

# Danish Agribusiness Fund I K/S

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

CVR no. 37 39 86 67



## Annual report

for the period 8 January - 31 December 2016

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

Chairman:

Nicolai Boserup



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### Statement by management on the annual report

The undersigned have today discussed and approved the annual report of Danish Agribusiness Fund I K/S for the financial year 8 January - 31 December 2016.

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

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations for the financial year 8 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 DAF I GP Komplementar ApS

Nicolai Boserup  
Chairman

Tommy Thomsen

Torben Huss

## Independent auditor's report

To the limited partners of Danish Agribusiness Fund I K/S

### Opinion

We have audited the financial statements of Danish Agribusiness Fund I K/S for the financial year 8 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 8 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.

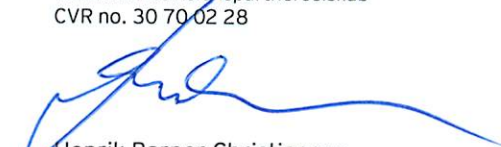
Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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 Agribusiness Fund I K/S
Address, zip code, city	c/o IFU, Fredericiagade 27, 1310 Copenhagen K, Denmark
CVR no.	37 39 86 67
Established	8 January 2016
Registered office	Copenhagen
Financial year	8 January - 31 December
General partner	DAF 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 one-year period, the development of the fund is described by the following financial highlights.

#### Key figures

DKK'000	2016
<b>Profit/loss</b>	
Profit/loss before financial income and expenses	(15,160)
Net financials	(88)
<b>Net profit/loss for the year</b>	<b>(15,248)</b>
<b>Balance sheet</b>	
Balance sheet total	70,629
Equity	51,431
<b>Cash flows</b>	
Cash flows from operating activities	(8)
Cash flows from investing activities	(66,985)
Cash flows from financing activities	66,679
<b>Change in the year</b>	<b>(314)</b>
<b>Financial ratios</b>	
Return on assets	-21.5%
Solvency ratio	72.8%
Return on equity	-59.3%

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

## Management's review

### Operating review

#### Main activity

In January 2016, the Danish Agribusiness Fund I K/S (DAF) was established as a public private partnership. Including a subsequent second close, total capital committed to DAF reached DKK 800m. Three institutional investors have committed DKK 500m, The Danish government has committed DKK 88m through the public facility Landbrugsinvesteringsfaciliteten (LIF)<sup>1</sup> and Investeringssonden for Udviklingslande (IFU) committed DKK 212m.

DAF will invest in projects across the value chain from farm to fork based on Danish technology and know-how e.g. primary production (crops and livestock, etc.), processing of food and beverages and production of fertilizers.

DAF is managed by IFU.

#### Investments in 2016

DAF made its first new investment in 2016 at a total of DKK 71m. The investment was transferred from IFU in connection with an expansion of the project. IFU originally entered the project in 2012 and continues to be an investor alongside DAF.

#### Investments contracted in 2016

Project name	Country	Shares*	Loans**	Total	Actual direct employment (persons)
<b>New projects</b>					
Scandinavian Farms Pig Industry	China	58.1	13.1	71.2	165.0
<b>Grand total</b>		<b>58.1</b>	<b>13.1</b>	<b>71.2</b>	<b>165.0</b>

Totals may not add up due to rounded figures.

\*) including overrun commitments

\*\*) including guarantees

Including open commitments not yet contracted and investments contracted in 2016, DAF has at year-end 2016 committed DKK 267m corresponding to 33% of the total fund. The investment period runs till the end of 2020, but can be extended.

#### Sustainability reporting

DAF 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 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.

<sup>1</sup> LIF was established in 2015 and is financed by DKK 89 million from the Danish government.



## Management's review

### Operating review

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.

The annual assessment of sustainability performance in 2016 for the one DAF project is included in the overall assessment of projects managed by IFU. For further information, see IFU's Annual Report 2016 on [www.IFU.dk](http://www.IFU.dk).

### Development impact

To internally rate the development effects created by different project companies, IFU uses a success criteria model, 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, the one new project has an actual employment of 165 people.

## Management's review

### Operating review

#### Operational framework

Projects co-financed by DAF must be commercially viable and offer an attractive return to its investors. As a minority investor, DAF 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 DAF, Danish investors or Danish know-how, services or technology must be included.

#### Financial review 2016

DAF recorded net income of DKK (15.2)m in 2016. As DAF has just started to invest, the result is primarily made up of operating expenses in the form of management fees and other expenses.

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 DAF. 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 67.2m corresponding to 8% of the capital commitment of DKK 800m. Thus, the remaining commitment is DKK 732.8m.

DAF's equity at the end of 2016 was DKK 51.4m.

#### Financial risks

DAF 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 DAF measures its investments at fair market value, DAF's future results may fluctuate considerably. The risk exposure of DAF 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 DAF's financial position.

#### Outlook for 2017

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

## Financial statements 8 January - 31 December

### Income statement

Note	DKK'000	2016
	Contribution from investments	112
	Operating expenses, net	(15,272)
	<b>Gross profit/loss</b>	<b>(15,160)</b>
	Financial income, net	(88)
	<b>Profit/loss before tax</b>	<b>(15,248)</b>
	<b>Net profit/loss for the year</b>	<b>(15,248)</b>
	<b>Recommended appropriation of loss</b>	
	Retained earnings	(15,248)
		(15,248)

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

## Financial statements 8 January - 31 December

### Balance sheet

Note	DKK'000	2016
	<b>ASSETS</b>	
4	Fixed assets	
	Investments	66,985
	<b>Total fixed assets</b>	<b>66,985</b>
	Prepayments	3,644
	<b>Total current assets</b>	<b>3,644</b>
	<b>TOTAL ASSETS</b>	<b>70,629</b>
	 <b>LIABILITIES AND EQUITY CAPITAL</b>	
	<b>Equity</b>	
	Paid-in capital	67,230
	Retained earnings	(15,799)
	<b>Total equity</b>	<b>51,431</b>
	Credit institutes	314
	Current liabilities	18,884
	<b>Current liabilities</b>	<b>19,198</b>
	<b>Total liabilities</b>	<b>19,198</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>70,629</b>

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

## Financial statements 8 January - 31 December

## Statement of changes in equity

DKK'000	2016
<b>Total equity</b>	
Paid-in capital beginning of year	-
Paid-in capital during the year	67,230
<b>Paid-in capital end of year</b>	<b>67,230</b>
Establishment expenses	(551)
Transferred from net income for the year	(15,248)
<b>Retained earnings end of year</b>	<b>(15,799)</b>
<b>Total equity end of year</b>	<b>51,431</b>

At 31 December 2016, the investors had paid in DKK 67.2m corresponding to 8% of the capital commitment of DKK 800m. Thus, the remaining commitment is DKK 732.8m.

## Financial statements 8 January - 31 December

### Cash flow statement

Note	DKK'000	2016
	<b>Cash flow from operating activities</b>	
	Net profit for the year	(15,248)
5	Change in working capital	15,240
	<b>Net cash from operating activities</b>	<b>(8)</b>
	<b>Cash flow from (to) investing activities</b>	
	Paid-out to investments and loans	(66,985)
	<b>Net cash from (to) investing activities</b>	<b>(66,985)</b>
	<b>Cash flow from (to) financing activities</b>	
	Paid-in capital from partners	67,230
	Establishment expenses	(551)
	<b>Net cash from (to) financing activities</b>	<b>66,679</b>
	Net change in cash	(314)
	Cash beginning of year	-
	<b>Cash end of year</b>	<b>(314)</b>
	- Shown as bank loans and overdrafts	(314)

## Financial statements 8 January - 31 December

### Notes

#### 1 Accounting policies

The annual report of Danish Agribusiness 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.

#### Implementation of new accounting legislation

DAF has implemented the changes to the Danish Financial Statements Act as required by the changed act dated 1 June 2015.

With this implementation, DAF 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
- ▶ Cash
- ▶ Current liabilities
- ▶ Contingent liabilities

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

#### Presentation and classification

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

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

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

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

## Financial statements 8 January - 31 December

### Notes

#### 1 Accounting policies (continued)

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

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

#### Fair value measurement

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

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

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

For assets and liabilities that are measured at fair value on a recurring basis, DAF 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. 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 contribution from guarantees.

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 guarantees includes fees related to guarantees issued to investments.

#### Operating expenses, net

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



## Financial statements for the period 8 January - 31 December

### Notes

#### 1 Accounting policies (continued)

##### Financial income, net

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

##### Tax on profit for the year

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

### Balance sheet

#### Investment

Investments consist of share capital investments.

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

#### Impairment of financial assets

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

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

Impaired assets, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to DAF. 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.

Current liabilities primarily consists of postpone payment related to share capital investment.

#### Cash flow statement

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

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

## Financial statements for the period 8 January - 31 December

### Notes

#### 1 Accounting policies (continued)

##### 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 DAF's control.

##### Financial ratios

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

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

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

##### Contingent assets

DAF has the following commitments from limited partners:

DKK'000	2016
Total drawdowns	67,230
Total available for drawdowns	732,770
Total committed capital	800,000

##### Contingent liabilities

The Company has entered into the following commitments to investments:

DKK'000	2016
Undisbursed contracted commitments	8,204
Guarantees	11,636
Binding commitments	198,430
Total undisbursed to investments	218,270

DAF has signed a management agreement with IFU, whereby IFU performs administration, monitoring and investment advice for DAF. The management agreement cannot be cancelled. For 2016, the payment amounts to DKK 14,262 thousand incl. VAT.

## Financial statements for the period 8 January - 31 December

### Notes

#### 3 Related parties and ownership

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

- ▶ PKA
- ▶ PensionDanmark
- ▶ PFA
- ▶ Landbrugsinvesteringsfonden
- ▶ IFU

#### Other related parties:

- ▶ DAF I GP P/S
- ▶ DAF I GP ApS

DKK'000	2016
<b>4 Investments</b>	
Cost at 8 January	-
Additions for the year	66,985
Cost at 31 December	66,985
Accumulated value adjustment at 8 January	-
Value adjustments	-
Accumulated value adjustment end of year	-
Carrying amount at 31 December	66,985

#### 5 Financial risk management

##### Introduction

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

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

## Financial statements for the period 8 January - 31 December

### Notes

#### 6 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 DAF will incur a financial loss due to a counterparty not fulfilling its obligation. These credit exposures occur from other transactions.

##### Managing equity and credit risk

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

DAF seeks to enter pre-agreed exit agreements and in this way to mitigate the risk of not being able to exit the investments. See note 10 for fair value measurement basis.

The table below shows the distribution of the cost of DAF'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 OECD	Share capital investments		Commitments (off balance)	
	DKK'000	%	DKK'000	%
2	66,985	100%	35,741	16%
4	-	-%	28,250	13%
5	-	-%	154,280	71%
	66,985	100%	218,271	100%

##### Maximum exposure to credit risk

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

DKK'000	2016	
	Carrying amount	Maximum credit exposure (contractual cash flow)
Commitments	-	15,900
	-	15,900

## Financial statements for the period 8 January - 31 December

### Notes

#### 7 Currency risk

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

DAF is exposed to currency risk through its investments that are denominated in currencies other than the functional currency (DKK). DAF 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. DAF does not hedge commitments to disburse either, as timing and amounts are often difficult to foresee.

#### 8 Liquidity risk

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

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

To meet these and other obligations, DAF depends on its limited partners being able to honour their commitments to DAF. 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.

#### 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
<b>Assets</b>							
Other receivables	3,644	3,644	-	3,644	-	-	-
Cash and Cash equivalents	(314)	(314)	(314)	-	-	-	-
<b>Total assets</b>	<b>3,330</b>	<b>3,330</b>	<b>(314)</b>	<b>3,644</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>							
Other current liabilities	18,884	18,884	-	181	-	-	18,703
<b>Total liabilities</b>	<b>18,884</b>	<b>18,884</b>	<b>-</b>	<b>181</b>	<b>-</b>	<b>-</b>	<b>18,703</b>
<b>Off-balance</b>							
Guarantees	-	11,636	-	-	-	-	11,636
loan agreements	-	8,204	8,204	-	-	-	-
Binding commitments	-	198,430	-	198,430	-	-	-
<b>Total off-balance</b>	<b>-</b>	<b>218,270</b>	<b>8,204</b>	<b>198,430</b>	<b>-</b>	<b>-</b>	<b>11,636</b>

## Financial statements for the period 8 January - 31 December

### Notes

#### 9 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
<b>Financial assets</b>				
Share capital investment in projects	66,985	-	-	66,985
Other receivables	-	3,644	-	3,644
Cash and cash equivalents	-	(314)	-	(314)
<b>Total financial assets</b>	<b>66,985</b>	<b>3,330</b>	<b>-</b>	<b>70,315</b>
<b>Financial liabilities</b>				
Current liabilities:				
Other current liabilities	-	-	18,884	18,884
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>18,884</b>	<b>18,884</b>

#### 10 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 DAF'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

## Financial statements for the period 8 January - 31 December

### Notes

#### 10 Fair value measurement basis (continued)

##### Share capital investments

All of DAF'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 DAF 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.

##### 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 1,000	Level 1	Level 2	Level 3	Total
<b>Share capital investments</b>				
Opening balance	-	-	-	-
Paid-in share capital in projects	-	-	66,985	66,985
<b>Closing balance</b>	-	-	66,985	66,985
<b>Total recurring fair value measurements</b>	-	-	66,985	66,985

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### Notes

#### 10 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	Change in fair value
Investments	66,985	Cost	-
Share capital investments	66,985		-