

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 2019

Approved at the Company's annual general meeting on 30 April 2020

Chairman:

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Nicolai Boserup

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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 1 January - 31 December 2019.

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 2019 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2019.

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 2020
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 1 January - 31 December 2019, 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 2019 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2019 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 2020
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	1 January - 31 December
General partner	DSDG GP P/S
Manager of the Partnership	IFU - Investment Fund for Developing Countries
Auditor	Ernst & Young Godkendt Revisionspartnerselskab Dirch Passers Alle 36, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Financial highlights

Seen over a two-year period, the development of the Company can be described by the following financial highlights.

Key figures

DKK'000	2019	2018
Profit/loss		
Profit/loss before financial income and expenses	(67,580)	(41,556)
Net financials	(316)	(82)
Profit/loss for the year	(67,896)	(41,638)
Balance sheet		
Balance sheet total	4,741,881	4,826,824
Equity	4,740,456	4,815,063
Cash flows		
Cash flows from operating activities	(83,241)	(47,543)
Cash flows from investing activities	(195,996)	(37,246)
Cash flows from financing activities	283,773	85,411
Change in the year	4,536	622
Financial ratios		
Return on assets	(1.4) %	(0.9) %
Solvency ratio	100.0 %	99.8 %
Return on equity	(1.4) %	(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 2019 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 2019

In 2019, the Danish Sustainable Development Goals Investment Fund K/S made six new investments at a total of DKK 482 million.

Investments contracted in 2019

Project name	Contracted investments in DKKm			Expected direct employment (people)	
	Country	Shares*	Loans**		Total
New projects					
Africa					
Africa Educations Holdings	Africa (Regional)	45.9		45.9	
Hospitals Holdings Investment	Africa (Regional)	62.5		62.5	
Subtotal Africa		108.4		108.4	
Asia					
Leap India	India		94.9	94.9	128
Frontiir Myanmar	Myanmar	25.1		25.1	1,500
Pakistan Clean Energy	Pakistan	83.3		83.3	42
Subtotal Asia		108.4	94.9	203.3	1,670
Global					
JCM Power Corporation	Dac Developing countries	170.1		170.1	
Subtotal Asia		170.1		170.1	
Total new projects		386.9	94.9	481.8	1,670

*) Including overrun commitments

**) Including guarantees

Management's review

At year-end 2019, the Danish Sustainable Development Goals Investment Fund K/S had committed DKK 975 million corresponding to 20 per cent of the total fund towards investments including open commitments not yet contracted.

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 can be found on IFU's website.

Commitment to national and international standards

IFU is domiciled in Denmark and subject to Danish law. With regards to sustainability, IFU will adhere to the Danish guidelines on responsible business conduct (Erhvervsstyrelsen 2018) and the OECD Guidelines for Multinational Enterprises (2011).

In countries where IFU invests, IFU requires project companies to follow international standards and principles in addition to complying with national regulations. 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), respectively
- the UN Guiding Principles on Business and Human Rights (2011)
- the 10 principles of the UN Global Compact (1999)
- the UN Convention against Corruption (2010) and OECD's Convention on Combating Bribery (1997)

Sustainability being an integral part of IFU's investment strategy, IFU is committed to contributing to social, environmental and economic sustainable development, including the UN Sustainable Development Goals (SDGs).

Aligned with the UNGP and the OECD Guidelines for Multinational Enterprises, IFU will furthermore 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. Where adverse impacts are identified, IFU will use its leverage to address and mitigate such adverse impacts.

IFU is committed to ensuring that Environmental, Social and Governance issues in investments are aligned with international standards where these go beyond regulation in host countries and where these standards may improve operational excellence of the companies. This includes finding innovative solutions using IFU's leverage as an investor.

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.

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.

Management's review

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

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

Assessment of sustainability performance

The annual classification of project companies is based on an assessment of their sustainability performance. The classification is a combination of four separate areas within sustainability: 1) environment, 2) health and safety, 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 2019, internal assessments were carried out for six projects. Two projects not yet disbursed are not classified.

Sustainability classification	Total Score (%)	Environment (%)	Health and safety (%)	Human Rights and labour practices (%)	Anti-corruption (%)
Excellent	25	33	33	17	17
Good	71	67	67	83	67
Fair	4	0	0	0	17
Poor	0	0	0	0	0
Critical	0	0	0	0	0

Totals may not add up due to rounded figures

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 2019, the assessment was made for one new investment, which over its lifetime is expected to represent a GHG emission avoidance of approximately 1.7m tCO₂e.

The Danish Sustainable Development Goals Investment Fund K/S has in 2019 used the UK-based consultant Trucost to set up the methodology and to make the specific assessment of GHG emission avoidance at project level.

Management's review

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 six contracted investments in 2019 have been rated.

The new investments will impact ten out of the 17 goals. All investments impact goal 1, 8 and 17, being: No poverty, Decent work and economic growth and Partnerships for the goals. In addition, two renewable investments impact goal 7 and 13 being: Affordable and clean energy and Climate action. The remaining investments individually impact goal 2, 3, 4, 5, 9 and 12 being: Zero hunger, Good health and wellbeing, Quality education, Gender equality, Industry, innovation and infrastructure and Responsible consumption and production.

Projects contracted by the fund are included in the impact reporting in IFU's annual report.

Expected direct employment in the new investments contracted in 2019 is 1,670 people.

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 but will be accounted for from 2020.

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 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 2019

The Danish Sustainable Development Goals Investment Fund K/S recorded a net loss of DKK (68) million in 2019 compared to a net loss of DKK (42) million in 2018. The result is almost entirely made up of operating expenses in the form of management fees and other expenses, as the fund only started to invest in 2018 and most investments are still maintained at acquisition cost.

Capital position and capital resources

As at 31 December 2019, the investors had paid in DKK 378 million corresponding to 8 per cent of the capital commitment of DKK 4,858 million. Thus, the undisbursed commitment is DKK 4,481 million.

At year-end 2019, the Danish Sustainable Development Goals Investment Fund K/S equity was DKK 260 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 volatile, 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.

Management's review

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 provide 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.

Specifically, no material effect on Danish Sustainable Development Goals Investment Fund K/S's financial position related to the consequences of actions taken against the COVID-19 has at this time been identified, however the likelihood of such an effect materialising must currently be considered high.

Outlook for 2020

The Danish Sustainable Development Goals Investment Fund K/S will continue to make new investments in 2020. A negative result, at this time mainly reflecting management fee and other expenses, is expected, as the investment activity remain in the early phase. The result is subject to considerable uncertainty, not least related to the unknown effects of the COVID-19 outbreak.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2019	2018
	Contribution from investments	6,805	(299)
	Operating expenses, net	(74,385)	(41,257)
	Gross profit/loss	(67,580)	(41,556)
	Financial income, net	(316)	(82)
	Profit/loss before tax	(67,896)	(41,638)
	Net profit/loss for the year	(67,896)	(41,638)
	Recommended appropriation of profit/loss		
	Retained earnings	(67,896)	(41,638)
		(67,896)	(41,638)

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

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	ASSETS		
	Non-current assets		
4	Investments	192,324	37,246
	Loans	44,728	-
	Investments in subsidiaries	40	-
	Total non-current assets	237,092	37,246
	Current assets		
	Undisbursed commitments	4,480,806	4,771,290
	Prepayments	17,932	17,590
	Other receivables	893	76
	Cash	5,158	622
	Total current assets	4,504,789	4,789,578
	TOTAL ASSETS	4,741,881	4,826,824
	EQUITY AND LIABILITIES		
	Equity		
	Paid-in capital	377,528	87,043
	Undisbursed commitments	4,480,806	4,771,290
	Total commitment	4,858,334	4,858,333
	Repaid capital	(6,519)	-
	Retained earnings	(111,359)	(43,270)
	Total equity	4,740,456	4,815,063
5	Provisions for losses		
	Guarantees and loan commitments	187	299
	Current liabilities		
	Payables to group enterprises	1,113	11,412
	Other payables	125	50
	Total current liabilities	1,238	11,462
	Total liabilities	1,238	11,462
	TOTAL EQUITY, PROVISIONS FOR LOSSES AND LIABILITIES	4,741,881	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 1 January - 31 December

Statement of changes in equity

DKK'000	2019	2018
Total equity		
Paid-in capital beginning of year	87,043	-
Paid-in capital during the year	290,485	87,043
Paid-in capital end of year	377,528	87,043
Undisbursed commitments	4,480,806	4,771,290
Total committed capital	4,858,334	4,858,333
Repaid capital beginning of year	-	-
Repaid capital during the year	(6,519)	-
Repaid capital end of year	(6,519)	-
Total capital end of year, net	4,851,815	4,858,333
Retained earnings beginning of year	(43,270)	-
Establishment expenses	(193)	(1,632)
Transferred from net income for the year	(67,896)	(41,638)
Retained earnings end of year	(111,359)	(43,270)
Total equity end of year	4,740,456	4,815,063

At 31 December 2019, the investors had paid in DKK 378 million, corresponding to 8% of the capital commitment of DKK 4,858 million. Thus, the remaining commitment is DKK 4,481 million.

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2019	2018
	Cash flow from operating activities		
	Net profit/loss for the year	(67,896)	(41,638)
6	Adjustments	(3,963)	299
7	Change in working capital	(11,382)	(6,204)
	Net cash from operating activities	(83,241)	(47,543)
	Cash flow from (to) investing activities		
	Received from projects	4,554	-
	Paid-in investments in portfolio companies	(200,510)	(37,246)
	Paid-in investments in subsidiaries	(40)	-
	Net cash from (to) investing activities	(195,996)	(37,246)
	Cash flow from (to) financing activities		
	Paid-in capital from partners	290,485	87,043
	Establishment expenses	(193)	(1,632)
	Repaid capital to partners	(6,519)	-
	Net cash from (to) financing activities	283,773	85,411
	Net change in cash	4,536	622
	Cash beginning of year	622	-
	Cash end of year	5,158	622
	- Shown as cash in current assets	5,158	622

Financial statements 1 January - 31 December

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1 Accounting policies

The annual report of Danish Sustainable Development Goals Investment Fund K/S (DSDG) for 2019 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 1 January - 31 December

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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 1 January - 31 December

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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 1 January - 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	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
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 liabilities and other financial obligations

DSDG has entered into the following commitments to investments:

DKK'000	2019	2018
Undisbursed contracted commitments	352,224	74,673
Binding commitments	389,198	88,546
Total undisbursed to investments	741,422	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 2019, the payment amounts to DKK 70,554 thousand incl. VAT.

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3 Related parties and ownership

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

- ▶ Pensionskassen for Sygeplejersker og Lægeseekretærer
- ▶ 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
- ▶ DSDG Holding ApS

Financial statements 1. January - 31 December

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DKK'000	2019	2018			
4 Investments					
Cost at beginning of year	37,246	-			
Additions for the year	155,710	37,246			
Disposals	(4,555)	-			
Cost at 31 December	188,401	37,246			
Accumulated value adjustment at beginning of year	-	-			
Value adjustments	3,923	-			
Accumulated value adjustment end of year	3,923	-			
Carrying amount at 31 December	192,324	37,246			
Hereof associated companies:					
Share capital investment in projects end of year, at cost	37,286	37,246			
Accumulated value adjustments end of year	(745)	-			
	36,541	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%	12	81,299
Loans					
Cost at beginning of year				-	-
Additions for the year				44,800	-
Exchange rate adjustments				18	-
Cost at 31 December				44,818	-
Accumulated value adjustments beginning of year				-	-
Value adjustments				(90)	-
Accumulated value adjustments end of year				(90)	-
Carrying amount at 31 December				44,728	-
5 Provisions for losses					
Value adjustments on remaining commitments beginning of year				299	-
Value adjustments on remaining commitments on loans				(112)	299
Guarantees and loan commitments end of year				187	299

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DKK'000	2019	2018
6 Cash flow statement - adjustments		
Value adjustments	(3,963)	299
	(3,963)	299
7 Cash flow statement - changes in working capital		
Change in current assets	(1,144)	(17,666)
Change in payables, etc.	(10,238)	11,462
	(11,382)	(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.

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

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

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9 Equity and credit risk (continued)

The table below shows the distribution of the cost of 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.

2019	Share capital investments		Project loans		Total		Commitments (off balance)	
	DKK'000	%	DKK'000	%	DKK'000	%	DKK'000	%
OECD								
3	-	-	-	-	-	-	93,600	12
4	-	-	44,818	100	44,818	19	29,879	4
5	-	-	-	-	-	-	243,253	33
6	25,336	13	-	-	25,336	11	140,057	19
7	32,691	17	-	-	32,691	14	87,668	12
Africa regional	35,375	19	-	-	35,375	15	74,348	10
DAC	94,999	51	-	-	94,999	41	72,617	10
	188,401	100	44,818	100	233,219	100	741,422	100

2018	Share capital investments		Project loans		Total		Commitments (off balance)	
	DKK'000	%	DKK'000	%	DKK'000	%	DKK'000	%
OECD								
3	-	-	-	-	-	-	74,673	46
6	37,246	100	-	-	37,246	100	88,546	54
	37,246	100	-	-	37,246	100	163,219	100

Credit quality/impairment

All outstanding project loans have been classified into three stages:

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

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

DKK'000	2019	2018
Project loans (stage 1)	44,818	-
Total	44,818	-

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9 Equity and credit risk (continued)

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

DKK'000	2019	2018
OECD 4	44,818	-
Total	44,818	-

The table below shows the project loans according to stages.

2019				
DKK'000	Value adjustments %	Project loans at cost	Accumulated value adjustments	Project loans carrying amount
Project loans (stage 1)	(0.2)	44,818	(90)	44,728
		44,818	(90)	44,728

Project Loans at amortised cost before value adjustments

2019				
DKK'000	Stage 1	Stage 2	Stage 3	Total
Project loans beginning of year at cost	-	-	-	-
Disbursements during the year	44,800	-	-	44,800
Exchange rate adjustments, project loans	18	-	-	18
Project loans end of year at cost before change of stages	44,818	-	-	44,818
Change in loan value from stage 1	-	-	-	-
Change in loan value from stage 2	-	-	-	-
Change in loan value from stage 3	-	-	-	-
Project loans end of year at cost	44,818	-	-	44,818

Accumulated value adjustments

2019				
DKK'000	Stage 1	Stage 2	Stage 3	Total
Accumulated value adjustments beginning of year	-	-	-	-
Value adjustments	(90)	-	-	(90)
Project loans end of year at cost before change of stages	(90)	-	-	(90)
Change in loan value from stage 1	-	-	-	-
Change in loan value from stage 2	-	-	-	-
Change in loan value from stage 3	-	-	-	-
Accumulated value adjustments end of year	(90)	-	-	(90)

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9 Equity and credit risks (continued)

Maximum exposure to credit risk

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

DKK'000	2019		2018	
	Carrying amount	Maximum credit exposure (contractual cash flow)	Carrying amount	Maximum credit exposure (contractual cash flow)
Project loans	44,728	44,818	-	-
Interest receivable related to projects	878	878	-	-
Other receivables	17,947	17,947	17,666	17,666
Cash	5,158	5,158	622	622
Commitments	-	123,478	-	74,673
	68,711	192,279	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

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

2019						Increase in foreign exchange rates	Effect on profit or loss
DKK'000	Project loans	Interest receivables	Other project related receivables	Other project related debt	Net exposure		
EUR	44,818	878	-	-	45,696	1%	457
	44,818	878	-	-	45,696		

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11 Interest rate risk

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

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

Interest rate exposure and sensitivity

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

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

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.

2019	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
DKK'000							
Assets							
Project loans	44,728	44,818	-	14,939	29,879	-	-
Interest receivable related to projects	878	878	878	-	-	-	-
Other receivables	17,947	17,947	-	17,947	-	-	-
Cash and cash equivalents	5,158	5,158	5,158	-	-	-	-
Total assets	68,711	68,801	6,036	32,886	29,879	-	-
Liabilities							
Other current liabilities	1,238	1,238	-	1,238	-	-	-
Total liabilities	1,238	1,238	-	1,238	-	-	-
Off-balance							
Amounts payable on share capital and loan agreements	-	352,224	352,224	-	-	-	-
Binding commitments	-	389,198	-	389,198	-	-	-
Total off-balance	-	741,422	352,224	389,198	-	-	-

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12 Liquidity risk (continued)

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	-	-	-

13 Classification of financial instruments

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

2019				
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	192,324	-	-	192,324
Project loans	-	44,728	-	44,728
Interest receivable related to projects	-	878	-	878
Other receivables	-	17,947	-	17,947
Cash and cash equivalents	-	5,158	-	5,158
Total financial assets	192,324	68,711	-	261,035
Financial liabilities				
Current liabilities:				
Other current liabilities	-	-	1,238	1,238
Total financial liabilities	-	-	1,238	1,238

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13 Classification of financial instruments (continued)

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

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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.

2019

DKK'000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	-	-	37,246	37,246
Total gains/ losses for the period included in profit or loss ¹	-	-	3,923	3,923
Paid-in share capital in projects	-	-	155,710	155,710
Disposal	-	-	(4,555)	(4,555)
Closing balance	-	-	192,324	192,324
Total recurring fair value measurements	-	-	192,324	192,324

¹ Recognised in Contribution from share capital investments. Hereof DKK 4 million (2018: DKK 0 million) is attributable to assets held at 31 December for level 3.

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14 Fair value measurement basis (continued) 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

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

2019

Type of investment	Fair value at 31/12/2019	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Investments					
	155,710	Cost			
	36,614	Binding offers/ transactions/exit terms			
	-	Discounted cash flow	WACC	+10%	-
			Growth in terminal value	-20%	-
Share capital investments	192,324				

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				

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