Danish Climate Investment Fund I K/S

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

CVR no. 35 63 67 06

Annual report 2018

Approved at the Company's annual general meeting on 30 April 2019

Chairman:

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Nicolai Boserup

Building a better working world

Contents

Statement by Management on the annual report

Today, the undersigned have discussed and approved the annual report of Danish Climate Investment Fund I K/S for the financial year 1 January - 31 December 2018.

The annual report has been 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 2018 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2018.

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, 30 April 2019
Management of DCIF I GP Komplementar ApS:

Nicolai Boserup Chairman	Torben Huss	Niels Gravgaard Laursen

Independent auditor's report

To the limited partners of Danish Climate Investment Fund I K/S

Opinion

We have audited the financial statements of Danish Climate Investment Fund I K/S for the financial year 1 January - 31 December 2018, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement 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 2018 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2018 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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 as to 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 scepticism 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.

Independent auditor's report

- 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.
- 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 conclusions are 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 note 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 the work we have performed, 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 Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 30 April 2019
Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Lars Rhod Søndergaard	Anne Tønsberg
State Authorised	State Authorised
Public Accountant	Public Accountant
mne28632	mne32121

Management's review

Company details

Name	Danish Climate Investment Fund I K/S
Address, zip code, city	c/o IFU, Fredericiagade 27, 1310 Copenhagen K, Denmark
CVR no.	35 63 67 06
Established	13 January 2014
Registered office	Copenhagen
Financial year	1 January - 31 December
General partner	DCIF I GP P/S
Manager of the Partnership	IFU - Investment Fund for Developing Countries
Auditors	Ernst & Young Godkendt Revisionspartnerselskab 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	2018	2017	2016	2015
Profit/loss				
Profit/loss before financial income and expenses	18,120	24,300	(2,371)	(27,033)
Net financials	21	(293)	(38)	(73)
Net profit/loss for the year	18,141	24,007	(2,409)	(27,106)
Balance sheet				
Balance sheet total	1,230,205	1,259,053	267,284	180,765
Equity	1,228,243	1,249,652	266,287	179,038
Cash flows				
Cash flows from operating activities	5,263	(7,241)	(18,189)	(28,016)
Cash flows from investing activities	(100,012)	(232,825)	(67,844)	(116,125)
Cash flows from financing activities	83,025	247,558	89,658	201,500
Change in the year	(11,724)	7,492	3,626	57,359
Financial ratios				
Return on assets	1.5 %	1.9 %	(0.9) %	(15.0) %
Solvency ratio	99.8 %	99.3 %	99.6 %	99.0 %
Return on equity	1.5 %	3.2 %	(1.1) %	(29.5) %

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

The Annual Report of Danish Climate Investment Fund I K/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

Main activity

In January 2014, the Danish Climate Investment I Fund K/S (DCIF) was established as a public private partnership. Including a subsequent second close in July 2014, total capital committed to DCIF reached DKK 1,290 million. Five institutional investors committed DKK 775 million, the Danish Government and IFU committed DKK 315 million through the public facility KIF[1], and IFU committed DKK 200 million directly.

The purpose of DCIF is to undertake investments with a positive climate impact in developing countries in order to reduce the emission of greenhouse gasses. Such investments will include commercially viable private sector projects within sustainable energy production, energy efficiency and production of related components, as well as in other areas such as transport and other activities with a substantial positive climate impact. Furthermore, DCIF can invest in adaption projects, i.e. projects that are primarily aimed at responding to the adverse consequences of climate change.

DCIF is managed by IFU.

DCIF's investment period ended early 2018. The fund can continue to make follow-up investments in projects in the active portfolio.

At the end of 2018, DCIF had co-financed a total of 18 projects. Of these, DCIF was still participating in 15 investments, while three had been exited or were cancelled. Total commitment to the 18 projects amounts to DKK 1,063m or 77 per cent of the total fund.

Investments in 2018

In 2018, DCIF provided additional financing for one ongoing project. Total investments in 2018 was DKK 161.4 million.

		Contracted investments in DKKm			
Project name	Country	Shares*	Loans**	Total	Actual direct employment (people)
Additional investments for ongoing projects					
NPP Coremas I-III	Brazil	-	161.4	161.4	488
Total additional financing		-	**161.4**	**161.4**	**488**

*) Including overrun commitments
**) Including guarantees

[1] KIF was established by IFU and the Danish Government in 2012 as a precursor to DCIF and was financed by DKK 275 million from the Danish Government and DKK 50 million from IFU, respectively. From 1 January 2018, KIF was integrated into IFU.

Management's review

Sustainability reporting

DCIF is applying IFU's sustainability 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 for the companies in which IFU invests. IFU is committed to ensuring that the project companies reduce sustainability risks, contribute to sustainable development and achieve high sustainability standards, which IFU believes adds value to the project companies and enhances business opportunities. IFU's sustainability policy can be found on IFU's webpage.

Commitment to national and international standards

IFU is domiciled in Denmark and is subject to Danish law. With regards to sustainability, IFU adheres to the Danish guidelines on responsible business conduct (Erhvervsstyrelsen 2018) and the OECD Guidelines for Multinational Enterprises (2011), including the two sub-set publications; Responsible Business Conduct for Institutional Investors (2017) and Due Diligence Guidance for Responsible Business Conduct (2018).

In developing countries where IFU invests, IFU requires project companies to follow national regulations in addition to complying with international standards and principles. IFU considers local national policies and priorities when relevant to the specific investment. In order to operationalize the management of ESG impacts in accordance with international principles, the primary standards that guide the scoping of IFU's due diligence and monitoring of investments are:

- the IFC Environmental and Social Performance Standards (2012)
- the World Bank Group General and Sector-specific Environmental Health and Safety Guidelines (2007 and later amendments)
- the UN Guiding Principles on Business and Human Rights (2011)
- the 10 principles of the UN Global Compact (1999)
- OECD's Convention on Combating Bribery (1997) and the UN Convention against Corruption (2010)

Aligned with the UN Guiding Principles on Business and Human Rights (UNGP) and the OECD Guidelines for Multinational Enterprises, IFU will identify, prevent and mitigate potential adverse impacts related to environmental, social and governance impacts that IFU may cause or contribute to, or to which IFU is directly linked through investments and other business relationships.

Furthermore, IFU takes into account the effects of its investments on the goals expressed in the Rio Declaration on Environment and Development and the Paris Agreement on Climate Change in its investment strategy and individual investment decisions.

IFU has signed up to the principles of the UN Global Compact, which outline the fundamental responsibilities of business in the areas of human rights, labour, environment and anti-corruption. During 2019, IFU plans to sign up to the UN Principles for Responsible Investment (UNPRI) and the Climate Action in Financial Institutions.

Management's review

Sustainability throughout the investment process

Identifying and handling sustainability impacts is an integral part of IFU's investment process. During the due diligence phase, risks are identified and projects are categorised in terms of environmental and social risk. This includes labour rights and working condition issues, anti-corruption, prevention of pollution, management systems, biodiversity, etc.

During active ownership, project companies are required to prepare an annual sustainability status report to be submitted to their own board of directors for internal review and approval. For all investee companies, IFU also receives a copy, even if IFU is not a board member.

If a project has negative impacts, the project promoter must introduce and implement mitigation measures that can reduce the adverse effects. These are normally based on the IFC Performance Standards or on other international standards applicable to the sector and include development and implementation of an environmental and social management system.

Further specification of IFU's sustainability requirements can be found in IFU's sustainability policy and sustainability handbook.

Assessment of sustainability performance

The annual classification of project companies is based on an assessment of their sustainability performance. The classification is a combination of four separate areas within sustainability: 1) environment, 2) occupational health and safety (OHS), 3) human rights and labour practices and 4) anti-corruption. Each project company is classified into one of five categories as follows: Excellent, Good, Fair, Poor and Critical.

Project companies with the classification Good are in compliance with local legislation and relevant international standards in terms of applicable and relevant significant sustainability issues. Project companies with the classification Excellent go beyond that and are active in local communities, have high quality reports and certified management systems. Project companies with the classification Fair, Poor or Critical are given extra attention, and IFU will engage in discussions with the partners on how a project company can improve its performance.

In 2018, internal assessments were carried out for 13 DCIF projects. Two projects were not classified; one being temporary inactive, and one not disbursed yet.

Sustainability classification	Total Score (%)	Environ-ment (%)	OHS (%)	Human Rights and labour practices (%)	Anti-corruption (%)
Excellent	54	54	62	54	46
Good	42	46	38	46	38
Fair	4	-	-	-	15
Poor	-	-	-	-	-
Critical	-	-	-	-	-

Totals may not add up due to rounded figures.

Management's review

DCIF climate change contribution

IFU has established a methodology for assessing the GHG emissions from its investments based on internationally recognised methodologies. All GHG in the Kyoto Protocol are taken into account as applicable, and the scope of the assessment will be based on the principles in the GHG Protocol. GHG emissions avoided by a project will be calculated as the difference between baseline emissions and project emissions.

The baseline emissions refer to the emissions that would probably occur in a reference scenario if the project was not implemented. The reference scenario is chosen on a case-by-case basis using the most appropriate methodology for each project which can be justified.

In 2018, no assessments were made as DCIF did not make any new investments.

In total, the estimated GHG emission avoidance during project lifetime in the 18 contracted projects is 25,561,253 tCO_2e.

The fund has not invested in any adaptation projects.

DCIF is using UK based consultant Trucost to set up the methodology and to make the specific assessment of GHG emission avoidance at project level.

Development impact

To internally rate the development effects created by different project companies, IFU has developed a Development Impact Model (DIM). The model consists of 38 indicators on for example employment, training, technology, tax, climate change mitigation, renewable energy, agribusiness and microfinance. As DCIF did not contract any new investments in 2018, no projects were rated.

Actual direct employment in the project receiving additional finance was 488 people.

Operational framework

Climate projects co-financed by DCIF must be commercially viable and offer an attractive return to its investors. As a minority investor, DCIF is prepared to participate with risk capital in the form of equity or mezzanine financing in the range of typically EUR 2m to EUR 15m in a single project.

For projects to qualify for co-investment by DCIF, Danish investors or Danish know-how, services or technology must be included.

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

Financial review 2018

DCIF recorded net income of DKK 18 million in 2018 compared to DKK 24 million in 2017. The lower result is due to a lower contribution from portfolio investments of DKK 31 million compared to DKK 44 million in 2017. Operating expenses in the form of management fees and other expenses were also lower and totalled DKK (13) million against DKK (20) million in 2017.

From January 2018, IFRS 9, a new accounting standard, was introduced, replacing IAS 39. The effect of the change primarily relates to the requirement of provisions on DCIF's loan portfolio to reflect expected losses already from the time a loan is granted. The combined effect up till 31 December 2017 was DKK (2.2) million and was taken as a correction to retained earnings at the beginning of 2018. The effect in 2018 was DKK 0.3 million, which is included in the contribution from investments in the income statement.

Capital position and capital resources

As at 31 December 2018, the investors had paid in DKK 699 million corresponding to 54 per cent of the capital commitment of DKK 1,290 million. Thus, the undisbursed commitment is DKK 591 million.

At year-end 2018, DCIF's equity was DKK 637 million, excluding the undisbursed commitment.

Management's review

Financial risks

DCIF 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 DCIF measures its investments at fair market value, DCIF's future results may fluctuate considerably. The risk exposure of DCIF is further elaborated in the notes to the financial statements.

Uncertainty at recognition and measurement

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 DCIF. The notes to the financial statements provides more details.

Events after the balance sheet date

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

Outlook for 2019

DCIF may make follow-up investments. A positive result is expected.

Financial statements 1 January – 31 December

Income statement

Note	DKK'000	2018	2017
	Contribution from investments	30,860	44,097
	Operating expenses, net	(12,740)	(19,797)
	Gross profit/loss	**18,120**	**24,300**
	Financial income, net	21	(293)
	Profit/loss before tax	**18,141**	**24,007**
	Net profit/loss for the year	**18,141**	**24,007**
	Recommended appropriation of profit/loss		
	Retained earnings	18,141	24,007
		18,141	**24,007**

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

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2018	2017
	ASSETS		
	Non-current assets		
4	Investments	383,278	321,828
	Loans	232,948	200,453
	Investments in subsidiaries	50	50
	Total non-current assets	**616,276**	**522,331**
	Current assets		
	Undisbursed commitments	591,380	711,800
	Prepayments	3,007	4,193
	Other receivables	19,506	10,157
	Cash	36	10,572
	Total current assets	**613,929**	**736,722**
	TOTAL ASSETS	**1,230,205**	**1,259,053**
	EQUITY AND LIABILITIES		
	Equity		
	Paid-in capital	698,620	578,200
	Undisbursed commitments	591,380	711,800
	Total commitment	**1,290,000**	**1,290,000**
	Repaid capital	(51,179)	(13,784)
	Retained earnings	(10,578)	(26,564)
	Total equity	**1,228,243**	**1,249,652**
5	**Provision for losses**		
	Guarantees and loan commitments	550	-
	Drawn on bank credit facility	1,188	-
	Payables to group enterprises	46	9,106
	Other payables	178	295
	Total current liabilities	**1,412**	**9,401**
	Total liabilities	**1,412**	**9,401**
	TOTAL EQUITY, PROVISION FOR LOSSES AND LIABILITIES	**1,230,205**	**1,259,053**

1 Accounting policies
2 Contingent liabilities and other financial obligations
3 Related parties and ownership
8 Financial risk management
9 Equity and credit risk
10 Currency risk
11 Interest rate risk
12 Liquidity risk
13 Classification of financial instruments
14 Fair value measurement basis

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Statement of changes in equity

DKK'000	2018	2017
Total equity		
Paid-in capital beginning of year	578,200	322,500
Paid-in capital during the year	120,420	255,700
Paid-in capital end of year	**698,620**	**578,200**
Undisbursed commitments	591,380	711,800
Total committed capital	**1,290,000**	**1,290,000**
Repaid capital beginning of year	(13,784)	(5,642)
Repaid capital during the year	(37,395)	(8,142)
Repaid capital end of year	**(51,179)**	**(13,784)**
Total capital end of year, net	**1,238,821**	**1,276,216**
Retained earnings beginning of year	(26,564)	(50,571)
Adjustments 1 January-2018 according to IFRS 9	(2,155)	-
Retained earnings beginning of the year	(28,719)	(50,571)
Transferred from net income for the year	18,141	24,007
Retained earnings end of year	**(10,578)**	**(26,564)**
Total equity end of year	**1,228,243**	**1,249,652**

At 31 December 2018, the investors had paid in DKK 698.6 million corresponding to 54% of the capital commitment of DKK 1,290 million. Thus, the remaining commitment is DKK 591.4 million.

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2018	2017
	Cash flow from operating activities		
	Net profit for the year	18,141	24,006
5	Adjustments	18,276	(31,505)
6	Change in working capital	(31,154)	258
	Net cash from operating activities	**5,263**	**(7,241)**
	Cash flow from (to) investing activities		
	Received from projects	18,657	45,602
	Paid-out to investments and loans	(118,669)	(278,427)
	Net cash from (to) investing activities	**(100,012)**	**(232,825)**
	Cash flow from (to) financing activities		
	Paid-in capital from partners	120,420	255,700
	Prepaid capital to partners	(37,395)	(8,142)
	Net cash from (to) financing activities	**83,025**	**247,558**
	Net change in cash	(11,724)	7,492
	Cash beginning of year	10,572	3,080
	Cash end of year	**(1,152)**	**10,572**
	- Shown as cash in current assets	**36**	**10,572**
	- Shown as drawn on bank credit facility	**(1,188)**	**-**

Financial statements 1 January - 31 December

Notes

1 **Accounting policies**

The annual report of Danish Climate Investment Fund I K/S for 2018 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.

In accordance with section 110(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

The financial statements have been prepared in accordance with the same accounting policies as last year except from the change regarding the presentation of capital commitments received from the limited partners and the implementation of IFRS 9 as described below.

Change in accounting policies

Due to changes in the Danish Financial Statements Act, the accounting policy for capital commitments received from the limited partners DCIF has been changed. In the financial statements, non-contributed capital is recognised as a receivable and an increase of equity. Comparative figures have been adjusted accordingly.

Implementation of new IFRS 9 (Financial instruments)

DCIF applies the accounting principles described in the Danish Financial Statements Act, section 37(5), on measurement of financial assets and liabilities in accordance with the International Reporting Standards IFRS as adopted by the EU.

The accounting policies have been changed with effect from 1 January 2018 due to the implementation of IFRS 9. The changes include new principles for classification and measurement of financial instruments.

The changes had no effect on the classification of DCIF's financial instruments. For project loans at amortised cost, loan commitments and guarantees, the principles for measuring provisions for impairment losses have been changed. Under IFRS 9 impairment provisions must be recognised for all loans based on expected losses. Previously, impairment provisions were not recognised until objective evidence of impairment existed.

The transition to IFRS 9 resulted in an increase in impairment losses of DKK 2.2 million on 1 January 2018, which has been recognised directly in equity as specified below:

	Loans	Remaining commit-ment on loans	Guarantees	Total
Adjustment 01/01-2018 according to IFRS 9	(1.126)	(1.014)	(15)	(2.155)
Value adjustment 2018 according to IFRS 9	(198)	812	(333)	281
Adjustment 31/12-2018 according to IFRS 9	(1.324)	(202)	(348)	(1.874)

In accordance with the transition rules, comparative figures for 2017 have not been restated. The comparative figures for financial assets and liabilities are therefore subject to the accounting policies described in the annual report for 2017.

The accounting principles applied in 2018 for each class of financial assets and liabilities are outlined below.

Financial statements 1 January – 31 December

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1 **Accounting policies**

Presentation and classification

To better reflect DCIF'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 DCIF's special character as a limited partnership (long-term investments), the financial statements hereby provide the reader with the best possible clarity of DCIF'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 DCIF, and provided that the value of the assets can be measured reliably.

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

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

Information brought to DCIF'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.

Income other than value adjustments is recognised in the income statement when earned, just as costs are recognised by the 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 used as the 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, DCIF 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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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 denominated 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 expenses, depending on their nature.

Non-monetary items

Monetary balance sheet items are translated at the exchange rates 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 contributions from loans.

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

Contribution from loans includes interest, value adjustments, including exchange rate adjustments in relation to the portfolio, the effect of derivatives and other value adjustments, principally of interest receivables.

Operating expenses, net

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

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

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Share capital investment in projects

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 DCIF has significant influence are associates and are accounted for as share capital investments.

Project loans

Project loans are designated as loans and receivables, and are recognised when they are disbursed. Project loans are initially recognised at cost, which is fair value and are subsequently measured at amortised cost less any allowance for impairment.

The allowance for impairment is measured in accordance with IFRS 9 by applying the simplified approach, whereby the expected loss in the remaining life of the loan is recognised irrespective of whether the loan is allocated to stage 3 (credit impaired), stage 2 (significant increase in credit risk) or stage 1 (all other loans).

The expected loss is measured loan by loan by applying an estimated loss percentage based on IFU's past experience, current expectations and internal rating of the individual project loans.

Provisions for losses on guarantees and loan commitments are calculated in the same way as the allowance for impairment of project loans.

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

Investments in subsidiaries

Investments in subsidiaries are included in the balance sheet at cost less accumulated impairment losses. Subsidiaries are insignificant in size, and consolidated financial statements have not been made.

Other receivables

Other receivables include interest receivable on loans, other project-related receivables and administrative receivables.

Interest receivables related to investments and other receivables are designated as receivables and are recognised over the period when they are earned.

Interest receivables related to investments and other receivables are recognised at nominal value less any allowance for impairment.

Current liabilities

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

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1 **Accounting policies (continued)**

Cash flow statement

The cash flow statement has been prepared in accordance with the indirect method and shows DCIF's cash flow from operating, investing and financing activities as well as DCIF'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 DCIF's control.

Financial ratios

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

Return on assets $\dfrac{\text{Profit before financials x 100}}{\text{Total assets}}$

Solvency ratio $\dfrac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$

Return on equity $\dfrac{\text{Net profit for the year x 100}}{\text{Average equity}}$

2 **Contingent liabilities and other financial obligations**

Contingent liabilities

DCIF has entered into the following commitments to investments:

DKK'000	2018	2017
Undisbursed contracted commitments	176,954	376,051
Guarantees	90,595	4,000
Binding commitments	-	124,023
Total undisbursed to investments	**267,549**	**504,074**

DCIF has signed a management agreement with IFU, whereby IFU performs administration, monitoring and investment advice for DCIF. The management agreement cannot be cancelled. For 2018, the payment amounts to DKK 12,329 thousand incl. VAT.

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3 **Related parties and ownership**

The following are recorded in DCIF'S register of limited partners:

- KIF
- PensionDanmark
- PKA
- Paedagogernes Pensionskasse
- Dansk Vaekstkapital
- Aage V. Jensens Fonde
- IFU

Other related parties:

- DCIF I GP P/S
- DCIF I GP Komplementar ApS
- DCIF Subsidiary I K/S
- DCIF Subsidiary GP ApS

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DKK'000	2018	2017
4 **Investments**		
Cost at beginning of year	284,063	222,169
Additions for the year	81,169	61,894
Disposals	(18,081)	-
Cost at 31 December	**347,151**	**284,063**
Accumulated value adjustment beginning of year	37,765	3,578
Value adjustments	(1,638)	34,187
Accumulated value adjustment end of year	**36,127**	**37,765**
Carrying amount at 31 December	**383,278**	**321,828**
Hereof associated companies:		
Share capital investment in projects end of year, at cost	276,662	213,931
Accumulated value adjustments end of year	(26,290)	7,609
	250,372	**221,540**

Associated companies

Name:	Domicile:	Form of company:	DCIF K/S' ownership interest (%)	Result (According to the latest approved annual report)	Equity (According to the latest approved annual report)
ACC Founders Limited	Virgin Islands (British)	Ltd.	24,06%	(56.750)	6.292
Danish Energy Efficiency Partners P/S	Denmark	P/S	49,00%	951	18.830
Nordic Power Partners P/S	Denmark	P/S	49,00%	42.236	15.633
NPP Brazil 1 K/S	Denmark	K/S	49,00%	(28)	32
NPP Brazil 2 K/S	Denmark	K/S	49,00%	N/A	N/A
Pampa Elvira Solar SpA	Chile	SpA	45,00%	2.914	59.307
Parque Solar Luna del Norte SpA	Chile	SpA	49,00%	228	11.476
Parque Solar Sol del Norte SpA	Chile	SpA	49,00%	397	11.979
Roserve Enviro Private Limited	India	Ltd.	48,79%	824	21.081
Sainshand Windpark Holding GmbH*	Germany	GmbH	59,27%	(10)	52
SolarSouth Investment P/S*	Denmark	P/S	65,00%	(82)	372
WPT China Holding A/S	Denmark	A/S	44,78%	5.274	62.080

*) DCIF has joint control through Joint Venture Agreement.

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4 **Investments (continued)**

DKK'000	2018	2017
Loans		
Cost at beginning of year	200,453	32,203
Additions for the year	37,500	216,534
Conversions	13,815	-
Repayments	(18,657)	(45,602)
Exchange rate adjustments	1,161	(2,682)
Cost at 31 December	**234,272**	**200,453**
Accumulated value adjustments beginning of the year	-	-
Adjustment 1 January 2018 according to IFRS 9 re loans	(1,126)	-
Accumulated value adjustments beginning of year	(1,126)	-
Value adjustments	(198)	-
Accumulated value adjustment end of year	(1,324)	-
Carrying amount at 31 December	**232,948**	**200,453**

5 **Provisions for losses**

	2018	2017
Value adjustments on remaining commitments, beginning of the year	-	-
Adjustment 1 January 2018 according to IFRS 9:		
Value adjustments on remaining commitments on loans	1,014	-
Value adjustments on remaining commitments on guarantees	15	-
Value adjustments on remaining commitments, beginning of the year	1,029	-
Value adjustments on remaining commitments on loans	(812)	-
Value adjustments on remaining commitments on guarantees	333	-
Guarantees and loan commitments end of year	**550**	**-**

6 **Cash flow statement - adjustments**

	2018	2017
Value adjustments	18,276	(31,505)
	18,276	**(31,505)**

7 **Cash flow statement – changes in working capital**

	2018	2017
Change in current assets	(21,978)	(8,145)
Change in payables, etc.	(9,176)	8,403
	(31,154)	**258**

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8 **Financial risk management**

Introduction

Through investments, DCIF is exposed to financial risks such as equity and credit risk on investments, currency risk, interest rate risk and liquidity risk.

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

9 **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 DCIF 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, DCIF mitigates equity risk and credit risk by investing in a variety of countries and by limiting the investment in a single project. DCIF assesses concentration of risks on the basis of total commitments to the Fund. Further, DCIF assesses, through the due diligence process, the specific risks for each share capital investment and project loan and seeks to mitigate associated equity and credit risks. For some of DCIF's share capital investments, DCIF has the opportunity to sell the shares through pre-agreed exit agreements. In this way, DCIF mitigates the risk of not being able to exit the investments. See note 14 for fair value measurement basis.

On an ongoing basis, the credit quality of the projects is assessed based on among other things:

- Specific terms as agreed
- Current and expected operational results of the Company
- Expected sales value and pledges, if any
- Historical records of debt service

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9 **Equity and credit risk (continued)**

The table below shows the distribution of the cost of DCIF'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.

2018	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK'000	%	DKK'000	%	DKK'000	%	DKK'000	%
2	131,345	38%	-	0%	131,345	23%	230	0%
3	11,888	3%	-	0%	11,888	2%	3,647	1%
5	29	0%	143,214	61%	143,243	25%	132,615	50%
6	152,046	44%	-	0%	152,046	26%	47,837	18%
7	-	0%	71,089	30%	71,089	17%	2,427	1%
DAC	8,939	3%	-	0%	8,939	2%	80,793	30%
Not rated	42,904	12%	19,969	9%	62,873	11%	-	0%
	347,151	**100%**	**234,272**	**100%**	**581,423**	**100%**	**267,549**	**100%**

2017	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK'000	%	DKK'000	%	DKK'000	%	DKK'000	%
2	131,345	46%	-	0%	131,345	27%	230	0%
3	9,102	3%	-	0%	9,102	2%	6,666	1%
5	18,110	7%	98,900	49%	117,010	24%	123,400	24%
6	73,663	26%	-	0%	73,663	15%	125,305	25%
7	-	0%	78,139	39%	78,139	16%	76,161	15%
DAC	8,939	3%	4,400	2%	13,339	3%	79,819	16%
Not rated	42,904	15%	19,014	10%	61,918	13%	92,493	18%
	284,063	**100%**	**200,453**	**100%**	**484,516**	**100%**	**504,074**	**100%**

Credit quality/impairment

All outstanding project loans have been classified into three stages:

- Stage 1 includes project loans with no credit deterioration and no specific value adjustments.
- The value adjustments according to IFRS 9 are based on IFU's historical annual credit loss.
- Stage 2 includes project loans with payments delayed more than 30 days at the end of year but without any specific value adjustments.
- The value adjustments according to IFRS 9 are based on IFU's lifetime credit loss.
- Stage 3 includes project loans with only specific value adjustments.

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9 **Equity and credit risk (continued)**

The table below shows the project loans at cost according to stages.

DKK'000	2018	2017
Project loans (stage 1)	214,303	-
Project loans (stage 2)	19,969	-
Project loans (stage 3)	-	-
	234,272	-

The table below shows the project loans at cost that are either past due or value adjusted.

DKK'000	2018	2017
Project loans, neither past due nor value adjusted	-	194,555
Project loans, past due but not value adjusted	-	5,898
Project loans, value adjusted	-	-
	-	200,453

The table below illustrates the credit quality by OECD Country risk for project loans in stage 1.

DKK'000	2018	2017
OECD 5	143,214	-
OECD 7	71,089	-
	214,303	-

The table below illustrates the credit quality by OECD Country risk for project loans that are neither past due nor value adjusted.

DKK'000	2018	2017
OECD 5	-	98,900
OECD 7	-	78,139
DAC	-	4,400
Not rated	-	13,116
	-	194,555

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9 **Equity and credit risk (continued)**

The table below shows the distribution according to stages.

2018

DKK'000	Value adjustments %	Project loans at cost	Accumulated value adjustment	Project loans carrying amount 2018
Project loans (stage 1)	(0.4)%	214,303	(825)	213,478
Project loans (stage 2)	(2.5)%	19,969	(499)	19,470
Project loans (stage 3)	(0.0)%	-	-	-
		234,272	**(1,324)**	**232,948**

Adjustment 01/01-2018 according to IFRS 9

2018

DKK'000	Value adjustments %	Project loans at cost	Accumulated value adjustment	Project loans carrying amount 01/01-2018
Project loans (stage 1)	(0.4)%	181,439	(670)	180,769
Project loans (stage 2)	(2.4)%	19,014	(456)	18,558
Project loans (stage 3)	(0.0)%	-	-	-
		200,453	**(1,126)**	**199,327**

The table below shows the distribution according to due date.

2017	Not value adjusted	Value adjusted	Project loans at cost	Value adjustment	Project loans, net
Project loans, not past due	194,555	-	194,555	-	194,555
Project loans, past due up to 12 months	2,623	-	2,623	-	2,623
Project loans, past due more than 12 months	3,275	-	3,275	-	3,275
	200,453	**-**	**200,453**	**-**	**200,453**

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9 Equity and credit risk (continued)

Project loans at amortised cost before value adjustments
2018

DKK'000	Stage 1	Stage 2	Stage 3	Total
Project loans beginning of the year at cost	181,439	19,014	-	200,453
Disbursements during the year	37,500	-	-	37,500
Interest and fees converted into project loans during the year	13,815	-	-	13,815
Repayments during the year	(18,674)	-	-	(18,674)
Exchange rate adjustments, project loans	223	955	-	1,178
Project loans end of year at cost before change of stages	214,303	19,969	-	234,272
Change in loan value from stage 1	-	-	-	-
Change in loan value from stage 2	-	-	-	-
Change in loan value from stage 3	-	-	-	-
	214,303	**19,969**	-	**234,272**

Accumulated value adjustments
2018

DKK'000	Stage 1	Stage 2	Stage 3	Total
Accumulated value adjustments beginning of year	(670)	(456)	-	(1,126)
Value adjustments	(155)	(43)	-	(198)
Project loans end of year at cost before change of stages	(825)	(499)	-	(1,324)
Change in loan value from stage 1	-	-	-	-
Change in loan value from stage 2	-	-	-	-
Change in loan value from stage 3	-	-	-	-
	(825)	**(499)**	-	**(1,324)**

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9 Equity and credit risk (continued)

Maximum exposure to credit risk

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

	2018		2017	
DKK'000	Carrying amount	Maximum credit exposure (contractual cash flow)	Carrying amount	Maximum credit exposure (contractual cash flow)
Project loans	232,948	234,272	200,453	200,453
Interest receivable related to projects	14,749	14,749	10,157	10,157
Other receivables	7,764	7,764	4,193	4,193
Derivatives	-	-	-	-
Cash	36	36	10,572	10,572
Commitments	-	143,035	-	171,639
	255,497	**399,856**	**225,375**	**397,014**

Description of collateral held and fair value hereof (accessibility of pledged assets for project loans)

In a number of cases DCIF has received securities to minimise credit exposure. DCIF has received the following types of securities:

- Pledges

The fair value of the pledges is DKK 34 million (2017: DKK 0 million).

10 Currency risk

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

DCIF is exposed to currency risk through its investments that are denominated in currencies other than the functional currency (DKK). DCIF 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. Normally, DCIF does not hedge its foreign currency loan investments as these are typically provided pro rata with share capital investments or otherwise carries risk associated with share capital. DCIF does not hedge commitments to disburse either, as timing and amounts are often difficult to foresee.

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10 Currency risk (continued)

Currency exposure and sensitivity

The following table indicates the currencies to which DCIF had significant direct exposure as of 31 December on its financial assets and liabilities, excluding share capital investments. The analysis calculates the effect of a reasonably likely movement of the currency rate against DKK on profit or loss with all other variables held constant. There is no sensitivity effect on equity as DCIF has no assets classified as available-for-sale.

2018

DKK'000	Project loans	Interest receivables	Other project related receivables	Other project related debt	Net exposure	Increase in foreign exchange rates	Effect on profit or loss
USD	19,969	1,662	-	-	21,631	10%	2,163
EUR	71,089	10,587	4,757	-	86,433	1%	864
DKK	143,214	2,500	-	45	145,759	N/A	-
	234,272	**14,749**	**4,757**	**45**	**253,823**		

2017

DKK'000	Project loans	Interest receivables	Other project related receivables	Other project related debt	Net exposure	Increase in foreign exchange rates	Effect on profit or loss
USD	19,014	1,767	-	-	20,781	10%	2,078
EUR	78,139	4,487	-	-	82,626	1%	826
DKK	103,300	3,903	-	-	107,203	N/A	-
	200,453	**10,157**	**-**	**-**	**210,610**		

11 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

None of DCIF's investments in project loans carry variable interbank interest rates, thus changes in interest rates will not affect future cash flows and income.

Interest rate exposure and sensitivity

The annual effect of changes in the interest rate only affects the fair value of fixed rate loans.

12 Liquidity risk

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

DCIF's primary exposure to liquidity risk arises from commitments to disburse share capital investments and project loans.

To meet these and other obligations, DCIF depends on its limited partners being able to honour their commitments to DCIF. A DKK 50 million credit facility is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, DKK 49 million was available for drawing.

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

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12 Liquidity risk (continued)

Contractual maturities

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

2018

DKK'000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	234,272	234,272	2,755	8,937	73,595	148,985	-
Interest receivables related to projects	14,749	14,749	14,749	-	-	-	-
Other receivables	7,764	7,764	4,757	3,007	-	-	-
Cash and cash equivalents	36	36	36	-	-	-	-
Total assets	**256,821**	**256,821**	**22,297**	**11,944**	**73,595**	**148,985**	**-**
Liabilities							
Drawn on bank credit facility	1,188	1,188	-	1,188	-	-	-
Other current liabilities	224	224	224	-	-	-	-
Total liabilities	**1,412**	**1,412**	**224**	**1,188**	**-**	**-**	**-**
Off-balance							
Guarantees	-	90,595	-	-	-	-	90,595
Amounts payable on share capital and loan agreements	-	176,954	176,954	-	-	-	-
Binding commitments	-	-	-	-	-	-	-
Total off-balance	**-**	**267,549**	**176,954**	**-**	**-**	**-**	**90,595**

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12 Liquidity risk (continued)

2017

DKK'000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	200,453	200,453	5,898	13,259	70,937	110,359	-
Interest receivables related to projects	10,157	10,157	10,157	-	-	-	-
Other receivables	4,193	4,193	-	4,193	-	-	-
Cash and cash equivalents	10,572	10,572	10,572	-	-	-	-
Total assets	**225,375**	**225,375**	**26,627**	**17,452**	**70,937**	**110,359**	**-**
Liabilities							
Drawn on bank credit facility	-	-	-	-	-	-	-
Other current liabilities	9,401	9,401	-	9,401	-	-	-
Total liabilities	**9,401**	**9,401**	**-**	**9,401**	**-**	**-**	**-**
Off-balance							
Guarantees	-	4,000	-	-	-	-	4,000
Amounts payable on share capital and loan agreements	-	376,051	376,051	-	-	-	-
Binding commitments	-	124,023	-	124,023	-	-	-
Total off-balance	**-**	**504,074**	**376,051**	**124,023**	**-**	**-**	**4,000**

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13 Classification of financial instruments

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

2018

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	383,278	-	-	383,278
Project loans	-	232,948	-	232,948
Interest receivables related to projects	-	14,749	-	14,749
Other receivables	-	7,764	-	7,764
Cash and cash equivalents	-	36	-	36
Total financial assets	**383,278**	**255,497**	**-**	**638,775**
Financial liabilities				
Current liabilities:				
Other current liabilities	-	-	1,412	1,412
Total financial liabilities	**-**	**-**	**1,412**	**1,412**

2017

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	321,828	-	-	321,828
Project loans	-	200,453	-	200,453
Interest receivables related to projects	-	10,157	-	10,157
Other receivables	-	4,193	-	4,193
Cash and cash equivalents	-	10,572	-	10,572
Total financial assets	**321,828**	**225,375**	**-**	**547,203**
Financial liabilities				
Current liabilities:				
Other current liabilities	-	-	9,401	9,401
Total financial liabilities	**-**	**-**	**9,401**	**9,401**

The carrying amount of project loans with fixed interest terms amounts to DKK 170 million (2017: DKK 126 million). The fair value of these project loans amounts to DKK 171 million (2017: DKK 125 million) measured as the net present value of the future cash flow. The inputs used to measure the fair value for project loans are all level 2 inputs in the fair value hierarchy, for more information see disclosure on fair value measurement, note 14. For other loans and receivables and other liabilities, the carrying amount is measured at amortised cost.

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14 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 DCIF'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 DCIF'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 during the 12-month period prior to the reporting date, DCIF 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 disclosed in the table below together with investments valued based on a recent binding offer or transaction.

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14 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.

2018

DKK'000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	-	-	321,828	321,828
Total gains/losses for the period included in profit or loss[1]	-	-	(1,638)	(1,638)
Paid-in share capital in projects	-	-	81,169	81,169
Disposal			(18,081)	(18,081)
Closing balance	-	-	**383,278**	**383,278**
Total recurring fair value measurements	-	-	**383,278**	**383,278**

2017

DKK'000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	-	-	225,747	225,747
Total gains/losses for the period included in profit or loss[1]	-	-	34,187	34,187
Paid-in share capital in projects	-	-	61,894	61,894
Closing balance	-	-	**321,828**	**321,828**
Total recurring fair value measurements	-	-	**321,828**	**321,828**

1) Recognised in contribution from share capital investments.
Hereof DKK (20) million (2017: DKK 34 million) is attributable to assets held at 31 December for level 3.

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14 Fair value measurement basis (continued)

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

2018

Type of investment	Fair value at 31/12/2018	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Investments					
	155,454	Cost			
	175,040	Discounted cash flow	WACC	+10%	(14,974)
			Growth in terminal value	- 20%	(305)
	52,784	Net assets value			
Share capital investments	**383,278**				

2017

Type of investment	Fair value at 31/12/2017	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Investments					
	88,170	Cost			
	196,739	Discounted cash flow	WACC	+10%	(21,950)
			Growth in terminal value	- 20%	(1,569)
	36,919	Net assets value			
Share capital investments	**321,828**				