for each, both of which must be met. Every investment decision interrogates whether potential impact (particularly in the form of job creation) is sufficient and whether the potential return is adequate for the risk CDC's capital is taking. Both criteria must be met for an investment to proceed.

2013 new investment commitments



Instruments

Since 2012, CDC has evolved from providing capital solely through funds across broad emerging markets to offering diversified products to support our partners with the most appropriate financial instrument. This includes funds and the direct provision of debt, equity and mezzanine, and is now focused only on Africa and South Asia.

Funds

CDC provides capital to private equity funds in Africa and South Asia that are aligned with CDC's aims and who we believe will generate attractive financial returns relative to the risk of their strategy. In both regions CDC is one of the largest fund investors across a range of fund types, including generalist, mid-market, SME, infrastructure, industrial and agribusiness. We add value by helping establish new managers and asset classes (such as real estate and infrastructure in Africa) and by assisting teams on issues such as structuring and governance.

Direct equity

Investing equity directly allows CDC to play an active role in creating and developing highly developmental businesses, maximising benefits for the poor wherever possible and improving environmental, social and business integrity standards. We aim to combine the best of the DFI approach of providing long-term capital with the best of the private equity approach of growing businesses and creating value.

Debt

Providing debt allows us to channel capital to companies with high potential development impact in difficult markets and to meet the full range of business needs for capital. CDC adds particular value through its longer term horizons, a rarity in sub-Saharan Africa and South Asia (other than India), and also drives improvements in environmental, social and business integrity standards.

Financial institutions

By providing capital to financial institutions, CDC can also channel capital through regional and international banking groups that then on-lend to local businesses or individuals, including SMEs. By supporting microfinance institutions, CDC aims to broaden the range of financial products and services to excluded communities in order to promote economic empowerment and financial inclusion.

Approach

CDC is market-led in our approach to investing. We have developed processes and skills which we believe are well suited to meeting the real needs of businesses and funds across Africa and South Asia.

1 Commercial

We run highly commercial investment processes because development impact is well-correlated with strong financial performance. This is how our investments make a lasting difference, and demonstrate to others that it is possible to invest successfully in hard places.

2 Risk appetite

We can take on more risk than other institutional investors, although to maintain a prudent portfolio the returns sought on investments still need to reflect our assessment of the risk we are taking. On a net portfolio view we accept a lower return than commercial investors because we accept that a higher proportion of investments will not achieve what was originally expected because of the inherent risk.

3 Flexible

Our timescales can be flexible and we can take a patient approach post-commitment, because value creation in our markets often takes many years to fully materialise.

4 Responsible

As a responsible investor, helping companies achieve good standards of governance, along with strong environmental and social policies, is an important part of how we add value.

Africa

Companies supported by CDC capital
617

Workers employed at CDC investee businesses
>200,000

South Asia

Companies supported by CDC capital
356

Workers employed at CDC investee businesses
>430,000

Resources

The CDC team continues to grow and develop to execute the strategy agreed with our shareholder. It was strengthened in 2013 by the addition of 38 high-quality recruits who joined across the organisation. All CDC's teams hired new staff and by 2013 year-end our London office included 45 investment professionals, 15 transaction support professionals and 42 corporate support staff. Within this, four new teams were established during the year.

Infrastructure

CDC's infrastructure team was established and grew to include seven investment professionals. In 2013 the team made its first investment in the Green Infra renewables business in India and also explored the power generation market in Africa in depth as a precursor to intended transactions.

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Financial institutions (FI)

The FI team of four investment professionals was established in 2013 and devised a strategy for the provision of debt and equity to important partner institutions in our markets. The team also agreed a US$10m financing round with DFCU, a successful Ugandan bank that CDC established in 1964 and has consistently supported since.

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Regional directors

As a London-based organisation investing directly in Africa and South Asia, CDC must stay close to our markets. The recruitment of Srini Nagarajan as South Asia Regional Director and Dolika Banda as Africa Regional Director re-established CDC's presence in the two regions for the first time in a decade. This will be supplemented by further senior support in 2014.

Development impact

CDC's first director of development impact joined in 2013 to lead the task of understanding the potential impact of our investments ex ante, and assessing the actual impact – direct, indirect and induced – ex post. Our first director of business integrity also joined in 2013 to help us assess, monitor and improve the business integrity of our portfolio companies. Senior hires were also made to strengthen the transaction support teams across legal and environmental and social responsibility functions.

Responsible investing

There is increasing recognition that strong environmental, social (ES) and business integrity (BI) standards are material factors in driving business value. This is particularly the case across the geographies where CDC invests, where a failure to understand ES and BI issues can have a significant impact on the prospects and ambitions of businesses.

CDC recognises these challenges and the value that we can deliver through helping our investment partners integrate good ES and BI practices into core business activities. Over the past year, we have enhanced our ES and BI processes and procedures to reflect the broader range of investment services that CDC delivers. For all types of investment, the process begins early, with potential investee companies rated for ES and BI risk and specific consideration of country and industry sector issues. Our due diligence and monitoring requirements are defined by this risk assessment and, where we need investment partners to improve their ES or BI performance, we develop and agree legally binding action plans against which we can judge progress and performance.

CDC's investment partners see value in working with us to improve ES and BI performance. This year, for example, we have helped clients enhance labour practices and occupational health and safety in textile supply chains in India, and we started working to improve the living conditions of communities and workers near to palm oil plantations in the Democratic Republic of Congo.

2013 highlights

Survey of fund managers' requirements

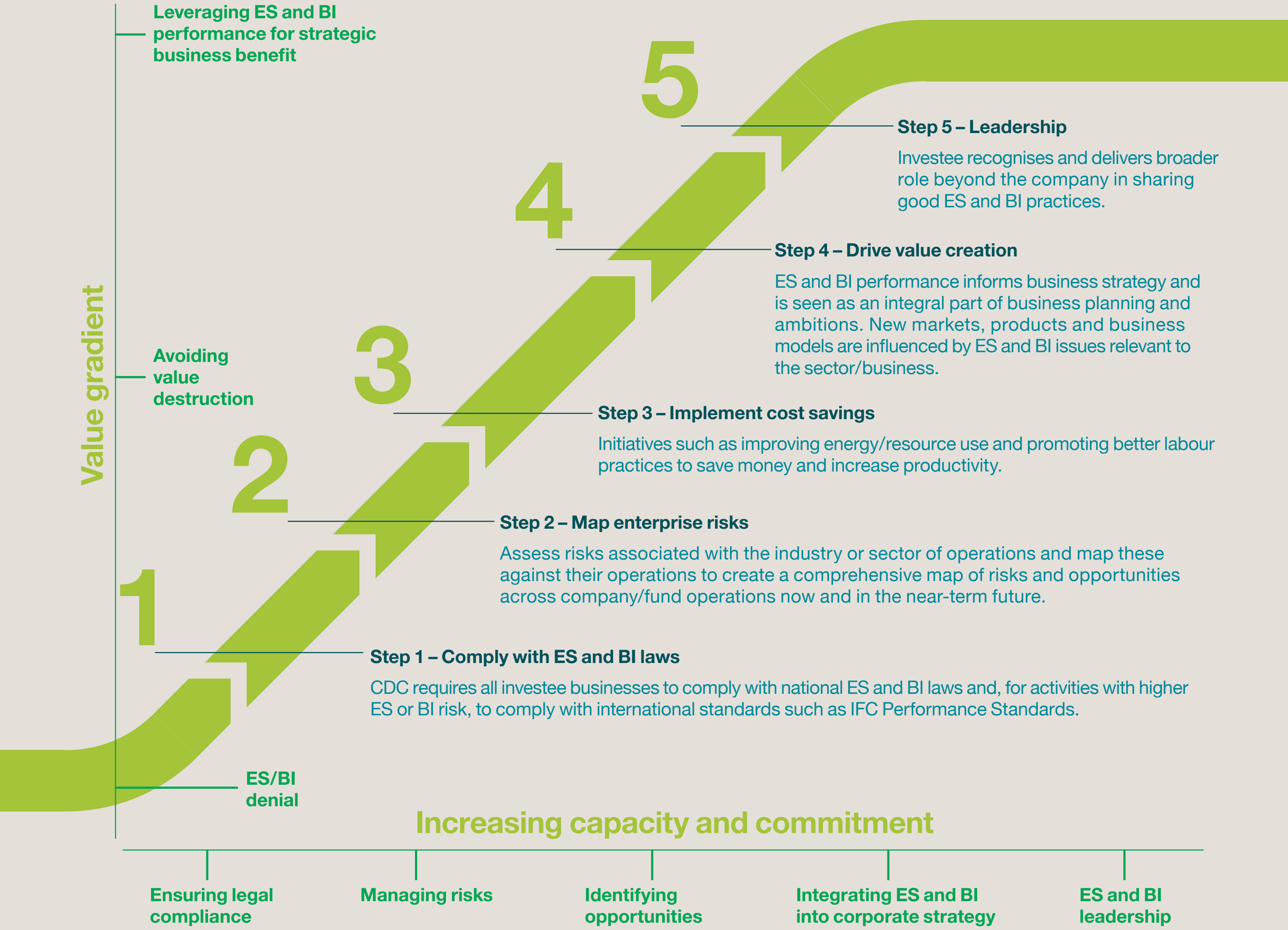
We commissioned an independent survey of fund managers to find out what our partners need from us in terms of ES and BI support. 53 individuals took part in the survey, representing 44 institutions across emerging markets. The survey showed that almost all our fund managers now consider ES and BI to be integral to their investment approach, and many have developed advanced systems and processes. The survey also identified demand for specialist ES and BI support tailored to specific investment models and industry sectors.

Building the capacity of funds to manage risks and deliver additional value

In 2013, CDC ran a workshop covering environmental, social and business integrity topics in London which was attended by 26 participants from 12 of CDC's investment partners. The workshop provided support for new fund managers and allowed CDC to follow up with existing fund managers on improvements made over the past year. It also enabled fund managers to learn from each other's experiences and expertise.

Evolution of ES and BI performance and CDC's role

Across our portfolio, we often see an evolution of capacity and commitment to ES and BI issues. This ranges from a commitment to comply with local laws and advances to situations where ES and BI issues are seen as strategically important. Helping CDC's investment partners understand these business drivers is an important part of the value that we deliver and we work hard to provide appropriate training and support to maximise our impact.



Guidance on land investments

Many investors, fund managers and companies are currently reconsidering how to manage issues associated with the development of land. In light of such considerations, CDC worked with the Earth Security Institute to produce a briefing note on land investments. The note aims to help investors and companies understand the issues associated with land acquisition.

In numbers

Out of a total of 26 transactions in 2013, CDC's ES team was heavily involved through assisting the company or fellow investors develop ES management systems or ES action plans in 19 instances. The remaining transactions either had adequate management systems in place at the time of investment, were already working with other development finance institutions to implement adequate measures, or were low risk transactions that did not require additional ES work. CDC built a commitment to resist corruption into all of its transactions.

2013 new investment commitments

CDC makes new investment commitments solely to businesses in Africa and South Asia, regions that include some of the world's hardest investment environments. In 2013, CDC made 26 new investment commitments, as indicated below.

Africa Funds

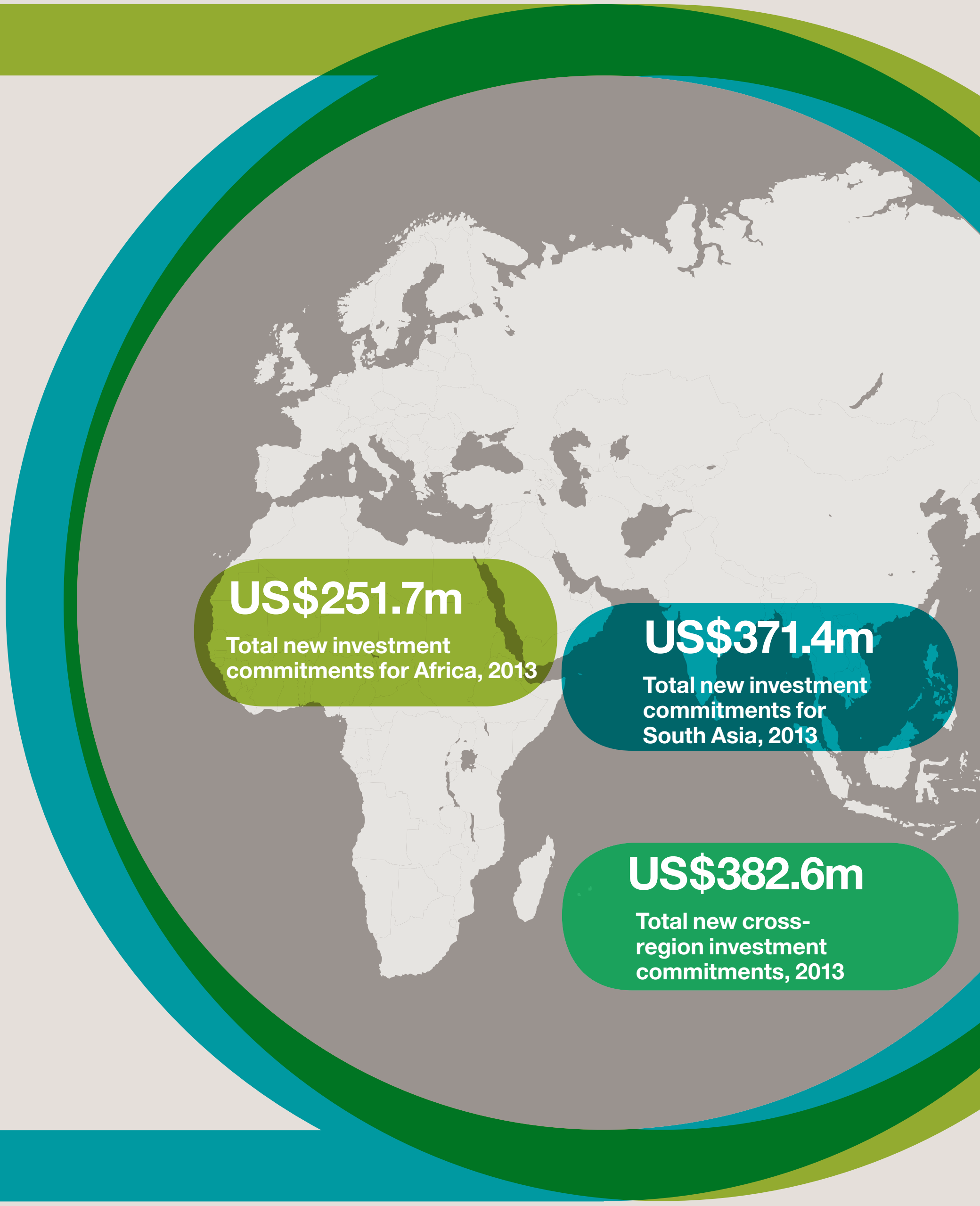
US$75.0m
African Development Partners II
Sector: Multiple
Geography: Pan Africa

US$20.0m
Convergence Partners Communications Infrastructure Fund
Sector: Communication
Geography: Sub-Saharan Africa

US$18.4m
Atlantic Coast Regional Fund
Sector: Multiple
Geography: West and Central Africa

US$15.0m
Takura II
Sector: Multiple
Geography: Southern Africa

US$13.6m
DI Frontier Market Energy & Carbon Fund
Sector: Infrastructure
Geography: Sub-Saharan Africa



Asia Funds

US$200.0m
IDFC India Infrastructure Fund II
Sector: Infrastructure
Geography: India

Cross-Region Funds

US$100.0m
Actis Global Fund 4
Sector: Multiple
Geography: Africa and South Asia

US$70.0m
Actis Energy 3 Fund
Sector: Infrastructure
Geography: Africa and South Asia

US$25.0m
LeapFrog Financial Inclusion Fund II
Sector: Financial Institutions
Geography: Africa and South Asia

Debt

US$75.0m
Standard Chartered Risk Sharing Facility
Sector: Financial Institutions
Geography: Africa and South Asia excluding India and South Africa

US$50.0m
Cordiant Emerging Loan Fund IV
Sector: Multiple
Geography: Global

US$40.7m
Bharti Airtel
Sector: Communications
Geography: Bangladesh

US$40.0m
Indorama Eleme Fertiliser and Chemicals
Sector: Manufacturing
Geography: Nigeria

US$33.0m
European Financing Partners V
Sector: Multiple
Geography: Africa and South Asia

US$29.5m
Interact Climate Change Facility
Sector: Infrastructure
Geography: Africa and South Asia

US$25.0m
Grameenphone
Sector: Communications
Geography: Bangladesh

US$20.0m
Au Financiers
Sector: Financial Institutions
Geography: India

US$10.0m
DFCU
Sector: Financial Institutions
Geography: Uganda

Equity Investments

US$27.2m
Jabong
Sector: Trade
Geography: India

US$25.0m
Garden City
Sector: Construction and Real Estate
Geography: Kenya

US$18.0m
Feronia
Sector: Agribusiness
Geography: Democratic Republic of Congo

US$17.5m
Rainbow Healthcare
Sector: Health
Geography: India

US$10.8m
The Exchange
Sector: Construction
Geography: Ghana

US$6.0m
Bridge International Academies
Sector: Education
Geography: Kenya

US$16.1m
Equitas
Sector: Financial Institutions
Geography: India

Mezzanine

US$24.9m
Green Infra
Sector: Infrastructure
Geography: India

New commitments
Equity and mezzanine

Rainbow Hospitals

India currently has 35 large paediatric hospitals, which is less than 10% of the estimated requirement. Demand is expected to grow at around 15% per annum over the next decade.

Investee company	**Rainbow Hospitals**
CDC commitment	**US$17.5m**
Location	**India: Andrha Pradesh**
Business	**Paediatric hospital**

The enormous gap in healthcare provision in India cannot be filled by the public sector alone. There is an important role for the private sector to play as well.

In August 2013, CDC made its first direct equity investment in India since the launch of our new strategy. We invested US$17.5m in Rainbow Hospitals, a 450-bed paediatric and maternity healthcare chain based in the southern Indian state of Andrha Pradesh. Rainbow, which treated around 300,000 patients last year, is a leading provider of integrated women's and children's health services and a centre for high-quality training and research. Its hospitals have strong clinical systems and both staff and stakeholders speak highly of its clinical management and ethics.

CDC's investment will help the business develop its plan to become a national centre of excellence for the teaching of paediatric medicine and for helping other institutions to deliver quality care, with a focus on lower-income groups. We are also helping to build Rainbow's value by strengthening its environmental, social and governance standards. Rainbow currently employs approximately 1,000 people, and the investment will support the creation of as many as 3,000 new jobs.

Green Infra

In 2012, India suffered a peak power deficit of 9% and over a quarter of the population – 300 million people – lack access to electricity.

Investee company	**Green Infra**
CDC commitment	**US$24.9m**
Location	**India: Tamil Nadu, Karnataka, Gujarat, Maharashtra, Rajasthan**
Business	**Independent wind and solar power producer**

Meeting the energy requirements for growth of this magnitude will be an enormous challenge, and to do it in a sustainable manner further increases its scale.

India's infrastructure sector – and the power sector in particular – is in urgent need of large-scale investment, acknowledged by the Indian government's commitment to add 88,000 MW of generating capacity by 2018. Yet the country's rapid growth is outpacing development in traditional power generation, which is expensive and slow to build and whose CO_2 emissions are imposing an additional burden.

CDC's mezzanine investment of US$24.9m into Green Infra, an independent wind and solar power producer, will help tackle this problem by providing growth capital to help the company to expand its generation capacity. At the time of our commitment, Green Infra already had generating capacity of 387 MW across 18 assets in six Indian states, with more than 90% of its generation capacity from wind. Our investment aims to allow Green Infra to reach its targeted capacity of 1,000 MW by 2016, the equivalent of 5% of India's current wind capacity.

Around 600 jobs will be created directly in the construction, operation and management of the new assets, and a further 250 jobs are expected throughout the manufacturing and supply chains. All of the wind turbines and the majority of other plant equipment will be purchased in India. This will result in additional economic benefits to communities surrounding both the generation and manufacturing plants.

Feronia

In November 2013, CDC made an investment commitment of US$18.0m to Feronia, an agricultural production and processing business focused on palm oil plantations and arable farming in the Democratic Republic of Congo (DRC).

Investee company	**Feronia**
CDC commitment	**US$18.0m**
Location	**Democratic Republic of Congo**
Business	**Palm oil, crop production and processing**

Feronia is in the process of rebuilding the former Unilever palm oil business in the DRC which was established over 100 years ago, but suffered a decade of under-investment due to the civil conflict. It provides direct employment for 3,500 people, many of whom are fourth or fifth generation workers, and supports communities of around 45,000 people in some of the poorest parts of the DRC.

Past economic and political instability has hindered investment in the agricultural industry. CDC's investment provides long-term capital to further develop the business so it can make a significant contribution to local employment in the neighbouring communities for decades to come.

The DRC relies on imports for a substantial amount of its food requirements. Feronia, backed by CDC's investment, aims to unleash some of the DRC's untapped agricultural potential in order to cater to the large and growing domestic market for food. The palm oil, rice and arable crops produced by Feronia are consumed solely within DRC.

As part of the investment, a pool of US$3.6m has been ring-fenced to finance the implementation of the company's Environmental and Social Action Plan to strengthen business standards and enhance community facilities.

Bridge International Academies

Bridge International Academies is a provider of affordable, quality primary and pre-primary education for children from low-income families in Kenya.

Investee company	**Bridge International Academies**
CDC commitment	**US$6.0m**
Location	**Kenya (expanding to other developing countries)**
Business	**Low-cost education**

At the end of 2013, CDC invested US$6.0m to support the company's plans to expand to more countries in Africa.

Bridge, founded in 2008, now operates over 250 schools with almost 100,000 students in Kenya teaching the national curriculum. Many of its students come from families who live on less than US$2 per day per person. The company has established a new model for delivering quality education, leveraging data, technology and scale to standardise everything from content development and teacher training to academy construction and billing. This standardised approach enables Bridge to deliver affordable education, charging an average of just over US$6 per student per month in fees. This makes it possible for poor families to send all of their children – girls and boys – to a quality school and for each academy to be self-sustaining.

The company directly employs over 3,000 people, and indirectly provides work for thousands more in associated construction, supply, distribution and water businesses. The investment will support the company to create almost 10,000 new jobs, both in Kenya and in other developing countries.

New commitments
Debt

Standard Chartered Trade Finance Master Risk Participation Agreement (MRPA)

Trade finance supports the supply chain of multiple industries and is integral to the smooth functioning of any developing economy. While there has been some recovery in trade finance volumes and liquidity since the worst days of the financial crisis, banks remain under pressure to strengthen their capital base. The solution is either not to do the business in the first place – inhibiting normal economic activity – or to seek partners that can share the risk and so allow the wheels of economic activity to continue turning.

CDC has entered into a US$75.0m Trade Finance MRPA with Standard Chartered Bank under which we will share the repayment risk arising from underlying trade finance transactions generated by the bank's network in Africa and South Asia*.

We expect the MRPA to have significant impact on economic activity and job preservation, by providing businesses with access to trade credit that may otherwise contract. It will also help CDC to respond to the broad market demand for trade credit in underserved markets and help expand the availability of trade finance products across low-income countries.

Investee company	**Standard Chartered Trade Finance**
CDC commitment	**US$75.0m**
Location	**Africa and South Asia***
Business	**Trade finance**

*Excluding South Africa and India.

Indorama Eleme Fertiliser & Chemicals

In early 2013, CDC announced a new loan to build and operate a fertiliser production facility near Port Harcourt, Nigeria. The loan of US$40.0m to Indorama Eleme Fertiliser & Chemicals Limited (IEFCL) is part of a wider financing package to create what will be the world's largest urea fertiliser manufacturer.

Not only will the business create 360 direct and 250 indirect jobs, as well as a further 3,500 during the construction phase, it will also contribute to improved farm yields and agricultural productivity, which are critical to Nigeria's long-term food security. The project will also allow Nigeria, which is currently heavily dependent on imported fertiliser, to become self-sufficient and eventually a net exporter.

Once operational, the new plant will produce up to 1.4m tonnes of granulated urea per year. The investment will also back the development of a pipeline that supplies the feedstock gas required for fertiliser production – gas which is currently flared. As much as 5% of Nigeria's flared gas could instead be used by IEFCL in its production process.

Investee company	**Indorama Eleme Fertiliser & Chemicals**
CDC commitment	**US$40.0m**
Location	**Nigeria**
Business	**Fertiliser manufacturer**

New commitments
Financial institutions

Au Financiers

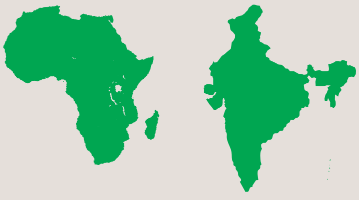
Investee company	**Au Financiers**
CDC commitment	**US$20.0m**
Location	**India**
Business	**Non-bank finance company**

In India, urban areas are generally well-served by banks, but the rural and semi-rural areas, where 65% of the population lives, are often heavily underserved. It is uneconomical for banks to open branches in these sparsely populated regions. Non-bank finance companies (NBFCs) often play an important role in filling this gap, particularly in providing financial services to small entrepreneurs.

In 2013, CDC committed up to US$20.0m to Au Financiers (AUF), an NBFC specialising in providing finance to entrepreneurs for the acquisition of small and medium-sized commercial vehicles. The transaction is part of a joint facility of up to US$60.0m led by FMO, the Netherlands' DFI. It will directly contribute to the creation of 2,000 jobs at AUF as well as thousands more within its client base of SMEs.

AUF's core business offers collateralised loans for commercial vehicles to clients who are typically first-time entrepreneurs in rural and semi-urban areas. The vehicles, including trucks, vans, tractors and three-wheelers, are used for transportation of agricultural produce and other basic business activities.

LeapFrog Fund II



Fund	**LeapFrog Fund II**
CDC commitment	**US$25.0m**
Location	**Africa and South Asia**
Business	**Micro-insurance**

Access to insurance in developing countries is limited but growing, with Lloyds estimating that only 5% of people have insurance in these countries. Across the African continent, over 60% of the population live in countries where insurance for ordinary people is either entirely absent or reaches less than 1% of the population.

To help address this gap, CDC committed US$25.0m to LeapFrog Fund II, which specialises in backing companies that provide micro-insurance products and other financial services in developing countries. Through its first fund, Leapfrog has already invested in companies providing financial services to over 18 million people across 13 countries. With its new CDC-backed fund, LeapFrog now aims to reach as many as 50 million customers. The fund's investment will also support at least 50,000 jobs in LeapFrog's portfolio companies and supply chain.

CDC's commitment of US$25.0m helped the fund to raise US$204.0m from a range of commercial and development finance investors.

New commitments
Funds – Africa

Africa Development Partners II Fund

In July 2013, CDC committed US$75.0m to the Africa Development Partners II Fund. The fund will focus on well-managed, high-growth companies that are seeking to expand into newly liberalising countries, such as Ethiopia, Mozambique and Rwanda. It will also invest in African companies that can benefit from strong growth in industries catering to the requirements of the emerging middle-classes, including consumer goods, financial services, retail, logistics and healthcare.

Development Partners International (DPI) manages the fund and is an active investor. This means that it adds value to its investees not only through capital, but also through active board participation and the implementation of good environmental, social and governance practices.

Fund	**Africa Development Partners II**
CDC commitment	**US$75.0m**
Location	**Pan Africa**
Fund sector	**Multiple**

Actis Energy 3 Fund

Supporting companies in Africa and South Asia to increase access to reliable electricity is a key priority for CDC. Electricity is essential for businesses to compete effectively and therefore create new and better jobs, improving the lives of millions of people.

In September 2013, CDC made a US$70.0m commitment to the Actis Energy 3 Fund. CDC's capital will be exclusively used for investment in energy projects in Africa and South Asia. The fund will typically make investments of between US$50.0m and US$150.0m in both established and growing businesses.

By backing this fund we continue to support an experienced team which has a strong track record of building power businesses in developing countries. The team does this using the highest environmental, social and governance standards in their investments.

The Actis energy team has already started building the fund's portfolio, making an agreement to invest in Cameroon's national grid. The fund will also actively seek out renewable energy projects.

Fund	**Actis Energy 3 Fund**
CDC commitment	**US$70.0m**
Location	**Africa and South Asia**
Fund sector	**Infrastructure**

DI Frontier Market Energy & Carbon Fund

In December 2013, we increased our commitment to the DI Frontier Market Energy & Carbon Fund by €10.0m, bringing our total commitment to the Fund to €22.0m.

Africa lacks developers of new infrastructure, particularly in smaller projects where the fund will invest. The fund focuses on developing renewable energy projects in East Africa, primarily in hydro, wind and geothermal energy.

By increasing our commitment to the fund, we have helped the manager to grow the team and strengthen its pipeline of projects.

Fund	**DI Frontier Market Energy & Carbon Fund**
CDC commitment	**€10.0m**
Location	**East Africa**
Fund sector	**Infrastructure**

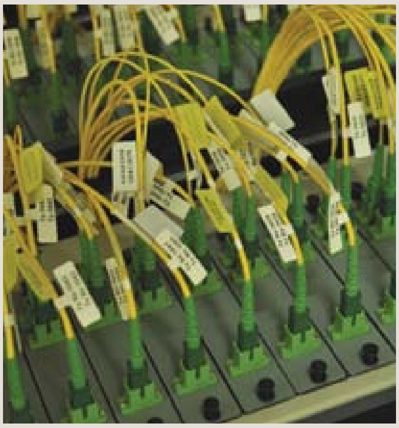
Convergence Partners Communications Infrastructure Fund

The African ICT sector has grown significantly over the past decade, creating thousands of direct and indirect jobs. According to a recent McKinsey report, increased use of the internet in Africa could add US$300bn to the continent's GDP by 2025.

The infrastructure to deliver phone services and the internet to African consumers and businesses, however, remains under-developed. The International Telecommunications Union estimates that fixed broadband penetration is less than 1% in sub-Saharan Africa, compared to 27.2% in developed nations.

In November 2013, CDC committed US$20.0m to Convergence Partners Communications Infrastructure Fund, the only infrastructure fund that is dedicated solely to the information and communications technology sector in Africa. The fund will use CDC's capital to invest across sub-Saharan Africa, helping to tackle the current deficit and thereby stimulating business activity in the private sector.

Fund	**Convergence Partners Communications Infrastructure Fund**
CDC commitment	**US$20.0m**
Location	**Pan Africa**
Fund sector	**Communications**



Atlantic Coast Regional Fund

In November 2013, CDC committed US$18.4m to a new rights issue in the Atlantic Coast Regional Fund (ACRF), taking its overall commitment to the fund to US$33.4m. The rights issue will provide the fund with an additional US$50.0m of capital, enabling it to make new investments.

Based in Dakar, Senegal, ACRF is an African mid-market generalist fund that invests primarily in West and Central Africa. This region includes less developed markets such as Côte d'Ivoire, The Gambia, Senegal, Cameroon and the Democratic Republic of Congo. It is managed by the Advanced Finance and Investment Group (AFIG), one of the few managers (outside the mining sector) with the ability and desire to invest in many of these markets.

Fund	**Atlantic Coast Regional Fund**
CDC committment	**US$18.4m**
Location	**West and Central Africa**
Fund sector	**Sector agnostic, but with particular focus on agribusiness, financial services, light manufacturing and logistics**

New commitments
Funds – Asia

India Infrastructure Fund II

The infrastructure gap is acute and widely recognised in India. Despite enjoying two decades of rapid economic growth, the country continues to face significant infrastructure shortages.

Fund	**India Infrastructure Fund II**
CDC commitment	**US$200.0m**
Location	**India**
Sector	**Infrastructure**

Under its current five-year development plan, the Indian government estimates that there is an infrastructure investment shortfall of almost US$1 trillion, half of which must come from the private sector.

Despite the current economic difficulties in India and the many challenges that face infrastructure projects, which have resulted in a substantial withdrawal of capital from the sector, CDC remains committed to providing long-term investment to infrastructure. In November 2013, CDC committed US$200m to the India Infrastructure Fund II managed by IDFC Alternatives Limited. The commitment from CDC, our largest ever to an Indian investment fund, helped it reach a first close of US$644.0m. The fund will provide long-term equity investment for both construction and operating infrastructure projects across the country.

Having previously backed IDFC's first infrastructure fund, we believe that the team has the experience, skills and commitment to make responsible investments that will be financially sustainable and deliver positive development impact.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Portfolio case study
Equity

Export Trading Group

CDC's investment into the Export Trading Group (ETG) in 2012 was the first investment by the new equity investments team.

ETG is a pan-African agribusiness, with operations in crop buying, warehousing, processing, distribution and merchandising. Its business model is to turn hundreds of thousands of smallholder farmers into entrepreneurs by providing fertilisers, seeds and advice to farmers and then buying their produce at the farm gate. ETG buys, processes and exports produce – including pigeon peas, chick peas, sesame seeds and cashew nuts – to India, China, Japan, the UK and the Middle East, as well as supplying local markets.

ETG has expanded rapidly over the last few years. Employment has risen from 300 in 2003 to 7,000 in 2013 and ETG provides an additional income to nearly 5 million smallholder farmers. ETG has employees in more than 30 African countries and operates 26 processing plants and 600 procurement and distribution warehouses.

ETG is a major provider of good and stable jobs to over 7,000 employees spread across Tanzania (35% of ETG's workforce), Mozambique (21%) and Malawi (10%). ETG is committed to equal opportunities, with women making up over 40% of its local workforce in each of Mozambique, Uganda, Ethiopia, South Africa and Rwanda.

As well as expanding local employment, ETG aims to educate and train thousands of farmers. It has set up the ETG Farmers Foundation to help Africa's subsistence farmers become more commercial and improve their incomes. The Foundation promotes skills such as crop cultivation, seed selection, soil conservation and farm management. One of the main issues facing smallholders is their lack of access to markets. The Foundation bridges this gap by setting up rural buying points and agri-shops where farmers can sell their produce for cash and buy agricultural inputs such as fertilisers and seeds.

Since CDC's investment in 2012, the company has made significant progress. It has established operations in eight new geographies, including South Sudan, Guinea-Bissau and the Democratic Republic of Congo.

Expansion activity also includes the construction of a number of new warehouses and processing plants in existing countries of operation. ETG has completed the construction of three new warehouses this year – in Ghana, Zimbabwe and Mozambique – as well as four new processing plants, including a new cashew processing plant in Tanzania and a new fertiliser plant in Mozambique. The company is currently managing the construction of a further nine warehouses in Tanzania, Mozambique, Benin and Malawi, and 16 processing plants, including facilities for soya beans in Zimbabwe, pigeon peas in Mozambique, and maize in Zambia and Malawi.

Since CDC's investment in 2012, in the last year ETG has raised further funding from other investors. This includes US$75.0m from the French DFI, Proparco, and US$70.0m from IFC.

Investee company	Export Trading Group
CDC investment	US$32.5m
Date of investment	2012
Location	Pan Africa
Business	Agribusiness

Out-grower schemes

ETG has implemented out-grower schemes in several African countries, aimed at bringing growing numbers of smallholder farmers into commercial supply chains, bridging the gap where most governments lack capacity.

In Tanzania, for example, ETG has set up a pigeon pea processing plant in Arusha supplied by over 5,000 farmers. In southern Tanzania, ETG is the primary sesame buyer in the region, with more than 80% of the market. ETG supplies high-quality seeds and worked with the Aga Khan Foundation to induct about 400 contract farmers for the 2012-13 season.

ETG out-grower schemes provide

- Input finance, cultivation and farm management training;
- Transport and guaranteed markets;
- Strategically placed rural depots for crops and agricultural inputs such as fertilisers;
- Seeds and equipment; and
- Education and quality control.

Portfolio case study
Debt

DFCU

According to the World Bank, only 20% of the population in Uganda currently has a bank account, with just 9% of people having received a loan.

CDC is committed to giving direct support to banks and financial institutions that operate in developing countries. The strong local networks and customer bases held by these institutions mean that CDC's capital can be used to provide financial services to thousands of businesses and individuals, which would be impossible for CDC to reach directly. Many of these customers would otherwise be excluded from mainstream finance.

DFCU is a commercial bank with a focus on retail customers and small and medium-sized enterprises (SMEs). CDC has a long association with DFCU, having founded the bank in 1964 alongside the Ugandan government. Since then, CDC has been an active investor and provided strategic advice to help the bank grow, develop and eventually to undergo an IPO on the Uganda Securities Exchange in 2004.

In May 2013, CDC reduced its shareholding in the bank from 60% (managed through a fund) to a directly-managed 15%, through a sale of shares to Rabobank, the Netherlands-based banking and financial services company, and Norfund, the Norwegian Investment Fund for Developing Countries. The addition of Rabobank brings a partner with considerable agribusiness expertise into the shareholding, and reflects our appetite to invest alongside like-minded third parties. Norfund is an existing shareholder in DFCU and has increased its stake.

Later in 2013, CDC reinforced its continued partnership with DFCU, announcing a US$10.0m subordinated loan to the bank. This will increase DFCU's lending capability, strengthen its capital base and ultimately enable support for more of the SMEs which are vital to the economic development of the country.

Investee company	**DFCU**
CDC investment	**US$10.0m**
Date of investment	**2013**
Location	**Uganda**
Business	**Bank**

Portfolio case study
Microfinance

Equitas

Since its creation in 2007, Equitas has grown rapidly to become one of the leading microfinance institutions in India.

Investee company	**Equitas**
CDC commitment	**US$16.1m**
Date of commitment	**2013**
Location	**India**
Business	**Microfinance institution**

The company has a borrower base of 1.5 million customers and operates close to 350 branches across eight Indian states. It has recently expanded the financial services it provides by offering lending for affordable housing and financing for commercial vehicles, allowing it to cater to the relatively unbanked population in these sectors.

In 2013, CDC made a US$16.1m investment in Equitas as part of a wider financing package of US$36m that included additional funding from FMO (the Netherlands' DFI) and other investors.

CDC's investment is supporting the Chennai-based company's growth across the country. This will allow it to reach more poor and unbanked customers with a broader range of financial services, with the aim of increasing its customers by a further four million. It is also supporting the company to boost its loan portfolio to US$2bn (from US$235m) and to grow its network of branches from 350 to 825 by 2018.

Equitas is widely acknowledged for following best practices in responsible financing and corporate governance. The company was an early endorser of the 'SMART Campaign', a global effort to unite microfinance leaders around the goal of putting clients first, and has strong and integrated systems on client protection. Equitas also provides a variety of additional benefits to its customers, such as vocational training, as well as quality, affordable education for their children.

Portfolio case study
Funds – Africa

Azalaï Hotels

Investee company	**Azalaï Hotels**
Fund	**Cauris Croissance Fund II**
Fund manager	**Cauris Management**
CDC commitment to the fund	**€8.0m**
Date of CDC commitment	**2010**
Location	**West Africa**
Fund sector	**Multiple**

Azalaï Hotels (Azalaï) is the largest indigenous hotel chain in the West African Economic and Monetary Union (UEMOA).

Founded in 1994 in Mali, Azalaï operates seven hotels that focus on the growing business traveller market in Mali, Burkina Faso, Guinea-Bissau and Benin.

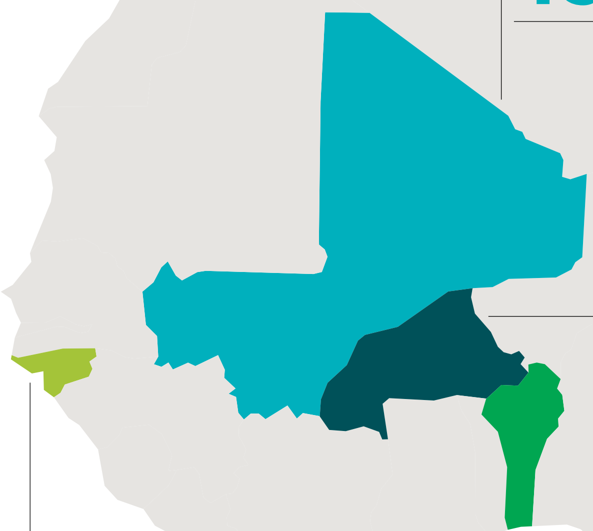
Safe, clean and reasonably priced hotels are essential for attracting business travellers, thus enabling investment and wider economic growth. Moreover, the hotel industry typically provides good quality employment and training opportunities. It also supports many indirect jobs in its supply chain and has a significant job creation impact during construction phases.

CDC is invested in Azalaï Hotels through the Cauris Croissance Fund II, a fund managed by West African specialist firm Cauris Management, which focuses on backing small and medium-sized businesses that are looking to expand beyond their local country markets. The fund invested in Azalaï in 2012, with the aim of helping the company build four new hotels across Côte d'Ivoire, Togo, Senegal and Niger. The company will also acquire and refurbish another hotel in Mauritania, taking its total footprint to 12 hotels by 2017.

The company already employs over 440 people (an increase of 24% since the fund's investment only a year ago) and the expansion programme should see this number increase again.

An important part of how CDC's partner fund managers add value is through improvements to environmental, social and business integrity standards. Since investing, Cauris has already overseen the upgrade of the existing wastewater treatment plants in two hotels and further improvements are planned across another two sites. A human resources policy has also been introduced across the company to strengthen employee rights and training opportunities. Finally, a code of conduct on corruption, money laundering and terrorism financing, and a policy on conflict of interest have been introduced.

The four countries in which Azalaï currently operates are among the poorest in the world.



Mali

GDP per capita (US$)
694

FDI, net inflows (% of GDP)
3%

'Ease of doing business' ranking*
155/189

Burkina Faso

GDP per capita (US$)
634

FDI, net inflows (% of GDP)
0.4%

'Ease of doing business' ranking*
154/189

Guinea-Bissau

GDP per capita (US$)
494

FDI, net inflows (% of GDP)
2%

'Ease of doing business' ranking*
180/189

Benin

GDP per capita (US$)
752

FDI, net inflows (% of GDP)
2.1%

'Ease of doing business' ranking*
174/189

* www.doingbusiness.org.

Portfolio case study
Funds – Asia

Popular Pharmaceuticals

Investee company	Popular Pharmaceuticals
Fund	Frontier Fund
Fund manager	Brummer and Partners Asset Management
CDC commitment to the fund	US$10.0m
Date of CDC commitment	2010
Location	Bangladesh
Fund sector	Multiple

Located on the outskirts of the bustling city of Dhaka, Popular Pharmaceuticals is one of Bangladesh's largest companies producing pharmaceutical products.

Its modern manufacturing facilities include separate facilities for the manufacture of penicillin, hormones and vaccines. Popular Pharmaceuticals manufactures nearly 400 different products for common ailments such as ulcers and allergies as well as medicines such as insulin and painkillers. Many of these medicines are sold at affordable prices on the local market, with prices starting at around 6 BDT (less than £0.04).

Local production of pharmaceuticals in developing countries helps ensure that people can have access to medicines at a low cost. Popular Pharmaceuticals obtains the active pharmaceutical ingredients from countries like India and China, helping it to produce well-priced products. Having started as a small diagnostic centre in 1983, the company now has a network of 15 distribution centres covering over 50,000 chemists across Bangladesh and reaches thousands of families and communities.

Although Popular Pharmaceuticals has been successful, many businesses in developing countries struggle to find the investment they need to grow. The company, however, received investment from CDC in 2010 via the Frontier Fund, which is operated by local fund manager, Brummer and Partners, the first private equity fund set up in Bangladesh.

Companies such as Popular Pharmaceuticals reflect CDC's dual objectives of building successful businesses and achieving positive development impact. Today, Popular Pharmaceuticals is expanding significantly and has started exporting products to Africa, South America and other parts of South Asia. The company employs nearly 5,000 people, with many more in the supply chain, and this is expected to grow as the business expands.

> **"By investing in the first private equity fund in Bangladesh, CDC sets a precedent. The belief is that there is opportunity in Bangladesh and this will bring in other investors. CDC not only brings in capital but it also has a long-term approach."**
>
> Khalid Quadir, CEO, Brummer and Partners Asset Management

Development performance

As the UK's development finance institution (DFI), development impact is an integral part of CDC's mission.

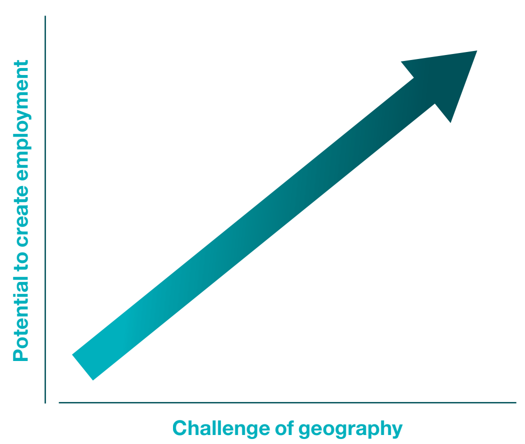
Assessment of development impact potential

Development impact encompasses many definitions of positive outcomes which result from successful investing in challenging regions of the world. These include the building of successful businesses that pay local taxes, create jobs and provide goods and services to the poor. Development finance also mobilises further capital, develops the private sector and provides a demonstration effect for future investors.

In 2012, CDC decided to focus the impact we wish to achieve on the creation of jobs, especially in places where the private sector is weak and jobs are scarce. We remain interested in achieving and measuring positive impact across a broader dimension, but a job creation focus ensures we direct capital thoughtfully and prioritise our limited resources behind a mission that inspires us. We believe job creation is essential both in Africa and South Asia, where two-thirds of those of working age today are without formal jobs and where demographic growth will hugely exacerbate this challenge over the next decade. At a human level, employment has a transformative effect on the lives of individuals and their families and dependents.

We have therefore created a pre-investment screening tool that turns theory into practice and ensures we invest our capital towards our objective of creating jobs, especially in the more challenging places. This new methodology, designed with the help of our shareholder, academics and economists, is embedded in our investment processes and we use it to assess every investment opportunity at Investment Committee.

CDC investment philosophy



Each investment opportunity is rated according to two factors:

- The difficulty of the geography where the investment is made. Countries (and Indian states) have been graded using an objective methodology; and
- Its propensity to create employment (including forward and backward linkages) based on the business sector. Business sectors have therefore also been graded using an objective methodology. This rating system has led to our priority sectors – agribusiness, construction, education, financial institutions, health, infrastructure and manufacturing.

Of course, no screening tool can be perfect and we will need to track actual results over time. However, we believe this ex ante tool, which we call the 'Development Impact Grid', is already helping us shift our portfolio towards more impactful investments – into more challenging geographies and into sectors which will lead to the employment of more people who need jobs.

Assessment of actual impact

CDC is in transition. In recent years, we have been assessing our actual impact based on:

- Number of businesses supported;
- Number of workers in investee businesses;
- Sector analysis;
- Investment geography;
- Taxes paid; and
- Adding value as an investor.

For 2013 we will continue to report in this way. However, for the first time in CDC's history, during 2013 we hired a director of development impact and he will be reviewing our methodology for tracking and measuring actual impact. Inevitably, given the emphasis CDC's strategy now places on job creation in challenging geographies, we will want to focus our measurement primarily on employment and looking at where new jobs are created.

However, as many other development-focused organisations know well, understanding impact through employment poses a number of challenges.

Firstly, direct jobs, whilst easiest to measure, invariably underestimate the impact on employment that a business can have. We want to explore how companies in our portfolio generate indirect employment through their supply and distribution chains. For example, Kilombero Valley Teak Company directly employs 250 people, but through local contractors up to another 350 people work in its plantations each day.

A clothing business like Jabong may support at least 10 textile workers in the supply chain for every direct job, while an agribusiness company like ETG provides income to millions of smallholders compared to its workforce of 7,000. In addition, an investment can have a significant ‘induced’ employment effect, through employees spending wages on local goods and services. And investments that tackle constraints such as expensive or unreliable electricity, communications and finance will also create an environment where entrepreneurs can create and grow more competitive businesses. These effects, whilst they undoubtedly exist, are inherently hard to measure.

Secondly, CDC is committed to supporting businesses that create good quality jobs. There are a number of different elements to the notion of ‘quality’. Job security in a successful business is a core part of this as it allows workers to plan for the future. Other factors include fair wages, opportunities to be trained and increase skills, and a good working environment.

Thirdly, the measurement of jobs supported by a financial investor also raises the difficult question of attribution. CDC is shifting its strategy to provide more of its capital directly to businesses. This will increase our ability to select our investments based on their potential for impact and will also increase our influence through direct relationships with entrepreneurs and management teams. As a result, our role in job creation will be closer and more impactful. However, the headline number of direct jobs will decline over the next few years as we move towards a balanced strategy. Some of our capital will continue to support private equity funds, where the number of businesses we can support is optimised but our influence is less, and the rest of our capital will directly support a smaller number of businesses where we will have greater influence.

These are all challenging but important issues and our evaluation and reporting framework will have to be carefully designed, but we are dedicated in our pursuit of understanding the impact we actually have. We also want to use this understanding to keep improving our ability to achieve more impact in future. Luckily, we are not alone. CDC has joined the Let’s Work global partnership, which includes financial institutions, businesses, researchers and donors, to collectively generate knowledge and practical tools to improve measurement and reporting on jobs. For more information please visit www.letswork.org.

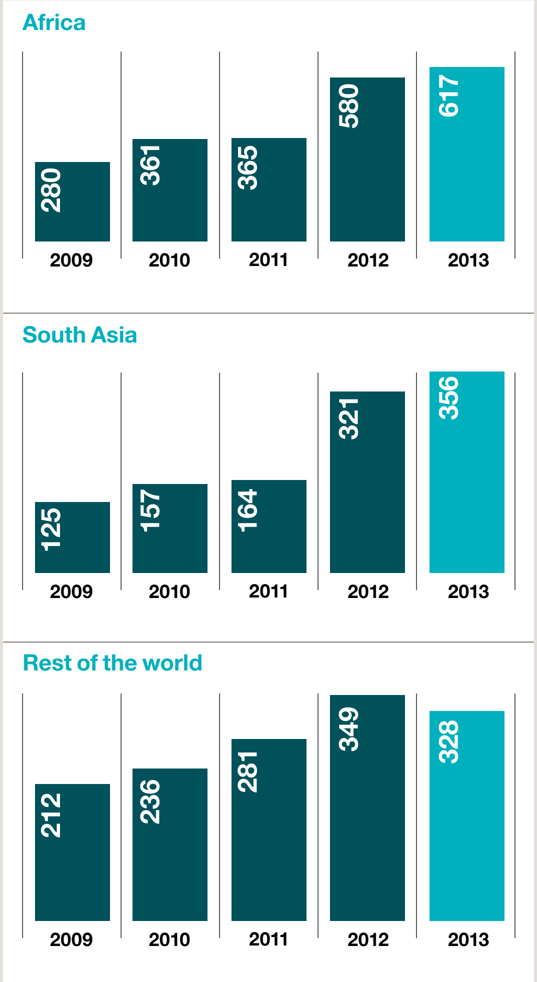
2013 achievements

We expect to explain our evolving methodology next year and show some early results, but for 2013 we continue to report on the same measures as in recent years, using comparable data, to show our impact.

Businesses supported

The number of businesses supported by CDC reached an all-time high of 1,301 in 2013, up from 1,250 in 2012. The number of businesses in our target geographies of Africa and South Asia increased by 8% from 901 to 973. In the regions where we no longer commit capital (China, Southeast Asia and Latin America), the number of businesses we support is now falling, as our fund managers start to exit companies and reduce their portfolios. This trend will continue gradually over the next few years until our portfolio is solely focused on Africa and South Asia. The other trend we anticipate is that the total number of businesses supported will decrease over time as we rebalance the portfolio between fund and direct investments. A commitment to a fund will typically result in 8-12 companies supported whereas, of course, a direct investment will support only one, although our ability to select the most developmental investments will be enhanced and the relationship with those businesses will be closer.

CDC-supported businesses 2009-2013



Development performance

continued

Employment

The total number of workers in CDC's portfolio of investee businesses was just over 1,100,000 in 2013, including over 68,000 new jobs*. We were encouraged by progress in job creation made in our core Africa and South Asian portfolio. 57% of the African firms we support grew their workforces during the year; and 52% of South Asian businesses grew their workforces. However, the shift in portfolio (as described above) towards direct investing, coupled with the move away from China and Latin America, will, we anticipate, shrink the total employment numbers in CDC's investee businesses over the next few years. As shown below, the African and South Asian businesses we support employ fewer people than those employed in our diminishing portfolio in the rest of the world:

Average firm size	Average workers per firm
Africa	328
South Asia	1,233
Rest of World	1,451

During 2013, there were exits achieved for some large employers from our de-prioritised regions – ISD (Industrial Union Donbas, Ukraine, 40,000 employees) and Kung Fu Catering (China, 11,500 employees).

Sector analysis

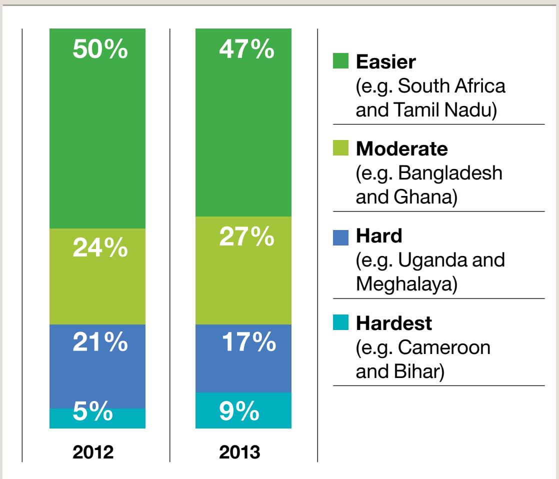
As described above, CDC has prioritised sectors based on their propensity to create jobs, both skilled and unskilled. This new investment strategy is already beginning to shift the portfolio towards these sectors. Almost three-quarters (74%) of our new capital for Africa and South Asia in 2013 was disbursed to businesses in these priority sectors, up from just over half (55%) in 2012.

The table below shows how our current portfolio in Africa and South Asia is distributed across our priority sectors.

Priority sectors	Value US$m
Infrastructure	687.7
Financial institutions	510.0
Manufacturing	329.5
Construction	228.2
Agribusiness	99.6
Health	86.9
Education	20.0
Other sectors	
Business services	304.0
Trade	214.2
Communications	141.7
Mineral extraction	106.1
Real estate	15.3
Grand total	**2,880.5**

Investment geography

CDC now makes new commitments and investments exclusively in Africa and South Asia. Within these regions, we do everything we can to direct capital to the most challenging areas, where the private sector is weakest and jobs are most needed. When the Development Impact Grid (described above) was designed, all countries (and Indian states) were graded using an objective methodology based on investment difficulty and then placed into four categories from D (easier) to A (hardest). This allows us to measure and track whether we are genuinely fulfilling our mission to provide capital where it is most needed. Since the Grid was adopted at the beginning of 2012, CDC's capital has been disbursed to the four categories of countries within our new geographies of Africa and South Asia as follows:



Taxes paid

As well as creating employment, the businesses in which CDC's capital is invested also pay local taxes, thereby providing funding to government that supports essential public services. In 2013, the amount of local taxes paid by companies in which CDC's capital is invested totalled US$3.84bn.

	Taxes paid US$bn
Africa	1.37
Rest of World	1.73
South Asia	0.74
Total	**3.84**

* Based on 826 companies for which CDC has employment data across the period 2012-2013.

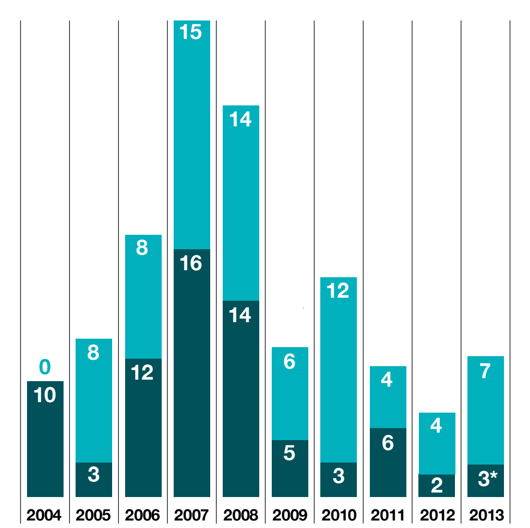
Adding value as an investor

As the UK's development finance institution, it is important that CDC fulfils a role in its markets that is complementary to, but not competitive with, fully commercial capital. In some cases, that role is to provide capital which may not be provided by the market at all or not on reasonable terms. In other cases, that role is to provide input and expertise to assist the investee fund manager (when investing through funds) or management team (when investing directly) to achieve either more impact or higher environmental, social and governance (ESG) standards than would have occurred without CDC.

CDC's direct investment business has only been active for less than two years and therefore our ability to deliver and then demonstrate value add to investees is still nascent. However, the fund-of-funds business has been a focus for CDC since 2004 and hence has a track record in demonstrating added value. This falls under three main categories – backing first-time managers, supporting funds at first close and mobilising third-party capital.

An important and well-recognised role that CDC performs in its markets is the wide-ranging support it can give to first-time teams. Whilst developed market private equity is now characterised by well-established teams raising multiple products (for example, Carlyle now has 118 funds), Africa in particular is still a nascent market with ample scope for new strategies and new, high-quality teams. Supporting a first-time team is inherently more risky and considerably more resource-intensive than backing a team with an existing track record, but CDC continues to view this as an essential part of its mission and in 2013 such commitments represented 30% of the total.

First-time managers by year

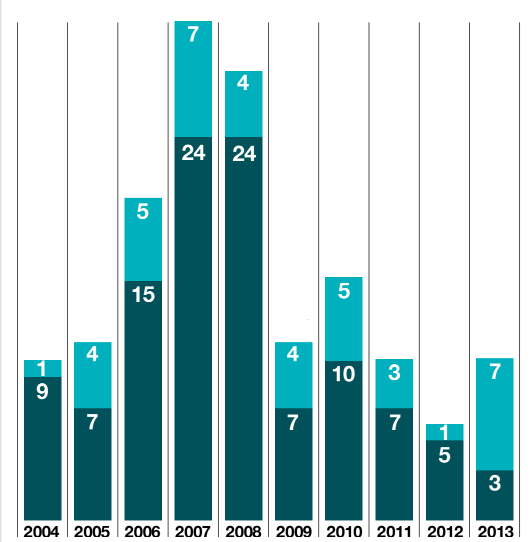


* Includes two follow-on commitments to first-time funds.

Funds managed by other fund managers
Funds managed by first-time fund managers

CDC also plays an important role in endorsing funds with strategies that are aligned with its mission, in order to help the manager attract further capital. This endorsement can be demonstrated by committing capital at the fund's first close, which then encourages others to follow CDC's lead. During 2013 CDC committed at first close in 70% of the funds it backed.

Commitments by first close by year



Funds where CDC committed after first close
Funds where CDC committed at first close

CDC, like other development finance institutions, tracks the amount of capital that it believes it has mobilised to follow its lead into funds. The agreed methodology calculates the investment by others in a fund subsequent to the time of CDC's legal commitment, subject to a tapering factor. There is an inherent tension, however, in our strategy between being a value-add investor in funds and mobilising third-party capital. As CDC takes on the challenge of supporting more funds with riskier mandates (such as investing in especially hard geographies or in unproven strategies), it is less likely that other investors will support such funds until a track record is established. Therefore, although mobilisation remains an important measure, we do not anticipate that it will increase, as is demonstrated by the trend over the past two years, from a peak in 2009-2011 when CDC was supporting a higher proportion of funds that attract commercial capital relatively easily than it intends to in future.

CDC three-year rolling mobilisation

2007-2009	278%
2008-2010	378%
2009-2011	480%
2010-2012	385%
2011-2013	265%

Financial performance

CDC's financial results are presented in accordance with International Financial Reporting Standards as adopted by the European Union. CDC consolidates all businesses where it has a controlling interest.

Market conditions

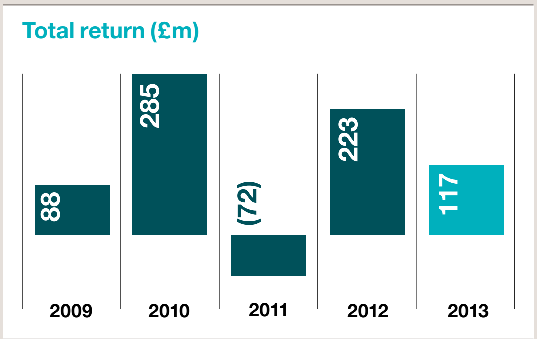
The MSCI Emerging Markets Index is designed to measure quoted equity performance in global emerging markets. In 2013, it fell by 3% (2012: 18% rise). Index movements of individual countries varied widely in 2013, with rises from Ghana of 55%, Kenya 48%, Nigeria 29% and China 4%. However, there were falls from South Africa of 6% and India of 4%.

The current strategy that requires CDC to invest in more challenging regions, utilising unquoted equity and debt, makes a quoted equity index increasingly unconnected to CDC's performance. However, it is a useful indicator of general market sentiment in CDC's geographies.

Current performance

Total return after tax

The overall result is a total return after tax of £117.3m (2012: £223.4m). As a return on opening total net assets on a valuation basis, this represents a profit for CDC's shareholder of 4% (2012: 9%) this year and an average annual return of 5% over the last five years.



Portfolio return

The portfolio generated £140.9m of profit (2012: £250.6m).

Operating costs

Operating costs for the year of £23.5m (2012: £14.8m) have increased due to employees rising to 102 (2012: 65) in line with CDC's new strategy to invest directly as well as through funds. Operating costs represent 0.8% of the Company's opening net value.

Godfrey Davies, Chief Financial Officer

Other net expense

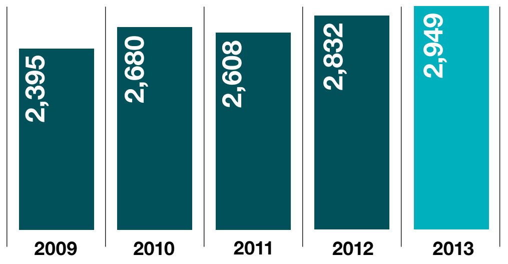
Other net expense of £0.1m (2012: £12.4m) came from currency translation losses offset by interest on cash held, which remained low due to low interest rates.

	2013 £m	2012 £m
Portfolio return	**140.9**	250.6
Operating costs	**(23.5)**	(14.8)
Other net expense	**(0.1)**	(12.4)
Total return after tax	**117.3**	223.4

Portfolio and net assets	2013 £m	2012 £m
Portfolio	**2,504.2**	2,246.0
Net cash and short-term deposits	**449.8**	589.7
Other net liabilities	**(5.1)**	(4.1)
Total net assets on a valuation basis	**2,948.9**	2,831.6

Total net assets increased in the year from £2,831.6m to £2,948.9m, a rise of 4% (2012: 9%).

CDC value growth (£m)



	2013 £m	2012 £m
Portfolio at start of year	**2,246.0**	1,913.3
New investments	**416.0**	396.6
Realisations	**(289.3)**	(308.2)
Value change	**131.5**	244.3
Portfolio at end of year	**2,504.2**	2,246.0

The portfolio, which consists mostly of investments in funds managed by fund managers, increased from £2,246.0m to £2,504.2m. The increase came from net new investments and valuation gains driven by the growth of underlying companies.

New commitments

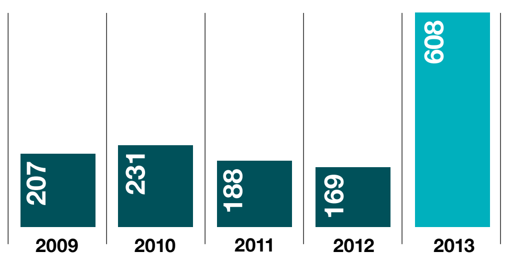
In 2013, CDC made new commitments of £608.3m (2012: £169.2m). Total new commitments were:

Fund commitments	£m
IDFC India Infrastructure Fund II	120.8
Actis Global Fund 4	60.4
African Development Partners Fund II	45.3
Standard Chartered Risk Sharing Facility	45.3
Actis Energy 3C Sub-Feeder LP	42.3
Cordiant Emerging Loan Fund IV	30.2
European Financing Partners V	20.0
Interact Climate Change Facility	18.6
LeapFrog Financial Inclusion Fund II	15.1
Convergence Partners Communications Infrastructure Fund	12.1
Atlantic Coast Regional Fund	11.1
Takura II	9.1
DI Frontier Market Energy & Carbon Fund	8.2
	438.5

Direct investment commitments	£m
Bharti Airtel	24.6
Indorama Eleme	24.2
Jabong	16.4
Garden City	15.1
Grameenphone	15.1
Green Infra Limited	15.0
AU Financiers	12.1
Feronia	10.9
Rainbow Healthcare	10.6
Equitas Holdings	9.7
Actis Sunrise Development Limited	6.5
DFCU Limited	6.0
Bridge International Academies	3.6
	169.8

CDC has investments in 159 funds managed by 88 different fund managers, and 19 direct investments.

New commitments (£m)



Financial performance

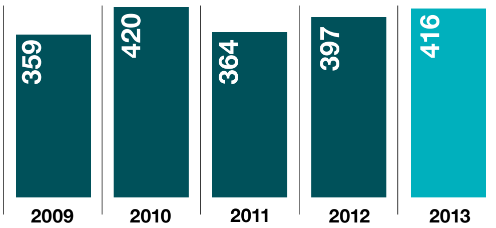
continued

Cash flow

	2013 £m	2012 £m
Portfolio drawdowns	**(416.0)**	(396.6)
Portfolio cash generated	**308.0**	309.5
Net fund flows	**(108.0)**	(87.1)
Hedging	**(9.9)**	3.8
Other cash flows	**(22.0)**	(24.2)
Net cash flow	**(139.9)**	(107.5)

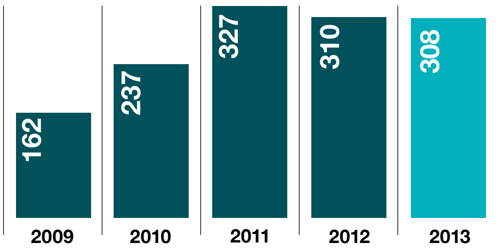
Drawdowns for new investments at £416.0m (2012: £396.6m) were higher than last year. £160.6m was invested in Africa in the year (2012: £170.5m), representing 39% of new investments (2012: 43%).

Portfolio drawdowns (£m)



Portfolio cash generated this year at £308.0m (2012: £309.5m) was similar to last year.

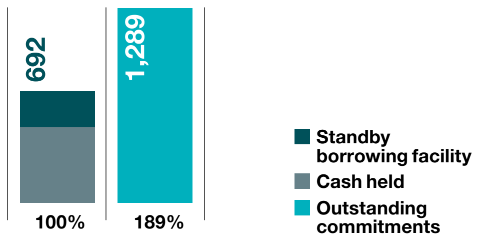
Portfolio cash generated (£m)



Net cash and short-term deposits held

With the level of drawdowns and portfolio realisations, cash and short-term deposits were lower this year at £449.8m (2012: £589.7m). Cash will be recycled into investments and current outstanding commitments for investment stand at £1,288.6m, presenting an overcommitment rate of 86%, when taking into account the standby borrowing facility of £241.6m.

Cash and outstanding commitments at 31 December 2013 (£m)



Capital structure

Since 2004, CDC has mostly invested in illiquid private equity funds and is currently funded by equity.

Cash flow forecasting

CDC's investments are long term in nature and individual cash flows are difficult to predict. However, CDC models best estimates of the performance and future long-term cash flows of its investments, which are reviewed and approved by the Board.

Risks and risk management

CDC's operations are managed within limits defined by the Board. The Board regularly reviews the overall risks inherent in CDC's business and the actions taken to mitigate those risks where appropriate. The principal risks are considered to be as follows:

Reputational risk

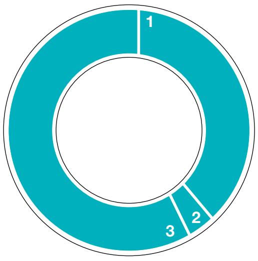
As mentioned earlier, CDC expects its fund managers and underlying portfolio companies to aim for the highest levels of achievement with regard to environmental, social and governance issues. However, there inevitably remains the possibility with such a diverse investment portfolio that an incident at a fund or underlying portfolio company fails to comply with CDC's Investment Code and CDC's reputation is damaged. Investments are monitored twice a year and there is a more extensive evaluation of performance twice during the life of an investment to review adherence to the Investment Code, assess development impact and learn lessons for the future.

General financial risks associated with investment

CDC invests in developing countries. Such investments are inherently risky with the potential for loss of portfolio value leading to lower cash inflows than expected. A long-term commitment is required from CDC, with no certainty of return. A wholly owned subsidiary of CDC has a committed standby borrowing facility of US$400.0m (£241.6m). At 31 December 2013, CDC had significant undrawn commitments of £1,288.6m (2012: £1,019.4m), which is normal for a fund-of-funds business, representing 186% of cash and borrowing facility held. The Board regularly considers cash flow forecasts at Board meetings and expects to meet its undrawn commitments, as well as commitments to future funds, from distributions received from its investments and the current cash balance held of £449.8m. However, market values have decreased as well as increased in the past. The timing of cash distributions from investments is uncertain and not within the direct control of CDC. Although CDC does not have a strategy of selling its interests in funds, if it was required to do so for liquidity reasons, such sales may require a lengthy time since there is only a limited market for secondary sales of emerging markets' private equity interests. Further, sales usually require the consent of the general partner of the fund, the granting of which may be at its discretion.

A diversified portfolio of investments mitigate these risks within the policy objectives set by CDC's shareholder. Portfolio exposure targets help to mitigate the portfolio risk. However, given CDC's history, the portfolio does remain concentrated with respect to the private equity fund manager Actis. The percentage of funds under management (CDC investment in funds plus outstanding commitments to the funds) by Actis was 39% (2012: 42%) at the end of 2013.

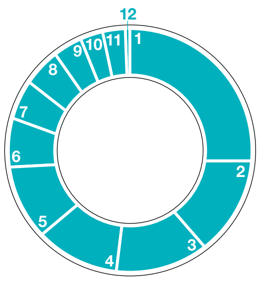
Funds under management by fund manager



1	Actis	39%
2	Abraaj	4%
3	Others	57%

CDC has investments in 159 private equity funds providing it with a portfolio of 1,301 underlying companies that are diversified by vintage year, size, geography and industry sector. CDC's highest sector exposures are 25% in Infrastructure and 13% in Trade. The top 20 investments represent 41% of the portfolio, with the largest individual investment representing 12%.

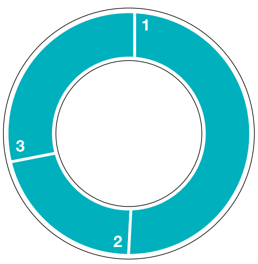
Underlying portfolio by sector



1	Infrastructure	25.2%
2	Financial institutions	13.6%
3	Trade	13.3%
4	Manufacturing	12.0%
5	Business services	10.3%
6	Construction	6.3%
7	Communications	5.0%
8	Agribusiness	4.6%
9	Mineral extraction	3.6%
10	Health	3.0%
11	Education	2.6%
12	Real estate	0.5%

CDC's highest country exposures are 19% in India, 14% in China, 14% in South Africa and 10% in Nigeria.

Underlying portfolio by region



1	Africa	51%
2	South Asia	21%
3	Rest of World	28%

In the future, CDC's portfolio of investments will be increasingly concentrated on low and lower middle income countries in sub-Saharan Africa and the poorer regions of India, which will increase the risk profile of CDC's portfolio.

Currency risk

CDC's investments are in many reporting currencies, particularly US$, therefore, as part of the UK government, it has currency policies to manage cash resources. To mitigate currency risks, CDC enters into forward foreign exchange contracts to hedge currency risk in accordance with a currency hedging policy agreed by the Audit, Compliance and Risk Committee. CDC does not trade in derivatives, nor does it enter into currency transactions of a speculative nature.

Valuation risk

CDC is now in its 14th year of valuing its portfolio according to the CDC valuation methodology. CDC valuation guidelines have been developed in accordance with the International Private Equity and Venture Capital Valuation Guidelines which in turn are in accordance with the fair value requirements contained within IAS 19/IFRS 13. Investments are valued at fair value, which is the value at which an orderly transaction would take place between market participants at the reporting date. Valuation risks are mitigated by comprehensive reviews of underlying investments in the private equity funds carried out by the managers of the private equity funds at least twice each year. These valuations are reviewed by CDC management and then considered by the Audit, Compliance and Risk Committee.

Taxation

CDC recognises the right of governments to tax and respects the tax policies established by governments. CDC requires its investee companies to pay the taxes required in the countries in which they operate and CDC pays taxes wherever we are liable. However, under the CDC Act 1999, CDC Group plc was granted exemption from UK Corporation Tax from May 2003. This allows CDC to recycle more portfolio receipts into new investments in developing countries and attract third-party capital that would not accept the risks of investing directly in African or Asian regions.

CDC uses offshore financial centres to meet its priority to mobilise capital into developing countries. Offshore financial centres can provide straightforward and stable financial, judiciary and legal systems which facilitate investment. CDC will therefore often introduce such jurisdictions into transactions for non-tax related purposes. This may include insulating companies from legal risk, insulating classes of security from cross-default or improving the financial terms or security for different investors. Certain investments may include structures that reduce the tax burden on investors other than CDC. CDC will only acquiesce to such structures in order to facilitate a developmental impact, increasing investment and consequent job creation and economic growth.

CDC prefers to use offshore financial centres that are successfully participating in the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes (the 'Global Forum'). CDC avoids making investments through a jurisdiction that does not adequately exchange tax information internationally. CDC would only invest through a jurisdiction that is not successfully participating in the Global Forum in exceptional cases, and only if it is considered that the developmental benefits of the investment justify the use of an intermediary located in such a jurisdiction.

Godfrey Davies
Chief Financial Officer

CDC Group plc
First Floor
123 Victoria Street
London SW1E 6DE
T +44 (0)20 7963 4700
F +44 (0)20 7963 4750
enquiries@cdcgroup.com
www.cdcgroup.com

Footnotes

Carbon footprint

In 2013, CDC measured its corporate carbon footprint, based on its emissions from air travel and electricity usage. CDC's total carbon footprint is 763 tonnes of CO_2.

Although this is a relatively small footprint, CDC has chosen to offset this via ClimateCare in a project in Kenya. The project uses carbon finance to provide water purification filters to families in the Western Province. This is the first project to leverage the carbon market to provide safe drinking water and it is accredited to the Gold Standard certification scheme. The emissions savings derive from avoiding the practice of boiling water using wood and charcoal. Training, maintenance and replacement infrastructure has been developed in the region to ensure the filters are functioning and being used properly and that the local communities are fully benefiting from safe water.

Data disclaimer

Whilst we have used our reasonable efforts to ensure the accuracy of the data used in this report, data regarding employment and taxes paid has not been audited or independently verified. Data on employment and taxes paid has been received from many but not all of CDC's investee businesses. We have received this data from our investment partners, including the fund managers that have invested our capital (and the capital of others) in these businesses. Data may be from different points in time but was requested to relate as closely as possible to year end 2013. Employment data may sometimes include contract workers and other non-permanent workers. Tax data mostly refers to corporate taxes paid in the 2012 financial year by CDC's investee businesses. This data should be read as indicative of magnitude rather than exact figures. We have avoided extrapolations, which would show estimated data for CDC's entire portfolio, in order to keep quoted figures as close as possible to the information we have received from our investment partners.

Photographs

All photographs originate from CDC's image library of investee business, or have been supplied by investment partners, or have been taken by CDC employees on site visits.

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