

**THE UKRAINE INVESTMENT FACILITY  
(UFA)**

**ANNUAL REPORT 2016**

## Contents

Statement by the management on the annual report .....	3
Independent auditors' report .....	4
Financial highlights .....	6
Management's review .....	7
Sustainability reporting .....	7
Operational framework .....	8
Financial review .....	9
Risk management .....	9
Events after the balance sheet date .....	9
Outlook for 2017 .....	9
Income statement .....	10
Balance sheet .....	11
Cash flow statement .....	13
Notes .....	14
Management .....	27
Board of directors .....	27
Executive management .....	28

## 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 Ukraine Investment Facility (UFA) for the financial year 1 January – 31 December 2016.

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 UFA's financial position as per 31 December 2016 and of the results of UFA's operations and cash flows for 2016.

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 UFA.

Copenhagen, 6 April 2017

### 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



## **Independent auditors' report**

To the board of directors of the Ukraine Investment Facility (UFA)

### **Opinion**

We have audited the financial statements of UFA for the financial year 1 January – 31 December 2016, 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 UFA's financial position at 31 December 2016 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. In addition, the audit was performed in accordance with generally accepted public auditing standards and the agreement regarding the audit of UFA 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 are independent of UFA in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Management's responsibilities for the financial statements**

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

In preparing the financial statements, management is responsible for assessing the UFA'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 UFA'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 UFA'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 UFA 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.

Copenhagen, 6 April 2017

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



Lars Rhod Søndergaard  
State Authorised Public Accountant



Henrik Barner Christiansen  
State Authorised Public Accountant

## Financial highlights

15/12 - 2015

-31/12 - 2016

DKKm

### Financial highlights 2016

#### INCOME STATEMENT

Gross contribution from projects <sup>1</sup>	0
Operating income <sup>2</sup>	(1)
Net income for the year	(1)

#### BALANCE SHEET AT 31 DECEMBER

Project loans at cost <sup>3</sup>	1
Total investment in projects at cost	1
Accumulated value adjustments	0
Investments in projects, net <sup>1</sup>	1
Cash	28
Paid-in capital during the year	30
Total equity capital	28
Total balance	28

#### ADDITIONAL DATA

New projects contracted (no.)	2
Portfolio of projects (no.)	2
Investments contracted	8
Investments disbursed	1
Undisbursed contracted investments incl. guarantees	7
Binding commitments not yet contracted	2

#### KEY RATIOS

Gross yield from share capital investments <sup>4</sup>	-
Gross yield from project loans and guarantees <sup>4</sup>	45.4%
Gross yield from projects (total) <sup>4</sup>	41.4%
Net income for the year/Average total equity capital	(7.6%)
Solidity ratio	100.0%

<sup>1</sup> Information about composition of the contribution from projects including value adjustments can be found in "Financial review" on page 10.  
Investments are valued at fair market value in accordance with the Danish Financial Statements Act.

<sup>2</sup> Operating income = gross contribution from projects less operating expenses

<sup>3</sup> Project loans at cost for the period 2012 to 2014 are not currency exchange rate adjusted.

<sup>4</sup> 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

### Legal mandate

The Ukraine Investment Facility was established by the Danish State as part of the strategy for export and economic diplomacy in 2016. The purpose is to contribute to economic growth and employment in Ukraine, especially through the engagement of small and medium sized companies. The investment period for UFA is 2016 – 2019.

The Danish Ministry of Foreign Affairs has allocated DKK 30m to UFA.

### Investments in 2016

UFA made two new investments in 2016 at a total of DKK 8m. The expected employment in these investments is 65 persons.

PROJECT NAME	COUNTRY	SHARES*	LOANS**	TOTAL	EXPECTED DIRECT EMPLOYMENT (PERSONS)
Bank Lviv	Ukraine		7,5	7,5	50
Ektos Ukraine	Ukraine		0,6	0,6	15
<b>Grand Total UFA</b>			<b>8,1</b>	<b>8,1</b>	<b>65</b>

### Managed by IFU

UFA is managed by IFU, and as it applies for IFU, all investments made by UFA are made on commercial terms. The partners will be small and medium sized Danish companies wishing to engage in business in Ukraine.

IFU has established an office in Ukraine in order to monitor business developments and identify possible new investment opportunities for UFA and Danish companies, as well as in order to be in close contact with the responsible agencies and authorities in the country.

### Sustainability reporting

UFA 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 our commitment to this important initiative remains undiminished. This annual report constitutes the mandatory Communication on Engagement for 2016 to be submitted to the UN Global Compact, and shows the practical actions IFU has taken to support the UN Global Compact principles. The report will be uploaded on <https://www.unglobalcompact.org>.

IFU promotes the Global Compact principles through its investments and thereby strives to create shared value by:

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

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

Each year IFU carries out an internal assessment of its managed portfolio on compliance with its CSR policy. Each project is classified into one of five categories as follows: Excellent, Good, Fair, Poor and Critical.

No annual assessments have been made as the portfolio only includes the two new projects contracted in 2016, which were in the process of being established.

### **Development impact**

To internally rate the development effects created by different project companies, IFU uses a success criteria model to score new projects and compare effects between projects. The model gives an indication of the effect on employment, education, technology transfer, tax payment on one hand, and on the other hand how IFU has contributed to ensuring these effects by for instance reducing a number of risks.

To better capture development effects of its investments and improve the ability to report on the SDGs, IFU has from 2017 upgraded the model to a new more comprehensive Development Impact Model (DIM).

The expected employment in the two contracted investments is 65 people.

### **Operational framework**

UFA is legally a part of IFU, but is accounted for separately, and UFA's capital must be kept separate from IFU's capital. UFA cannot commit itself in excess of its capital.

IFU's board of directors and executive management act as board of directors and executive management for UFA.



## **Financial review**

UFA recorded net income of DKK (1)m in 2016. The negative result is primarily due to operating expenses as UFA has just started to invest.

Total contributions from UFA's project-related activities were DKK 0.1m being contribution from project loans.

Operating expenses (management fee) was DKK 1.2m in 2016.

Financial income, net of financial expenses, was DKK 0m in 2016.

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 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.

### **Cash flow and balance sheet items**

UFA ended 2016 with cash totalling DKK 28m after having received DKK 29.5m from the Danish State in capital contribution. DKK 1m was disbursed on a project loan.

Undisbursed commitments were DKK 14m at year-end 2016.

UFA's equity capital at the end of 2016 was DKK 28m.

## **Risk management**

Details on equity, credit, currency, interest rate risk and liquidity risk are provided in notes 11 to 15 to the financial statement.

### **Events after the balance sheet date**

No events have occurred after the balance sheet date, which have materially affected the financial position of UFA.

### **Outlook for 2017**

In 2017, UFA expects to enter into agreements of DKK 10-15m in 1-2 new investments. UFA expects to record a similar result for 2017 as for 2016.

## INCOME STATEMENT

15/12 - 2015  
-31/12 - 2016  
DKK 1,000

### NOTE

2/	Contribution from project loans and guarantees	147
3/	Other contributions from projects	<u>(13)</u>
	<b>GROSS CONTRIBUTION FROM PROJECTS</b>	<b><u>134</u></b>
	Operating expenses, net	<u>(1,200)</u>
	<b>OPERATING INCOME</b>	<b><u>(1,066)</u></b>
4/	Financial income, net	<u>(20)</u>
	<b>NET INCOME FOR THE YEAR</b>	<b><u><u>(1,086)</u></u></b>

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

# **BALANCE SHEET AT 31 DECEMBER**

## **ASSETS**

2016  
DKK 1,000

### **NOTE**

#### **FIXED ASSETS**

	Project loans at cost	647
	Value adjustments	-
5/	Project loans, net	<u>647</u>
	<b>Total fixed assets</b>	<u><b>647</b></u>

#### **CURRENT ASSETS**

6/	Interest receivable related to projects	31
7/	Other receivables	13
	Cash	<u>27,723</u>

	<b>Total current assets</b>	<u><b>27,767</b></u>
--	-----------------------------	----------------------

	<b>TOTAL ASSETS</b>	<u><u><b>28,414</b></u></u>
--	---------------------	-----------------------------

# **BALANCE SHEET AT 31 DECEMBER**

## **LIABILITIES AND EQUITY CAPITAL**

2016  
DKK 1,000

NOTE

### **EQUITY**

Paid-in capital

29,500

Retained earnings

(1,086)

8/ **Total equity**

**28,414**

### **CURRENT LIABILITIES**

-

**Total liabilities**

-

**TOTAL EQUITY, PROVISION FOR LOSSES  
AND LIABILITIES**

**28,414**

1/ ACCOUNTING POLICIES

9/ UNDISBURSED COMMITMENTS TO PROJECTS AND CLEARANCES IN PRINCIPLE

10/ FINANCIAL HIGHLIGHTS

11/ FINANCIAL RISK MANAGEMENT

12/ EQUITY AND CREDIT RISK

13/ CURRENCY RISK

14/ INTEREST RATE RISK

15/ LIQUIDITY RISK

16/ CLASSIFICATION OF FINANCIAL INSTRUMENTS

## CASH FLOW STATEMENT

15/12 - 2015  
-31/12 - 2016  
DKK 1,000

### CASH FLOW FROM OPERATING ACTIVITIES

Other project related payments	101
Operating expenses, net	(1,211)
Net payments related to financial income and expenses	<u>(20)</u>
<b>Net cash from operating activities</b>	<b><u>(1,130)</u></b>

### CASH FLOW FROM (TO) INVESTING ACTIVITIES

Disbursement of project loans	<u>(647)</u>
<b>Net cash from (to) investing activities</b>	<b><u>(647)</u></b>

### CASH FLOW FROM (TO) FINANCING ACTIVITIES

Paid-in capital received during the year	<u>29,500</u>
<b>Net cash from (to) financing activities</b>	<b><u>29,500</u></b>

NET CHANGE IN CASH	27,723
--------------------	--------

<b>CASH BEGINNING OF YEAR</b>	<b><u>-</u></b>
-------------------------------	-----------------

<b>CASH END OF YEAR</b>	<b><u><u>27,723</u></u></b>
-------------------------	-----------------------------

## **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).

#### **Implementation of new accounting legislation**

With effect from 1 January 2016 UFA has implemented the changes to the Danish Financial Statements Act as required by the changed act dated 1 June 2015.

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

Financial assets and liabilities comprise:

- Share capital investment in projects
- Project loans
- Interest receivables related to projects
- Other receivables
- Cash
- Derivative financial instruments
- Current liabilities
- Financial guarantees and commitments

The IFRS principles for recognition and measurement of financial instruments (IAS 39) are compatible with UFA's existing accounting policies. Accordingly, the implementation did not give rise to changes to UFA's accounting policies as applied in previous annual reports.

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

#### **Presentation and classification**

To better reflect UFA'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 UFA's special character as an investment fund (long-term investments) the financial statements hereby provide the reader with the best possible clarity of UFA'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 UFA, and provided that the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when UFA 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 UFA, 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.

Information brought to UFA'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, UFA 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 cost and subsequently adjusted 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 UFA 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 and accounting of the fund.

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 UFA 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**

UFA 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 debts, 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 UFA. 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 UFA's cash flow from operating, investing and financing activities as well as UFA'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 UFA's control.

## NOTES

15/12 - 2015  
-31/12 - 2016  
DKK 1,000

2 Contribution from project loans and guarantees

Interest income and fees related to project loans and guarantees 147

Contribution from project loans and guarantees **147**

3 Other contributions from projects

Other income and expenses (13)

Other contributions from projects **(13)**

4 Financial income, net

Financial income

Interest income, cash and bonds 21

Financial income **21**

Financial expenses

Interest expenses, bank charges and exchange rate adjustments (41)

Financial expenses **(41)**

Financial income, net **(20)**

5 Project loans, net

Project loans beginning of year at cost	-
Disbursements during the year	647
	<hr/>
Project loans end of year at cost *	647
	<hr/> <hr/>
Accumulated value adjustments beginning of year	-
	<hr/>
Accumulated value adjustments end of year	-
	<hr/> <hr/>
Project loans, net end of year	647
	<hr/> <hr/>

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

647
<hr/>
647
<hr/> <hr/>

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

	<u>2016</u>	
	Currency	
EUR	87	647
		647
		<hr/> <hr/>

6 Interest receivable related to projects

Interest receivable related to projects before value adjustments	31
Value adjustments	-
	<hr/>
Interest receivable related to projects	31
	<hr/> <hr/>

7 Other receivables

Receivable front-end fees	1
Current accounts	12
	<hr/>
	13
	<hr/> <hr/>

8 Total equity

Paid-in capital beginning of year	-
Paid-in capital during the year	29,500
Paid-in capital end of year *	<u>29,500</u>
Retained earnings beginning of year	-
Net income for the year	(1,086)
Retained earnings end of year	<u>(1,086)</u>
Total equity end of year	<u>28,414</u>

9 Undisbursed commitments to projects and clearances in principle

Undisbursed commitments to projects are comprised of undisbursed contractual commitments and binding commitments not yet contracted. The stated amount of guarantees is net of provision for losses, if any.

Amounts payable on share capital and loan agreements	7,434
Binding commitments	<u>2,300</u>
Undisbursed commitments to projects	<u>9,734</u>
Clearances in principle for new projects amount to	<u>14,300</u>

10 Financial highlights

Financial highlights (table) - see page 6

## 11 Financial risk management

### **Introduction**

Through investments, UFA is exposed to financial risks such as 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 UFA through its investment policy and due diligence procedures further seeks to identify and mitigate the credit risk.

## 12 Credit risk

### **Credit risk**

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

### **Managing credit risk**

At the portfolio level, UFA mitigates credit risk by investing in a variety of countries and by limiting the concentration of risks per partner. UFA assesses concentrations of risk on the basis of total commitments, which include acquisition cost of project loans, binding commitments and amounts payable on loan agreements. Further UFA through the due diligence process assesses the specific risks on project loan and seeks to mitigate credit risks.

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
- Historical records of debt service

The table below shows the distribution of the cost of UFA's investments by the OECD country risk classification. This classification takes into account the political and economic environment of each country, including risk of force majeure such as war, etc. The classification of each country is updated twice a year.

2016	Project loans		Total		Commitments (off balance)	
	DKK 1,000	%	DKK 1,000	%	DKK 1,000	%
OECD	647	100%	647	100%	9,734	100%
<b>Total</b>	<b>647</b>	<b>100%</b>	<b>647</b>	<b>100%</b>	<b>9,734</b>	<b>100%</b>

### **Credit quality/impairment**

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

DKK 1,000	2016
Project loans, neither past due nor value adjusted	647
Project loans, past due but not value adjusted	-
Project loans, value adjusted	-
<b>Total</b>	<b>647</b>

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	2016
OECD 7	647
<b>Total</b>	<b>647</b>

The table below shows the distribution according to due date.

<b>2016</b>	Not value	Value	Project loans	Value	Project
DKK 1,000	adjusted	adjusted	at cost	adjustments	loans, net
Project loans, not past due	647	-	647	-	647
Project loans, past due up to 12 months	-	-	-	-	-
Project loans, past due more than 12 months	-	-	-	-	-
<b>Total</b>	<b>647</b>	<b>-</b>	<b>647</b>	<b>-</b>	<b>647</b>

#### **Maximum exposure to credit risk**

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

	<b>2016</b>	
DKK 1,000	Carrying amount	Maximum credit exposure (contractual cash flow)
Project loans	647	647
Interest receivable related to projects	31	31
Other receivables	13	13
Cash	27,723	27,723
Commitments	-	-
<b>Total</b>	<b>28,414</b>	<b>28,414</b>

13 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 UFA had significant exposure as at 31 December on its financial assets and liabilities excluding share capital investments. The analysis calculates the effect of a reasonably possible 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 UFA has no assets classified as available-for-sale.

2016				Increase in	
DKK 1,000	Project	Interest	Net	foreign	Effect on
	loans	receivables	exposure	exchange rates	profit or loss
EUR	647	31	678	1%	7
<b>Total</b>	<b>647</b>	<b>31</b>	<b>678</b>		

14 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.

UFA's investments in project loans carry variable interbank interest rates, thus changes in interest rates will mainly affect future cash flows and income.



## 15 Liquidity risk

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

UFA has no external funding and is equity financed except for current liabilities comprised of administrative debt.

UFA's primary exposure to liquidity risk arises from commitments to disburse project loans.

To meet these and other obligations, UFA relies on a continuous positive cash flow from interest and repayments on project loans to meet its obligations. It is UFA's policy to maintain a positive cash position.

### **Contractual maturities**

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

#### **2016**

DKK 1,000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
<b>Assets</b>							
Project loans	647	647	-	-	518	129	-
Interest receivable related to projects	31	31	31	-	-	-	-
Other receivables	13	13	-	13	-	-	-
Cash and cash equivalents	27,723	27,723	7,723	20,000	-	-	-
<b>Total assets</b>	<b>28,414</b>	<b>28,414</b>	<b>7,754</b>	<b>20,013</b>	<b>518</b>	<b>129</b>	<b>-</b>
<b>Liabilities</b>							
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Off-balance</b>							
Amounts payable on share capital and loan agreements		7,434	7,434	-	-	-	-
Binding commitments		2,300	-	2,300	-	-	-
<b>Total off-balance</b>		<b>9,734</b>	<b>7,434</b>	<b>2,300</b>	<b>-</b>	<b>-</b>	<b>-</b>

16 Classification of financial instruments

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

2016 DKK 1,000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Other liabilities at amortised cost	Total
<b>Financial assets</b>				
Project loans	-	647		647
Interest receivable related to projects		31		31
Other receivables	-	13		13
Cash and cash equivalents		27,723		27,723
<b>Total financial assets</b>	-	<b>28,414</b>	-	<b>28,414</b>
<b>Financial liabilities</b>				-
<b>Total financial liabilities</b>	-	-	-	-

UFA has no project loans with fixed interest terms.

The inputs used to measure the fair value for project loans are all level 2 inputs in the fair value hierarchy. For other loans and receivables and other liabilities the carrying amount is measured at amortised cost a reasonable approximation of fair value.

## **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 UFA 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 2016 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).

#### **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 Dyrtdsfond.

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, The Way Forward ApS.

Other board memberships: Kjaer Group A/S (chairman and owner), Udsyn A/S (chairman), Ejendomsselskabet Svendborg ApS, Lunar Way A/S.

**Morten Elkjær, board observer since 2013**

MSc (Economics). 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. Møller – 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, Chemical Transportation Group.

**Torben Huss, Executive Vice President**

MSc (Political Science and Public Administration), Copenhagen University, PhD (Business Economics), Copenhagen Business School.

Board memberships: JØP.