

**KG 3 A/S**  
**Central Business Registration No**  
**12993196**  
**c/o Aberdeen Asset Management**  
**Denmark A/S, Strandvejen 58, 2**  
**2900 Hellerup**

**Annual report 2015**

The Annual General Meeting adopted the annual report on 11.03.2016

**Chairman of the General Meeting**

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Name: Peter Drachmann

## **Contents**

|  | <b><u>Page</u></b> |
|--|--------------------|
| Entity details                               | 1                  |
| Statement by Management on the annual report | 2                  |
| Independent auditor's reports                | 3                  |
| Management commentary                        | 5                  |
| Accounting policies                          | 7                  |
| Income statement for 2015                    | 11                 |
| Balance sheet at 31.12.2015                  | 12                 |
| Statement of changes in equity for 2015      | 14                 |
| Notes  | 15                 |

## **Entity details**

### **Entity**

KG 3 A/S

c/o Aberdeen Asset Management Denmark A/S, Strandvejen 58, 2  
2900 Hellerup

Central Business Registration No: 12993196

Registered in: Gentofte

Financial year: 01.01.2015 - 31.12.2015

### **Board of Directors**

Peter Drachmann

Michael John Fitzgerald

Jacob Smed

### **Executive Board**

Jacob Smed

### **Auditors**

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

Postboks 1600

0900 København C

## **Statement by Management on the annual report**

The Board of Directors and the Executive Board have today considered and approved the annual report of KG 3 A/S for the financial year 01.01.2015 - 31.12.2015.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2015 and of the results of its operations for the financial year 01.01.2015 - 31.12.2015.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Hellerup, 11.03.2016

### **Executive Board**

Jacob Smed

### **Board of Directors**

Peter Drachmann

Michael John Fitzgerald

Jacob Smed

## **Independent auditor's reports**

### **To the owners of KG 3 A/S**

#### **Report on the financial statements**

We have audited the financial statements of KG 3 A/S for the financial year 01.01.2015 - 31.12.2015, which comprise the accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31.12.2015 and of the results of its operations for the financial year 01.01.2015 - 31.12.2015 in accordance with the Danish Financial Statements Act.

## **Independent auditor's reports**

### **Statement on the management commentary**

Pursuant to the Danish Financial Statements Act, we have read the management commentary. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the management commentary is consistent with the financial statements.

København, 11.03.2016

### **Deloitte**

Statsautoriseret Revisionspartnerselskab

Lars Andersen  
State Authorised Public Accountant

CVR-nr. 33963556

## **Management commentary**

### **Primary activities**

The object of the Company is to hold properties, both under own auspices and through subsidiaries, and other related activities.

The annual report for 2015 covers the Company's 27th financial year.

### **Development in activities and finances**

The Company owns Købmagergade 3 in Copenhagen.

The property consists of both retail and office leases.

The profit before value adjustments is DKK (6.525) thousand against DKK 793 thousand last year.

Profit before tax is DKK 42.617 thousand against DKK 13.527 thousand last year.

Profit for the year is DKK 33.320 thousand against DKK 10.496 thousand last year.

Management regards results as satisfactory especially the fair value adjustment.

Assets total DKK 273,623 thousand, out of which DKK 266,200 thousand comprise the investment property recognised at fair value.

As of 31 December 2015, equity is DKK 86,813 thousand, which equals a solvency ratio of 31.7 %. Equity was increased by DKK 33,320 thousand regarding profit for the year.

### **Uncertainty relating to recognition and measurement**

#### **Valuation of investment property**

The investment property is measured at fair value, DKK 266,200 thousand, against DKK 214,000 thousand last year.

Based on the external valuer's calculation, the fair value was assessed based on budgeted future cash flows from operating income. The fair value is then calculated as the stabilised net operating income divided by the exit yield, and then subjected to adjustments for loss of rent in estimated vacancy periods and to regulations to market rent and corresponding capital expenditures.

The exit yield is based on a long-term risk-free nominal interest rate plus a risk adjustment. The risk adjustment is made based on an assessment of the solvency of tenants and the duration of leases. The yield for 2015 has been determined at 4.1% against 4.6% last year.

## **Management commentary**

Change in the valuation of the investment property is the principal financial risk for the Company and, as such, has a significant impact on the income statement. The calculation of the value of the investment property is subject to changes in net operating income and changes in market evaluation of the exit yield.

## **Outlook**

The Company expects to continue investing in the development of the property portfolio. This is expected to lead to an increase in revenue and an improvement of operating income.

## **Events after the balance sheet date**

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.



## **Accounting policies**

### **Reporting class**

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied for these financial statements are consistent with those applied last year, except for the changes mentioned below.

### **Changes in accounting policies**

Due to changes in the Danish Financial Statements Act, accounting policies have been changed in the following areas:

Debt attributable to investment properties is measured at amortised cost. Previously, debt attributable to investment properties was measured at fair value through profit and loss. Comparative figures have been restated.

### **The effect of the changes in accounting policies**

The overall effect of the changes in accounting policies described above constitutes a decline in profit for the year before tax of DKK 316 thousand (2014: increase of DKK 678 thousand). As a result of the changes in accounting policies, tax for the year constitutes DKK 74 thousand (2014: DKK 149 thousand). Consequently, profit for the year after tax is negatively affected by DKK 242 thousand (2014: increase of DKK 529 thousand). The balance sheet total is unchanged while equity as of 31 December 2015 is negatively affected by DKK 1.881 thousand (2014: increase of DKK 1.640 thousand). The effect of the changes in accounting policies as of 1 January 2015 has been directly recognised in equity, cf. page 14 of the statement of changes in equity.

### **Recognition and measurement**

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

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

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

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

## **Accounting policies**

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

### **Foreign currency translation**

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

### **Income statement**

#### **Revenue**

Income related to property operation – excluding fair value adjustments – is recognised as rental income.

#### **Fair value adjustment of investment properties and related financial liabilities**

Fair value adjustment of investment properties comprises adjustments for the financial year of the Entity's investment properties.

#### **Other external expenses**

Expenses related to property operation – excluding fair value adjustments – are recognised as operating expenses. This item also includes write-downs on receivables recognised in current assets.

Administrative expenses comprise expenses incurred during the year for management and administration of the Company, including among others amortisation, depreciation and impairment losses relating to other fixtures and fittings, tools and equipment.

#### **Other financial income**

Other financial income comprises interest income, net capital gains on transactions in foreign currencies as well as tax relief under the Danish Tax Prepayment Scheme etc.

#### **Other financial expenses**

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on transactions in foreign currencies as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

## Accounting policies

### Income taxes

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with all Danish group enterprises. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

### Balance sheet

#### Investment properties

On initial recognition, investment properties are measured at cost consisting of the acquisition price of the properties plus any directly related acquisition costs.

After initial recognition, the properties are measured by an external valuer at fair value which represents the amount at which the individual property may be sold to an independent buyer. The fair value of the properties is revalued annually based on value in use calculations for expected cash flows from the individual investment properties. When calculating values in use, a discount factor that reflects the current yield requirements on comparable properties is used. Fair value adjustments for the financial year are recognised in the income statement.

#### Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

#### Cash

Cash comprises cash in hand and bank deposits.

#### Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

## **Accounting policies**

### **Other provisions**

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

### **Mortgage debt**

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

### **Other financial liabilities**

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

### **Prepayments received from customers**

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

### **Income tax receivable or payable**

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

## Income statement for 2015

|   | <u>Notes</u> | <u>2015<br/>DKK</u>      | <u>2014<br/>DKK'000</u> |
|---|--------------|--------------------------|-------------------------|
| Revenue   |              | 10.330.222               | 8.682                   |
| Other external expenses   |              | <u>(14.644.794)</u>      | <u>(5.733)</u>          |
| <b>Operating profit/loss</b>  |              | <b>(4.314.572)</b>       | <b>2.949</b>            |
| Other financial income  | 1            | 690                      | 2                       |
| Other financial expenses  | 2            | <u>(2.211.566)</u>       | <u>(2.158)</u>          |
| <b>Profit/loss from ordinary activities before fair value adjustments and tax</b> |              | <b>(6.525.448)</b>       | <b>793</b>              |
| Fair value adjustment of investment properties                                    |              | <u>49.142.299</u>        | <u>12.734</u>           |
| <b>Profit/loss from ordinary activities before tax</b>                            |              | <b>42.616.851</b>        | <b>13.527</b>           |
| Tax on profit/loss from ordinary activities                                       | 3            | <u>(9.296.609)</u>       | <u>(3.031)</u>          |
| <b>Profit/loss for the year</b>   |              | <b><u>33.320.242</u></b> | <b><u>10.496</u></b>    |
| <b>Proposed distribution of profit/loss</b>                                       |              |                          |                         |
| Retained earnings   |              | <u>33.320.242</u>        | <u>10.496</u>           |
|   |              | <b><u>33.320.242</u></b> | <b><u>10.496</u></b>    |

**Balance sheet at 31.12.2015**

|                                      | <u>Notes</u> | <u>2015<br/>DKK</u>                  | <u>2014<br/>DKK'000</u>          |
|--------------------------------------|--------------|--------------------------------------|----------------------------------|
| Investment property                  |              | <u>266.200.000</u>                   | <u>214.000</u>                   |
| <b>Property, plant and equipment</b> | 4            | <u><b>266.200.000</b></u>            | <u><b>214.000</b></u>            |
| <br><b>Fixed assets</b>              |              | <br><u><b>266.200.000</b></u>        | <br><u><b>214.000</b></u>        |
| <br>Trade receivables                |              | <br>0                                | <br>9                            |
| Other short-term receivables         |              | <u>0</u>                             | <u>10</u>                        |
| <b>Receivables</b>                   |              | <u><b>0</b></u>                      | <u><b>19</b></u>                 |
| <br><b>Cash</b>                      |              | <br><u><b>7.422.507</b></u>          | <br><u><b>8.416</b></u>          |
| <br><b>Current assets</b>            |              | <br><u><b>7.422.507</b></u>          | <br><u><b>8.435</b></u>          |
| <br><b>Assets</b>                    |              | <br><u><u><b>273.622.507</b></u></u> | <br><u><u><b>222.435</b></u></u> |

**Balance sheet at 31.12.2015**

|  | <u>Notes</u> | <u>2015<br/>DKK</u> | <u>2014<br/>DKK'000</u> |
|--|--------------|---------------------|-------------------------|
| Contributed capital                                  | 5            | 500.000             | 500                     |
| Retained earnings                                    |              | 86.313.032          | 52.993                  |
| <b>Equity</b>  |              | <b>86.813.032</b>   | <b>53.493</b>           |
| Provisions for deferred tax                          |              | 41.725.521          | 32.497                  |
| Other provisions                                     |              | 8.383.000           | 1.272                   |
| <b>Provisions</b>                                    |              | <b>50.108.521</b>   | <b>33.769</b>           |
| Mortgage debts                                       |              | 123.282.152         | 123.148                 |
| Deposits   |              | 1.516.738           | 1.522                   |
| Payables to group enterprises                        |              | 0                   | 7.515                   |
| <b>Non-current liabilities other than provisions</b> | 6            | <b>124.798.890</b>  | <b>132.185</b>          |
| Prepayments received from customers                  |              | 0                   | 49                      |
| Trade payables                                       |              | 45.327              | 45                      |
| Debt to group enterprises                            |              | 8.439.713           | 0                       |
| Income tax payable                                   |              | 1.087.911           | 1.556                   |
| Other payables                                       |              | 2.329.113           | 1.338                   |
| <b>Current liabilities other than provisions</b>     |              | <b>11.902.064</b>   | <b>2.988</b>            |
| <b>Liabilities other than provisions</b>             |              | <b>136.700.954</b>  | <b>135.173</b>          |
| <b>Equity and liabilities</b>                        |              | <b>273.622.507</b>  | <b>222.435</b>          |
| Contingent liabilities                               | 7            |                     |                         |
| Assets charged and collateral                        | 8            |                     |                         |
| Related parties with control                         | 9            |                     |                         |

**Statement of changes in equity for 2015**

|  | <b>Contributed<br/>capital<br/>DKK</b> | <b>Retained<br/>earnings<br/>DKK</b> | <b>Total<br/>DKK</b> |
|--|--|--------------------------------------|----------------------|
| Equity beginning of year   | 500.000                                | 51.353.115                           | 51.853.115           |
| Increase (decrease) of equity through changes in accounting policies | 0                                      | 1.639.675                            | 1.639.675            |
| Profit/loss for the year   | 0                                      | 33.320.242                           | 33.320.242           |
| <b>Equity end of year</b>  | <b>500.000</b>                         | <b>86.313.032</b>                    | <b>86.813.032</b>    |



## Notes

|  | <b>2015<br/>DKK</b> | <b>2014<br/>DKK'000</b>                |
|--|---------------------|--|
| <b>1. Other financial income</b>                   |                     |  |
| Interest income                                    | 690                 | 2                                      |
|  | <b>690</b>          | <b>2</b>                               |
|  |                     |  |
|  | <b>2015<br/>DKK</b> | <b>2014<br/>DKK'000</b>                |
| <b>2. Other financial expenses</b>                 |                     |  |
| Financial expenses from group enterprises          | 388.039             | 355                                    |
| Interest expenses                                  | 1.821.927           | 1.802                                  |
| Other financial expenses                           | 1.600               | 1                                      |
|  | <b>2.211.566</b>    | <b>2.158</b>                           |
|  |                     |  |
|  | <b>2015<br/>DKK</b> | <b>2014<br/>DKK'000</b>                |
| <b>3. Tax on ordinary profit/loss for the year</b> |                     |  |
| Current tax  | 68.427              | 539                                    |
| Change in deferred tax for the year                | 9.228.182           | 2.758                                  |
| Effect of changed tax rates                        | 0                   | (266)                                  |
|  | <b>9.296.609</b>    | <b>3.031</b>                           |
|  |                     |  |
|  |                     | <b>Investment<br/>property<br/>DKK</b> |
| <b>4. Property, plant and equipment</b>            |                     |  |
| Cost beginning of year                             |                     | 52.150.562                             |
| Additions  |                     | 3.057.701                              |
| <b>Cost end of year</b>                            |                     | <b>55.208.263</b>                      |
|  |                     |  |
| Fair value adjustments beginning of year           |                     | 161.849.438                            |
| Fair value adjustments for the year                |                     | 49.142.299                             |
| <b>Fair value adjustments end of year</b>          |                     | <b>210.991.737</b>                     |
|  |                     |  |
| <b>Carrying amount end of year</b>                 |                     | <b>266.200.000</b>                     |

## Notes

Investment properties are as described in the accounting policies, measured at fair value by an external appraiser. The external appraiser has received relevant documents and information in order to complete the valuation reports. The material includes but is not limited to:

- Brief description of the property
- Tenant overview including tenant name, type of use, area, current rent, deposit, non-terminal ability profile, etc.
- New lease agreements and terminations
- Known capex cost and expected capex cost
- Information on identified potentials and development possibilities including building rights.

The value of the investment property is measured at fair value, based on a discounted cash flow calculation. The estimated fair value is calculated on the basis of the discounted cash flows in the 5 year budget period and the discounted value of the terminal value.

The equivalent yield on the property is fixed based on a consideration of several factors, such as: location, condition and repair of the building – including ground and groundwater contamination, tenure, letting, including tenant mix and tenant's standing, town planning non-terminal ability profile and on an estimate of how the general property market is developing.

### Significant assumptions in the valuation report:

Cash flows on vacant residential leases are included at expected market rent with a minimal expected vacancy period. Following the signing of a new contract with a retail tenant cash flow increases to recognize this at the expected lease start.

The equivalent yield on the Company's property is 4,1% as of 31 December 2015, compared with 4,6% as of 31 December 2014. Thus leading to a valuation on 266.200.000 DKK as of 31 December 2015, (214.000.000 as of 31 December 2014). The discount rate used in the valuation report is 6,0%, this is based on exit yield plus 1,0% inflation.

A change in the equivalent yield on + 0,5% would reduce the market value of the property with 33,300,000 DKK, where a change on -0,5% would increase the market value with 42,700,000 DKK.

|                               | <u>Number</u> | <u>Par value<br/>DKK</u> | <u>Nominal<br/>value<br/>DKK</u> |
|-------------------------------|---------------|--------------------------|----------------------------------|
| <b>5. Contributed capital</b> |               |                          |                                  |
| Share capital                 | 500           | 1.000,00                 | 500.000                          |
|                               | <u>500</u>    |                          | <u>500.000</u>                   |

There are no changes in share capital the last 5 years.

## Notes

|   | <b>Instalments<br/>within 12<br/>months<br/>2014<br/>DKK'000</b> | <b>Instalments<br/>within 12<br/>months<br/>2015<br/>DKK</b> | <b>Instalments<br/>beyond 12<br/>months<br/>2015<br/>DKK</b> | <b>Outstanding<br/>after 5 years<br/>2015<br/>DKK</b> |
|---|--|--|--|---|
| <b>6. Long-term liabilities<br/>other than provisions</b> |  |  |  |   |
| Mortgage debts  | 0  | 0  | 123.282.152  | 95.416.820  |
| Deposits  | 0  | 0  | 1.516.738  | 0   |
| Payables to group enterprises                             | 0  | 0  | 0  | 0   |
|   | <b>0</b>   | <b>0</b>   | <b>124.798.890</b>   | <b>95.416.820</b>                                     |

## 7. Contingent liabilities

The Company participates in a Danish joint taxation arrangement in which FB 40 ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2013 for income taxes etc. for the jointly taxed companies and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

## 8. Assets charged and collateral

Mortgage debt is secured by way of mortgage on the property. The mortgage also comprises the plant and machinery deemed part of the property.

## 9. Related parties with control

FREP Holdings Canada I LP, Canada wholly owns the shares of the Company and thus has control over the Company.