# IFU Investment Partners K/S

c/o IFU, Fredericiagade 27 , 1310 Copenhagen K, Denmark

CVR no. 34 45 39 69

## Annual report 2016

Approved at the Company's annual general meeting on 21 June 2017

Chairman:

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Nicolai Boserup

Building a better
working world

## Contents

## Statement by Management on the annual report

The undersigned have today discussed and approved the annual report of IFU Investment Partners K/S for the financial year 1 January - 31 December 2016.

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

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 6 June 2017
Management of IFU Investments Komplementar ApS:

| | | |
|---|---|---|
| Nicolai Boserup<br>Chairman | Tommy Thomsen | Torben Huss |

## Independent auditor's report

### To the limited partners of IFU Investment Partners K/S

### Opinion

We have audited the financial statements of IFU Investment Partners K/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

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

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Management's responsibilities for the financial statements

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

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

## Independent auditor's report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 6 June 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Barner Christiansen
State Authorised Public Accountant

Anne Tønsberg
State Authorised Public Accountant

# Management's review

## Company details

| | |
|---|---|
| Name | IFU Investment Partners K/S |
| Address, zip code, city | c/o IFU, Fredericiagade 27, 1310 Copenhagen K, Denmark |
| CVR no. | 34 45 39 69 |
| Established | 5 March 2012 |
| Registered office | Copenhagen |
| Financial year | 1 January - 31 December |
| General partner | IFU Investment Partners GP P/S |
| Manager of the Partnership | IFU - Investment Fund for Developing Countries |
| Auditors | Ernst & Young Godkendt Revisionspartnerselskab<br>Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark |

# Management's review

## Financial Highlights

Seen over a four-year period, the development of the fund is described by the following financial highlights.

## Key figures

| DKK'000 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Profit/loss** | | | | | |
| Profit/loss before financial income and expenses | 12,710 | (888) | (1,030) | (1,532) | (811) |
| Net financials | (13) | (37) | (3) | (4) | (2) |
| **Net profit/loss for the year** | 12,697 | (925) | (1,033) | (1,536) | (813) |
| **Balance sheet** | | | | | |
| Balance sheet total | 118,956 | 83,833 | 75,352 | 8,028 | 8,026 |
| Equity | 112,008 | 80,592 | 75,107 | 7,300 | 7,736 |
| **Cash flows** | | | | | |
| from: | | | | | |
| Cash flows from operating activities | (1,319) | (1,263) | (1,543) | (1,098) | (523) |
| Cash flows from investing activities | (21,065) | (7,889) | (67,062) | (720) | (7,302) |
| Cash flows from financing activities | 18,720 | 6,410 | 68,840 | 1,100 | 8,549 |
| **Change in the year** | (3,664) | (2,742) | 235 | (718) | 724 |
| **Financial ratios** | | | | | |
| Return on assets | 10.7 % | (1.1)% | (1.4)% | (19.1)% | (10,1)% |
| Solvency ratio | 94.2 % | 96.1 % | 99.7 % | 90.9 % | 96,4 % |
| Return on equity | 13.2 % | (1.2)% | (2.5)% | (20.4)% | (21,0)% |

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see Note 1 accounting policies.

# Management's review

## Operating review

### Main activity

In March 2012, the IFU Investment Partners K/S (IIP) was established as a public private partnership and capitalised by the two pensions fund Pensionskassernes Administration A/S (PKA) and Pensionskassen for Børne- og Ungdomspædagoger (PBU). The total capital committed to IIP amounts to DKK 500m.

IIP is managed by The Investment Fund for Developing Countries (IFU).

The purpose of IIP is to participate as a co-investor in large IFU projects together with Danish companies.

### Investments in 2016

In 2016, IIP made no new projects and did not make any additional financing for ongoing projects.

### Sustainability reporting

IIP is applying IFU's sustainability[1] policy and offering advice to project companies on how to implement it.

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

IFU is a signatory to the UN Global Compact.

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

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

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

Each year IFU carries out an internal assessment of its managed portfolio on compliance with its CSR policy. Each project is classified into one of five categories as follows: Excellent, Good, Fair, Poor and Critical. The assessment of IIP projects is included in the overall assessment of IFU projects. For further information, see IFU's annual report on www.ifu.dk .

[1] Further information about IFU's sustainability policy can be found on IFU's website (http://www.ifu.dk/en/values/sustainableinvestments/ifus-sustainability-communication).

# Management's review

## Operating review

### Operational framework

The projects co-financed by IIP must be commercially viable and offer an attractive return to its investors. IIP invests in shares or similar instruments such as mezzanine capital. Normally, IIP together with IFU invest between 5 and 49 per cent of the share capital in a project.

IIP's revenues will consist of interest, dividends and profit from sale of shares.

### Financial review 2016

IIP recorded a net income of DKK 12.7m in 2016 compared to DKK (1)m in 2015. The result of IIP is a combination of contribution of a positive contribution from portfolio investments (DKK 14.9m) and operating expenses in form of management fees and other expenses of DKK 2.1m.

In preparing the financial statements, Management makes a number of estimates and assumptions of future events that will affect the carrying amount of assets and liabilities. The area where estimates and assumptions are most critical to the financial statements is the fair value measurement of the investment in IIP. The note on accounting policies provides more details.

### Capital position and capital resources

As at 31 December 2016, the investors had paid in DKK 104.1m corresponding to nearly 21% of the capital commitment of DKK 500m. Thus, the remaining commitment is DKK 395.9m.

At the end of 2016, IIP's equity was DKK 112.0m.

### Financial risks

IIP makes investments in developing countries, where political and economic conditions may be turbulent, and the investments are often subject to high commercial risks. As a result, and as IIP measures its investments at fair market value, IIP's future results may fluctuate considerably.

### Uncertainty at recognition and measurement

When preparing the financial statements, Management makes a number of estimates about future conditions that may affect the financial value of assets and liabilities. The area mostly affected by the estimates made by Management is the valuation of share capital investments at fair market value.

### Events after the balance sheet date

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

### Outlook for 2017

In 2017, IIP will continue to invest in new projects. A positive result is expected.

# Financial statements 1 January - 31 December

## Income statement

| Note | DKK'000 | 2016 | 2015 |
|---|---|---|---|
| | Contribution from investments | 14,858 | 850 |
| | Operating expenses, net | (2,148) | (1,738) |
| | **Gross profit/loss** | 12,710 | (888) |
| | Financial income, net | (13) | (37) |
| | **Profit/loss before tax** | 12,697 | (925) |
| | **Net profit/loss for the year** | 12,697 | (925) |
| | **Recommended appropriation of profit/loss** | | |
| | Retained earnings | 12,697 | (925) |
| | | 12,697 | (925) |

The net income for the year has been transferred to equity.

# Financial statements 1 January - 31 December

## Balance sheet

| Note | DKK'000 | 2016 | 2015 |
|---|---|---|---|
| | **ASSETS** | | |
| | **Fixed assets** | | |
| 4 | Investments | 118,941 | 82,973 |
| | **Total fixed assets** | 118,941 | 82,973 |
| | Prepayments | 5 | 16 |
| | Other receivables | - | 833 |
| | Cash | 10 | 11 |
| | **Total current assets** | 15 | 860 |
| | **TOTAL ASSETS** | 118,956 | 83,833 |
| | **LIABILITIES AND EQUITY CAPITAL** | | |
| | **Equity** | | |
| | Paid-in capital | 104,070 | 85,350 |
| | Retained earnings | 7,939 | (4,758) |
| | **Total equity** | 112,009 | 80,592 |
| | Credit institutes | 6,175 | 2,512 |
| | Payables to group enterprises | 736 | 691 |
| | Other payables | 36 | 38 |
| | **Current liabilities** | 6,947 | 3,241 |
| | **Total liabilities** | 6,947 | 3,241 |
| | **TOTAL EQUITY AND LIABILITIES** | 118,956 | 83,833 |

1 Accounting policies
2 Contingent assets, liabilities and other financial obligations
3 Related parties and ownerships

# Financial statements 1 January - 31 December

## Statement of changes in equity

| DKK'000 | 2016 | 2015 |
|---|---|---|
| **Total equity** | | |
| Paid-in capital beginning of year | 85,350 | 78,940 |
| Paid-in capital during the year | 18,720 | 6,410 |
| **Paid-in capital end of year** | 104,070 | 85,350 |
| Retained earnings beginning of year | (4,758) | (3,833) |
| Transferred from net income for the year | 12,697 | (925) |
| **Retained earnings end of year** | 7,939 | (4,758) |
| **Total equity end of year** | 112,009 | 80,592 |

At 31 December 2016, the investors had paid in DKK 104.1m corresponding to nearly 21% of the capital commitment of DKK 500m. Thus, the remaining commitment is DKK 395.9m.

# Financial statements 1 January - 31 December

## Cash flow statement

| Note | DKK'000 | 2016 | 2015 |
|---|---|---|---|
| | **Cash flow from operating activities** | | |
| | Net profit for the year | 12,697 | (925) |
| | Adjustments | (14,903) | - |
| 5 | Change in working capital | 887 | (338) |
| | **Net cash from operating activities** | (1,319) | (1,263) |
| | **Cash flow from (to) investing activities** | | |
| | Paid-out to investments and loans | (21,065) | (7,889) |
| | **Net cash from (to) investing activities** | (21,065) | (7,889) |
| | **Cash flow from (to) financing activities** | | |
| | Paid-in capital from partners | 18,720 | 6,410 |
| | **Net cash from (to) financing activities** | 18 720 | 6,410 |
| | Net change in cash | (3,664) | (2,742) |
| | **Cash beginning of year** | (2,501) | 241 |
| | **Cash end of year** | (6,165) | (2,501) |
| | **- Shown as cash in current assets** | 10 | 11 |
| | **- Shown as credit institutes** | (6,175) | (2,512) |

## Financial statements 1 January - 31 December

### Notes to the financial statements

1 **Accounting policies**

The annual report of IFU Investment Partners K/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

#### Implementation of new accounting legislation

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

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

Financial assets and liabilities comprise:

- Share capital investments
- Other receivables
- Cash
- Current liabilities
- Contingent liabilities

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

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

#### Presentation and classification

To better reflect IIP's activities, the presentation of the income statement and balance sheet as well as the order of the line items in the income statement deviate from the standard tables in the Danish Financial Statements Act. By presenting the primary statements on the basis of IIP's special character as a limited partnership (long-term investments), the financial statements hereby provide the reader with the best possible clarity of IIP's activities. The deviation is in concurrence with Section 23 (4) of the Danish Financial Statements Act.

#### Recognition and measurement

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

Liabilities are recognised in the balance sheet when IIP 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 IIP, and the value of the liability can be measured reliably.

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

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

# Financial statements 1 January - 31 December

## Notes to the financial statements

### 1 Accounting policies (continued)

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

Danish kroner is issued as a measurement currency. All other currencies are regarded as foreign currencies.

#### Fair value measurement

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

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

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

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

#### Foreign currency adjustment

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

#### Non-monetary items

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

### Income statement

#### Contribution from investments

Contribution from investments consists of contribution from share capital investments and includes declared dividends (after tax), contributions from divested share capital investments and value adjustments in relation to the outstanding portfolio at year-end.

#### Operating expenses, net

The Investment Fund for Developing Countries (IFU) manages the administration and accounting of the fund. Operating expenses, net, comprise fee to Manager and external costs.

# Financial statements 1 January – 31 December

## Notes to the financial statements

### 1 Accounting policies (continued)

#### Financial income, net

Financial income, net, comprises interest income on cash, interest expenses, exchange rate adjustments on cash and bank charges.

#### Tax on profit for the year

As a limited partnership, IIP is not an independent entity liable to taxation, which is why no current or deferred tax has been recognised in the financial statements. IIP profit/loss is taxed at the partners of this limited partnership after applicable taxation rules.

### Balance sheet

#### Investments

Investments consists of share capital investments.

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

Share capital investments where IIP has significant influence are associates and are accounted for as share capital investments.

#### Other receivables

Other receivables includes dividends receivables.

#### Impairment of financial assets

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

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

Impaired assets, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to IIP. If a previous write-off is later recovered, the recovery is credited to "Contribution from investments".

#### Current liabilities

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

# Financial statements 1 January - 31 December

## Notes

### 1 Accounting policies (continued)

#### Cash flow statement

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

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

#### Contingent liabilities

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

#### Financial ratios

The financial ratios stated in the survey of financial highlights have been calculated as follows:

| | |
|---|---|
| Return on assets | $\frac{\text{Profit before financials x 100}}{\text{Total assets}}$ |
| Solvency ratio | $\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$ |
| Return on equity | $\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$ |

### 2 Contingent assets, liabilities and other financial obligations

#### Contingent assets

The Fund has the following commitments from limited partners:

| DKK'000 | 2016 | 2015 |
|---|---|---|
| Total drawdowns | 104,070 | 85,350 |
| Total available for drawdowns | 395,930 | 414,650 |
| Total committed capital | 500,000 | 500,000 |

#### Contingent liabilities

The Fund has entered into the following commitments to investments:

| DKK'000 | 2016 | 2015 |
|---|---|---|
| Undisbursed contracted commitments | 120,826 | 154,176 |
| Binding commitments | 154,280 | - |
| Total undisbursed to investments | 275,106 | 154,176 |

IFU Investment Partners K/S has signed a management agreement with IFU, whereby IFU performs administration, monitoring and investment advice for IFU Investment Partners K/S. The management agreement cannot be cancelled. For 2016, the payment amounts to DKK 2,041 thousand incl. VAT.

## Financial statements 1 January - 31 December

### Notes

3 **Related parties and ownership**

**The following are recorded in the Company's register of limited partners:**

- Pensionskassernes Administration A/S (limited partner)
- Pensionskassen for Børne og Ungdomspædagoger (limited partner)

**Other related parties:**

- IFU Investment Partners GP P/S
- IFU Investments Komplementar ApS

IFU (manager).

4 **Investments**

| | 2016 | 2015 |
|---|---|---|
| Cost at beginning of year | 82,973 | 75,084 |
| Additions for the year | 21,065 | 7,889 |
| Cost at 31 December | 104,038 | 82,973 |
| Accumulated value adjustment beginning of year | - | - |
| Value adjustments | 14,903 | - |
| Accumulated value adjustment end of year | 14,903 | - |
| Carrying amount at 31 December | 118,941 | 82,973 |
| Hereof associated companies: | | |
| Share capital investment in projects end of year at cost | 87,614 | 66,548 |
| Accumulated value adjustments end of year | 14,903 | - |
| Accumulated value adjustment end of year | 102,517 | 66,548 |

**Associated companies**

| Name: | Domicile: | Form of company: | IIP K/S' ownership interest (%) | Result | Equity |
|---|---|---|---|---|---|
| | | | | According to the latest approved annual report | |
| Danper Agricola Olmos S.A.C | Peru | S.A.C | 25.00% | 21.737 | 141,198 |
| Danish Energy Efficiency Partners P/S | China | Ltd. | 23.80% | (68,289) | 153,475 |

# Financial statements 1 January - 31 December

## Notes

5 **Cash flow statement - changes in working capital**

| | | |
|---|---|---|
| Change in current assets | 844 | (822) |
| Change in payables, etc. | 43 | 484 |
| | 887 | (338) |

6 **Financial risk management**

### Introduction

Through investments, IIP is exposed to financial risks such as equity on investments, currency risk, and liquidity risk.

A number of limits have been established to avoid excessive concentrations of risk, and through its investment policy and due diligence procedures, IIP further seeks to identify and mitigate the equity risk.

7 **Equity and credit risk**

### Equity risk

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

### Credit risk

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

### Managing equity and credit risk

At the portfolio level, IIP mitigates equity risk and credit risk by investing in a variety of countries and by limiting the investment in a single project. IIP assesses concentration of risk on the basis of total commitments to the Fund. Further, IIP assesses, through the due diligence process, the specific risks for each share capital investment and seeks to mitigate associated equity risks.

For some of IIP's share capital investments, IIP has the opportunity to sell the shares through pre-agreed exit agreements. In this way, IIP mitigates the risk of not being able to exit the investments. See note 11 for fair value measurement basis.

# Financial statements 1 January - 31 December

## Notes

### 7 Equity and credit risk (continued)

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

| 2016 | Share capital investments | | Commitments (off balance) | |
|---|---|---|---|---|
| OECD | DKK'000 | % | DKK'000 | % |
| 2 | 83,624 | 80% | 16,149 | 6% |
| 3 | 20,415 | 20% | 34,149 | 12% |
| 5 | - | -% | 154,280 | 56% |
| Africa regional | - | -% | 70,528 | 26% |
| | 104,039 | 100% | 275,106 | 100% |

| 2015 | Share capital investments | | Commitments (off balance) | |
|---|---|---|---|---|
| OECD | DKK'000 | % | DKK'000 | % |
| 2 | 69,099 | 83% | 45,975 | 30% |
| 3 | 13,874 | 17% | 39,901 | 26% |
| Africa regional | - | -% | 68,300 | 44% |
| | 82,973 | 100% | 154,176 | 100% |

### Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk for IIP.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| DKK'000 | Carrying amount | Maximum credit exposure (contractual cash flow) | Carrying amount | Maximum credit exposure (contractual cash flow) |
| Other receivables | 5 | 5 | 16 | 16 |
| Cash | 10 | 10 | 11 | 11 |
| | 15 | 15 | 27 | 27 |

# Financial statements 1 January - 31 December

## Notes

### 8 Currency risk

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

IIP is exposed to currency risk through its investments that are denominated in currencies other than the functional currency (DKK). IIP does not hedge currency exposure in share capital investments, as timing of cash flow is uncertain and investments are typically exposed to local currencies where hedging costs are normally very high. By way of operation, some investments may have a natural built-in hedge, e.g. export-oriented businesses. IIP does not hedge commitments to disburse either, as timing and amounts are often difficult to foresee.

#### Currency exposure and sensitivity

In 2016, there is no currency risk besides share capital investments. In 2015, DKK 833 thousand in currency other that USD, EUR and DKK IIP had a direct exposure in other project related receivables. Increase in foreign exchange rates will with an increase of 10% result in effect on profit and loss of 83 DKK thousand.

### 9 Liquidity risk

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

IIP's primary exposure to liquidity risk arises from commitments to disburse share capital investments.

To meet these and other obligations, IIP depends on its limited partners being able to honour their commitments to IIP. A DKK 25m credit facility is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, DKK 19m was available for drawing.

For information of commitments from the limited partners see note 2.

## Financial statements 1 January – 31 December

### Notes

9 **Liquidity risk (continued)**

**Contractual maturities**

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

2016

| DKK'000 | Carrying amount | Contractual cash flows | On demand | 0-1 year | 1-5 years | Over 5 years | No fixed maturity |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Other receivables | 5 | 5 | - | 5 | - | - | - |
| Cash and cash equivalents | (6,165) | (6,165) | (6,165) | - | - | - | - |
| **Total assets** | (6,160) | (6,160) | (6,165) | 5 | - | - | - |
| **Liabilities** | | | | | | | |
| Other current liabilities | 773 | 773 | - | 773 | - | - | - |
| **Total liabilities** | 773 | 773 | - | 773 | - | - | - |
| **Off-balance** | | | | | | | |
| Amounts payable on share capital and loan agreements | - | 120,826 | 120,826 | - | - | - | - |
| Binding commitments | - | 154,280 | - | 154,280 | - | - | - |
| **Total off-balance** | | 275,106 | 120,826 | 154,280 | - | - | - |

2015

| DKK'000 | Carrying amount | Contractual cash flows | On demand | 0-1 year | 1-5 years | Over 5 years | No fixed maturity |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Other receivables | 849 | 849 | - | 849 | - | - | - |
| Cash and cash equivalents | (2,502) | (2,502) | (2,502) | - | - | - | - |
| **Total assets** | (1,653) | (1,653) | (2,502) | 849 | - | - | - |
| **Liabilities** | | | | | | | |
| Other current liabilities | 729 | 729 | - | 729 | - | - | - |
| **Total liabilities** | 729 | 729 | - | 729 | - | - | - |
| **Off-balance** | | | | | | | |
| Amounts payable on share capital and loan agreements | - | 154,176 | 154,176 | - | - | - | - |
| **Total off-balance** | - | 154,176 | 154,176 | - | - | - | - |

# Financial statements 1 January - 31 December

## Notes

### 10 Classification of financial instruments

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

2016

| DKK'000 | Designated at fair value through profit and loss | Loans and receivables at amortised cost | Other liabilities at amortised cost | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Share capital investment in projects | 118,941 | - | - | 118,941 |
| Other receivables | - | 5 | - | 5 |
| Cash and cash equivalents | - | (6,165) | - | (6,165) |
| **Total financial assets** | 118.941 | (6,160) | - | 112,781 |
| **Financial liabilities** | | | | |
| **Current liabilities:** | | | | - |
| Other current liabilities | - | - | 773 | 773 |
| **Total financial liabilities** | - | - | 773 | 773 |

2015

| DKK'000 | Designated at fair value through profit and loss | Loans and receivables at amortised cost | Other liabilities at amortised cost | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Share capital investment in projects | 82,973 | - | - | 82,973 |
| Other receivables | - | 849 | - | 849 |
| Cash and cash equivalents | - | (2,502) | - | (2,502) |
| **Total financial assets** | 82,973 | (1,653) | - | 81,320 |
| **Financial liabilities** | | | | |
| **Current liabilities:** | | | | - |
| Other current liabilities | - | - | 729 | 729 |
| **Total financial liabilities** | - | - | 729 | 729 |

# Financial statements 1 January - 31 December

## Notes

### 11 Fair value measurement basis

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly
- Level 3 inputs are unobservable inputs that have been applied in valuing the respective assets or liabilities.

In the following sections a short description of the overall principle for IIP's calculation of fair value is provided. For all investments, the value determined by using the methods described below will be adjusted, if considered necessary and appropriate, by taking the following factors into account:

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

#### Share capital investments

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

Investments are valued as follows:

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

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

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

Valuing private investments in developing countries at fair values involves a large inherent uncertainty. Due to these uncertainties, a degree of caution is applied when exercising judgements and making the necessary estimates.

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

## Financial statements 1 January - 31 December

### Notes

11 **Fair value measurement basis (continued)**

**Fair value measurements and reconciliation**

The following table shows financial instruments recognised at fair value by level in the fair value hierarchy and a reconciliation of all movements in the fair value of items categorised within level 3.

2016

| DKK'000 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Share capital investments** | | | | |
| Opening balance | - | - | 82,973 | 82,973 |
| Paid-in share capital in projects | - | - | 21,066 | 21,066 |
| Proceeds from divestment of shares | - | - | - | - |
| **Closing balance** | - | - | 104,039 | 104,039 |
| **Total recurring fair value measurements** | - | - | 104,039 | 104,039 |

2015

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Share capital investments** | | | | |
| Opening balance | - | - | 75,084 | 75,084 |
| Paid-in share capital in projects | - | - | 7,889 | 7,889 |
| **Closing balance** | - | - | 82,973 | 82,973 |
| **Total recurring fair value measurements** | - | - | 82,973 | 82,973 |

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

2016

| Type of investment | Fair value at 31/12/2016 | Valuation technique |
|---|---|---|
| **Direct Investments** | | |
| | 83,624 | Cost |
| | 35,317 | Binding offers/transaction/exit term |
| **Share capital investments** | 118,941 | |

2015

| Type of investment | Fair value at 31/12/2015 | Valuation technique |
|---|---|---|
| **Direct investments** | | |
| | 82,973 | Cost |
| **Share capital investments** | 89,973 | |