CDC Group plc
Annual Review 2012

Who we are and what we do

CDC supports 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.

Contents

What is CDC?

CDC is the first ever development finance institution (DFI), established in 1948. Wholly-owned by government, it is part of the Department for International Development's (DFID) private sector strategy to alleviate poverty, but operates independently under the governance of an independent board. CDC aims to achieve positive impact where we invest, primarily by creating jobs, while also achieving a fair return on capital. It is a measure of CDC's success that it does not draw capital from the UK taxpayer, but invests from its own balance sheet and recycles profits into new investments.

Total profit since 2004

*

1,250

Investee businesses up from 1,126 in 2011

*

77

Countries where investee businesses are located

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

Visit:
www.cdcgroup.com

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. We aim to invest where our job creation focus can have greatest impact: in countries where the private sector is weak and jobs are scarce, and in sectors where growth leads to jobs – directly and indirectly – such as manufacturing, agribusiness, infrastructure, financial institutions, construction, health and education.

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 robust job creation. In doing so we like to demonstrate that it is possible to invest successfully in some of the harder places in the world. We aim to avoid providing capital where it is clear that fully commercial capital is plentiful.

How does CDC operate?

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

As a responsible investor, helping companies achieve good standards of governance, along with strong environmental and social policies, is an important part of how CDC adds value. Our investment process is high quality, fast and non-bureaucratic and we strongly believe in being commercial in all we do. Unless businesses are economically and commercially sustainable, no impact can ultimately be achieved.

Chairman's Statement

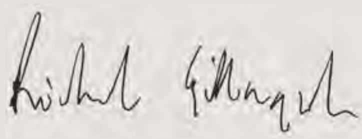
2012 was an important year for CDC. Not only was a detailed strategy published setting out CDC's priorities for the next five years, but the first important steps towards executing this strategy were taken. The new strategy focuses CDC on supporting the building of businesses in order to create jobs. It also allows CDC to invest using different instruments, and to this end two new teams were established to make direct equity investments, and debt and structured finance investments.

CDC continued to get capital to work in developing countries, with new investments standing at £397m for the year. Moreover, 2012 also saw CDC's investment portfolio perform well, generating a total return of £223m which represents a 9% return for CDC's shareholder DFID.

Finding the right investment opportunities remains a core challenge for both CDC and our investment partners. Together, we must find opportunities in Africa and South Asia that offer both commercial sustainability and the job creation potential that we require. Both regions have strong potential if the right combination of good management and patient capital can be brought together. This represents a potent mix for growing businesses and creating jobs.

Last year, together with members of the CDC Board I visited India to see how our capital is having an impact at a number of businesses. Communicating this impact more widely is an important task for CDC to ensure that our stakeholders understand the many benefits that a growing business can bring to its workforce and, more broadly, its community.

Finally, I would like to thank our shareholder DFID for all its support during the year in which CDC laid the foundations for the years ahead. I should also like to thank the team at CDC for their hard work during the year. The Company is in an exciting phase of growth and its staff have performed admirably and with great dedication.



Richard Gillingwater CBE Chairman

> "CDC continued to get capital to work in developing countries, with new investments standing at £397m for the year."

Chief Executive's Statement

Last year, as a newcomer to CDC, I wrote about the high level business plan that I had inherited and the importance of 2012 in confirming the strategic direction for the next five years.

This past year has seen us develop the strategy so that it is both market-led and designed to support the growth of the private sector where this is most needed in Africa and South Asia. The central theme of the year, however, has been one of people. The CDC that I joined in November 2011 had a surprisingly small team of just over 40 to manage a £2.6bn Balance Sheet and oversee over 150 funds and 1,000 underlying companies. This team was experienced, dedicated and well regarded. They had done an outstanding job in selecting the right fund managers to invest CDC's capital in a range of strategies across emerging markets. Their reputation was for high standards of due diligence and commercial judgement which helped to attract third party capital to the funds they backed. And the specialist teams of finance, legal, ESG, HR and communications had supported the investment teams admirably with limited resources.

Once we confirmed the strategy early in the year, it became clear that we needed to build a larger organisation in order to execute the two key elements. First, to invest equity and debt directly in businesses alongside the existing fund selection strategy. Second, to direct capital towards companies which will create a significant number of jobs as they grow – across Africa and South Asia, but especially in the more challenging places.

We therefore embarked immediately on an ambitious hiring plan. Our aim was to build two new investment teams from scratch that were able to develop pipelines of new opportunities to provide equity and debt directly to interesting businesses and execute transactions that would be financially sound, but also deliver the development impact we desired. We also needed to strengthen the fund selection teams, who were overly stretched in overseeing large portfolios of relationships with too few people. And, in parallel, we needed to grow the specialist teams with high quality technical skills and processes to ensure that as CDC develops it remains a responsible investor with high standards of legal, financial, ESG and business integrity.

I am delighted to say that we were successful in achieving the aims we set out at the start of the year. The new equity investment team was established and made its first investment; momentum continued in making new commitments to funds; and the portfolio as a whole showed a good return. Whilst there is more to do during 2013 to create a distinctive DFI with all the skills and capacity to fully address the opportunities that are available to us, I believe that 2012 built the foundations of a newly focused CDC. Thirty-three high quality professionals chose to entrust their careers to us. They have brought a new energy and enthusiasm to the organisation and I am grateful to all of them. They join a CDC with a strong market reputation because of the existing team that has stayed loyal to the organisation and the mission throughout a period of enormous uncertainty. They too deserve enormous thanks.

The new commitments and investments made during 2012, many of which are illustrated in this report, provide a good guide to CDC's future direction. They include a large Pan-African agribusiness, an East and Southern Africa housing fund and an SME fund in India.

We expect 2013 to be another important year. Our new, larger team will make more investments and commitments which will pave the way for more impact and more capital returned to our Balance Sheet so that we can do even more in future. We will find new ways of communicating our impact, through stories, pictures and films as well as quantitative data. We may only have completed the first year of our five year strategic plan, but we are well on the way to achieving our goals.

Diana Noble Chief Executive

Our mission in action

Jobs supported by CDC capital

1,109,000

90%

of jobs in developing countries are in the private sector

Currently 200 million people are unemployed globally and by 2020, 600 million jobs must be created in developing countries – mainly in Africa and Asia – to accommodate young people entering the workforce[1].

Growing businesses, creating jobs

The private sector provides nine out of ten jobs in developing countries so helping businesses grow is essential for job creation[2]. According to a World Bank survey of over 45,000 companies in 106 developing countries, the top two constraints facing businesses are the poor investment climate and access to finance.

CDC invests capital to support the growth of businesses and job creation across all of Africa and South Asia – especially in the harder places. Jobs boost living standards, raise productivity and are the main path out of poverty for many. Decent, formal employment can also provide social benefits such as access to healthcare or education; and it allows people to save and plan for their future.

We aim to invest where we can have greatest impact on job creation: in countries where the private sector is weak and jobs are scarce. Our focus is on sectors where growth leads to jobs – directly and indirectly – including manufacturing, agribusiness, infrastructure, financial institutions, construction, health and education.

1 IFC Jobs Study; Assessing private sector contributions to job creation and poverty reduction
2 Ibid

Our mission in action

Value of CDC's 580 investee businesses in Africa

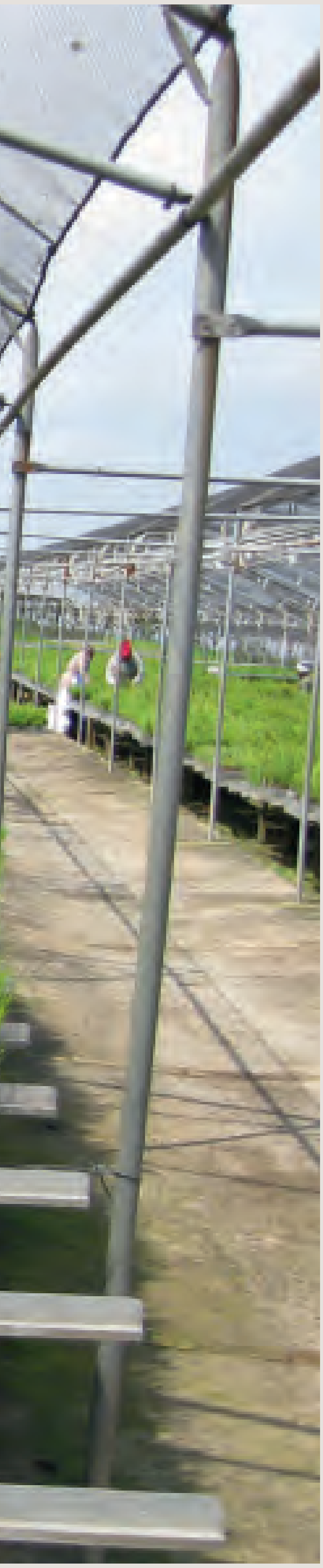
£1,001m

Value of CDC's 321 investee businesses in South Asia

£492m

In Africa & South Asia

of the world's poor people live in Africa and South Asia



CDC makes new investments and loans solely to businesses in Africa and South Asia, regions that include some of the world's hardest investment environments.

Growing businesses and creating jobs in Africa and South Asia

The reasons for this focus are simple. Not only are these regions home to over 70% of the world's poor people[1], but they also have growing populations that desperately need jobs.

Today, just 28% of the labour force in Africa has stable wage paying jobs[2] – the rest, whether officially unemployed or in subsistence farming or street vending, are rightly classified as in vulnerable employment with no means of raising their living standards.

The statistics for South Asia are equally stark as those for Africa. Three-quarters of the population in South Asia is in vulnerable employment, some 480m people[3].

Not only is the need for economic development leading to jobs greater in Africa and South Asia, but the need for capital is also greater. For example, the private equity capital pools in these regions are tiny in comparison to developed Western markets. In 2011, for every US$1 of private equity capital raised per capita for investment in Africa and US$2 for India, US$12 was raised for China and US$71 was raised for investment in Europe[4].

Unless private sectors are developed that are competitive, diversified, independent and integrated into global markets, both Africa and South Asia risk wasting their tremendous potential – as well as blighting millions of lives.

1 World Bank
2 ILO
3 Ibid
4 United States Private Equity Data – Pitchbook; EMPEA; BVCA

Our mission in action

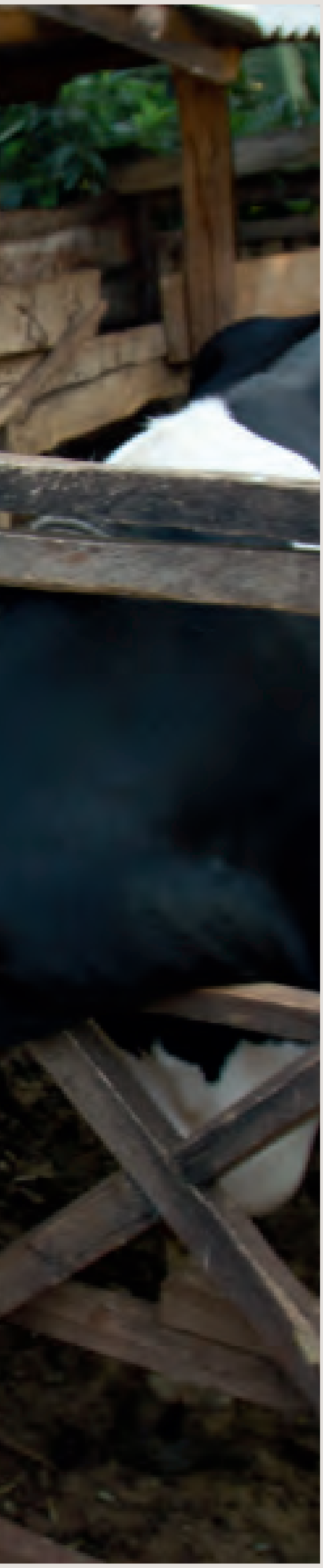
Increase in value of total assets since 2004

£1.8bn

Making a lasting difference

433,000

Increase, since 2008, in jobs provided by businesses in which CDC's capital is invested



We strongly believe in being commercial in all we do. Unless businesses are economically and commercially sustainable, no impact can ultimately be achieved. This is how we make a lasting difference.

Growing businesses and creating jobs in Africa and South Asia to make a lasting difference ››

To be sustainable in the long term a business must be run profitably and responsibly.

- Profits enable companies to invest in training, R&D and expansion, as well as ensuring that they can withstand shocks such as the loss of a large customer. Directing capital to the right opportunities requires CDC to apply commercial judgement to its investment and lending decisions.
- CDC also takes a long-term view when making investments and loans, supporting our partners through good times and bad to help them succeed. This approach is especially important during an economic downturn when other sources of finance are reluctant to commit capital in harder investment environments.
- The businesses that receive CDC's capital must also adhere to its Investment Code, which stipulates environmental, social and governance standards that are often above those required by local law. Investing in difficult geographies means that standards sometimes fall short, but in these cases a plan must be put in place to make the necessary improvements.

A flexible, responsible investment approach backed with commercial rigour not only ensures that the jobs we help create are likely to endure over the long term, but it also demonstrates to other potential investors that reasonable returns can be made in difficult geographies.

Crucially, investing profitably also enables CDC to be self-financing. When CDC's investments and loans generate positive returns these are recycled back into future investments. This model means CDC has had no new capital from government since 1995 and doesn't cost the taxpayer a penny.

2012 Highlights

Portfolio value

+£333m

2012
£2,246m

2011
£1,913m

Total return

2012
£223m
profit

2011
£72m
loss

Total jobs supported in underlying investee businesses

2012
1,109,000

2011
976,000

Underlying investee businesses

2011
1,126

2012
1,250

First investment by new equity team

US$ 32.5m

into Export Trading Group

First investment by new debt and structured finance team

US$ 30m

Investec Africa Credit Opportunities Fund 1

2012 Commitments at a glance

In 2012, CDC made nine new investment commitments totalling US$273.6m. As well as seven commitments to equity funds in Africa and South Asia, our two new CDC investment teams – Equity Investments and Debt and Structured Finance – also made their first investments.

CDC now has investments in 155 funds managed by 84 different fund managers.

The funds and businesses that receive CDC's investment capital must all adhere to CDC's Investment Code which stipulates environmental, social and governance standards. Alongside the Investment Code, each Fund typically has a specific geographic and sector mandate that guides how CDC's capital is deployed.

2012 new commitments

US$ 75m
Actis Africa Real Estate Fund 2, sub-Saharan Africa
Real Estate

US$ 42.9m
Diamond Bank, Nigeria (follow-on commitment)
Financial services

US$ 32.5m
Export Trading Group, pan-Africa
Agribusiness

US$ 30m
Ambit Pragma II, India
Multiple sectors, SME focus

US$ 30m
Investec Africa Credit Opportunities, sub-Saharan Africa
Multiple sectors

US$ 20m
Phatisa Pan-African Housing Fund, Eastern and Southern Africa
Real Estate

US$ 15m
SGI Ethiopia Growth and Transformation Fund I, Ethiopia
Multiple sectors, SME focus

US$ 15m
Aavishkaar Goodwell India, India
Microfinance

US$ 13.2m
I&P Capital III, West Africa and Indian Ocean region
Multiple sectors, SME focus

Case studies of both new commitments and underlying investee businesses from existing funds are discussed in detail on the following pages.

New Commitments
Pan African Housing Fund

48%

CDC provided 48% of committed capital at first close

Fund name
Phatisa Pan African Housing Fund

Date of CDC commitment
2012

Commitment size
US$ 20m

Fund geography
Kenya, Mozambique, Rwanda, Tanzania, Uganda, Zambia

Fund sectors
Construction/real estate, with a focus on housing

65%

of sub-Saharan Africa's urban population live in slum conditions

Investing through private equity funds remains an important part of CDC's investment strategy. Such investments allow CDC to benefit from the knowledge and expertise of local investors and can also help encourage others to put their capital to work in our markets.

In December 2012, CDC committed US$20m to Phatisa's Pan African Housing Fund ('PAHF') with the aim of catalysing finance for the construction of up to 7,500 new homes over ten years. This will create an estimated 22,500 jobs.

The Fund will provide risk capital on a joint basis with selected local developers to build middle and lower-middle income residential housing in Kenya, Zambia, Tanzania, Uganda, Mozambique and Rwanda. All developments will be in urban areas and the housing provided will be for both sale and rental markets. Rent-to-buy schemes that help people get on to the housing ladder may be introduced where appropriate.

The construction and real estate industry is recognised as an essential provider of jobs to both skilled and unskilled workers. As well as the direct jobs created by housing developments, the construction industry also supports significant additional employment in the supply chain.

Up to
7,500
new homes will be built over ten years.

PAHF is the only fund providing the equity financing essential for the growth, development and institutionalisation of middle-income housing as an asset class in the region. By investing in PAHF, CDC aims to increase the provision of housing, a basic human need, as well as helping to raise environmental, social and governance (ESG) standards in the sector.

PAHF will work with selected local small and medium-sized enterprise (SME) developers and improving these partners' ESG standards will be a focus area. During the fund-raising period CDC worked with other investors, notably the African Development Bank and FMO (the Netherlands' DFI), to enhance PAHF's ESG policies and implementation procedures. Each development that requires it will have an ESG action plan covering efficient sewage treatment and recycling units, provision of health and safety training and equipment and the imposition of better construction practices and standards. Thorough due diligence will also be carried out on land history, land title, and land use.

By providing nearly 50% of the Fund's committed capital at first close CDC has helped establish PAHF as the first and only private equity fund currently dedicated to housing development in East and Southern Africa. Not only will it help alleviate the dire need for risk capital, but it should also improve standards in the sector.

Housing in East and Southern Africa

65% of sub-Saharan Africa's urban population live in slum conditions with poor infrastructure. This is partly the result of years of under-investment in housing across East and Southern Africa, coupled with growing populations and rapid urbanisation.

In the six countries targeted by PAHF the lack of decent, reasonably-priced housing stock prevents families moving out of the low-quality, informal housing sector. This exacerbates the pressures of urbanisation. For example, in Kenya the total housing backlog is estimated to be two million units[1], and in Tanzania the annual demand for housing construction nationwide is estimated to be 200,000 units[2].

1 World Bank, 2011, *'Developing Kenya's Mortgage Market'*.
2 Shelter Afrique. 2011, *'Feasibility Study on Developing a Social Housing Programme at Shelter Afrique'*.

2012
2022

22,500
Jobs estimated to be created over ten years by PAHF

New Commitments
Export Trading Group

ETG has 26 processing plants and operates in 27 countries in Africa

New CDC team makes first equity investment

Investment
Export Trading Group

Total number of employees
7,000

Date of CDC commitment
2012

Commitment size
US$ 32.5m

Fund geography
Pan-Africa

Fund sectors
Agribusiness

7,000

ETG employs over 7,000 people and reaches hundreds of thousands of smallholder farmers

The first investment made by CDC's new equity investment team was made in November 2012 when CDC provided US$32.5m to the founders of Export Trading Group (ETG). ETG is an African agribusiness with operations in crop buying, warehousing, distribution and merchandising that employs over 7,000 people.

Making direct equity investments is a key pillar of CDC's strategy from 2012-2016. Such investments allow CDC to target its capital at businesses that provide significant employment opportunities and which have the potential for growth and the creation of even more jobs. Over the course of 2012 a team was recruited with equity investment experience to start generating and assessing deal opportunities, initially alongside investors with experienced teams on the ground.

CDC's US$32.5m of financing, made as half of a US$65m finance facility, allows the founders of ETG to fund further investment in the business. ETG was chosen because it combines strong development impact with a compelling investment case. Not only does ETG touch the lives of thousands of smallholder farmers across sub-Saharan Africa, but the company is poised for strong growth, having begun to achieve scale after 30 years of investment by ETG's founders. It is a strong example of CDC supporting the growth of a business that makes a lasting difference in some of Africa's poorest countries.

Founded in 1967, ETG owns and manages a vertically-integrated agriculture supply chain. ETG's 7,000 employees work across 27 African countries and operate 26 processing plants and 600 warehouses. Last year the company procured and distributed nearly 1.4m metric tons of 25 different commodities.

ETG connects African smallholder farmers to consumers around the world by procuring, processing and distributing agricultural commodities including maize, pulses, wheat, rice, cashew nuts, soya, sugar, coffee and tea. 80% of its Africa-originated stock is procured from smallholder farmers who would otherwise have no opportunity to integrate into the global economy. The ETG model consolidates hundreds of thousands of farmers into a supply chain and creates the scale and efficiency necessary to be globally competitive.

600

ETG owns and operates 600 warehouses

In addition to purchasing and processing crops, ETG also acts as a supplier of fertiliser products to small farmers across Africa, using its large-scale buying power to make the products available at highly competitive prices.

It is appropriate that CDC's new equity investment team has made its first investment in an African agribusiness company. Not only does agribusiness have the potential to generate employment, but food scarcity is now frequently an issue of concern among the international community. CDC has a long history of backing the sector across Africa and agribusiness remains an important priority.

> **"We chose ETG because it combines strong development impact – touching the lives of hundreds of thousands of smallholder farmers across sub-Saharan Africa – with a compelling investment case. ETG is poised for strong growth, having begun to achieve scale after 30 years of hard work and investment by ETG's founders. This is a great example of CDC supporting the building of businesses and making a lasting difference in some of Africa's poorest countries."**
>
> **Mark Pay, Managing Director, CDC Equity Investments Team**

New Commitments
Investec Africa Credit Opportunities

2

Access to finance is the second biggest constraint to business identified by a survey of 45,000 companies in 106 developing countries[1]

New CDC team makes first commitment

Fund name
Investec Africa Credit Opportunities Fund I

Date of CDC commitment
2012

Commitment size
US$ 30m

Fund geography
Sub-Saharan Africa

Fund sectors
Agnostic

CDC commitment to the Investec Africa Credit Opportunities Fund I

US$30m

Towards the end of 2012 CDC committed US$30m to the Investec Africa Credit Opportunities Fund I, sub-Saharan Africa's first corporate debt fund, which is run by Investec Asset Management. The commitment is the first made by CDC's new debt and structured finance team, which was built to include seven investment professionals during the year.

Debt investments, which will be made directly to companies and financial institutions as well as through funds, represent an additional medium through which CDC can now provide capital. CDC has long adopted a flexible approach towards investing, but the addition of debt (in all forms) and direct equity will enable us to meet a greater range of capital needs and target investment towards opportunities with the greatest potential for job creation.

"If African companies are to reach their potential and provide the jobs and economic growth vital to the continent's future then they need access to world-class capital markets. We're backing Investec's new fund because we know that they have the expertise, local knowledge and experience to deliver the impact across Africa that CDC is looking for."

Jeremy Burke, Investment Director, CDC Debt and Structured Finance Team

The Investec Fund, which is also supported by Dutch development bank FMO, will provide long-term capital to businesses of different sizes and sectors across a wide range of countries in sub-Saharan Africa (excluding South Africa). The team is aiming to raise up to US$350m for the fund from a range of commercial investors both in Africa and beyond. CDC played a key role in anchoring the fund and helping the team put the right terms and systems in place.

There is a shortage of credit in sub-Saharan Africa for private sector businesses. In 2013, the IFC ranked each country in the world according to the ease with which businesses can access credit. In this analysis, carried out for the 2013 Doing Business Report, sub-Saharan Africa accounts for 25 of the lowest 50 ranked countries.

CDC has worked closely with Investec to ensure that the fund will bring in other institutional investors and that their money will be used to provide debt capital to companies that need it across sub-Saharan Africa, rather than the usual focus on the more developed economies in the region like South Africa.

The Investec Fund will typically provide capital to businesses and projects which already support local employment, enabling access to longer term funding to companies than is typically available in the market. The finance may be used as working capital or to fund expansion, both of which can result in job creation over time.

Sub-Saharan Africa accounts for 25 of the lowest 50 ranked countries in the World Bank's 2013 Doing Business Report

1 IFC Jobs Study, 2013

New Commitments
Ambit Pragma

44%

CDC provided nearly half of the committed capital at first close

CDC invests US$30m to support SMEs in India

Purple Bus, an investment made by Ambit Pragma Fund I

Fund name
Ambit Pragma Fund II

Date of CDC commitment
2012

Commitment size
US$ 30m

Fund geography
India

Fund sectors
Logistics, entertainment & leisure, healthcare & wellness, infrastructure services and fast moving consumer goods

Direct employment at Purple Bus, an Ambit Pragma Fund I investment, has increased by

1,600%

In 2012, CDC continued to make new investment commitments in India, reflecting our strategy to focus on opportunities that have the greatest possible job creation potential in poor places. A US$30m commitment was made to Ambit Pragma Fund II, a fund that will focus on SME investments in tier two and tier three cities. CDC will have a catalytic effect by committing up to US$30m as an anchor investor at first close, and by introducing and providing references to other potential investors.

Ambit Pragma is one of the few managers in the market fully committed to the SME segment. Despite a well-funded PE market, small companies have difficulty raising capital as the economies of private equity encourage the raising of large funds and a focus on larger companies.

The universe of SME companies in India is very large. These companies are dispersed across regions and industries and while SMEs generally grow faster than their larger counterparts they face greater challenges. In addition to limited access to institutional capital (equity and debt), SMEs can also struggle to access human capital and implement quality processes.

The fund will invest in five sectors – logistics, entertainment and leisure, healthcare and wellness, infrastructure services and fast moving consumer goods – most of which have strong potential for job creation either directly, or indirectly through the supply chain.

CDC first backed Ambit Pragma in 2008, when as a 'first-time' manager the team raised a US$58m SME fund, to which CDC contributed US$20m. This fund has already made five investments, all of which have improved performance and increased their number of employees since the Fund invested.

By targeting companies that are expanding into tier two and tier three cities, Ambit Pragma Fund II will help showcase the viability of investing into these areas, helping to catalyse more investment into these geographies.

In July 2012, Ambit Pragma Fund II made its first investment in a cold supply chain company called Mehta Frozen Food Carriers (MFFC). Food wastage in India is amongst the highest in the world due to its poor food supply chain infrastructure. MFFC, which has a presence across many states in India, is trying to fill this huge gap by investing in quality cold chain infrastructure and the company aims to set up around ten cold chain warehouses in the next three years across multiple cities.

*

CDC commitment to Ambit Pragma II

US$30m

Ambit Pragma Fund I investments

— Purple Bus has professionalised the city bus industry and the company is now a role model for others, having prioritised passenger comfort and safety (particularly for women) and reliable timetable run services. Employment has increased from 99 to 1,576 in two years, and most of the staff come from low-income families.

— At Spear Logistics a new sales and business development growth plan has been implemented. The company now has 72 warehouses (up from 40 at time of investment), mostly in the poorer eastern and northern parts of India.

— Beams Hospitals is only one of three chains in India offering ambulatory surgical services. The capital from Ambit Pragma is helping the company to scale-up from a single physician practice to five centres.

— Through its investment in MAD Studios, the Fund is helping the company offer integrated film production services in India for the first time. Launching in March 2013, MAD Studios will be a one stop shop providing production services, equipment, studio space and any ancillary services related to film production.

— In a highly unorganised dairy product market, Neo Milkfood has established itself as one of the leading business-to-business brands in the Delhi NCR region within six months of launch. The company sources its raw material (milk) from small villages in the Dehli NCR region.

2008

CDC first backed Ambit Pragma as a first time team in 2008

Current Investments
Athi River Steel Plant Ltd

+3,000%

Athi River Steel's melting capacity has increased from 4,000 tonnes per year to 120,000 tonnes per year.

Fund name
Aureos East Africa Fund

Total number of employees
778

Date of CDC commitment
2003

Commitment size
US$ 8m

Fund geography
East Africa region

Fund sectors
All

"There have been challenges during our first phase in Kenya; we had no track record, so getting confidence from investors or from financial institutions was a real problem. We also had difficulties in operations as operational costs in Kenya are very high, we have high electricity and fuel costs and when it comes to finance, borrowing from the banks is very expensive."

Ravi Gupta, co-founder, Athi Steel

Athi River Steel's turnover today is US$18m, up from US$188,000 in 1998

US$18m

Athi River Steel ('Athi Steel') is a steel mill that recycles scrap metal into hundreds of different steel products for use in industry. The business model has proved to be successful and the company now produces over 700 high quality products including nuts and bolts, building materials and water borehole pipes. It also provides nearly 800 direct jobs and supports thousands more in its supply chain, a vital contribution in Kenya where unemployment is high.

Building a successful business in Kenya, however, is not straightforward. Issues such as a lack of skills, poor infrastructure, unreliable electricity and a lack of finance can all inhibit a company's growth.

Part of the Athi Steel success story is investment by CDC. As a patient investor, CDC first backed the company in 1998 and more recently invested US$1.3m in 2006 through local fund manager Aureos Capital. These investments have contributed to the company's growth, the most recent part of which has been the construction of a continuous rolling mill that incorporates the latest industry technology.

Today, Athi Steel is East Africa's leading steel producer with exports heading to other parts of Africa. Turnover has risen from US$188,000 in 1998 to US$18m in 2012. Following completion of its capacity expansion in late 2012, turnover has increased significantly from the previous year. This expansion also means that Athi Steel will be buying more scrap from Kenya's thousands of metal collectors to whom it also provides indirect employment.

There is still room for further expansion. Ravi Gupta, one of the co-founders, reveals that the company has plans to set up a new plant on 200 acres – several times larger than the current site in Kenya – with the aim of exporting steel products to the Middle East.

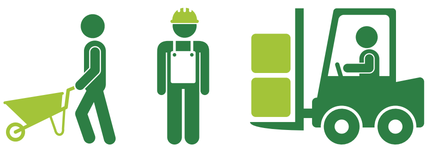
*

Athi Steel produces 789 steel products

789

Lasting employment

Christopher Wangul has been working at Athi River Steel for more than 14 years and has watched the company grow. He said: "Thanks to Athi River Steel I have been able to educate my family. Now I have a steady income there is no hassle of getting my financial obligations to either the family or to dependents. In Africa, if you have a job, you usually have a lot of dependents, not only your family."



2,700%

Jobs provided by Athi Steel have increased from 29 in 1998 to 778 in 2012

Current Investments
Sai Sudhir

Engineering clean water in rural India

CDC commitments

BTS India – US$ 20m
GEEM – US$ 40m
Ventureast Proactive – US$ 20m

Total number of employees

800

CDC invested US$5.9m through Ventureast, BTS and GEEM

US$5.9m

Access to safe, clean drinking water and sanitation are basic human rights, but there are still millions of people worldwide who live without them every day.

In India, a full two thirds of the population live without proper sanitation, and in rural areas, the figure is more than three quarters. Access to drinking water is better – but in no less need of a remedy – with one in ten lacking a source of clean drinking water, climbing to one in eight in rural areas.

CDC is part of the private sector effort to improve the provision of clean water and sanitation in India. As well as recruiting engineers with the skills and expertise needed to construct pipelines and pumping stations, private sector businesses can also attract the capital that is needed to finance the projects.

Engineering company Sai Sudhir is one private sector company that is working to improve this situation, building drinking water, sanitation and irrigation projects in semi-urban and rural India. In 2007, it was a relatively small company unable to find investors who shared its vision and who were willing to provide it with the necessary capital to expand and grow.

Sai Sudhir's projects provide water to 350 villages, reaching over 1 million people

*

Sai Sudhir provides over

800

direct jobs

In 2007, through investment manager Ventureast, CDC took an equity stake in Sai Sudhir, providing it with the patient growth capital it sought, as well as sharing the company's risks and rewards. CDC also made investments through the BTS and GEEM funds and its total investment reached US$5.9m. This was especially needed because, according to World Bank figures, private sector investment in water and sanitation in India nearly halved between 2007 and 2009.

Using CDC's equity risk capital as evidence of support for the company and its management, Sai Sudhir was able to secure loans from national investors such as IDBI Bank and the Central Bank of India of US$68m, which further boosted the company's growth.

Since CDC's first investment, Sai Sudhir has increased direct employment to 800 staff and increased its revenues tenfold so it now pays over US$10m in business tax (2009-11). It has also increased its provision of clean water and water treatment, reaching over a million additional people in 350-plus small towns and villages across four states since 2008.

As total investment in water and sanitation in India was falling, the investment in Sai Sudhir was counter-cyclical and helped the company secure loan financing for new projects. Sai Sudhir continues to expand to meet acute, local needs and has recently confirmed orders to provide water supplies to 202 villages in the state of Karnataka and has won a tender to provide 17 water treatment plants in Rajasthan.

Development Performance

CDC provides capital and support to grow commercially viable businesses to create jobs across Africa and South Asia.

During 2012, a key outcome of the strategic work undertaken by the new team was the decision to put development impact at the heart of what we do.

As a result, the impact we want to achieve is now focused on job creation, especially in places where the private sector is weak and jobs are scarce. We are still interested in achieving and measuring positive impact across a broad dimension, but the job creation focus is helpful in ensuring we direct capital thoughtfully and prioritise our limited resources behind a mission that inspires us and that we believe is genuinely impactful, both at a macro level, in stimulating the development of the private sector, and at the micro level, in the difference it can make to an individual's life and family.

We have also created an ex ante 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 and academics and economists, is described in more detail at www.cdcgroup.com. It is embedded in our investment processes and we use it to assess every investment opportunity at Investment Committee for its potential to create the impact that we are seeking.

As before, we continue to review the ex post data we collect in order to demonstrate the impact we are achieving, and also learn where we are successful and the drivers of this, as well as where our capital has not achieved what we wished. This exercise will deepen during 2013 and beyond through the recruitment of a new position to CDC, a Director of Development Impact. During 2013 we have prioritised:

- job creation;
- taxes paid;
- additionality; and
- mobilisation of third party capital, primarily through fund investments.

2012 Achievements

The data and explanations below demonstrate, we believe, powerful evidence of the impact of CDC's capital.

Employment

The total number of businesses being supported by CDC capital rose from 1,126 in 2011 to 1,250 in 2012. In parallel, the total jobs provided by these businesses rose from 976,000 to 1,109,000, an increase of 14%. This is the first time in CDC's history that its capital has supported businesses providing over 1m jobs.

*

Total return

£223m

Employment – total portfolio, including non-core geographies[1]

Sector	Jobs ('000)
Trade	207
Financial Services	181
Business Services	174
Manufacturing – Heavy	141
Food Processing	85
Mineral Extraction	84
Public Services	72
Agricultural Crops	46
Utilities	39
Communication	35
Manufacturing – Light	26
Transport	16
Forestry & Fisheries	3
Total	**1,109**

We know that measuring direct employment is not the sole way to assess the job creating effect of a growing business. A CDC investee business may have large indirect employment effects through job creation in its supply and distribution chains; or induced employment effects through jobs that result from direct and indirect employees spending more and increasing consumption. However, it is difficult to measure indirect and induced jobs or second-order growth related jobs from improved services, an aspect that is particularly relevant for infrastructure investments. We want to develop good methodologies to capture this broader effect in conjunction with the DFI and IFI community.

We are also interested in the quality of jobs created. Quality of employment matters for a range of reasons: from paying fair wages to workers to ensuring that workplaces are safe and secure. And quality jobs are most effective at maximising companies' productivity and efficiency[2]. In future years we would like to explore this theme further.

Sector analysis

We have prioritised sectors for future investment based on their ability to create jobs (directly and indirectly) as companies grow. The sectors with high priority include construction, food processing, manufacturing (light and heavy), public services, textiles and trade. We have analysed our portfolio in Africa and South Asia (where our capital will exclusively be targeted in future) against these sectors.

[1] Geographies in which CDC invested under previous Investment Policies, but to which CDC no longer makes new investment commitments
[2] IFC Jobs Study, 2013

Employment – Africa and South Asia investment portfolio

Sector	Direct jobs ('000)	CDC investments (£m)	Sector priority
Financial Services	141	350	High*
Business Services	140	333	Low
Manufacturing – Heavy	91	189	High
Trade	63	89	Low*
Public Services	41	51	High
Agricultural Crops	34	10	Medium
Utilities	32	245	Medium
Communication	23	69	Low
Transport	15	20	Medium
Mineral Extraction	17	86	Low
Manufacturing – Light	5	18	High
Food Processing	4	18	High
Forestry & Fisheries	3	15	Medium
Total	**609**	**1,493**	

*Certain business sector priority categorisations are subject to adjustment depending on the business type or geography.

The sectors we have determined to be high priority for future investments don't necessarily attract the most capital today, but we expect them to grow over time and to be the main drivers of job creation in our portfolio. Note that financial services and trade are subject to adjustment depending on the business type or geography. A trade investment may be classified as high priority if a large proportion of its procurement is local as this has a positive impact on indirect local employment. Similarly, financial services investments are reclassified as low priority in some Indian states and countries such as South Africa where fewer than 40% of companies consider access to finance a constraint and access to finance is above 40%.

Taxes paid

As well as creating direct, indirect and induced employment, the businesses in which CDC's capital is invested also pay local taxes. As these businesses grow, helped by the capital provided by CDC, taxes and revenues to government may also increase, providing more funding for essential public services.

In 2012, the amount of local taxes paid by companies in which CDC's capital is invested rose from £2.2bn in 2011 to £2.6bn in 2012, an increase of 20%.

Region	Taxes paid £m
Africa	913
South Asia	553
Non-core geographies[1]	1,145
Total	**2,611**

[1] Geographies in which CDC invested under previous Investment Policies, but to which CDC no longer makes new investment commitments

*

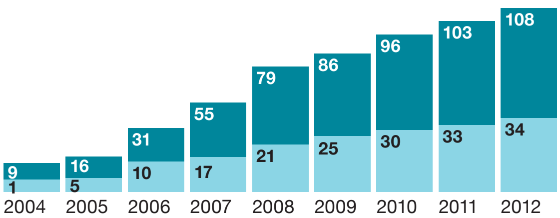
Total mobilisation

148%

Additionality

CDC aims to develop capital markets and grow investment capacity in poor countries. To achieve this, CDC will frequently help a new fund get started by advising the fund team and then endorsing them to the market. CDC can demonstrate confidence in a fund and its team by committing capital at the fund's first close, a move that can encourage others to invest. For example, CDC committed at first close in 108 out of the 142 funds in which it has invested since 2004.

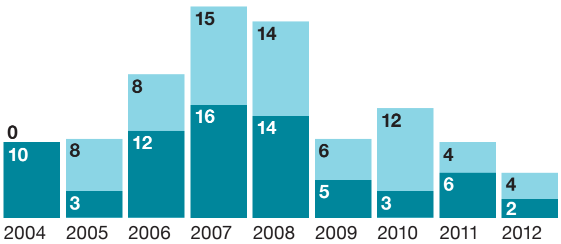
Commitments at first close since 2004



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

CDC's appetite for backing first-time teams remains undiminished and in 2012 such commitments represented one third of the total.

First-time managers by year



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

Third party funds mobilised

In making fund investments, CDC aims to mobilise third party capital investment into Africa and South Asia. During 2012, as in previous years, mobilisation was measured by calculating investment by others in funds when CDC had made a legal commitment plus all capital committed at subsequent closings, subject to a tapering factor. Investments in fund closings prior to the one in which CDC participates are not counted.

In 2012, total mobilisation amounted to £252m down, from £511m in 2011. This partly reflects CDC's new focus on the less developed markets of Africa and South Asia, where third party investors are less willing to commit capital, and partly a smaller total commitment to six funds compared to ten in 2011.

Financial Performance

CDC is a UK government-owned investment company that invests in private sector businesses in developing countries, where it has been an innovative investor for over 60 years. CDC is required to operate commercially according to the highest standards of corporate governance.

Godfrey Davies Chief Financial Officer

No country has succeeded in reducing poverty in a sustainable manner in the absence of economic growth. Commercially sustainable private sector businesses are critical to such growth: they employ and train people, pay taxes, invest in research and development and build and operate infrastructure and services. Scarcity and unequal access to long-term risk capital constrain the establishment and growth of viable businesses in CDC's target markets.

During the year CDC has implemented a new investment strategy. CDC will continue to invest in Africa and South Asia and has invested in debt and direct equity as well as continuing the fund of funds business. Financial commitments made under the previous strategy will be honoured.

CDC and the businesses in which its capital is invested will:

- comply with all applicable laws;
- minimise adverse impacts and enhance positive effects on the environment, workers and all stakeholders as appropriate;
- commit to continuous improvements with respect to management of the environment, social policies and governance;
- work to apply relevant international best practice standards, with appropriate targets and timetables for achieving them; and
- employ management systems which effectively address ESG risks and realise ESG opportunities as a fundamental part of a company's value.

External perspectives

External perspectives on CDC's systems, processes and performance are of great importance to CDC. Independent parties are a source of objectivity, validation and constructive criticism. Since 2009, CDC has engaged KPMG to provide assurance over CDC's management systems to implement its Investment Code as set out in section five of this Code. In 2012, CDC is very pleased to have received a reasonable assurance opinion from KPMG*. The Investment Code, CDC's reporting and the KPMG opinion are available through www.cdcgroup.com/corporate-information.aspx.

Strategies for achieving the objectives of the business

CDC expects its investments to achieve results that are appropriate to the opportunities and risks in the relevant market. Amongst the features that CDC seeks in making a decision to commit to an investment are:

- a credible thesis aimed at CDC's preferred markets with appropriate development impact;
- a strong management team;
- prospective returns which are commensurate with the potential risk; and
- a management team that will apply high standards of business ethics and corporate governance.

CDC evaluates investment performance according to financial performance and development impact.

Taxation

The underlying portfolio companies of the funds in which CDC invests pay taxes in their country of operation. However, under the CDC Act 1999, CDC Group plc was granted exemption from UK Corporation Tax from May 2003. CDC's fund investments are domiciled in countries with: good corporate governance; a respect for the law of contract and property rights; a legal system that can be relied upon to issue fair judgements in a timely fashion; and a tax system that allows fiscally efficient cross border investment with tax neutrality. Tax neutrality is a regime that does not subject entities to additional taxation over and above the tax liabilities of parties in their home jurisdictions. This allows CDC to recycle more portfolio receipts into new investments in developing countries.

Market conditions

The MSCI Emerging Markets Index is designed to measure quoted equity performance in global emerging markets. In 2012, it rose by 18% (2011: fell by 18%). However, index movements of individual countries varied widely in 2012 with rises from Nigeria of 63%, South Africa of 13%, India of 26% and China of 23%.

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

* 'Reasonable' and 'limited' assurance are the two levels of assurance engagement a practitioner is permitted to perform under ISAE 3000 (International Standard on Assurance Engagements 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information). A reasonable assurance engagement requires sufficient work to be undertaken to reasonably conclude that assurance subject matter is fairly stated. A limited assurance engagement typically has a smaller scope of work and results in a lower level of assurance – for example stating that in performing certain procedures nothing came to the attention of the assurance provider to indicate that the subject matter is not fairly stated.

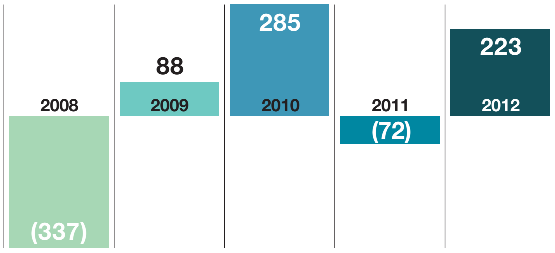
Financial Performance
Continued

Current performance

Total return after tax

The overall result is a total return after tax of £223.4m (2011: £72.0m loss). As a return on opening total net assets on a valuation basis, this represents a profit for CDC's shareholder of 9% (2011: 3% loss) this year and an average annual return of 1% over the last five years.

Total return (£m)



Portfolio return

The portfolio generated £250.6m of profit (2011: £66.3m of losses) driven by the rise in global markets.

Operating costs

Operating costs for the year of £14.8m (2011: £11.7m) have increased due to employees rising to 65 (2011: 49). Operating costs represent 0.6% of the Company's opening net value.

Other net expense

Other net expense of £12.4m (2011: £6.0m income) came mainly from currency translation losses. Interest on cash held remained low due to low interest rates.

	2012 £m	2011 £m
Portfolio return	**250.6**	(66.3)
Operating costs	**(14.8)**	(11.7)
Other net (expense)/income	**(12.4)**	6.0
Total return after tax	**223.4**	(72.0)

Portfolio and net assets

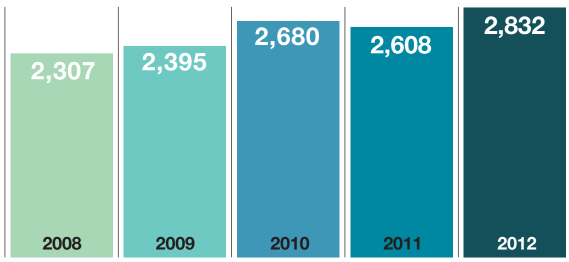
	2012 £m	2011 £m
Portfolio	**2,246.0**	1,913.3
Net cash and short-term deposits	**589.7**	697.2
Other net liabilities	**(4.1)**	(2.3)
Total net assets on a valuation basis	**2,831.6**	2,608.2

Total net assets increased in the year from £2,608.2m to £2,831.6m, a rise of 9% (2011: 3% fall).

	2012 £m	2011 £m
Portfolio at start of year	**1,913.3**	1,933.2
New investments	**396.6**	363.7
Realisations	**(308.2)**	(274.5)
Value change	**244.3**	(109.1)
Portfolio at end of year	**2,246.0**	1,913.3

The portfolio, which consists mostly of investments in funds managed by fund managers, increased from £1,913.3m to £2,246.0m. The increase came from net new investments and valuation gains driven by market conditions.

CDC value growth (£m)



New commitments

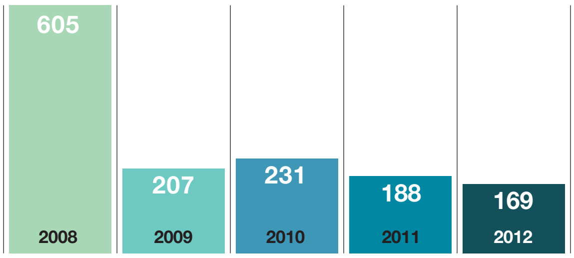
In 2012, CDC made commitments of £169.2m (2011: £188.4m). Total new commitments were:

	£m
Actis Africa Real Estate 2	46.2
Diamond Bank*	26.9
Export Trading Group*	20.3
Ambit Pragma II	18.5
Investec Africa Credit Opportunities	18.5
Phatisa Pan African Housing	12.3
SGI Ethiopia I	9.2
Aavishkaar Goodwell India Microfinance	9.2
I&P Capital III	8.1
Total commitments in 2012	169.2

*Direct investments

CDC has investments in 155 funds managed by 84 different fund managers.

New commitments (£m)

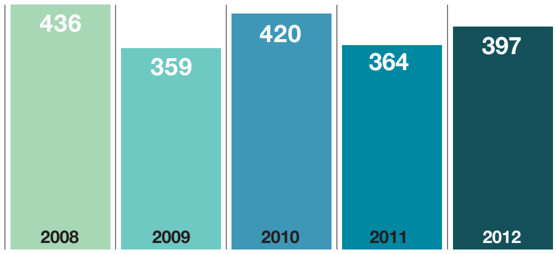


Cash flow

	2012 £m	2011 £m
Portfolio drawdowns	**(396.6)**	(363.7)
Portfolio cash generated	**309.5**	326.9
Net fund flows	**(87.1)**	(36.8)
Hedging	**3.8**	0.5
Other cash flows	**(24.2)**	(4.4)
Net cash flow	**(107.5)**	(40.7)

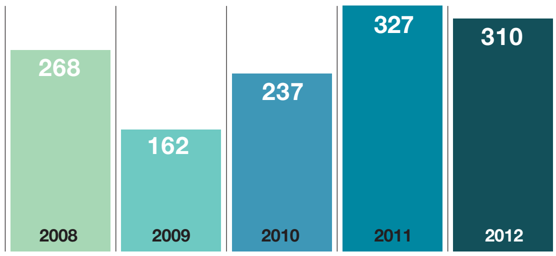
Drawdowns for new investments at £396.6m (2011: £363.7m) were higher than last year. £170.5m was invested in Africa in the year (2011: £149.9m) representing 43% of new investments (2011: 41%).

Portfolio drawdowns (£m)



There was a lower level of portfolio cash generated this year at £309.5m (2011: £326.9m).

Portfolio cash generated (£m)



Financial Performance
Continued

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 £589.7m (2011: £697.2m). A substantial portion of this balance is placed on deposit with the UK Government's Debt Management Office. However, cash will be recycled into investments and current outstanding commitments for investment stand at £1,019.4m, presenting an overcommitment rate of 22%, when taking into account the standby borrowing facility of £246.0m.

Cash and outstanding commitments at 31 December 2012 (£m)

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.

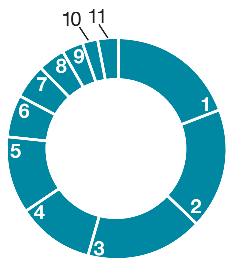
Risks and risk management
CDC's operations are managed within limits defined by the Board. The Board regularly reviews the overall risks inherent in CDC's business and the actions taken to mitigate those risks where appropriate.

CDC has investments in 155 private equity funds providing it with a portfolio of over 1,200 underlying companies that are diversified by vintage year, size, geography and industry sector. CDC's highest sector exposures are 19% in Business Services and 18% in Financial Services. The top 20 investments represent 35% of the portfolio with the largest individual investment representing 7%.

CDC's highest country exposures are 21% in India, 15% in China, 12% in South Africa and 9% in Nigeria.

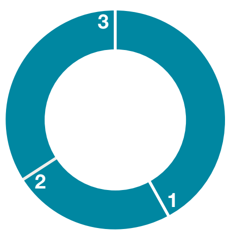
In the future CDC's portfolio of investments will be increasingly concentrated on low and lower middle income countries in sub-Saharan Africa and the poorer regions of India, which will increase the risk profile of CDC's portfolio.

Underlying portfolio by sector



1	Business Services	19%
2	Financial Services	18%
3	Utilities	17%
4	Manufacturing – Heavy	11%
5	Trade	11%
6	Public Services	6%
7	Mineral Extraction	5%
8	Communication	4%
9	Food Processing	3%
10	Manufacturing – Light	2%
11	Other	4%
	– Agricultural	2%
	– Transport	1%
	– Forestry & Fisheries	1%

Underlying portfolio by region



1	Africa	46%
2	South Asia	23%
3	Rest of World	31%

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. CDC has recently strengthened the already high compliance requirement of investees in its legal documents and Investment Code Toolkit. 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.

Carbon footprint

In 2012, CDC measured its corporate carbon footprint, based on its emissions from air travel and electricity usage.

CDC's total carbon footprint is 254 tonnes of CO_2. Although this is a relatively small footprint, CDC has chosen to offset this.

CDC has offset this via ClimateCare in a portfolio of projects in sub-Saharan Africa. In Uganda and Ghana, CDC is supporting the distribution of fuel efficient stoves that are manufactured locally.

These stoves not only reduce emissions through lower usage of non-renewable charcoal and wood but also limit exposure to indoor air pollutants, one of the major causes of illness amongst women and children in developing countries. The stoves on both projects are manufactured locally, ensuring jobs are created and technical skills are acquired within local communities.

In Kenya, CDC is supporting an innovative project using 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 credited to the Gold Standard certification scheme. The emissions savings derive from avoiding the practice of boiling water using wood and charcoal. A 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.

Godfrey Davies
Chief Financial Officer

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Footnotes

Data disclaimer

Whilst we have used our reasonable efforts to ensure the accuracy of the data used in this report, data on pages 4 to pages 25 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 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 2012. Employment data may sometimes include contract workers and other non-permanent workers. Tax data mostly refers to corporate taxes paid in the 2011 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 fund managers.

Photographs

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

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