Danish Sustainable Development Goals Investment Fund K/S

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

CVR no. 39 58 55 29

Annual report
for the period 18 May - 31 December 2018

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

Chairman:

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Nicolai Boserup

Building a better
working world

Contents

Statement by Management

The undersigned have today discussed and approved the annual report of Danish Sustainable Development Goals Investment Fund K/S for the financial year 18 May - 31 December 2018.

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 financial position of the Company at 31 December 2018 and of the results of the Company's operations and cash flows for the financial year 18 May - 31 December 2018.

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

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

Copenhagen, 30 April 2019
Management of DSDG GP Komplementar ApS

Nicolai Boserup Chairman	Torben Huss	Niels Gravgaard Laursen

Independent auditor's report

To the limited partners of Danish Sustainable Development Goals Investment Fund K/S

Opinion

We have audited the financial statements of Danish Sustainable Development Goals Investment Fund K/S for the financial year 18 May - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations and cash flows for the financial year 18 May - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Independent auditor's report

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

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Copenhagen, 30 April 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

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

Management's review

Company details

Name	Danish Sustainable Development Goals Investment Fund K/S
Address, zip code, city	c/o IFU, Fredericiagade 27, 1310 Copenhagen K, Denmark
CVR no.	39 58 55 29
Established	18 May 2018
Registered office	Copenhagen
Financial year	18 May - 31 December
General partner	DSDG GP P/S
Manager of the Partnership	IFU - Investment Fund for Developing Countries
Auditor	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Financial highlights

Seen over the period 18 May - 31 December 2018, the development of the Company can be described by the following financial highlights.

Key figures

DKK'000	2018
Profit/loss	
Profit/loss before financial income and expenses	(41,556)
Net financials	(82)
Profit/loss for the year	(41,638)
Balance sheet	
Balance sheet total	4,826,824
Equity	4,815,063
Cash flows	
Cash flows from operating activities	(47,543)
Cash flows from investing activities	(37,246)
Cash flows from financing activities	85,411
Change in the year	622
Financial ratios	
Return on assets	(0.9)%
Solvency ratio	99.8 %
Return on equity	(1.7)%

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

Management's review

Operating review

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

Main activity

In June 2018, the Danish Sustainable Development Goals Investment Fund K/S was established as a public private partnership. Including a subsequent second close in December 2018, total capital committed to the Danish Sustainable Development Goals Investment Fund K/S reached DKK 4,858 million. Ten institutional and private investors committed DKK 2,915 million and IFU committed DKK 1,943 million.

The purpose of the Danish Sustainable Development Goals Investment Fund K/S is to undertake private sector investments in developing countries with a positive impact on the 17 UN Sustainable development Goals e.g. within renewable energy, agribusiness, industry and service, the financial sector and infrastructure including water and sanitation.

The Danish Sustainable Development Goals Investment Fund K/S is managed by IFU.

Investments in 2018

In 2018, the Danish Sustainable Development Goals Investment Fund K/S made two new investments at a total of DKK 112 million.

Investments contracted in 2018

		Contracted investments in DKKm			Expected direct employment
Project name	Country	Shares*	Loans**	Total	(people)
New investments					
United Exports	South Africa	-	74.6	74.6	573
Better Energy Ganska	Ukraine	37.3	-	37.3	100
Grand total		**37.3**	**74.6**	**111.9**	**673**

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

At year-end 2018, the Danish Sustainable Development Goals Investment Fund K/S has committed DKK 200 million corresponding to 4 per cent of the total fund, including open commitments not yet contracted and investments contracted in 2018.

Sustainability reporting

The Danish Sustainable Development Goals Investment Fund K/S is applying IFU's sustainability policy and offering advice to project companies on how to implement it.

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

Management's review

Commitment to national and international standards

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

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

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

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

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

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

Sustainability throughout the investment process

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

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

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

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

Management's review

Assessment of sustainability performance

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

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

In 2018, internal assessments were carried out for 1 project. (1 not classified)

Sustainability classification	Total Score (%)	Environment (%)	OHS (%)	Human Rights and labour practices (%)	Anti-corruption (%)
Excellent	-	-	-	-	-
Good	75	100	100	100	-
Fair	25	-	-	-	100
Poor	-	-	-	-	-
Critical	-	-	-	-	-

Climate change contribution

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

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

In 2018, the assessment is made for one new investment, which over its lifetime is expected to represent a GHG emission avoidance of approximately 8,000 tCO_2e.

The Danish Sustainable Development Goals Investment Fund K/S is using the UK-based consultant Trucost to set up the methodology and to make the specific assessment of GHG emission avoidance at project level.

Development impact

To internally rate the development effects created by different project companies, IFU has developed a Development Impact Model (DIM). The model consists of 38 indicators on for example employment, training, technology, tax, climate change mitigation, renewable energy, agribusiness and microfinance. The two contracted investments in 2018 are rated.

The two new investments will affect five of the UN Sustainable development Goals.

Expected direct employment in the new investments contracted in 2018 is 673 people.

Management's review

Local corporate tax from the funds' investments are collected annually and published on an aggregated level across IFU and IFU-managed funds in IFU's annual report. New investments contracted during the reporting year are not included. Consequently, the two new investments made in 2018, will be included from 2019.

Operational framework

Projects co-financed by the Danish Sustainable Development Goals Investment Fund K/S must be commercially viable and offer an attractive return to its investors. As a minority investor, the Danish Sustainable Development Goals Investment Fund K/S is prepared to participate with risk capital in the form of equity or mezzanine financing in the range of typically DKK 25 million to DKK 250 million in a single project.

The Danish Sustainable Development Goals Investment Fund K/S revenues will consist of interest, dividends and profit from sale of shares.

Financial review 2018

The Danish Sustainable Development Goals Investment Fund K/S recorded a net loss of DKK (42) million in 2018. The result is almost exclusively made up of operating expenses in the form of management fees and other expenses, as the fund only started to invest in 2018.

Capital position and capital resources

As at 31 December 2018, the investors had paid in DKK 87 million corresponding to 2 per cent of the capital commitment of DKK 4,858 million. Thus, the undisbursed commitment is DKK 4,771 million.

At year-end 2018, the Danish Sustainable Development Goals Investment Fund K/S equity was DKK 44 million, excluding the undisbursed commitment.

Financial risks

The Danish Sustainable Development Goals Investment Fund K/S 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 the Danish Sustainable Development Goals Investment Fund K/S measures its investments at fair market value, the fund's future results may fluctuate considerably. The risk exposure of the Danish Sustainable Development Goals Investment Fund K/S is further elaborated in the notes to the financial statements.

Uncertainty at recognition and measurement

In preparing the financial statements, Management makes a number of estimates and assumptions of future events that will affect the carrying amount of assets and liabilities. The area, where estimates and assumptions are most critical to the financial statements, is the fair value measurement of the investment in the Danish Sustainable Development Goals Investment Fund K/S. The notes to the financial statements provides more details.

Events after the balance sheet date

No events have occurred after the balance sheet date, which have materially affected the Danish Sustainable Development Goals Investment Fund K/S financial position.

Management's review

Outlook for 2019

The Danish Sustainable Development Goals Investment Fund K/S will continue to make new investments in 2019. A negative result, mainly reflecting management fee and other expenses, is expected, as investments will normally only start to contribute positively after a certain time.

Financial statements 18 May - 31 December

Income statement

Note	DKK'000	2018
	Contribution from investments	(299)
	Operating expenses, net	(41,257)
	Gross profit/loss	**(41,556)**
	Financial income, net	(82)
	Profit/loss before tax	**(41,638)**
	Net profit/loss for the year	**(41,638)**
	Recommended distribution of profit/loss	
	Retained earnings	(41,638)
		(41,638)

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

Financial statements 18 May - 31 December

Balance sheet

Note	DKK'000	2018
	ASSETS	
	Non-current assets	
4	Investments	37,246
	Total non-current assets	**37,246**
	Current assets	
	Undisbursed commitments	4,771,290
	Prepayments	17,590
	Other receivables	76
	Cash	622
	Total current assets	**4,789,578**
	TOTAL ASSETS	**4,826,824**
	EQUITY AND LIABILITIES	
	Equity	
	Paid-in capital	87,043
	Undisbursed commitments	4,771,290
	Total commitment	**4,858,333**
	Repaid capital	-
	Retained earnings	(43,270)
	Total equity	**4,815,063**
5	**Provisions for losses**	
	Guarantees and loan commitments	299
	Current liabilities	
	Payables to group enterprises	11,412
	Other payables	50
	Total current liabilities	**11,462**
	Total liabilities	**11,462**
	TOTAL EQUITY, PROVISIONS FOR LOSSES AND LIABILITIES	**4,826,824**

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

Financial statements 18 May - 31 December

Statement of changes in equity

DKK'000	2018
Total equity	
Paid-in capital beginning of year	-
Paid-in capital during the year	87,043
Paid-in capital end of year	**87,043**
Undisbursed commitments	4,771,290
Total committed capital	**4,858,333**
Repaid capital beginning of year	-
Repaid capital during the year	-
Repaid capital end of year	**-**
Total capital end of year, net	**4,858,333**
Retained earnings beginning of year	-
Establishment expenses	(1,632)
Transferred from net income for the year	(41,638)
Retained earnings end of year	**(43,270)**
Total equity end of year	**4,815,063**

At 31 December 2018, the investors had paid in DKK 87 million, corresponding to nearly 2% of the capital commitment of DKK 4,858 million. Thus, the remaining commitment is DKK 4,771 million.

Financial statements 18 May – 31 December

Cash flow statement

Note	DKK'000	2018
	Cash flow from operating activities	
	Net profit/loss for the year	(41,638)
6	Adjustments	299
7	Change in working capital	(6,204)
	Net cash from operating activities	**(47,543)**
	Cash flow from (to) investing activities	
	Paid-in investments in portfolio companies	(37,246)
	Net cash from (to) investing activities	**(37,246)**
	Cash flow from (to) financing activities	
	Paid-in capital from partners	87,043
	Establishment expenses	(1,632)
	Net cash from (to) financing activities	**85,411**
	Net change in cash	622
	Cash beginning of year	-
	Cash end of year	**622**
	- Shown as cash in current assets	**622**

Financial statements 8 January - 31 December

Notes

1 **Accounting policies**

The annual report of Danish Sustainable Development Goals Investment Fund K/S (DSDG) for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

Presentation and classification

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

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

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

DSDG applies the accounting principles described in the Danish Financial Statements Act Section 37 (5), on measurement of financial assets and liabilities in accordance with IFRS.

Information brought to DSDG's attention before the time of finalising the presentation of the annual report that evidence affairs and conditions existing at the balance sheet date is taken into consideration 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.

Financial statements 18 May - 31 December

Notes

1 Accounting policies (continued)

For assets and liabilities that are measured at fair value on a recurring basis, DSDG 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 financial expenses, depending on their nature.

Non-monetary items

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

Income statement

Contribution from investments

Contribution from investments consists of contribution from share capital investments and contribution from binding commitments on 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 binding commitments on loans includes provisions for losses.

Operating expenses, net

The Investment Fund for Developing Countries (IFU) manages the administration and accounting of the Company. Operating expenses, net, comprise fees to the 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 for the year

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

Financial statements 18 May – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Investments

Investments consist of share capital investments.

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

Share capital investments where DSDG has significant influence (typically 20-50 per cent of the voting rights) are associates and are accounted for as share capital investments.

Loans, guarantees and loan commitments

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

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

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

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

Other receivables

Other receivables includes dividends and prepayments.

Current liabilities

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

Current liabilities primarily consist of payable management fees.

Cash flow statement

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

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

Financial statements 18 May - 31 December

Notes

1 Accounting policies (continued)

Contingent liabilities

Undisbursed commitments to investments comprise 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 DSDG's control.

Financial ratios

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

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

2 Contingent liabilities and other financial obligations

DSDG has entered into the following commitments to investments:

DKK'000	2018
Undisbursed contracted commitments	74,673
Guarantees	-
Binding commitments	88,546
Total undisbursed to investments	**163,219**

DSDG has signed a management agreement with IFU, whereby IFU provides administration, monitoring and investment advice to DSDG. The management agreement cannot be cancelled. For 2018, the payment amounts to DKK 40,013 thousand incl. VAT.

Financial statements 18 May - 31 December

Notes

3 **Related parties and ownership**

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

- Pensionskassen for Sygeplejersker og Lægesekretærer
- Pensionskassen for Sundhedsfaglige
- Pensionskassen for Socialrådgivere, Socialpædagoger og Kontorpersonale
- Pensionskassen for Farmakonomer
- PensionDanmark Pensionsforsikringsaktieselskab
- PFA Pension, forsikringsaktieselskab
- Arbejdsmarkedets Tillægspension
- Juristernes og Økonomernes Pensionskasse
- Danske Civil- og Akademiingeniørers Pensionskasse
- PenSam Liv forsikringsaktieselskab
- Jabami ApS
- Webco Invest ApS
- Futura Shipping og Invest ApS
- SEB Pension och Försäkring AB (FOP3)
- SEB Pension och Försäkring AB (FOP4)
- Secure SDG Fund K/S
- Chr. Augustinus Fabrikker Akts.
- IFU

Other related parties:

- DSDG GP P/S
- DSDG GP Komplementar ApS

Financial statements 18 May - 31 December

Notes

DKK'000	2018
4 Investments	
Cost at 18 May	-
Additions for the year	37,246
Cost at 31 December	**37,246**
Accumulated value adjustment at 18 May	-
Value adjustments	-
Accumulated value adjustment end of year	-
Carrying amount at 31 December	**37,246**
Hereof associated companies:	
Share capital investment in projects end of year, at cost	37,246
Accumulated value adjustments end of year	-
	37,246

Associated companies:

Name:	Domicile:	Form of company:	DSDG K/S' ownership interest (%)	Profit/loss	Equity
				According to the latest approved annual report	
Better Energy Energo P/S	Denmark	P/S	41,30%	N/A	N/A

DKK'000	2018
5 Provisions for losses	
Value adjustments on remaining commitments on loans	299
Guarantees and loan commitments end of year	**299**
6 Cash flow statement - adjustments	
Value adjustments	299
	299

Financial statements 18 May - 31 December

Notes

7 Cash flow statement - changes in working capital

Change in current assets	(17,666)
Change in payables, etc.	11,462
	(6,204)

8 Financial risk management

Introduction

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

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

9 Equity and credit risks

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 DSDG will incur a financial loss due to a counterparty not fulfilling its obligations. These credit exposures occur from project loans and other transactions.

Managing equity and credit risks

At the portfolio level, DSDG mitigates equity and credit risks by investing in a variety of countries and by limiting investments in a single project.

DSDG assesses the concentration of risk on the basis of total commitments to the Fund. Further, DSDG assesses, through the due diligence process, the specific risks for each share capital investment and seeks to mitigate associated equity risks.

For some of DSDG's share capital investments, DSDG has the opportunity to sell the shares through pre-agreed exit agreements. In this way, DSDG mitigates the risk of not being able to exit the investments.

See note 14 for fair value measurement basis.

The table below shows the distribution of the cost of DSDG's investments by the OECD country risk classification.

This classification takes into account the political and economic environment of each country, including risk of force majeure such as war, etc. The classification of each country is updated twice a year.

2018	Share capital investments		Commitments (off balance sheet)	
OECD	DKK'000	%	DKK'000	%
4	-	-%	74,673	46%
7	37,246	100%	88,546	54%
	37,246	**100%**	**163,219**	**100%**

Financial statements 18 May - 31 December

Notes

9 Equity and credit risks (continued)

Maximum exposure to credit risk

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

	2018	
DKK'000	Carrying amount	Maximum credit exposure (contractual cash flow)
Other receivables	17,666	17,666
Cash	622	622
Commitments	-	74,673
	18,288	92,961

10 Currency risk

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

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

Currency exposure and sensitivity

In 2018, there is no currency risk apart from share capital investments.

11 Interest rate risk

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

Interest rate exposure and sensitivity

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

There are no outstanding loans at 31 December 2018.

Financial statements for the period 18 May – 31 December

Notes

12 Liquidity risk

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

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

To meet these and other obligations, DSDG depends on its limited partners being able to honour their commitments to DSDG. A credit facility of DKK 100 million is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, DKK 100 million was available for drawing.

For information on 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.

2018

DKK'000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Other receivables	17,666	17,666	17,590	76	-	-	-
Cash and cash equivalents	622	622	622	-	-	-	-
Total assets	**18,288**	**18,288**	**18,212**	**76**	**-**	**-**	**-**
Liabilities							
Other current liabilities	11,462	11,462	11,462	-	-	-	-
Total liabilities	**11,462**	**11,462**	**11,462**	**-**	**-**	**-**	**-**
Off-balance							
Amounts payable on share capital and loan agreements	-	74,673	74,673	-	-	-	-
Binding commitments	-	88,546	-	88,546	-	-	-
Total off-balance	**-**	**163,219**	**74,673**	**88,546**	**-**	**-**	**-**

Financial statements for the period 18 May – 31 December

Notes

13 Classification of financial instruments

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

2018

DKK'000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Other liabilities at amortised cost	Total
Financial assets				
Share capital investment in projects	37,246	-	-	37,246
Other receivables	-	17,666	-	17,666
Cash and cash equivalents	-	622	-	622
Total financial assets	**37,246**	**18,288**	**-**	**55,534**
Financial liabilities				
Current liabilities:				
Other current liabilities	-	-	11,462	11,462
Total financial liabilities	**-**	**-**	**11,462**	**11,462**

14 Fair value measurement basis

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

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

In the following sections, a short description of the overall principle for DSDG'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 operating 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 18 May - 31 December

Notes

14 Fair value measurement basis (continued)

Share capital investments

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

Investments are valued as follows:

- In the initial phase, all investments are valued at cost price less any impairment adjustment, as this is deemed to provide a good indication of fair value. Hereafter investments will be valued at either the Discounted Cash Flow method (DCF), by an earnings multiple if appropriate and reliable transaction/earnings multiples are available, or by the net assets methodology, if appropriate.
- If during the 12-month period prior to the reporting date DSDG 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.

2018

DKK'000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	-	-	-	-
Paid-in share capital in projects	-	-	37,246	37,246
Closing balance	-	-	37,246	37,246
Total recurring fair value measurements	-	-	37,246	37,246

Financial statements for the period 18 May - 31 December

Notes

14 Fair value measurement basis (continued)

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

2018

Type of investment	Fair value at 31/12/2018	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Investments					
	37,246	Cost			-
	-	Discounted cash flow	WACC	+10%	-
			Growth in terminal value	-20%	-
Share capital investments	37,246				