

Den Sociale Kapitalfond Invest I K/S

**c/o Accura Advokatpartnerselskab, Tuborg
Boulevard 1, DK-2900 Hellerup**

CVR no. 38 96 88 15

Annual report for 2018

Adopted at the annual general meeting
on 10 April 2019



Adis Cosovic
chairman

Table of contents

	Page
Statements	
Statement by management on the annual report	1
Independent auditor's report	2
Management's review	
Company details	5
Financial highlights	6
Management's review	7
Financial statements	
Income statement 1 January - 31 December	17
Balance sheet 31 December	18
Statement of changes in equity	20
Notes to the annual report	21
Accounting policies	22

Statement by management on the annual report

The General Partner has today discussed and approved the annual report of Den Sociale Kapitalfond Invest I K/S for the financial year 1 January - 31 December 2018.

The annual report is 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 2018 and of the results of the company's operations for the financial year 1 January - 31 December 2018.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

General Partner recommends that the annual report should be approved at the annual general meeting.

Copenhagen, 29 March 2019

On behalf of the General Partner: Komplementarselskabet for Den Sociale Kapitalfond Invest I ApS

Simon Krogh
Chairman

Gudmund Tyge Korsgaard

Sven Krogstrup

Independent auditor's report

To the shareholder of Den Sociale Kapitalfond Invest I K/S

Opinion

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the financial statements of Den Sociale Kapitalfond Invest I K/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity, notes and summary of significant accounting policies. The financial statements are prepared under the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover 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 management's review and, in doing so, consider whether 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 management's review provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of management's review.

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 International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as management determines is necessary to enable the preparation of the 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 the 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 these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment 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.

Independent auditor's report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the 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.

Copenhagen, 29 March 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Niels Henrik B. Mikkelsen
State Authorised Public Accountant
MNE no. mne16675

Company details

The company

Den Sociale Kapitalfond Invest I K/S
c/o Accura Advokatpartnerselskab
Tuborg Boulevard 1
DK-2900 Hellerup

CVR no.: 38 96 88 15

Reporting period: 1 January - 31 December 2018

Domicile: Copenhagen

On behalf of the General Partner: Komplementarselskabet for Den Sociale Kapitalfond Invest I ApS

Simon Krogh, chairman
Gudmund Tyge Korsgaard
Sven Krogstrup

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

For more information about Den Sociale Kapitalfond Invest
and the activities performed, please visit:
www.socialkapitalfond.dk.

Financial highlights

	2018	2017
	TDKK	TDKK
Key figures		
Gross profit	-10.724	-3.013
Profit/loss for the year	-10.748	-3.013
Balance sheet		
Total assets	12.143	1
Investments in portfolio companies	12.050	0
Equity	11.695	-32
Financial ratios		
Paid-in capital to committed capital	8,8%	1,4%
Solvency ratio	96,3%	-3.200,0%
Financial resources		
Cash	-3	1
Remaining commitment	263.824	215.300
Total financial resources	263.824	215.301
Cash flow		
Cash flows from operating activities	-10.422	-2.890
Cash flows from investing activities	-12.050	0
Cash flows from financing activities	22.475	2.981
Net change in cash	-3	1

Management's review

Business activities

Den Sociale Kapitalfond Invest I K/S is Denmark's first social impact investment fund focusing on SMEs creating financial return on investment as well as new opportunities for marginalized persons.

The fund originates from Den Sociale Kapitalfond, which since its establishment in 2011 by TrygFonden and Lars Jannick Johansen, has collaborated with approx. 110 socially responsible companies on investment and business development on a venture philanthropic basis.

Based on these experiences, Den Sociale Kapitalfond Invest I K/S was established as a Limited Partnership in 2017, with the purpose to generate social impact and financial returns on the capital by investing in small and medium sized companies with economic growth potential and positive social impact on people and society, that are established and have headquarter in Denmark or Southern Sweden. The Limited Partnership had final closing on 12 October 2018 with a total commitment of DKK 289.3 million. The Fund is owned by Danish and international professional investors. The investors have entered into a limited partnership agreement.

Management's review

Investment Strategy

Small and medium-sized enterprises account for the most significant share of value added and employment in the private sector in Denmark. Their growth potentials are often high, but they often lack equity investments, competences and employee attractiveness to fully realize them. In addition, more than a third of all Danish SMEs employ marginalized persons – and approx. 10% of all SMEs have at least 10 % or minimum 5 persons as marginalized employees. Being socially inclusive and value driven strengthens the culture, identity and brand of an organization – and can be a competitive advantage in markets where employer attractiveness, branding and stakeholder support matter.

The large number of such social SMEs with strong growth potentials represents a significant opportunity for inclusive growth and social impact investing. Accordingly, Den Sociale Kapitalfond Invest I focuses on established, social SMEs in the growth phase with the following characteristics:

- SMEs (10-249 employees) in Denmark and Southern Sweden
- Embracing megatrends primarily within production, services and trade
- Competent management teams with strong social values
- Significant maturation & growth potentials – aligned with a strong social impact model, including:
 - Companies that employ and work with marginalized persons as a significant resource
 - Companies providing impactful products & services that resolve a recurring and sizeable social issue for marginalized persons
 - Companies that focus on creating local growth & opportunities in socially deprived areas
- Typical revenue range from DKK 30m-200m (enterprise value > DKK 10m)
- Need for additional equity financing - typically DKK 5m-30m for organic or acquisitive growth, (preparation of) ownership and generational change; or (part) capitalization.

Den Sociale Kapitalfond Invest assists the social SMEs in realizing their full potential for growth and impact by contributing with equity capital as a minority investor, typically 10-49% for 4-7 years, with the possibility of involving experienced co-investors when the target companies need majority investors, and supplement with subordinated loans. The investments are based on a focused growth plan with clear incentives and solid follow-up on financial and social results. The Fund's management provide continuous, qualified support to the company management in implementing the growth plans via board participation - among others providing sparring on SME strategies, financial and operational management, organizational development, and branding & marketing, as well as the attraction of the next generation of investors. Particular focus is also given on the development of the company's social impact model – ensuring that it is optimally aligned and mutually reinforcing with its business model. The Fund's management also make active use of its strong network of

Management's review

competencies and contacts for the benefit of the portfolio companies.

Management's review

Social Impact and CSR

A significant potential for creating positive social impact – and becoming a role model in this regard for other companies to follow – is a prerequisite for the investments of Den Sociale Kapitalfond Invest I. Specifically, the Fund focuses on empowering marginalized persons and persons in marginalized areas through the creation of jobs, training-positions, education and other enabling services & products.

The Fund's management diligently assesses the past achievements as well as future potentials and targets of the social impact of all investments as part of its due diligence process. It measures the social impact of all portfolio companies, building on the approaches developed by Den Sociale Kapitalfond since 2011 and the social impact performance measurement methodology of the Social Impact Accelerator of the European Investment Fund. In brief, key steps in the methodology includes:

- The Fund's Management initially identifies 1-5 KPIs and 1 unique quantifiable target per KPI for social impact for each portfolio company and weigh these according to their relative importance, together with the company's owners & management.
- Initial targets are defined for the first three years of holding in order to anticipate early exit scenarios
- In case of significant new information, change in the business environment beyond the control of the company management, or a necessary change of strategy or business model, unique targets may be changed
- The Fund's Investor Advisory Board validates the KPIs and targets – and potential changes
- The Fund's Management continuously monitor and report on the impact of the portfolio companies – including the ratio of actual social impact / unique social target per KPI. These are weighted by importance if there are more than one KPI per portfolio company and summarized to in a Social Impact Multiple ("SIM") per company.
- For the total portfolio, each portfolio company SIM is weighted by invested capital per company and summarized in a "Portfolio SIM", representing the overall ratio of fulfilment of social impact goals on a portfolio level.

The impact measurement is integrated into the Fund's carry model according to the best practice model of the European Investment Fund, ensuring that the management team has real "skin in the game" regarding the pursuit of both financial and social goals.

When the Fund has owned at least three portfolio companies for 12 months or more, further information on the actual social impact targets and performance of the portfolio in this respect will be released.

In addition, the Fund's management screens for Environment, Social and Governance ("ESG") issues and where relevant work for improvement of ESG policies in portfolio companies, alongside the ongoing development of their social impact models. Among others, the companies' compliance with the UN Global Compact Initiative are assessed, and portfolio companies are required to comply with the 10 principles of the UN Global Compact.

Management's review

Den Sociale Kapitalfond Invest follows the UN's Principles for Responsible Investment (PRI) in its work.

Management's review

Organization and Governance of Den Sociale Kapitalfond Invest

Den Sociale Kapitalfond Invest Management ApS is the management company for Den Sociale Kapitalfond Invest I K/S.

Den Sociale Kapitalfond Invest Management ApS is led by the three partners Lars Jannick Johansen (Managing Partner), Jeanette Hangaard Thielfoldt (Partner) and Torben Agerup (Partner), who also form the management company's Board of Directors, as well as the Investment Committee, which recommend investments to the General Partner of The Fund. The remuneration of the three partners are displayed in the annual report of the management company.

Reference is made to www.socialkapitalfond.dk for a presentation of the management team.

Den Sociale Kapitalfond Invest Management ApS (Cvr number 38 42 80 47) is registered by the Danish Financial Supervisory Authority as manager of alternative investment funds pursuant to § 9 section 1, cf. § 4 section 1, in the Act on managers of alternative investment funds (the AIFM Act), etc. The company is only to a limited extent subject to the AIFM Act and has thus not been affiliated with a depositary.

Den Sociale Kapitalfond Invest I K/S (Cvr number 38968815) has as General Partner the Complementary company for Den Sociale Kapitalfond Invest I ApS (Cvr number 38941585), which is led by a board with Simon Krogh (chairman), Tyge Korsgaard (director) and Sven Krogstrup. The General Partner and its Board of Directors are responsible for the decision of any investment in the Fund, based on the recommendations from the Investment Committee.

An Investor Advisory Board with representatives from the 7 largest investors among others validate the social impact targets of the fund's portfolio investments.

The Fund acts responsibly and with respect for relevant guidelines and good practice. The Fund management has, among other things, policies for conflict of interest management, risk management, and related party cooperation.

Den Sociale Kapitalfond Invest I K/S seek to follow DVCA's guidelines for responsible ownership and good corporate governance for private equity funds. Reference is made to www.socialkapitalfond.dk for a compliance overview.

Management's review

Investors

Investors	Commitment DKKm	Interest in per cent
Danish foundations and family offices	90	31.1
Other professional Danish investors	85	29.4
Other professional Foreign investors	111	38.4
Management and Senior Advisors	3.3	1.1
Total	289.3	100%

Den Sociale Kapitalfond Invest I K/S is owned by a number of Danish and international professional investors holding a total stake of c 98.9 %. The remaining stake is owned by the Partners of management company and Den Sociale Kapitalfond Management, and the Fund's Senior Advisors, Jeppe Christiansen, Mads Øvlisen, Per Agger Nielsen and Peter Nørgaard.

Carried Interest

Den Sociale Kapitalfond Invest I K/S has been established with a management fee structure that resemble the normal standards in the private equity industry, with a fixed management fee and a carried interest dependent on the performance of the Fund.

However, The Fund's carried interest is based on both financial and social performance with a "double hurdle" or threshold, including both a financial hurdle and a social hurdle for fulfillment of social impact goals as approved by the Fund's Investor Advisory Board. If social impact at the time of exit do not meet the hurdle for realization of pre-approved social goals, carry is transferred to a charitable cause approved by the investors.

Carried interest is paid on a fund-as-a-whole basis. Accordingly, no carried interest had been allocated or paid as of 31 December 2018.

Reporting

The reporting on fund activities are, among others, governed by the Limited Partnership Agreement. The fund among others ensures quarterly & annual reporting on financial and social impact performance to its investors as the main reportings. The quarterly reports to investors are prepared in compliance with international best practice according to Invest Europe Investor Reporting Guidelines and the Limited Partnership Agreement. In addition, annual Limited Partner meetings are held, as well as quarterly Investor Advisory Board meetings.

Management's review

Business Review

Development in activities and financial position

In 2018, the Fund has had a successful final closing, very close to its hard cap. Also, the fund has greatly strengthened its deal flow network and number of company referrals and meetings. In 2018, the Fund made its first investment – in HITSA A/S. The Fund among others also prepared for its second investment, which was made in February 2019, in Koatek A/S.

Profit/loss for the year

The company's income statement for the year ended 31 December shows a loss of TDKK 10.748, and the balance sheet at 31 December 2018 shows equity of TDKK 11.695. The result for the year is in line with the management expectations as the Fund is in the establishment phase.

The Fund's valuation principles are in accordance with the Europe Investor Valuation Guidelines.

Development in portfolio companies in 2018

HITSA A/S

Sector: Industry. Urban furniture that promotes (urban) quality of life, sustainability and social inclusion

Social impact model: Socially run company with focus on hiring and training people from the margins of the labor market

Number of employees: 109

Location: Kolding and Fredericia

Fund ownership: Approx. 40% of HITSA, which owns 100% of VEKSØ A/S

Investment year: 2018

Responsible partners: Torben Agerup (board representative), Lars Jannick Johansen, Jeanette Thielfoldt

Website: www.hitsa.dk; www.vekso.dk

About the company

HITSA A/S and its subsidiary VEKSØ A/S are among the Nordic region's leading manufacturers of urban space solutions, with particular focus on urban space furniture, bicycle products and solutions for public transport. Customers include municipalities,

Management's review

landscape gardeners, housing associations and contractors. The company has its main locations in Denmark (Kolding and Fredericia) and subsidiaries in Latvia (production company) and Sweden. HITSA is a very socially responsible company, where management and employees take special care of each other. Among others, the company educates vulnerable young people and employs people from the margins of the labor market.

Developments in 2018

The Fund in January 2018 acquired approx. 40% of the shares in HITSA A/S and now owns the company together with the directors Søren Schultz and Henrik Andersen. The shared ambition is to develop the company as a Nordic market leader in urban space solutions with a particular emphasis on urban space furniture that promote quality of life, sustainability and social inclusion - and as part of this, further expand the company's social efforts to the benefit of even more people from the edge of the labor market.

Commercially and financially, HITSA performed better than expected in 2018. Focus in the year was on ensuring a strong integration of two organizations following the acquisition of VEKSØ and on a robust commercial and financial performance. Socially, focus was on maintaining the existing social efforts during the demanding period of integration, protecting vulnerable employees and ensuring healthy internal relations in the integrated company. HITSA sustained its level of social impact and performed on an expected level.

For 2019 HITSA expects a growth in turnover and earnings - as well as a gradual increase in social impact initiatives, which is also reflected in the goals for the coming year.

Recognition and measurement uncertainties

The recognition and measurement of items in the financial statements is not subject to any uncertainty.

Unusual matters

The company's financial position at 31 December 2018 and the results of its operations for the financial year ended 31 December 2018 are not affected by any unusual matters.

Significant events occurring after end of reporting period

In 2018, The management team among others also prepared for the Fund's second investment, which was made in February 2019, in Koatek A/S.

Management's review

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Income statement 1 January - 31 December

	<u>Note</u>	<u>2018</u> TDKK	<u>2017</u> TDKK
Other external expenses	1	-10.724	-3.013
Gross profit		-10.724	-3.013
Financial expenses		-24	0
Profit/loss before tax		-10.748	-3.013
Tax on profit/loss for the year		0	0
Profit/loss for the year		-10.748	-3.013
 Distribution of profit			
Retained earnings		-10.748	-3.013
		-10.748	-3.013

Balance sheet 31 December

	<u>Note</u>	<u>2018</u> TDKK	<u>2017</u> TDKK
Assets			
Investments in associates		12.050	0
Fixed asset investments		12.050	0
Total fixed assets		12.050	0
Prepayments		93	0
Receivables		93	0
Cash at bank and in hand		0	1
Total current assets		93	1
Total assets		12.143	1

Balance sheet 31 December

	<u>Note</u>	<u>2018</u> TDKK	<u>2017</u> TDKK
Equity and liabilities			
Share capital		25.456	2.981
Retained earnings		<u>-13.761</u>	<u>-3.013</u>
Equity	2	<u>11.695</u>	<u>-32</u>
Banks		3	0
Trade payables		250	33
Other payables		<u>195</u>	<u>0</u>
Short term debt		<u>448</u>	<u>33</u>
Total debt		<u>448</u>	<u>33</u>
Total equity and liabilities		<u><u>12.143</u></u>	<u><u>1</u></u>

Statement of changes in equity

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity at 1 January 2018	2.981	-3.013	-32
Cash capital increase	22.475	0	22.475
Net profit/loss for the year	0	-10.748	-10.748
Equity at 31 December 2018	<u>25.456</u>	<u>-13.761</u>	<u>11.695</u>

Notes

	<u>2018</u> TDKK	<u>2017</u> TDKK
1 Staff expenses		
Average number of employees	<u>0</u>	<u>0</u>

2 Equity

Limited Partners' and Special Limited Partners' total committed capital is MDKK 289 of which MDKK 264 is not yet called at 31 December 2018.

Limited Partners' and Special Limited Partners' have during 2018 contributed MDKK 22 and the Fund has distributed MDKK 0.

The Limited Partner's in Den Sociale Kapitalfond Invest I K/S consists of app. 38 pct. international investors and app. 62 pct. Danish investors. More specifically, the investors are divided around 31 pct. Danish funds and family offices, 29 pct. other Danish investors, 1 pct. Management and Senior Advisors and 38 pct. other international investors.

Accounting policies

The annual report of Den Sociale Kapitalfond Invest I K/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied are consistent with those of last year.

The annual report for 2018 is presented in TDKK

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

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

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Other external expenses

Other external expenses include expenses related to administration etc.

Accounting policies

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Balance sheet

Investments

Investments comprise investments in portfolio companies and are measured at fair value on the balance sheet date.

Investments in portfolio companies are measured according to the guidelines of the "International Private Equity and Venture Capital" (IPEV) "Valuation Guidelines" which is why investments are recognised at fair value at the balance sheet date in accordance with the Danish Financial Statement Act §37 and §41.

Investments in portfolio companies of which listed market prices exist are measured on the basis of the last market price. Unlisted portfolio companies are valued either by way of a capital increase round or part sale based on the value of comparable companies as well as by applying traditional measurement methods.

Prepayments

Prepayments recognised under 'Current assets' comprises expenses incurred concerning subsequent financial years.

Liabilities

Liabilities, which include trade payables and other payables, are measured at amortised cost, which is usually equivalent to nominal value.