# Danish Climate Investment Fund I K/S

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

CVR no. 35 63 67 06

## Annual report 2016

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

Chairman:

..........................................

Nicolai Boserup

EY

Building a better working world

## Contents

## Statement by Management on the annual report

The undersigned have today discussed and approved the annual report of Danish Climate Investment Fund I 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.

In our opinion, 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 DCIF I GP Komplementar ApS:

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

## 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 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 | 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<br>Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark |

# Management's review

## Financial Highlights

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

### Key figures

| DKK'000 | 2016 | 2015 |
|---|---|---|
| **Profit/loss** | | |
| Profit/loss before financial income and expenses | (2,371) | (27,033) |
| Net financials | (38) | (73) |
| **Net profit/loss for the year** | (2,409) | (27,106) |
| **Balance sheet** | | |
| Balance sheet total | 267,284 | 180,765 |
| Equity | 266,287 | 179,038 |
| **Cash flows** | | |
| Cash flows from operating activities | (18,189) | (28,016) |
| Cash flows from investing activities | (67,844) | (116,125) |
| Cash flows from financing activities | 89,658 | 201,500 |
| **Change in the year** | 3,626 | 57,359 |
| **Financial ratios** | | |
| Return on assets | -0.9% | -15.0% |
| Solvency ratio | 99.6% | 99.0% |
| Return on equity | -1.1% | -29.5% |

# Management's review

## Operating review

### 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 1,290m. Five institutional investors committed DKK 775m, the Danish government and IFU committed DKK 315m through the public facility Klimainvesteringsfonden (KIF)[1], and IFU (Investment Fund for Developing Countries) committed DKK 200m 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.

### Investments in 2016

In 2016, DCIF made three new investments at a total of DKK 161m and provided DKK 26m in additional financing for two ongoing projects. Total investments in 2016 amounted to DKK 187m.

### Investments contracted in 2016

| Project name | Country | Shares* | Loans | Total | Expected direct employment (persons) |
|---|---|---|---|---|---|
| **New investments** | | | | | |
| Asian Clean Capital | China | 66.8 | - | 66.8 | 162 |
| Roserve ETP BOOT India | India | 15.8 | - | 15.8 | 65 |
| Karpatsky Wind Farm | Ukraine | 0.0 | 78.1 | 78.1 | 6 |
| **Total new projects** | | 82.6 | 78.1 | 160.7 | 233 |
| | | | | | |
| **Additional investments of ongoing projects** | | | | | Actual Direct employment |
| Nordic Power Partners | DAC Developing countries | - | 13.7 | 13.7 | 3 |
| AVK Valvulas do Brasil | Brazil | 5.4 | 7.0 | 12.4 | 15 |
| **Total additional financing** | | 5.4 | 20.7 | 26.1 | 18 |
| **Grand total** | | 88.0 | 98.8 | 186.8 | |

Totals may not add up due to rounded figures.
*) incl. overrun commitments

Including open commitments not yet contracted and investments contracted in prior years, DCIF has, at year-end 2016, committed DKK 862m corresponding to 67% of the total fund. The investment period runs till the end of 2018, but can be extended.

[1] KIF was established by IFU and the Danish government in 2012 as a precursor to DCIF and is financed by DKK 275m from the Danish government and DKK 50m from IFU, respectively.

# Management's review

## Operating review (continued)

### Sustainability reporting

DCIF is applying IFU's sustainability policy[2] 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:

- 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; and
- 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.

### 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 community, 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 2016, internal assessments were carried out for 10 DCIF projects. The exercise did not include three projects, which was in the process of being established.

---

[2] Further information about IFU's sustainability policy can be found on IFU's website (https://www.ifu.dk/en/the-difference-we-make/sustainability/)

# Management's review

## Operating review (continued)

### Annual assessment of sustainability performance

| Sustainability classification | Total Score (%) | Environment (%) | OHS (%) | Human Rights and labour practices (%) | Anti-corruption (%) |
|---|---|---|---|---|---|
| Excellent | 68 | 80 | 80 | 80 | 78 |
| Good | 33 | 20 | 20 | 20 | 23 |
| Fair | - | - | - | - | - |
| Poor | - | - | - | - | - |
| Critical | - | - | - | - | - |

Totals may not add up due to rounded figures.

### 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 2016, the assessment is made for three new investments, which over their lifetime is expected to represent a GHG emission avoidance of approx. 12,549,000 tCO2e.

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 uses a success criteria model, which for several years has been used to score individual projects and compare effects between projects. The model gives an indication of the effect on employment, education, technology transfer, tax payment on one hand, and on the other hand how IFU has contributed to ensure these effects by for instance reducing a number of risks.

To better capture development effects of its investments and improve the ability to report on the UN Sustainable Development Goals, IFU has, from 2017, upgraded the model to a new more comprehensive Development Impact Model (DIM).

In terms of jobs created, it is the expectation that the three investments entered into in 2016 will create 233 jobs when fully operational as shown in the above table.

### 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.

# Management's review

## Operating review

### Financial review 2016

DCIF recorded net income of DKK (2.4)m in 2016 compared to DKK (27.1)m in 2015. The result is a combination of a positive contribution from portfolio investments of DKK 16.3m and operating expenses in the form of management fees and other expenses totalling DKK (18.6)m.

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.

### Capital position and capital resources

As at 31 December 2016, the investors had paid in DKK 322.5m corresponding to nearly 26% of the capital commitment of DKK 1,290m. Thus, the remaining commitment is DKK 957.5m.

DCIF's equity at the end of 2016 was DKK 266.3m.

### 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

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 DCIF's financial position.

### Outlook for 2017

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

# Financial statements 1 January - 31 December

## Income statement

| Note | DKK'000 | 2016 | 2015 |
|---|---|---|---|
| | Contribution investments | 16,270 | (7,063) |
| | Operating expenses, net | (18,641) | (19,970) |
| | **Gross profit/loss** | (2,371) | (27,033) |
| | Financial income, net | (38) | (73) |
| | **Profit/loss before tax** | (2,409) | (27,106) |
| | **Net profit/loss for the year** | (2,409) | (27,106) |
| | | | |
| | **Recommended appropriation of profit/loss** | | |
| | Retained earnings | (2,409) | (27,106) |
| | | (2,409) | (27,106) |

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 | 225,747 | 151,603 |
| | Loans | 32,203 | 24,506 |
| | Investments in subsidiary | 50 | - |
| | **Total fixed assets** | 258,000 | 176,109 |
| | Prepayments | 4,199 | 4,232 |
| | Other receivables | 2,005 | 424 |
| | Cash | 3,080 | - |
| | **Total current assets** | 9,284 | 4,656 |
| | **TOTAL ASSETS** | 267,284 | 180,765 |
| | **EQUITY AND LIABILITIES** | | |
| | **Equity** | | |
| | Paid-in capital | 322,500 | 227,200 |
| | Retained earnings | (50,571) | (48,162) |
| | Repaid capital | (5,642) | - |
| | **Total equity** | 266,287 | 179,038 |
| | Credit institutes | - | 546 |
| | Payables to group enterprises | 450 | 1,098 |
| | Other payables | 547 | 83 |
| | **Total current liabilities** | 997 | 1,727 |
| | **Total liabilities** | 997 | 1,727 |
| | **TOTAL EQUITY AND LIABILITIES** | 267,284 | 180,765 |

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

## Financial statements 1 January - 31 December

### Equity

| DKK'000 | 2016 | 2015 |
|---|---|---|
| **Total equity** | | |
| Paid-in capital beginning of year | 227,200 | 25,700 |
| Paid-in capital during the year | 95,300 | 201,500 |
| **Paid-in capital end of year** | 322,500 | 227,200 |
| **Paid-in capital end of year, net** | 322,500 | 227,200 |
| Repaid capital beginning of year | - | - |
| Repaid capital during the year | (5,642) | - |
| **Repaid capital end of year** | (5,642) | - |
| Establishment expenses | - | (1,223) |
| Transferred to retained earnings | - | 1,223 |
| Establishment expenses | - | - |
| Retained earnings beginning of year | (48,162) | (19,833) |
| Transferred establishment expenses | - | (1,223) |
| Transferred from net income for the year | (2,409) | (27,106) |
| **Retained earnings end of year** | (50,571) | (48,162) |
| **Total equity end of year** | 266,287 | 179,038 |

At 31December 2016, the investors had paid in DKK 322.5m corresponding to nearly 26% of the capital commitment of DKK 1,290m. Thus, the remaining commitment is DKK 957.5m.

# Financial statements 1 January - 31 December

## Cash flow statement

| Note | DKK'000 | 2016 | 2015 |
|---|---|---|---|
| | **Cash flow from operating activities** | | |
| | Net profit for the year | (2,409) | (27,106) |
| 5 | Adjustments | (14,048) | 7,491 |
| 6 | Change in working capital | (1,732) | (8,401) |
| | **Cash flows from operating activities before financial income and expenses** | (18,189) | (28,016) |
| | **Net cash from operating activities** | (18,189) | (28,016) |
| | **Cash flow from (to) investing activities** | | |
| | Received from projects | 97 | 5,353 |
| | Paid-out to investments and loans | (67,941) | (121,478) |
| | **Net cash from (to) investing activities** | (67,844) | (116,125) |
| | **Cash flow from (to) financing activities** | | |
| | Paid-in capital from partners | 95,300 | 201,500 |
| | Establishment expenses | (5,642) | 0 |
| | **Net cash from (to) financing activities** | 89,658 | 201,500 |
| | Net change in cash | 3,626 | 57,359 |
| | **Cash beginning of year** | (546) | (57,905) |
| | **Cash end of year** | 3,080 | (546) |
| | **- Shown as credit institutes** | - | (546) |
| | **- Shown as cash** | 3,080 | - |

# Financial statements 1 January - 31 December

## Notes

### 1 Accounting policies

The annual report of Danish Climate Investment Fund I 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.

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

#### Implementation of new accounting legislation

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

With this implementation, DCIF 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
- Loans
- Investments in subsidiaries
- Other receivables
- Cash
- Current liabilities
- Contingent liabilities

The IFRS principles for recognition and measurement of financial instruments (IAS 39) are compatible with DCIF's existing accounting policies. Accordingly, the implementation did not give rise to changes to DCIF'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 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 effected as described below for each item.

# Financial statements 1 January - 31 December

## Notes

1 **Accounting policies (continued)**

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.

### 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 to 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.

# Financial statements 1 January - 31 December

## Notes

1 Accounting policies (continued)

### 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 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 statement. DCIF's profit/loss is taxed at the partners of this limited partnership according to applicable taxation rules.

## Balance sheet

### Investments

Investments consist of share capital investments and loans.

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.

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

### 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.

### Impairment of financial assets

DCIF 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.

# Financial statements 1 January - 31 December

## Notes

1 **Accounting policies (continued)**

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, 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 DCIF. 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.

### 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 $$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$$

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

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

# Financial statements 1 January - 31 December

## Notes

## 2 Contingent assets, liabilities and other financial obligations

### Contingent assets

The Company has the following commitments from limited partners:

| DKK'000 | 2016 | 2015 |
|---|---|---|
| Total drawdowns | 322,500 | 227,200 |
| Total available for drawdowns | 967,500 | 1,062,800 |
| Total committed capital | 1,290,000 | 1,290,000 |

### Contingent liabilities

The Company has entered into the following commitments to investments:

| DKK'000 | 2016 | 2015 |
|---|---|---|
| Undisbursed contracted commitments | 285,339 | 163,873 |
| Guarantees | 4,000 | 4,000 |
| Binding commitments | 305,340 | 61,263 |
| Total undisbursed to investments | 594,679 | 229,136 |

Danish Climate Investment Fund I K/S has signed a management agreement with IFU, whereby IFU performs administration, monitoring and investment advice for Danish Climate Investment Fund I K/S. The management agreement cannot be cancelled. For 2016, the payment amounts to DKK 16,770 thousand incl. VAT.

## 3 Related parties and ownerships

The following are recorded in the Company'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

## Financial statements 1 January - 31 December

### Notes

| DKK'000 | 2016 | 2015 |
|---|---|---|
| **4 Investments** | | |
| Cost at beginning of year | 161,278 | 69,087 |
| Additions for the year | 60,891 | 97,091 |
| Disposal | - | -4,900 |
| Cost at 31 December | 222,169 | 161,278 |
| Accumulated value adjustment beginning of year | (9,675) | (1,656) |
| Value adjustments | 13,253 | (8,019) |
| Accumulated value adjustment end of year | 3,578 | (9,675) |
| Carrying amount at 31 December | 225,747 | 151,603 |
| Hereof associated companies: | | |
| Share capital investment in projects end of year, at cost | 124,334 | 97,699 |
| Accumulated value adjustments end of year | (15,040) | (9,674) |
| Accumulated value adjustment end of year | 109,294 | 88,025 |
| **Loans** | | |
| Cost at beginning of year | 24,506 | - |
| Additions for the year | 7,000 | 24,387 |
| Repayment | (97) | - |
| Exchange rate adjustments | 794 | 119 |
| Cost at 31 December | 32,203 | 24,506 |
| Accumulated value adjustments beginning of year | - | - |
| Value adjustments | - | - |
| Accumulated value adjustment end of year | - | - |
| Carrying amount at 31 December | 32,203 | 24,506 |

**Associated companies**

| Name: | Domicile: | Form of company: | DCIF K/S' ownership interest (%) | Result | Equity |
|---|---|---|---|---|---|
| | | | | According to the latest approved annual report | |
| AVK Brazil Holding ApS | Denmark | ApS | 33.33% | N/A | N/A |
| Danish Energy Efficiency Partners P/S | Denmark | P/S | 49.00% | (276) | 3,659 |
| Nordic Power Partners P/S | Denmark | P/S | 49.00% | (910) | 9,231 |
| Pampa Elvira Solar SpA | Chile | SpA | 45.00% | 197 | 64,377 |
| Parque Solar Luna del Norte SpA | Chile | SpA | 48.80% | N/A | N/A |
| Parque Solar Sol del Norte SpA | Chile | SpA | 48.80% | N/A | N/A |
| Roserve Enviro Private Limited | India | Ltd. | 48.20% | N/A | N/A |
| SolarSouth Investment P/S * | Denmark | P/S | 65.00% | N/A | N/A |
| WPT China Holding A/S | Denmark | A/S | 44.78% | (4,668) | 65,250 |

*) DCIF has joint control through Joint Venture Agreement.

# Financial statements 1 January - 31 December

## Notes

| DKK'000 | 2016 | 2015 |
|---|---|---|
| **5 Cash flow statement - adjustments** | | |
| Financial income | - | - |
| Value adjustments | (14,048) | 7,491 |
| | (14,048) | 7,491 |

| | 2016 | 2015 |
|---|---|---|
| **6 Cash flow statement - changes in working capital** | | |
| Change in current assets | (1,548) | (395) |
| Change in payables, etc. | (184) | (8,006) |
| | (1,732) | (8,401) |

### 7 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 concentrations of risk, and through its investment policy and due diligence procedures, DCIF further seeks to identify and mitigate the equity and credit risk.

### 8 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 concentrations of risk 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 13 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

# Financial statements 1 January - 31 December

## Notes

### 8 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.

| 2016 | Share capital investments | | Project loans | | Total | | Commitments (off balance) | |
|---|---|---|---|---|---|---|---|---|
| OECD | DKK'000 | % | DKK'000 | % | DKK'000 | % | DKK'000 | % |
| 0 | 42,904 | 19% | 25,203 | 78% | 68,107 | 27% | 92,493 | 16% |
| 2 | 87,567 | 40% | - | 0% | 87,567 | 34% | 49,035 | 8% |
| 3 | 2,927 | 1% | - | 0% | 2,927 | 1% | 13,478 | 2% |
| 5 | 18,081 | 8% | 7,000 | 22% | 25,081 | 10% | 125,900 | 21% |
| 6 | 64,201 | 29% | - | 0% | 64,201 | 25% | 147,815 | 25% |
| 7 | - | 0% | - | 0% | - | 0% | 148,688 | 25% |
| Africa regional | 6,489 | 3% | - | 0% | 6,489 | 3% | - | 0% |
| DAC | - | 0% | - | 0% | - | 0% | 17,270 | 3% |
| | 222,169 | 100% | 32,203 | 100% | 254,372 | 100% | 594,679 | 100% |

| 2015 | Share capital investments | | Project loans | | Total | | Commitments (off balance) | |
|---|---|---|---|---|---|---|---|---|
| OECD | DKK'000 | % | DKK'000 | % | DKK'000 | % | DKK'000 | % |
| 0 | 42,904 | 27% | 24,506 | 100% | 67,410 | 36% | 92,493 | 40% |
| 2 | 33,725 | 21% | - | 0% | 33,725 | 18% | 33,978 | 15% |
| 3 | - | 0% | - | 0% | - | 0% | 38,588 | 17% |
| 4 | 14,581 | 9% | - | 0% | 14,581 | 8% | 4,000 | 2% |
| 6 | 63,579 | 39% | - | 0% | 63,579 | 34% | 42,806 | 19% |
| Africa regional | 6,489 | 4% | - | 0% | 6,489 | 4% | - | 0% |
| DAC | - | 0% | - | 0% | - | 0% | 17,270 | 7% |
| | 161,278 | 100% | 24,506 | 100% | 185,784 | 100% | 229,135 | 100% |

#### Credit quality/impairment

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

| DKK'000 | 2016 | 2015 |
|---|---|---|
| Project loans, neither past due nor value adjusted | 24,882 | 20,203 |
| Project loans, past due but not value adjusted | 7,321 | 4,303 |
| Project loans, value adjusted | - | - |
| | 32,203 | 24,506 |

# Financial statements 1 January - 31 December

## Notes

### 8 Equity and credit risk (continued)

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

| DKK'000 | 2016 | 2015 |
|---|---|---|
| OECD 0 | 17,882 | 20,203 |
| OECD 5 | 7,000 | - |
| | 24,882 | 20,203 |

The table below shows the distribution according to due date.

2016

| DKK'000 | Not value adjusted | Value adjusted | Project loans at cost | Value adjustments | Project loans, net |
|---|---|---|---|---|---|
| Project loans, not past due | 24,882 | - | 24,882 | - | 24,882 |
| Project loans, past due up to 12 months | 7,321 | - | 7,321 | - | 7,321 |
| | 32,203 | - | 32,203 | - | 32,203 |

2015

| | Not value adjusted | Value adjusted | Project loans at cost | Value adjustments | Project loans, net |
|---|---|---|---|---|---|
| Project loans, not past due | 20,203 | - | 20,203 | - | 20,203 |
| Project loans, past due up to 12 months | 4,303 | - | 4,303 | - | 4,303 |
| | 24,506 | - | 24,506 | - | 24,506 |

# Financial statements 1 January - 31 December

## Notes

## 8 Equity and credit risk (continued)

### Maximum exposure to credit risk

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| DKK'000 | Carrying amount | Maximum credit exposure (contractual cash flow) | Carrying amount | Maximum credit exposure (contractual cash flow) |
| Project loans | 32,203 | 32,203 | 24,506 | 24,506 |
| Interest receivable related to projects | 1,699 | 1,699 | 424 | 424 |
| Other receivables | 4,506 | 4,506 | 4,232 | 4,232 |
| Cash | 3,080 | 3,080 | - | - |
| Commitments | - | 234,723 | - | 36,730 |
| | 41,488 | 276,211 | 29,162 | 65,892 |

## 9 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. DCIF normally 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.

# Financial statements 1 January - 31 December

## Notes

### 9 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.

2016

| 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 | 25,203 | 1,360 | - | - | 26,563 | 10% | 2,656 |
| EUR | - | 339 | 307 | - | 646 | 1% | 6 |
| DKK | 7,000 | - | - | (45) | 6,955 | N/A | - |
| Other | - | - | - | - | - | 10% | - |
| | 32,203 | 1,699 | 307 | (45) | 34,164 | | |

2015

| 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 | 24,506 | 424 | - | - | 24,930 | 10% | 2,493 |
| EUR | - | - | - | - | - | 1% | - |
| DKK | - | - | - | (45) | (45) | N/A | - |
| Other | - | - | - | - | - | 10% | - |
| Total | 24,506 | 424 | - | (45) | 24,885 | | |

### 10 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.

The annual effect of an increase in the interest rate of 100 basis points is shown in the table below for fixed and variable interest rate loans.

### 11 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 50m credit facility is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, DKK 50m was available for drawing.

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

# Financial statements 1 January - 31 December

## Notes

### 11 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** | | | | | | | |
| Project loans | 32,203 | 32,203 | 7,321 | 2,980 | 11,922 | 9,980 | - |
| Interest receivables related to projects | 1,699 | 1,699 | 1,699 | - | - | - | - |
| Other receivables | 4,505 | 4,505 | 307 | 4,199 | - | - | - |
| Cash and cash equivalents | 3,080 | 3,080 | 3,080 | - | - | - | - |
| **Total assets** | 41,487 | 41,487 | 12,407 | 7,179 | 11,922 | 9,980 | - |
| **Liabilities** | | | | | | | |
| Other current liabilities | 997 | 997 | - | 997 | - | - | - |
| Provision for losses | - | - | - | - | - | - | - |
| **Total liabilities** | 997 | 997 | - | 997 | - | - | - |
| **Off-balance** | | | | | | | |
| Guarantees | - | 4,000 | - | - | - | - | 4,000 |
| Amounts payable on share capital and loan agreements | - | 285,339 | 285,339 | - | - | - | - |
| Binding commitments | - | 305,340 | - | 305,340 | - | - | - |
| **Total off-balance** | - | 594,679 | 285,339 | 305,340 | - | - | 4,000 |

# Financial statements 1 January - 31 December

## Notes

### 11 Liquidity risk (continued)

2015

| DKK'000 | Carrying amount | Contrac-tual cash flows | On demand | 0-1 year | 1-5 years | Over 5 years | No fixed maturity |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Project loans | 24,506 | 24,506 | 4,303 | 2,886 | 11,545 | 5,772 | - |
| Interest receivables related to projects | 424 | 424 | 424 | - | - | - | - |
| Other receivables | 4,232 | 4,232 | - | 4,232 | - | - | - |
| Cash and cash equivalents | (546) | (546) | (546) | - | - | - | - |
| **Total assets** | 28,616 | 28,616 | 4,181 | 7,118 | 11,545 | 5,772 | - |
| **Liabilities** | | | | | | | |
| Other current liabilities | 1,181 | 1,181 | - | 1,181 | - | - | - |
| Provision for losses | - | - | - | - | - | - | - |
| **Total liabilities** | 1,181 | 1,181 | - | 1,181 | - | - | - |
| **Off-balance** | | | | | | | |
| Guarantees | - | 4,000 | - | - | - | - | 4,000 |
| Amounts payable on share capital and loan agreements | - | 163,873 | 163,873 | - | - | - | - |
| Binding commitments | - | 61,263 | - | 61,263 | - | - | - |
| **Total off-balance** | - | 229,136 | 163,873 | 61,263 | - | - | 4,000 |

# Financial statements 1 January - 31 December

## Notes

### 12 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 | 225,747 | - | - | 225,747 |
| Project loans | - | 32,203 | - | 32,203 |
| Interest receivables related to projects | - | 1,699 | - | 1,699 |
| Other receivables | - | 4,505 | - | 4,505 |
| Cash and cash equivalents | - | 3,080 | - | 3,080 |
| **Total financial assets** | 225,747 | 41,487 | - | 267,234 |
| **Financial liabilities** | | | | |
| **Current liabilities:** | | | | |
| Other current liabilities | - | - | 997 | 997 |
| **Total financial liabilities** | - | - | 997 | 997 |

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 | 151,603 | - | - | 151,603 |
| Project loans | | 24,506 | - | 24,506 |
| Interest receivables related to projects | - | 424 | - | 424 |
| Other receivables | - | 4,232 | - | 4,232 |
| Cash and cash equivalents | - | (546) | - | (546) |
| **Total financial assets** | 151,603 | 28,616 | - | 180,219 |
| **Financial liabilities** | | | | |
| **Current liabilities:** | | | | |
| Other current liabilities | - | - | 1,181 | 1,181 |
| **Total financial liabilities** | - | - | 1,181 | 1,181 |

The carrying amount of project loans with fixed interest terms amounts to DKK 32m (2015: 25m). The fair value of these project loans amounts to DKK 32m (2015: DKK 25m) 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 13. For other loans and receivables and other liabilities, the carrying amount is measured at amortised cost.

## Financial statements 1 January - 31 December

### Notes

13 **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 DCIF 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 disclosed in the table below together with investments valued based on a recent binding offer or transaction.

# Financial statements 1 January - 31 December

## Notes

## 13 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 | - | - | 151,603 | 151,603 |
| Total gains/ losses for the period included in profit or loss [1] | - | - | 13,253 | 13,253 |
| Paid-in share capital in projects | - | - | 60,891 | 60,891 |
| **Closing balance** | - | - | 225,747 | 225,747 |
| **Total recurring fair value measurements** | - | - | 225,747 | 225,747 |

2015

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Share capital investments** | | | | |
| Opening balance | - | - | 67,431 | 67,431 |
| Total gains/ losses for the period included in profit or loss [1] | - | - | (7,610) | (7,610) |
| Paid-in share capital in projects | - | - | 97,091 | 97,091 |
| Proceeds from divestment of shares | - | - | (5,309) | (5,309) |
| **Closing balance** | - | - | 151,603 | 151,603 |
| **Total recurring fair value measurements** | - | - | 151,603 | 151,603 |

1) Recognised in contribution from share capital investments.
Hereof DKK 13m (2015: DKK (8)m) is attributable to assets held at 31 December for level 3.

# Financial statements 1 January - 31 December

## Notes

### 13 Fair value measurement basis (continued)

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 | Unobservable inputs | Reasonable possible shift in % | Change in fair value |
|---|---|---|---|---|---|
| Investments | | | | | |
| | 90,852 | Cost | | | |
| | 125,097 | Discounted cash flow | WACC | +10% | (15,028) |
| | | | Growth in terminal value | - 20% | (359) |
| | 9,799 | Intrinsic value | | | |
| Share capital investments | 225,748 | | | | |

2015

| Type of investment | Fair value at 31/12/2015 | Valuation technique | Unobservable inputs | Reasonable possible shift in % | Change in fair value |
|---|---|---|---|---|---|
| Investments | | | | | |
| | 140,208 | Cost | | | |
| | 6,853 | Discounted cash flow | WACC | +10% | (1,621) |
| | | | Growth in terminal value | - 20% | (1,380) |
| | 4,542 | Intrinsic value | | | |
| Share capital investments | 151,603 | | | | |