THE INVESTMENT FUND FOR CENTRAL AND EASTERN EUROPE (IØ)

ANNUAL REPORT 2017

Contents

Statement by the management on the annual report

The executive management and the board of directors have today considered and approved the annual report of the Investment Fund for Central and Eastern Europe (IØ) for the financial year 1 January – 31 December 2018.

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

In our opinion, the annual report gives a true and fair view of IØ's financial position as per 31 December 2017 and of the results of IØ's operations and cash flows for 2017.

Further, it is our opinion that business procedures and internal controls have been set up to ensure that the transactions covered by the financial statements comply with the appropriations granted, legislation and other regulations and with agreements entered into and usual practice; and that due financial consideration has been taken of the management of funds and operations covered by the financial statements.

It is further our opinion that the Management's Review includes a true and fair account of the development in the operations and financial circumstances of the fund of the results for the year and the financial position of IØ.

Copenhagen, 5 April 2018

Executive management:

Tommy Thomsen, CEO

Torben Huss, Executive Vice President

Board of directors:

Michael Rasmussen, Chairman

Lars Andersen, Deputy Chairman

Jens Jørgen Kollerup

Bjarne H. Sørensen

Dorrit Vanglo

Mads Kjær

Charlotte Jepsen

Independent auditors' report

To the board of directors of the Investment Fund for Central and Eastern Europe (IØ)

Opinion

We have audited the financial statements of IØ for the financial year 1 January – 31 December 2017, which comprise an income statement, balance sheet, statement of changes in equity, statement of cash flows and notes, including a summary of significant 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 IØ's financial position at 31 December 2017 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2017 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. In addition, the audit was performed in accordance with generally accepted public auditing standards and the agreement regarding the audit of IØ between the Ministry of Foreign Affairs and the Auditor General. 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 IØ 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 IØ's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IØ'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 IØ's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause IØ 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 our procedures, we conclude that the management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the management's review.

Report on other legal and regulatory requirements

Statement on compliance audit and performance audit

Management is responsible for ensuring that the transactions covered by the financial reporting comply with appropriations granted, legislation and other regulations and with agreements entered into and usual practice; and that due financial consideration has been taken of the management of funds and operations covered by the financial statements.

In performing our audit of the financial statements, it is our responsibility in accordance with generally accepted public auditing standards to select relevant items for both compliance audit and performance audit purposes. When conducting a compliance audit, we test the selected items to obtain reasonable assurance as to whether the transactions covered by the financial reporting comply with the appropriations granted, legislation and other regulations as well as agreements entered into and usual practice. When conducting a performance audit, we perform assessments to obtain reasonable assurance as to whether the tested systems, processes or transactions support due financial consideration in relation to the management of funds and operations covered by the financial statements.

We must report on any grounds for significant critical comments should we find such in performing our procedures.

We have no significant critical comments to report in this connection.

Copenhagen, 5 April 2018

Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Lars Rhod Søndergaard
State Authorised Public Accountant
MNE no: mne28632

Henrik Barner Christiansen
State Authorised Public Accountant
MNE no: mne10778

Financial highlights

Financial highlights 2013 - 2017

	2017 DKKm	2016 DKKm	2015 DKKm	2014 DKKm	2013 DKKm
INCOME STATEMENT					
Gross contribution from projects[1]	23	49	21	2	76
Operating income[2]	20	45	16	(5)	67
Net income for the year	20	45	16	(5)	68
BALANCE SHEET AT 31 DECEMBER					
Share capital investment in projects at cost	82	83	126	166	191
Project loans at cost[3]	127	191	223	249	304
Total investment in projects at cost	209	273	349	415	495
Accumulated value adjustments	(77)	(85)	(104)	(82)	23
Investments in projects, net	132	189	245	334	518
Cash and bonds, net	(11)	4	(27)	30	(29)
Total equity capital	122	252	283	367	497
Total balance	133	260	316	367	536
CASH FLOW STATEMENT					
Investments disbursed	0	0	0	0	10
Repaid capital during the year	(150)	(75)	(100)	(125)	(200)
ADDITIONAL DATA					
New projects contracted (no.)[4]	0	0	0	0	0
Portfolio of projects (no.)	13	17	25	27	34
Investments contracted	0	0	0	0	0
Undisbursed contracted investments incl. guarantees	0	0	0	0	0
Binding commitments not yet contracted	0	0	0	0	0
KEY RATIOS					
Gross yield from share capital investments[5]	17,7%	25,6%	6,2%	1,4%	-1,0%
Gross yield from project loans and guarantees[5]	6,3%	16,1%	6,6%	-0,5%	31,1%
Gross yield from projects (total)[5]	14,5%	22,4%	7,3%	0,5%	14,4%
Net income for the year/Average total equity capital	10,6%	16,8%	4,9%	-1,2%	12,0%
Solidity ratio	91,8%	97,3%	89,4%	100,0%	92,8%

[1] Information about composition of the contribution from projects including value adjustments can be found in "Financial review 2017" on page 11.
Investments are valued at fair market value in accordance with the Danish Financial Statemants Act.

[2] Operating income = gross contribution from projects less operating expenses

[3] Project loans at cost for the period 2013 to 2014 are not currency exchange rate adjusted.

[4] Figures for "New projects contracted (no.)" and "Portfolio of projects end of year (no.)" for the period 2013 have been adjusted, as IØ no longer includes indirect projects in the count.
Indirect projects are typically majority-owned subsidiaries of existing IØ projects.

[5] Gross contribution from projects/Average investment in projects - value adjusted
Gross contribution from share capital investments/Average share capital in projects - value adjusted
Gross contribution from project loans and guarantees/Average project loans - value adjusted

Management's review

Main activities

IØ generated net income of DKK 20m in 2017.

In 2010, the Danish government decided that the phasing out of IØ should be accelerated by increasing the capital extraction from IØ. As a result, the last new direct project investment was contracted by IØ in 2011.

At the end of 2017, IØ had co-financed a total of 408 projects in 18 countries. Of these, IØ was still participating in 13 investments, while 395 had been exited.

Of the 13 active projects, 9 are located in Ukraine, 2 in the Russian Federation, and the remaining 2 projects are in Croatia and Hungary. It is expected that the remaining IØ projects will be exited within the next 3 to 4 years.

Operational framework

IØ's legal mandate was to promote Danish investments in central and Eastern Europe. Consequently, the aim was to support the reformist forces in these countries in their efforts to achieve increased economic, commercial and industrial development. Additionally, the aim was also to enhance the possibilities for closer economic cooperation between Denmark and Central and Eastern Europe resulting in generally improved East/West relations to the benefit of Danish trade, industry and employment in Denmark.

IØ was established in 1989 as a legally independent, self-governing entity, limited in its liability to the extent of its net worth only. IØ's board of directors and the managing director is appointed by the Danish Minister for Foreign Affairs.

IØ provided share capital participation, loans and guarantees on commercial terms for investments in production or service companies in Central and Eastern Europe. The Fund's revenues consist of interest, dividends and profits from the sale of shares.

IØ operates on commercial terms and is self-financing.

Capital extraction

In 2017, IØ repaid an additional DKK 150m to the Danish State. This brought the total accumulated capital repayment made by IØ to the State since 2004 to DKK 3,675m[1]. As at 31 December 2017, IØ had equity amounting to DKK 122m.

IØ received in total DKK 1,898m[1] from the Danish government during the period 1990-2001.

In 2018, it is expected that a further repayment of DKK 60m will be made.

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[1] Figures are in nominal prices.

Sustainability reporting

IØ is applying IFU's sustainability policy and offering advice to project companies on how to implement it.

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

IFU is a signatory to the UN Global Compact and promotes the Global Compact principles through its investments, thereby striving to create shared value by:

- respecting and promoting all basic human rights, including labour rights and occupational health and safety, and addressing adverse human rights impacts that the investment may cause or contribute to as outlined in e.g. the UN Guiding Principles on Business and Human Rights;
- enhancing positive development effects, including the creation of jobs and income, payment of taxes, contribution to government revenue, transfer of know-how and cleaner technologies, training and education, gender equality, community health and food security and other corporate social responsibility-related activities;
- securing corporate governance and business ethics, including anti-corruption, anti-fraud, transparency and stakeholder engagement;
- improving environmental performance through a preventative and precautionary approach that addresses environmental challenges, including climate change, loss of biodiversity and land use changes; and
- ensuring good animal welfare, including proper treatment of animals used for food production and for other commercial purposes and testing.

The investees must continuously work towards achieving satisfactory long-term results within sustainability, and such activities must be anchored in their business plan.

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.

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 2017, internal assessments were carried out for 13 IØ projects.

Annual assessment of sustainability performance

Sustainability classification	Total Score (%)	Environment (%)	OHS (%)	Human Rights and labour practices (%)	Anti-corruption (%)
Excellent	23	23	23	23	23
Good	56	46	62	54	62
Fair	21	31	15	23	15
Poor	0	0	0	0	0
Critical	0	0	0	0	0

Organisation

The Investment Fund for Developing Countries (IFU) is the fund manager of IØ, and all activities undertaken in relation to the organisation that apply to IØ are described in IFU's annual report for 2017.

Financial review

IØ recorded net income of DKK 20m in 2017 compared to net income of DKK 45m in 2016.

IØ's share capital investments contributed DKK 10m in 2017 against DKK 18m in 2016 whereas project loans contributed DKK 7m in 2017 against DKK 24m in 2016. The lower contribution from loans in 2017 was due to a smaller portfolio outstanding in 2017 and the 2016 figure including a large reversal of provisions for losses. Total contributions from projects were DKK 23m in 2017 compared to DKK 49m in 2016. The figures for both 2017 and 2016 includes DKK 7m in other project related contributions being primarily interest on share sale receivables.

IØ's part of the operating expenses covering the Investment Fund for Developing Countries (IFU) and IØ was DKK 3m compared to DKK 4m in 2016. The lower expense in 2017 is primarily a consequence of the continued phasing out of IØ.

IØ ended the year with a net negative cash balance of DKK 11m after having paid out DKK 150m to the Danish government. Inflow from projects amounted to DKK 138m.

The negative cash balance has been covered shortly into 2018.

IØ's equity capital at the end of 2017 was DKK 122m down from DKK 252m at the end of 2016.

Risk management

IØ has invested in projects located in countries, where political and economic conditions may cause uncertainty. In addition, such projects are often subject to high commercial risk.

At year-end 2017, IØs' portfolio was composed as follows (at cost):

Country	2017 (DKKm)
Croatia	85.6
Russia	75.4
Ukraine	41.2
Hungary	6.8
Total	209.0

As a consequence of this exposure, and in particular because IØ measures its investments at estimated fair value in accordance with the applied accounting principles of the Danish Financial Statements Act, the Fund's net results may fluctuate considerably from year to year due to value adjustments on the investments.

In preparing the financial statements, IØ's management makes a number of estimates and assumptions of future events that will affect the carrying amount of assets and liabilities. The areas where estimates and assumptions are most critical to the financial statements are the fair value measurement of share capital investments and the fair value measurement of project loans. The note on accounting policies provides more details.

Financial risk

At the end of 2017, 93 per cent of IØ's loan portfolio was denominated in EUR and the remaining loans were denominated in DKK. Consequently, direct sensitivity to currency fluctuations is limited to the EUR/DKK exchange rate. IØ does not hedge local currency exposure in share capital investments as costs are typically very high and investments may by way of operation have a natural built-in hedge, i.e. export-oriented businesses.

At year-end, 61 per cent of IØ's total outstanding investments at cost were placed in project loans, including loans with equity features. The major part of the project loans are based on IØ's standard interest terms of interbank interest rates plus a risk premium. Consequently, a decrease in interbank interest rates would have a negative effect on IØ's interest income from project loans.

Liquidity is managed with the aim of always having a positive cash position. A DKK 300m credit facility shared with IFU is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, IØ had drawn DKK 11m on the facility.

Events after the balance sheet date

No events have occurred after the balance sheet date, which have materially affected IØ's financial position.

Outlook for 2018

IØ expects a profit level in 2018 lower than 2017 primarily because of the continued phasing out of IØ.

INCOME STATEMENT

NOTE		2017 DKK 1,000	2016 DKK 1,000
2/	Contribution from share capital investments	9.612	17.808
3/	Contribution from project loans and guarantees	6.685	23.676
4/	Other contributions from projects	7.000	7.111
	GROSS CONTRIBUTION FROM PROJECTS	**23.297**	**48.595**
5/	Operating expenses, net	(3.305)	(3.593)
	OPERATING INCOME	**19.992**	**45.002**
6/	Financial income, net	(250)	(133)
	NET INCOME FOR THE YEAR	**19.742**	**44.869**

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

BALANCE SHEET AT 31 DECEMBER

ASSETS

NOTE		2017 DKK 1.000	2016 DKK 1.000
	LONG TERM ASSETS		
	Share capital investment in projects at cost	82.044	82.567
	Value adjustments	(24.086)	(32.070)
7/	Share capital investment in projects	57.958	50.497
	Project loans at cost	126.861	190.808
	Value adjustments	(53.122)	(52.639)
8/	Project loans, net	73.739	138.169
	Total fixed assets	**131.697**	**188.666**
	CURRENT ASSETS		
9/	Interest receivable related to projects	440	1.476
10/	Other receivables	859	58.506
	Cash	170	10.898
	Total long term assets	**1.469**	**70.880**
	TOTAL ASSETS	**133.166**	**259.546**

BALANCE SHEET AT 31 DECEMBER

LIABILITIES AND EQUITY CAPITAL

NOTE		2017 DKK 1.000	2016 DKK 1.000
	EQUITY		
	Paid-in capital	1.897.800	1.897.800
	Repaid capital	(3.675.000)	(3.525.000)
	Retained earnings	1.899.402	1.879.660
11/	**Total equity**	**122.202**	**252.460**
	CURRENT LIABILITIES		
	Drawn on bank credit facility	10.964	7.086
	Total liabilities	**10.964**	**7.086**
	TOTAL EQUITY, PROVISION FOR LOSSES AND LIABILITIES	**133.166**	**259.546**

1/ ACCOUNTING POLICIES
12/ UNDISBURSED COMMITMENTS TO PROJECTS
13/ RELATED PARTY DISCLOSURES
14/ FINANCIAL HIGHLIGHTS, INVESTMENTS CONTRACTED IN 2017 AND SUSTAINABILITY CLASSIFICATIC
15/ FINANCIAL RISK MANAGEMENT
16/ EGUITY AND CREDIT RISK
17/ CURRENCY RISK
18/ INTEREST RATE RISK
19/ LIQUIDITY RISK
20/ CLASSIFICATION OF FINANCIAL INSTRUMENTS
21/ FAIR VALUE MEASUREMENT BASIS

CASH FLOW STATEMENT

	2017 DKK 1,000	2016 DKK 1,000
CASH FLOW FROM OPERATING ACTIVITIES		
Dividends from projects received	1.519	-
Interest from projects received	9.605	10.739
Other project related payments	624	-
Operating expenses, net	(2.751)	(3.879)
Net payments related to financial income and expenses	(246)	(114)
Net cash from operating activities	**8.751**	**6.746**
CASH FLOW FROM (TO) INVESTING ACTIVITIES		
Received from sale of shares	57.342	58.764
Received from project loans	69.301	40.342
Net cash from (to) investing activities	**126.643**	**99.106**
CASH FLOW FROM (TO) FINANCING ACTIVITIES		
Repaid capital during the year	(150.000)	(75.000)
Net cash from (to) financing activities	**(150.000)**	**(75.000)**
NET CHANGE IN CASH	(14.606)	30.852
NET CASH BEGINNING OF YEAR	**3.812**	**(27.040)**
NET CASH END OF YEAR	**(10.794)**	**3.812**
- Shown as cash in current assets	**170**	**10.898**
- Shown as drawn on bank credit facility	**(10.964)**	**(7.086)**

Note 1

Accounting policies

This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

The accounting principles applied remain unchanged from previous year.

Implementation of new accounting legislation in 2018
From January 2018, IFRS 9, a new accounting standard, is introduced, replacing IAS 39. The change primarily relates to the requirement of provisions on IØ's loan and guarantee portfolio to reflect expected losses. Consequently, IØ will now have to make a provision already from a commitment has been granted. It is estimated that the provisions on IØ's loan portfolio at the end of 2017 will increase with around DKK 2m. The change will be fully implemented from 2018 and is expected to be implemented as a correction to the retained earnings at the beginning of the year.

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

Presentation and classification
To better reflect IØ'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 IØ's special character as an investment fund (long-term investments) the financial statements hereby provide the reader with the best possible clarity of IØ's activities. The deviation is in concurrence with Section 23 (4) of the Danish Financial Statements Act.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to IØ, and provided that the value of the assets can be measured reliably.

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

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

IØ applies the accounting principles described in the Danish Financial Statements Act section 37 art. 5, on measurement of financial assets and liabilities in accordance with the International Reporting Standards 'IFRS' as adopted by the EU.

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

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

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

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

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

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

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

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

Derivative financial instruments
On initial recognition in the balance sheet and subsequently, derivative financial instruments are measured at to fair value. Positive and negative fair values of derivative financial instruments are recognised under other receivables or other payables, respectively, and are only offset when IØ has the legal right and the intention to settle several financial instruments net.

Changes in the fair value of derivative financial instruments are recognised in the income statement as either "Contribution from project loans and guarantees", if related to economical hedging of project loans, or "Other contributions from projects", if related to economical hedging of receivables from sale of shares.

Income statement

Contribution from share capital investments
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. Dividends are included in the income statement at the declaration date.

Contribution from project loans and guarantees
Contribution from project loans and guarantees includes interest, value adjustments, including exchange rate adjustments in relation to the portfolio, the effect of derivatives and other value adjustments, principally of interest receivables.

Other contributions from projects
Other contributions from projects include value adjustments, including exchange rate adjustments in relation to receivables, the effect of derivatives and interest from receivables.

Operating expenses, net
The Investment Fund for Developing Countries (IFU) manages the administration of IØ.

Operating expenses, net are total operating expenses incurred by IFU less income received for management services rendered by IFU, other than from the Investment Fund for Central and Eastern Europe (IØ), and income related to operating activities. Operating expenses, net are divided at year-end between IFU and IØ proportionate to average total project commitments during the year (the sum of outstanding investments at acquisition cost, remaining commitments and binding commitments).

Operating expenses comprise expenses for management, administrative staff, office expenses, depreciation of fixed assets and leasehold improvements, etc. Income related to operating activities includes board member fees, etc.

Income from investments in associates and subsidiaries
Dividends from associates and subsidiaries are included in the income statement at the declaration date.

Financial income, net
Financial income, net comprises interest income on cash and bonds, realised and unrealised capital gains and losses on bonds, interest expenses, exchange rate adjustments on cash and bank charges.

Balance sheet

Share capital investment in projects
Share capital investments in projects are recognised when they are disbursed. Share capital investments in projects are measured both at initial recognition and throughout the investment period at fair value with changes recognised through profit or loss as contribution from share capital investments.
Share capital investments in projects, where IØ has significant influence are associates and are accounted for as share capital investments.

Project loans
Project loans are designated as loans and receivables and 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.

Investments in subsidiaries and associates
Investments in subsidiaries are included in the balance at cost less accumulated impairment losses. Subsidiaries are insignificant in size and consolidated accounts have not been made. Associates that are not share capital investments in projects are disclosed as associates.

Interest receivable related to projects and other receivables
Interest receivables related to projects and other receivables are designated as receivables and are recognised over the period when they are earned.

Interest receivables related to projects and other receivables are recognised at nominal value less any allowance for impairment

Interest receivable related to projects includes accrued interests on project loans. Other receivables includes receivables from sale of shares and loans, dividends receivables, administrative and other project-related receivables.

Cash and cash equivalents
Bonds are stated at the official prices quoted on the balance sheet date except for drawn bonds, which are stated at par value. Realised and unrealised gains or losses on bonds are recognised in the income statement under financial income, net.

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

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

Impaired loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to IØ. If a previous write-off is later recovered, the recovery is credited to either "Contribution from project loans and guarantees" or " Other contributions from projects", respectively.

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

Cash flow statement

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

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

Commitments

Undisbursed commitments to projects are comprised of undisbursed contractual commitments and binding commitments not yet contracted. The existence of such liabilities will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within IØ's control.

NOTES

		2017 DKK 1,000	2016 DKK 1,000
2	Contribution from share capital investments		
	Dividends from projects	1,519	-
	Realised gain from divested share capital investments	632	8,618
	Value adjustments, portfolio	7,461	9,190
	Contribution from share capital investments	**9,612**	**17,808**
3	Contribution from project loans and guarantees		
	Interest income and fees related to project loans and guarantees	7,536	11,472
	Value adjustments excl. exchange rate adjustments, loan portfolio	1,303	16,460
	Exchange rate adjustments, project loans	258	(776)
	Value adjustments, interest and fees	(2,412)	(3,480)
	Contribution from project loans and guarantees	**6,685**	**23,676**
4	Other contributions from projects		
	Exchange rate adjustments, receivables	(58)	-
	Interest from receivables	7,069	7,111
	Other income and expenses	(11)	-
	Other contributions from projects	**7,000**	**7,111**
5	Operating expenses, net		
	IØ's part of operating expenses *	3,211	3,593
		3,211	**3,593**

*) Specification of Personnel expenses - see Annual report 2017 for IFU - note 5.
IØ's part of all expenses was 5,18% in 2017.

6 Financial income and expenses

	2017 DKK 1,000	2016 DKK 1,000
Financial income		
Interest income, cash and bonds	1	-
Financial income	**1**	**-**
Financial expenses		
Interest expenses, bank charges and exchange rate adjustments	(265)	(133)
Financial expenses	**(265)**	**(133)**
Financial income, net	**(264)**	**(133)**

		2017 DKK 1,000	2016 DKK 1,000
7	**Share capital investment in projects**		
	Share capital investment in projects beginning of year at cost	82,567	125,980
	Proceeds from divestment of shares	(632)	(55,875)
	Realised gain from divestment of shares relative to cost, net	109	12,462
	Share capital investment in projects end of year at cost	**82,044**	**82,567**
	Accumulated value adjustment beginning of year	(32,070)	(37,415)
	Reversed value adjustments, divested share capital investments	523	(3,845)
	Value adjustments, portfolio during the year	7,461	9,190
	Accumulated value adjustment end of year	**(24,086)**	**(32,070)**
	Share capital investment in projects end of year	**57,958**	**50,497**
	Herof associated companies:		
	Share capital investment in projects end of year at cost	7,585	7,585
	Accumulated value adjustments end of year	(621)	(2,268)
		6,964	**5,317**
	Accumulated value adjustments end of year are comprised of:		
	Positive value adjustments	17,315	4,350
	Negative value adjustments	(41,401)	(36,420)
		(24,086)	**(32,070)**

Name / Domicile:	Form of company:	IØ's ownership interest: (%)	According to the latest approved annual report	
			Result	Equity
Dan Farm Hungary Kft. *Hungary*	Ktf.	20%	5,519	29,845
UPG Ejendomme 3 ApS *Denmark*	ApS	20%	(101)	(1,396)
Auditdata Ukraine ApS *Denmark*	ApS	49%	(44)	949

	2017 DKK 1,000	2016 DKK 1,000

8 Project loans, net

	2017	2016
Project loans beginning of year at cost	190,808	222,952
Interest converted into project loans during the year	5,096	8,974
Repayments during the year	(69,301)	(40,342)
Exchange rate adjustments, project loans	258	(776)
Project loans end of year at cost *	**126,861**	**190,808**
Accumulated value adjustments beginning of year	(52,639)	(66,259)
Value adjustments	1,302	16,460
Value adjustments related to conversions during the year	(1,785)	(2,840)
Accumulated value adjustments end of year	**(53,122)**	**(52,639)**
Project loans, net end of year	**73,739**	**138,169**

*) Project loans end of year at cost are comprised of:

	2017	2016
Senior project loans	25,815	71,556
Subordinated loans	101,046	119,252
	126,861	**190,808**

*) Project loans end of year at cost in DKK distributed according to currency denomination:

	2017 Currency	2016 Currency		
DKK			9,450	10,500
EUR	15,771	24,253	117,411	180,308
			126,861	**190,808**

	2017 DKK 1,000	2016 DKK 1,000

9 Interest receivable related to projects

Interest receivable related to projects before value adjustments	1,964	2,370
Value adjustments	(1,524)	(894)
Interest receivable related to projects	**440**	**1,476**

10 Other receivables

Receivables from sale of shares	-	56,709
Receivable front-end fees	266	646
	266	57,355
Current accounts	673	1,151
	939	**58,506**

	2017 DKK 1,000	2016 DKK 1,000

11 Total equity

	2017 DKK 1,000	2016 DKK 1,000
Paid-in capital beginning of year	1,897,800	1,897,800
Paid-in capital during the year	-	-
Paid-in capital end of year	**1,897,800**	**1,897,800**
Repaid capital beginning of year	(3,525,000)	(3,450,000)
Repaid capital during the year	(150,000)	(75,000)
Repaid capital end of year	**(3,675,000)**	**(3,525,000)**
Retained earnings beginning of year	1,879,660	1,834,791
Change in acc. reserves related to net positive value adjustments	-	-
Transferred from net income for the year	19,822	44,869
Retained earnings end of year	**1,899,482**	**1,879,660**
Total equity end of year	**122,282**	**252,460**

12 Undisbursed commitments to projects

Undisbursed commitments to projects are comprised of undisbursed contractual commitments and binding commitments not yet contracted.

	2017 DKK 1,000	2016 DKK 1,000
Amounts payable on project agreements	-	115
Funds committed to projects	**-**	**115**

13 Related party disclosures

IØ project investments - shares and loans

For a list of project investments were IØ has significant influence, see note 7.

Transactions conducted during the year with the project companies include dividends, interest income and fees and directors' fees from the companies in which IØ representatives are board members.

Board of directors and executive board

IØ's other related parties are the members of the board of directors and the executive board.

14 Financial highlights and Sustainability classification

Financial highlights (table) - see page 7

Sustainability classification (table) - see page 10

15 Financial risk management

Introduction

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

The board of directors has established limits to avoid excessive concentrations of risk, and IØ through its investment policy and due diligence procedures further seeks to identify and mitigate the equity and credit risk.

16 Equity and credit risk

Equity risk

Equity risk arises from changes in the fair values of share capital investments in projects.

Credit risk

Credit risk is the risk that IØ will incur a financial loss due to a counterparty not fulfilling their obligation. These credit exposures occur from project loans, derivatives and other transactions.

Managing equity and credit risk

At the portfolio level, IØ mitigates equity risk and credit risk by investing in a variety of countries and by limiting the concentration of risks per partner. IØ assesses concentrations of risk on the basis of total commitments, which include acquisition cost of both share capital investments and project loans, binding commitments and amounts payable on share capital and loan agreements. Further IØ through the due diligence process assesses the specific risks for each share capital investment and project loan and seeks to mitigate associated equity and credit risks. For some of IØ's share capital investments, IØ has the opportunity to sell the shares through pre-agreed exit agreements. In this way, IØ mitigates the risk of not being able to exit the investments. See note 21 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 project companies
- Expected value of pledges, indemnities and counter-guarantees
- Historical records of debt service

The table below shows the distribution of the cost of IØ'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.

2017	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%
-	5,247	6%	1,521	1%	6,768	3%	-	0%
1	-	0%	-	0%	-	0%	-	0%
2	-	0%	-	0%	-	0%	-	0%
3	-	0%	-	0%	-	0%	-	0%
4	59,911	73%	15,491	12%	75,402	36%	-	0%
5	-	0%	85,554	67%	85,554	41%	-	0%
6	-	0%	-	0%	-	0%	-	0%
7	16,886	21%	24,295	19%	41,181	20%	-	0%
Total	**82,044**	**100%**	**126,861**	**100%**	**208,905**	**100%**	**-**	**0%**

2016	Share capital investments		Project loans		Total		Commitments (off balance)	
OECD	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%
-	5,247	6%	1,311	1%	6,558	3%	-	0%
1	-	0%	-	0%	-	0%	-	0%
2	-	0%	-	0%	-	0%	-	0%
3	-	0%	-	0%	-	0%	-	0%
4	59,910	73%	80,829	42%	140,739	51%	114,615	0%
5	-	0%	81,866	43%	81,866	30%	-	0%
6	-	0%	-	0%	-	0%	-	0%
7	17,410	21%	26,802	14%	44,212	16%	-	0%
Total	**82,567**	**100%**	**190,808**	**100%**	**273,375**	**101%**	**114,615**	**0%**

Credit quality/impairment

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

DKK 1,000	2017	2016
Project loans, neither past due nor value adjusted	18,486	86,494
Project loans, past due but not value adjusted	3,276	1,311
Project loans, value adjusted	105,099	103,003
Total	**126,861**	**190,808**

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

DKK 1,000	2017	2016
OECD -	1,521	-
OECD 4	15,491	80,829
OECD 7	1,474	5,665
Total	**18,486**	**86,494**

The table below shows the distribution according to due date.

2017 DKK 1,000	Not value adjusted	Value adjusted	Project loans at cost	Value adjustments	Project loans, net
Project loans, not past due	18,486	67,999	86,485	(31,637)	54,848
Project loans, past due up to 12 months	3,276	11,167	14,443	(5,584)	8,859
Project loans, past due more than 12 months	-	25,933	25,933	(15,901)	10,032
Total	**21,762**	**105,099**	**126,861**	**(53,122)**	**73,739**

2016 DKK 1,000	Not value adjusted	Value adjusted	Project loans at cost	Value adjustments	Project loans, net
Project loans, not past due	86,494	77,107	163,601	(36,760)	126,841
Project loans, past due up to 12 months	-	14,893	14,893	(8,593)	6,300
Project loans, past due more than 12 months	1,311	11,003	12,314	(7,286)	5,028
Total	**87,805**	**103,003**	**190,808**	**(52,639)**	**138,169**

Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk for IØ. The table only includes derivatives with positive market value.

	2017		**2016**	
DKK 1,000	Carrying amount	Maximum credit exposure (contractual cash flow)	Carrying amount	Maximum credit exposure (contractual cash flow)
Project loans	73,739	126,861	138,169	190,808
Interest receivable related to projects	440	1,964	1,476	2,370
Other receivables	859	859	58,506	58,506
Derivatives	-	-	-	-
Cash	170	170	10,898	10,898
Commitments	-	-	-	-
Total	**75,208**	**129,854**	**209,049**	**262,582**

Description of collateral held and fair value hereof (accessibility of pledged assets for project loans)

In a number of cases IØ has received securities to minimise credit exposure. IØ has received the following types of securities

- Pledges
- Indemnities and counter-guarantees

The fair value of the pledges is DKK 43m (2016: DKK 41m) and for indemnity and guarantee commitments DKK 11m (2016: DKK 59m).

17 Currency risk

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

Currency exposure and sensitivity
The following table indicates the currencies to which IØ 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 IØ has no assets classified as available-for-sale.

2017 DKK 1,000	Project loans	Interest receivables	Other project related receivables	Net exposure	Increase in foreign exchange rates	Effect on profit or loss
EUR	66,651	352	213	67,216	1%	672
DKK	7,088	88	53	7,229	N/A	-
Total	**73,739**	**440**	**266**	**74,445**		

2016 DKK 1,000	Project loans	Interest receivables	Other project related receivables	Net exposure	Increase in foreign exchange rates	Effect on profit or loss
EUR	130,294	847	56,761	187,902	1%	1,879
DKK	7,875	629	594	9,098	N/A	-
Total	**138,169**	**1,476**	**57,355**	**197,000**		

18 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.
Most of IØ's investments in project loans carry variable interbank interest rates, thus changes in interest rates will mainly 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. For variable rates loans, the effect on profit and loss will be a change in the interest payments for the coming year.
The annual effect of an increase in the interest rate of 100 basis points is shown in the table below for fixed and variable interest rate loans.

2017 DKK 1,000	Project loans	Net exposure	Increase in interest rates	Effect on profit or loss
Fixed	-	-	100 bp	-
Variable	73,739	73,739	100 bp	-
Total	**73,739**	**73,739**		

2016 DKK 1,000	Project loans	Net exposure	Increase in interest rates	Effect on profit or loss
Fixed	33,600	33,600	100 bp	-
Variable	104,569	104,569	100 bp	-
Total	**138,169**	**138,169**		

19 Liquidity risk

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

IØ has no external funding and is equity financed except for current liabilities comprised of administrative debt and negative fair value of derivative financial instruments.
IØ's primary exposure to liquidity risk arises from commitments to disburse share capital investments and project loans.
To meet these and other obligations, IØ, apart from capital contributions net of dividends, relies on a continuous positive cash flow from interest and repayments on project loans as well as dividends and sales of share capital investments to meet its obligations. It is IØ's policy to maintain a positive cash position. A DKK 300 million credit facility shared with IFU is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, DKK 264 million was available for drawing.

Contractual maturities
The contractual maturities based on undiscounted contractual cash flows are shown below for financial assets, liabilities, guarantees and commitments.

2,017

DKK 1,000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	73,739	126,861	40,376	43,567	42,918	-	-
Interest receivable related to projects	440	1,964	1,964			-	-
Other receivables	859	859	-	859	-	-	-
Cash and cash equivalents	-	-	-				
Total assets	**75,038**	**129,684**	**42,340**	**44,426**	**42,918**	-	-
Liabilities							
Drawn on credit facilities	10,794	10,794		10,794			
Total liabilities	**10,794**	**10,794**	-	**10,794**	-	-	-
Off-balance							
Amounts payable on share capital and loan agreements		-	-				
Total off-balance		-	-	-	-	-	-

2016

DKK 1,000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Project loans	138,169	190,808	27,207	66,095	97,506	-	-
Interest receivable related to projects	1,476	2,370	2,370				
Other receivables	58,506	58,506	-	6,977	51,529	-	-
Cash and cash equivalents	3,812	3,812	3,812				
Total assets	**201,963**	**255,496**	**33,389**	**73,072**	**149,035**	-	-
Liabilities							
Total liabilities	-	-	-	-	-	-	-
Off-balance							
Amounts payable on share capital and loan agreements		115	115				
Total off-balance		**115**	**115**	-	-	-	-

20 Classification of financial instruments

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

2017 DKK 1,000	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	57,958	-		57,958
Project loans	-	73,739		73,739
Interest receivable related to projects	-	440		440
Other receivables	266	593		859
Cash and cash equivalents	-	-		-
Total financial assets	**58,224**	**74,772**	-	**132,996**
				-
Financial liabilities				-
Current liabilities:				-
Drawn on credit facilities	10,794		-	10,794
Total financial liabilities	**10,794**	-	-	**10,794**

2016 DKK 1,000	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	50,497	-		50,497
Project loans	-	138,169		138,169
Interest receivable related to projects	-	1,476		1,476
Other receivables	57,355	1,151		58,506
Cash and cash equivalents	-	3,812		3,812
Total financial assets	**107,852**	**144,608**	-	**252,460**
				-
Financial liabilities				-
Current liabilities:				-
Drawn on credit facilities			-	-
Total financial liabilities	-	-	-	-

The carrying amount of project loans with fixed interest terms amount to DKK 0m (2016: 34m). The fair value of project loans amount to DKK 0m (2016: DKK 32m) measured as the net present value of the future cash flow. The inputs used to measure the fair value for project loans are all level 2 inputs in the fair value hierarchy, for more information see disclosure on fair value measurement, note 21. For other loans and receivables and other liabilities the carrying amount is measured at amortised cost a reasonable approximation of fair value.

21 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; and
• 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 IØ's calculation of fair value is provided. For all investments the value determined by using the methods described below will be adjusted, if considered necessary and appropriate, by taking the following factors into account:

1) Current and expected operational results of the project company
2) Risk of remittance, if any
3) Specific circumstances relating to the partners, project, country, region and/or sector
4) Current market conditions
5) Tax issues

Share capital investments
IØ's fair value estimates are based on unobservable market data (level 3).
Indirect investments through financial intermediaries (funds) where the underlying investments are valued according to a fair value principle will be valued at net assets value according to the most recent financial statement received by IØ. Financial intermediaries include externally managed funds.

Direct 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. For smaller investments, see below.
• If IØ during the 12-month period prior to the reporting date has received a binding offer in writing from a third party or a significant transaction has taken place, the shares will normally be valued based on the offer or the recent transaction.

The following general assumptions are applied when performing DCF or earnings multiple calculations:

• For DCF calculations, budgets and forecasts for the investments form the basis for the valuation.
• a weighted average cost of capital based on the cost of equity and the cost of debt weighted by the targeted financial leverage from the industry. Growth in terminal period is based on the estimated long-term inflation rate of the country.
• An illiquidity discount is applied and other specific adjustments may be applied where relevant for both DCF and earnings multiple calculations.

Valuing private investments in developing countries at fair values involves a large inherent uncertainty. Due to these uncertainties, a degree of caution is applied when exercising judgements and making the necessary estimates. For smaller investments (cost price or intrinsic value below DKK 25m) uncertainties are deemed to be even higher and therefore these will be valued at intrinsic value to reflect IØ's share of earnings in the companies. These investments constitute a minor part of IØ's portfolio.

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 in the table below disclosed 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.

2017

DKK 1,000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	-	-	50,497	50,497
Transfers into the level	-	-	-	-
Transfers out of the level	-	-	-	-
Total gains/ losses for the period included in profit or loss [1]	-	-	8,093	8,093
Paid-in share capital in projects	-	-	-	-
Proceeds from divestment of shares	-	-	(632)	(632)
Closing balance	**-**	**-**	**57,958**	**57,958**
Other receivables				
Opening balance	-	57,355	-	57,355
Closing balance	-	266	-	266
Total recurring fair value measurements	**-**	**266**	**57,958**	**58,224**

2016

DKK 1,000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	-	-	88,565	88,565
Transfers into the level	-	-	-	-
Transfers out of the level	-	-	-	-
Total gains/ losses for the period included in profit or loss [1]	-	-	17,807	17,807
Paid-in share capital in projects	-	-	-	-
Proceeds from divestment of shares	-	-	(55,875)	(55,875)
Closing balance	**-**	**-**	**50,497**	**50,497**
Other receivables				
Opening balance	-	60,194	-	60,194
Closing balance	-	57,355	-	57,355
Total recurring fair value measurements	**-**	**57,355**	**50,497**	**107,852**

1) Recognised in Contribution from share capital investments.
Hereof DKK 7m (2016: DKK 9m) is attributable to assets held at 31 December for level 3.

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

2017

DKK 1,000

Type of investment	Fair value at 31/12/2017	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Indirect investments through financial intermediaries					
Externally managed funds	11,256	Net assets value			
Direct investments	0	Binding offers/transaction/exit terms			
	46,952	Intrinsic value (small investments)			
Share capital investments	**58,208**				

2016

DKK 1,000

Type of investment	Fair value at 31/12/2016	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Indirect investments through financial intermediaries					
Externally managed funds	17,759	Net assets value			
Direct investments	14,235	Binding offers/transaction/exit terms			
	18,503	Intrinsic value (small investments)			
Share capital investments	**50,497**				

Management

Board of directors

The Danish Minister for Development Cooperation appoints the chairman, the deputy chairman and the other members of the board of directors for three-year terms. Each appointment is personal.

The board of directors and executive management of IFU and IØ are identical.

According to Section 9 of the Danish Act on International Development Cooperation, IFU's board is appointed for a three-year period. The current three-year term ends on 31 July 2018.

Since 1 January 2013, an observer from the Ministry of Foreign Affairs has been appointed to IFU's board of directors.

The board of directors usually convenes six to eight times a year. On the recommendation of the executive management, it makes decisions about investments and key issues.

It is noted that the chairman and deputy chairman have both been members of the board for more than 12 years and as such cannot be considered independent in accordance with the recommendations by the Danish Committee on Corporate Governance.

Further it is noted that IFU in 2017 had business transactions with Nykredit Bank A/S (part of the Nykredit group, in which the chairman is CEO), with Kjaer Group A/S, which is majority owned by board member Mads Kjær, and with Royal Danish Fish Group A/S, in which board member Jens Jørgen Kollerup is a board member.

The rules of procedure for the board contain detailed rules regarding conflicts of interest – as well as a reference to the conflict of interest rules in the Danish Public Administrations Act, which the board is subject to – and the above-mentioned circumstances are not considered to be of a nature as to impair the independence of the board members.

Michael Rasmussen, Chairman, board member since 2000
MSc (Economics). CEO, Nykredit.
Other board memberships: Nykredit Bank A/S (chairman), Totalkredit A/S (chairman), Finance Denmark (chairman), Copenhagen Business School.

Lars Andersen, Deputy Chairman, board member since 1994
MSc (Economics). Managing Director, The Economic Council of the Labour Movement.
Other board memberships: Industripension Holding A/S, Industriens Pensionsforsikring A/S, Arbejdernes Landsbank A/S.

Jens Jørgen Kollerup, board member since 2009
MSc (Dairy Science). Managing Director, Ormholt A/S.
Other board memberships: Arctic Group A/S, Vermund Larsen A/S (chairman), Royal Danish Fish Group A/S.

Bjarne H. Sørensen, board member since 2012
MSc (Civil Engineering). Ambassador (retired).
Other board memberships: Care Danmark.

Dorrit Vanglo, board member since 2012
MSc (Economics). CEO, Lønmodtagernes Dyrtidsfond.
Other board memberships: Kapitalforeningen LD (chairman), EKF - Danmarks Eksportkredit (vice chairman), Eksportkreditfinansiering A/S, Investeringsforeningen Lægernes Invest, Kapitalforeningen Lægernes Invest, Det Danske Hedeselskab, Dalgas Group A/S, Komiteen for god Fondsledelse.

Mads Kjær, board member since 2015
Managing Director, Kjaer Group A/S
Other board memberships: Kjaer Group A/S, Udsyn A/S, Ejendomsselskabet Svendborg ApS

Charlotte Jepsen, board member since 2017
MSc (Social Sciences). Managing Director, FSR – Danish Auditors
Other board memberships: Plan Danmark, Pantebrevselskabet Boligkredit A/S.

Ole Thonke, board observer since 2017
Ambassador, Head of Department, Ministry of Foreign Affairs

Executive management

The Danish Minister for Development Cooperation appoints the CEO.

Tommy Thomsen, CEO
Management/shipping trainee education, A.P. Moller – Maersk Group.
Harvard Business School, International Senior Management Program.
Board memberships: Port of Singapore International, Panama Canal Advisory Board, Danish Maritime Fund (chairman), Lauritzen Foundation, C.W. Obel, SDG Accelerator Advisory Board.

Torben Huss, Executive Vice President
MSc (Political Science and Public Administration), Copenhagen University, PhD (Business Economics), Copenhagen Business School.
Board memberships: JØP.