

**THE INVESTMENT FUND FOR CENTRAL AND EASTERN EUROPE
(IØ)**

ANNUAL REPORT 2019

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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 2019.

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 2019 and of the results of IØ's operations and cash flows for 2019.

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, 30 March 2020

Executive management:

Torben Huss, CEO

Lars Krogsgaard, CIO

Board of directors:

Michael Rasmussen, Chairman

Lars Andersen, Deputy Chairman

Jens Jørgen Kollerup

Bjarne H. Sørensen

Mads Kjær

Charlotte Jepsen

Anne Broeng

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 2019, 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 2019 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. In addition, the audit was performed in accordance with generally accepted public auditing standards as required by the Articles of Association of IØ. 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, 30 March 2020

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

Lars Rhod Søndergaard
State Authorised Public Accountant
mne28632



Anne Tønsberg
State Authorised Public Accountant
mne32121



Financial highlights

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-------------|-------------|-------------|-------------|-------------|
| | <u>DKKm</u> | <u>DKKm</u> | <u>DKKm</u> | <u>DKKm</u> | <u>DKKm</u> |
| Financial highlights 2015 - 2019 | | | | | |
| <u>INCOME STATEMENT</u> | | | | | |
| Contribution from projects ¹ | 32 | 15 | 23 | 49 | 21 |
| Operating income ² | 32 | 14 | 20 | 45 | 16 |
| Net income for the year | 32 | 14 | 20 | 45 | 16 |
| <u>BALANCE SHEET AT 31 DECEMBER</u> | | | | | |
| Share capital investment in projects at cost | 65 | 75 | 82 | 83 | 126 |
| Project loans at cost | 114 | 123 | 127 | 191 | 223 |
| Total investment in projects at cost | 180 | 198 | 209 | 273 | 349 |
| Accumulated value adjustments | (62) | (78) | (77) | (85) | (104) |
| Investments in projects, net | 117 | 121 | 132 | 189 | 245 |
| Cash and bonds, net | 13 | (23) | (11) | 4 | (27) |
| Repaid capital during the year | 0 | (35) | (150) | (75) | (100) |
| Total equity capital | 131 | 99 | 122 | 252 | 283 |
| Total balance | 133 | 122 | 133 | 260 | 316 |
| <u>ADDITIONAL DATA</u> | | | | | |
| New projects contracted (no.) | 0 | 0 | 0 | 0 | 0 |
| Portfolio of projects (no.) | 7 | 9 | 13 | 17 | 25 |
| Investments contracted | 0 | 0 | 0 | 0 | 0 |
| Investments disbursed | 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 |
| <u>KEY RATIOS</u> | | | | | |
| Yield from share capital investments ³ | 11.9% | -3.0% | 17.7% | 25.6% | 6.2% |
| Yield from project loans and guarantees ³ | 33.4% | 22.1% | 6.3% | 16.1% | 6.6% |
| Yield from projects (total) ³ | 26.9% | 12.0% | 14.5% | 22.4% | 7.3% |
| Net income for the year/Average total equity capital | 27.4% | 12.6% | 10.6% | 16.8% | 4.9% |
| Solidity ratio | 98.4% | 81.5% | 91.8% | 97.3% | 89.4% |

Totals may not add up due to rounded figures.

¹ Information about composition of the contribution from projects including value adjustments can be found in "Financial review 2019" on page 10.

Investments are valued at fair market value in accordance with the Danish Financial Statements Act.

² Operating income = contribution from projects less operating expenses

³ Contribution from projects/Average investment in projects - value adjusted

Contribution from share capital investments/Average share capital in projects - value adjusted

Contribution from project loans and guarantees/Average project loans - value adjusted

Management's review

Main activities

IØ generated net income of DKK 32m in 2019.

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 2019, IØ had co-financed a total of 408 projects in 18 countries. Of these, IØ was still participating in 7 investments, while 401 had been exited.

Of the 7 active projects, 5 are in Ukraine, 1 in the Russian Federation and 1 project in Croatia. It is expected that the remaining IØ projects will be exited within the next 2 to 3 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 are 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

The total accumulated capital repayment made by IØ to the State since 2004 is DKK 3,710m¹. No repayment was made in 2019. At year end, IØ had equity amounting to DKK 131m

IØ received in total DKK 1,898m¹ from the Danish government during the period 1990-2001.

In 2020, it is expected that a further repayment of DKK 40m will be made.

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 can be found on IFU's website.

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

Sustainability throughout the investment process

Before the investment is approved, IFU ensures commitment to a written sustainability action plan describing the measures to be implemented within an agreed time frame to meet the requirements of IFU's sustainability policy and the relevant sustainability standards. Both the sustainability action plan and the impact creation plan act as tools for IFU's ongoing management and monitoring of the sustainability performance of the project.

Throughout the investment period, IFU exercises active ownership and uses its leverage to initiate improvement of the sustainability performance of the project. IFU's investment professionals have the overall responsibility for ensuring that the sustainability requirements are met, and typically they participate in the board of directors of the direct investments

Projects are required to prepare an annual sustainability report to be discussed and approved by its board of directors. The report serves as an important tool for the annual stocktaking of the project's sustainability performance and development impacts. The annual reports must be submitted to IFU and are essential for IFU's ability to perform active ownership and provide transparent sustainability information about its investments.

Assessment of sustainability performance

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

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

In 2019, internal assessments were carried out for 7 IØ projects.

Annual assessment of sustainability performance

| Sustainability classification | Total Score (%) | Environment (%) | Health and safety (%) | Human Rights and labour practices (%) | Anti-corruption (%) |
|-------------------------------|-----------------|-----------------|-----------------------|---------------------------------------|---------------------|
| Excelent | 25 | 29 | 29 | 29 | 14 |
| Good | 57 | 43 | 57 | 57 | 71 |
| Fair | 18 | 29 | 14 | 14 | 14 |
| Poor | 0 | 0 | 0 | 0 | 0 |
| Critical | 0 | 0 | 0 | 0 | 0 |

Totals may not add up to 100 due to rounded figures.

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 2019.

Financial review

IØ recorded net income of DKK 32m in 2019 compared to net income of DKK 14m in 2018. The result was better than expected.

IØ's share capital investments contributed DKK 4m against DKK (2)m in 2018, whereas project loans contributed DKK 28m against DKK 17m in 2018. The higher contribution from loans was mainly due to a reversal of remaining provision for losses on a lager loan engagement. Total contributions from projects was DKK 32m compared to DKK 15m in 2018.

IØ's part of the operating expenses covering the Investment Fund for Developing Countries (IFU) and IØ was DKK 0.4m compared to DKK 1m in 2018.

IØ ended the year with a net cash balance of DKK 13m.

IØ's equity capital at the end of 2019 was DKK 131m up from DKK 99m at the end of 2018.

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 2019, IØs' portfolio was composed as follows (at cost):

| Country | 2019 (DKKm) |
|---------|-------------|
| Croatia | 83.3 |
| Russia | 68.6 |
| Ukraine | 27.6 |
| Total | 179.6 |

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 impairment of project loans. The note on accounting policies provides more details.

Financial risk

At the end of 2019, 94 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, 64 per cent of IØ's total outstanding investments at cost were placed in project loans. 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 2m on the facility. The total liquidity resources available to IØ and IFU in relation to the credit facility amounted to DKK 270m at the year-end 2019.

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 2020

IØ expects a profit level in 2020 lower than 2019. No material effect on IØ's financial position related to the consequences of actions taken against the COVID-19 virus has at this time been identified.

INCOME STATEMENT

| | 2019 <u>DKK 1,000</u> | 2018 <u>DKK 1,000</u> |
|---|-----------------------------|-----------------------------|
| NOTE | | |
| 2/ Contribution from share capital investments | 4,203 | (1,538) |
| 3/ Contribution from project loans and guarantees | 27,930 | 16,517 |
| 4/ Other contributions from projects | <u>(186)</u> | <u>(7)</u> |
| CONTRIBUTION FROM PROJECTS | <u>31,947</u> | <u>14,972</u> |
| 5/ Operating expenses, net | <u>(379)</u> | <u>(1,197)</u> |
| OPERATING INCOME | <u>31,568</u> | <u>13,775</u> |
| 6/ Financial income, net | <u>(29)</u> | <u>29</u> |
| NET INCOME FOR THE YEAR | <u><u>31,539</u></u> | <u><u>13,804</u></u> |

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

BALANCE SHEET AT 31 DECEMBER

ASSETS

| | | 2019 | 2018 |
|------|--|-----------------------|-----------------------|
| | | <u>DKK 1,000</u> | <u>DKK 1,000</u> |
| NOTE | | | |
| | FIXED ASSETS | | |
| | Share capital investment in projects at cost | 65,087 | 74,972 |
| | Value adjustments | <u>(37,935)</u> | <u>(31,764)</u> |
| 7/ | Share capital investment in projects | 27,152 | 43,208 |
| | Project loans at cost | 114,465 | 123,102 |
| | Value adjustments | <u>(24,344)</u> | <u>(45,753)</u> |
| 8/ | Project loans, net | 90,121 | 77,349 |
| | Total fixed assets | <u>117,273</u> | <u>120,557</u> |
| | CURRENT ASSETS | | |
| 9/ | Interest receivable related to projects | 172 | 393 |
| 10/ | Other receivables | 922 | 900 |
| | Cash | <u>14,660</u> | <u>44</u> |
| | Total current assets | <u>15,754</u> | <u>1,337</u> |
| | TOTAL ASSETS | <u>133,027</u> | <u>121,894</u> |

BALANCE SHEET AT 31 DECEMBER

LIABILITIES AND EQUITY CAPITAL

| NOTE | 2019 <u>DKK 1,000</u> | 2018 <u>DKK 1,000</u> |
|---|------------------------------|------------------------------|
| EQUITY | | |
| Paid-in capital | 1,897,800 | 1,897,800 |
| Repaid capital | (3,710,000) | (3,710,000) |
| Retained earnings | <u>1,943,081</u> | <u>1,911,542</u> |
| 11/ Total equity | <u>130,881</u> | <u>99,342</u> |
| CURRENT LIABILITIES | | |
| Drawn on bank credit facility | 1,819 | 22,552 |
| 12/ Other current liabilities | <u>327</u> | <u>-</u> |
| Total liabilities | <u>2,146</u> | <u>22,552</u> |
| TOTAL EQUITY, PROVISION FOR LOSSES AND LIABILITIES | <u><u>133,027</u></u> | <u><u>121,894</u></u> |

1/ ACCOUNTING POLICIES

13/ UNDISBURSED COMMITMENTS TO PROJECTS

14/ RELATED PARTY DISCLOSURES

15/ FINANCIAL HIGHLIGHTS, INVESTMENTS CONTRACTED IN 2018 AND SUSTAINABILITY CLASSIFICATION

16/ FINANCIAL RISK MANAGEMENT

17/ EQUITY AND CREDIT RISK

18/ CURRENCY RISK

19/ INTEREST RATE RISK

20/ LIQUIDITY RISK

21/ CLASSIFICATION OF FINANCIAL INSTRUMENTS

22/ FAIR VALUE MEASUREMENT BASIS

CASH FLOW STATEMENT

| | 2019 <u>DKK 1,000</u> | 2018 <u>DKK 1,000</u> |
|---|-----------------------------|-------------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Dividends from projects received | 1,536 | 3,092 |
| Interest from projects received | 577 | 1,685 |
| Other project related payments | 281 | 68 |
| Operating expenses, net | (445) | (1,243) |
| Net payments related to financial income and expenses | <u>(15)</u> | <u>40</u> |
| Net cash from operating activities | <u>1,934</u> | <u>3,642</u> |
| CASH FLOW FROM (TO) INVESTING ACTIVITIES | | |
| Received from sale of shares | 18,723 | 10,120 |
| Received from project loans | <u>14,692</u> | <u>9,524</u> |
| Net cash from (to) investing activities | <u>33,415</u> | <u>19,644</u> |
| CASH FLOW FROM (TO) FINANCING ACTIVITIES | | |
| Repaid capital during the year | <u>-</u> | <u>(35,000)</u> |
| Net cash from (to) financing activities | <u>-</u> | <u>(35,000)</u> |
| NET CHANGE IN CASH | 35,349 | (11,714) |
| NET CASH BEGINNING OF YEAR | <u>(22,508)</u> | <u>(10,794)</u> |
| NET CASH END OF YEAR | <u><u>12,841</u></u> | <u><u>(22,508)</u></u> |
| - Shown as cash in current assets | 14,660 | 44 |
| - Shown as drawn on bank credit facility | (1,819) | (22,552) |

NOTES

| | 2019 <u>DKK 1,000</u> | 2018 <u>DKK 1,000</u> |
|---|--------------------------|--------------------------|
| 2 <u>Contribution from share capital investments</u> | | |
| Dividends from projects | 1,536 | 3,092 |
| Realised gain from divested share capital investments | 1,127 | 3,156 |
| Value adjustments, portfolio | <u>1,540</u> | <u>(7,786)</u> |
| Contribution from share capital investments | <u>4,203</u> | <u>(1,538)</u> |
| 3 <u>Contribution from project loans and guarantees</u> | | |
| Interest income and fees related to project loans and guarantees | 7,695 | 7,044 |
| Value adjustments excl. exchange rate adjustments, loan portfolio | 21,964 | 11,107 |
| Exchange rate adjustments, project loans | 40 | 338 |
| Value adjustments, interest and fees | <u>(1,769)</u> | <u>(1,972)</u> |
| Contribution from project loans and guarantees | <u>27,930</u> | <u>16,517</u> |
| 4 <u>Other contributions from projects</u> | | |
| Value adjustments, receivables, excl. exchange rate adjustments | (139) | - |
| Exchange rate adjustments, receivables | 13 | (1) |
| Other income and expenses | <u>(60)</u> | <u>(6)</u> |
| Other contributions from projects | <u>(186)</u> | <u>(7)</u> |
| 5 <u>Operating expenses, net</u> | | |
| IØ's part of operating expenses * | <u>379</u> | <u>1,197</u> |
| | <u>379</u> | <u>1,197</u> |

- *) Specification of Personnel expenses - see Annual report 2019 for IFU - note 5.
IØ's part of all expenses was 2,45% in 2019.

| | 2019 <u>DKK 1,000</u> | 2018 <u>DKK 1,000</u> |
|---|--------------------------|--------------------------|
| 6 <u>Financial income and expenses</u> | | |
| <u>Financial income</u> | | |
| Interest income, cash and bonds | <u>-</u> | <u>4</u> |
| Financial income | <u>-</u> | <u>4</u> |
| <u>Financial expenses</u> | | |
| Interest expenses, bank charges and exchange rate adjustments | <u>(29)</u> | <u>25</u> |
| Financial expenses | <u>(29)</u> | <u>25</u> |
| Financial income, net | <u>(29)</u> | <u>29</u> |

| | 2019 DKK 1,000 | 2018 DKK 1,000 |
|--|------------------------|------------------------|
| 7 Share capital investment in projects | | |
| Share capital investment in projects beginning of year at cost | 74,972 | 82,044 |
| Proceeds from divestment of shares | (18,723) | (10,120) |
| Realised gain from divestment of shares relative to cost, net | <u>8,838</u> | <u>3,048</u> |
| Share capital investment in projects end of year at cost | <u>65,087</u> | <u>74,972</u> |
| Accumulated value adjustment beginning of year | (31,764) | (24,086) |
| Reversed value adjustments, divested share capital investments | (7,711) | 108 |
| Value adjustments, portfolio during the year | <u>1,540</u> | <u>(7,786)</u> |
| Accumulated value adjustment end of year | <u>(37,935)</u> | <u>(31,764)</u> |
| Share capital investment in projects end of year | <u>27,152</u> | <u>43,208</u> |
| Herof associated companies: | | |
| Share capital investment in projects end of year at cost | 513 | 513 |
| Accumulated value adjustments end of year | <u>(513)</u> | <u>(513)</u> |
| | <u>-</u> | <u>-</u> |
| Accumulated value adjustments end of year are comprised of: | | |
| Positive value adjustments | 13,156 | 19,327 |
| Negative value adjustments | <u>(51,091)</u> | <u>(51,091)</u> |
| | <u>(37,935)</u> | <u>(31,764)</u> |

| Name / Domicile: | Form of company: | IØ's ownership interest: (%) | According to the latest approved annual report | |
|--------------------------------|------------------|------------------------------|--|--------|
| | | | Result | Equity |
| UPG Ejendomme 3 ApS Denmark | ApS | 20% | (115) | (854) |

| | 2019 DKK 1,000 | 2018 DKK 1,000 |
|---|-------------------|-------------------|
| 8 <u>Project loans, net</u> | | |
| Project loans beginning of year at cost | 123,102 | 126,861 |
| Interest converted into project loans during the year | 6,015 | 5,427 |
| Repayments during the year | (14,692) | (9,524) |
| Exchange rate adjustments, project loans | 40 | 338 |
| | <u>114,465</u> | <u>123,102</u> |
| Project loans end of year at cost * | | |
| Accumulated value adjustments beginning of year | (45,753) | (54,866) |
| Reversed value adjustments, loans written off | - | - |
| Value adjustments | 21,964 | 11,107 |
| Value adjustments related to conversions during the year | (555) | (1,994) |
| | <u>(24,344)</u> | <u>(45,753)</u> |
| Project loans, net end of year | <u>90,121</u> | <u>77,349</u> |
| *) Project loans end of year at cost are comprised of: | | |
| Senior project loans | 12,589 | 16,320 |
| Subordinated loans | 101,876 | 106,782 |
| | <u>114,465</u> | <u>123,102</u> |
| *) Project loans end of year at cost in DKK distributed according to currency denomination: | | |
| | <u>2019</u> | <u>2018</u> |
| | Currency | Currency |
| DKK | | 7,350 |
| EUR | 14,340 | 15,501 |
| | <u>114,465</u> | <u>123,102</u> |

| | 2019 DKK 1,000 | 2018 DKK 1,000 |
|--|-------------------|-------------------|
| 9 <u>Interest receivable related to projects</u> | | |
| Interest receivable related to projects before value adjustments | 2,545 | 1,904 |
| Value adjustments | <u>(2,373)</u> | <u>(1,511)</u> |
| Interest receivable related to projects | <u>172</u> | <u>393</u> |
| 10 <u>Other receivables</u> | | |
| Receivable front-end fees | <u>301</u> | <u>191</u> |
| | 301 | 191 |
| Value adjustments | <u>(139)</u> | <u>-</u> |
| | 162 | 191 |
| Current accounts | <u>760</u> | <u>709</u> |
| | <u>922</u> | <u>900</u> |

| | 2019 DKK 1,000 | 2018 DKK 1,000 |
|---|--------------------|--------------------|
| 11 <u>Total equity</u> | | |
| Paid-in capital beginning of year | 1,897,800 | 1,897,800 |
| Paid-in capital during the year | - | - |
| Paid-in capital end of year | <u>1,897,800</u> | <u>1,897,800</u> |
| Repaid capital beginning of year | (3,710,000) | (3,675,000) |
| Repaid capital during the year | - | (35,000) |
| Repaid capital end of year | <u>(3,710,000)</u> | <u>(3,710,000)</u> |
| Retained earnings beginning of year | 1,911,542 | 1,897,738 |
| Transferred from net income for the year | 31,539 | 13,804 |
| Retained earnings end of year | <u>1,943,081</u> | <u>1,911,542</u> |
| Total equity end of year | <u>130,881</u> | <u>99,342</u> |
| 12 <u>Other current liabilities</u> | | |
| Other project-related debt | <u>327</u> | <u>-</u> |
| | <u>327</u> | <u>-</u> |
| 13 <u>Undisbursed commitments to projects</u> | | |

Undisbursed commitments to projects are comprised of undisbursed contractual commitments and binding commitments not yet contracted. There are no undisbursed commitments to projects.

14 Related party disclosures

IØ project investments - shares and loans

For a list of project investments where 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.

15 Financial highlights and Sustainability classification

Financial highlights (table) - see page 7

Sustainability classification (table) - see page 10

16 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.

17 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.

| 2019 | | Share capital investments | | Project loans | | Total | | Commitments (off balance) | |
|--------------|--|---------------------------|-------------|----------------|-------------|----------------|-------------|---------------------------|-----------|
| OECD | | DKK 1,000 | % | DKK 1,000 | % | DKK 1,000 | % | DKK 1,000 | % |
| - | | - | 0% | - | 0% | - | 0% | - | 0% |
| 1 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 2 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 3 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 4 | | 50,026 | 77% | 101,876 | 89% | 151,902 | 85% | - | 0% |
| 5 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 6 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 7 | | 15,061 | 23% | 12,589 | 11% | 27,650 | 15% | - | 0% |
| Total | | 65,087 | 100% | 114,465 | 100% | 179,552 | 100% | - | 0% |

| 2018 | | Share capital investments | | Project loans | | Total | | Commitments (off balance) | |
|--------------|--|---------------------------|-------------|----------------|-------------|----------------|-------------|---------------------------|-----------|
| OECD | | DKK 1,000 | % | DKK 1,000 | % | DKK 1,000 | % | DKK 1,000 | % |
| - | | - | 0% | - | 0% | - | 0% | - | 0% |
| 1 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 2 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 3 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 4 | | 59,911 | 80% | 106,782 | 87% | 166,693 | 84% | - | 0% |
| 5 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 6 | | - | 0% | - | 0% | - | 0% | - | 0% |
| 7 | | 15,061 | 20% | 16,320 | 13% | 31,381 | 16% | - | 0% |
| Total | | 74,972 | 100% | 123,102 | 100% | 198,074 | 100% | - | 0% |

Credit quality/impairment

All outstanding project loans have been classified into three stages:

- Stage 1 includes project loans with no credit deterioration and no specific value adjustments.

The value adjustments according to IFRS 9 are based on IØ's historical annual credit loss.

- Stage 2 includes project loans where payments are delayed with more than 30 days at the end of year but with out any specific value adjustments.

The value adjustments according to IFRS 9 are based on IØ's historical credit loss.

- Stage 3 includes project loans with only specific value adjustments.

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

| DKK'000 | 2019 | 2018 |
|-------------------------|----------------|----------------|
| Project loans (stage 1) | 7,350 | 7,350 |
| Project loans (stage 2) | 84,122 | 4,540 |
| Project loans (stage 3) | 22,993 | 111,212 |
| Total | 114,465 | 123,102 |

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

| DKK'000 | 2019 | 2018 |
|--------------|--------------|--------------|
| OECD 7 | 7,350 | 7,350 |
| Total | 7,350 | 7,350 |

The table below shows project loans according to stages.

| | Value adjustment s % | Project loans at cost | Accumulated value adjustments | Project loans carrying amount 2019 |
|-------------------------|----------------------------|-----------------------------|-------------------------------------|--|
| DKK'000 | | | | |
| Project loans (stage 1) | -2.2% | 7,350 | (162) | 7,188 |
| Project loans (stage 2) | -1.4% | 84,122 | (1,189) | 82,933 |
| Project loans (stage 3) | -100.0% | 22,993 | (22,993) | - |
| Total | | 114,465 | (24,344) | 90,121 |

| | Value adjustment s % | Project loans at cost | Accumulated value adjustments | Project loans carrying amount 2018 |
|-------------------------|----------------------------|-----------------------------|-------------------------------------|--|
| DKK'000 | | | | |
| Project loans (stage 1) | -2.0% | 7,350 | (150) | 7,200 |
| Project loans (stage 2) | -38.4% | 4,540 | (1,742) | 2,798 |
| Project loans (stage 3) | -39.4% | 111,212 | (43,861) | 67,351 |
| Total | | 123,102 | (45,753) | 77,349 |

2019

| Project loans at amortised cost before value adjustments | Stage 1 | Stage 2 | Stage 3 | Total |
|---|----------------|----------------|----------------|----------------|
| Project loans beginning of year at cost | 7,350 | 4,540 | 111,212 | 123,102 |
| Interest and fees converted into project loans during the year | - | - | 6,015 | 6,015 |
| Repayments during the year | - | (3,737) | (10,955) | (14,692) |
| Exchange rate adjustments, project loans | - | 4 | 36 | 40 |
| Project loans end of year at cost before change of stages | 7,350 | 807 | 106,308 | 114,465 |
| Change in loan value from stage 3 | - | 83,315 | (83,315) | - |
| Project loans end of year at cost | 7,350 | 84,122 | 22,993 | 114,465 |

| Accumulated value adjustments | Stage 1 | Stage 2 | Stage 3 | Total |
|---|----------------|----------------|-----------------|-----------------|
| Accumulated value adjustments beginning of year | (150) | (1,742) | (43,861) | (45,753) |
| Value adjustments | (12) | 1,386 | 20,590 | 21,964 |
| Value adjustments related to conversions during the year | - | - | (555) | (555) |
| Accumulated value adjustments end of year before change of stages | (162) | (356) | (23,826) | (24,344) |
| Change in loan value from stage 2 | - | (833) | 833 | - |
| Accumulated value adjustments end of year | (162) | (1,189) | (22,993) | (24,344) |

2018

| Project loans at amortised cost before value adjustments | Stage 1 | Stage 2 | Stage 3 | Total |
|---|----------------|----------------|----------------|----------------|
| Project loans beginning of year at cost | 18,486 | 3,276 | 105,099 | 126,861 |
| Interest and fees converted into project loans during the year | 1,440 | - | 3,987 | 5,427 |
| Repayments during the year | (1,744) | - | (7,780) | (9,524) |
| Exchange rate adjustments, project loans | 52 | 9 | 277 | 338 |
| Project loans end of year at cost before change of stages | 18,234 | 3,285 | 101,583 | 123,102 |
| Change in loan value from stage 1 | (18,234) | 1,255 | 16,979 | - |
| Change in loan value from stage 3 | 7,350 | - | (7,350) | - |
| Project loans end of year at cost | 7,350 | 4,540 | 111,212 | 123,102 |

| Accumulated value adjustments | Stage 1 | Stage 2 | Stage 3 | Total |
|---|----------------|----------------|-----------------|-----------------|
| Accumulated value adjustments beginning of year | (433) | (1,311) | (53,122) | (54,866) |
| Value adjustments | (16,937) | (40) | 28,084 | 11,107 |
| Value adjustments related to conversions during the year | - | - | (1,994) | (1,994) |
| Accumulated value adjustments end of year before change of stages | (17,370) | (1,351) | (27,032) | (45,753) |
| Change in loan value from stage 1 | 17,370 | (391) | (16,979) | - |
| Change in loan value from stage 3 | (150) | - | 150 | - |
| Accumulated value adjustments end of year | (150) | (1,742) | (43,861) | (45,753) |

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.

| | 2019 | | 2018 | |
|---|-----------------|---|-----------------|---|
| | Carrying amount | Maximum credit exposure (contractual cash flow) | Carrying amount | Maximum credit exposure (contractual cash flow) |
| DKK 1,000 | | | | |
| Project loans | 90,121 | 114,465 | 77,349 | 123,102 |
| Interest receivable related to projects | 172 | 2,545 | 393 | 1,904 |
| Other receivables | 162 | 301 | 191 | 191 |
| Derivatives | - | - | - | - |
| Cash | 14,660 | 14,660 | 44 | 44 |
| Commitments | - | - | - | - |
| Total | 105,115 | 131,971 | 77,977 | 125,241 |

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 82m (2018: DKK 67m) and for indemnity and counter-guarantees the fair value is DKK 7m (2018: DKK 0m).

18 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.

2019

| DKK 1,000 | Project loans | Interest receivables | Other project related receivables | Net exposure | Increase in foreign exchange rates | Effect on profit or loss |
|--------------|---------------|----------------------|-----------------------------------|---------------|------------------------------------|--------------------------|
| EUR | 82,933 | 82 | - | 83,015 | 1% | 830 |
| DKK | 7,188 | 90 | 162 | 7,440 | N/A | - |
| Total | 90,121 | 172 | 162 | 90,455 | | |

2018

| DKK 1,000 | Project loans | Interest receivables | Other project related receivables | Net exposure | Increase in foreign exchange rates | Effect on profit or loss |
|--------------|---------------|----------------------|-----------------------------------|---------------|------------------------------------|--------------------------|
| EUR | 70,149 | 301 | 138 | 70,588 | 1% | 706 |
| DKK | 7,200 | 92 | 53 | 7,345 | N/A | - |
| Total | 77,349 | 393 | 191 | 77,933 | | |

19 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.

2019

| DKK 1,000 | Project loans | Net exposure | Increase in interest rates | Effect on profit or loss |
|--------------|---------------|---------------|----------------------------|--------------------------|
| Fixed | - | - | 100 bp | - |
| Variable | 90,121 | 90,121 | 100 bp | - |
| Total | 90,121 | 90,121 | | |

2018

| DKK 1,000 | Project loans | Net exposure | Increase in interest rates | Effect on profit or loss |
|--------------|---------------|---------------|----------------------------|--------------------------|
| Fixed | - | - | 100 bp | - |
| Variable | 77,349 | 77,349 | 100 bp | - |
| Total | 77,349 | 77,349 | | |

20 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 270 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.

2019

| 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 | 90,121 | 114,465 | 46,572 | 64,218 | 3,675 | - | - |
| Interest receivable related to projects | 172 | 2,545 | 2,545 | | | - | - |
| Other receivables | 922 | 1,061 | 301 | 760 | - | - | - |
| Cash and cash equivalents | 14,660 | 14,660 | 14,660 | - | - | - | - |
| Total assets | 105,875 | 132,731 | 64,078 | 64,978 | 3,675 | - | - |
| Liabilities | | | | | | | |
| Drawn on credit facilities | 1,819 | 1,819 | | 1,819 | | | |
| Other current liabilities | 327 | 327 | | 327 | | | |
| Total liabilities | 2,146 | 2,146 | - | 2,146 | - | - | - |
| Off-balance | | | | | | | |
| Amounts payable on share capital and loan agreements | | - | - | | | | |
| Total off-balance | | - | - | - | - | - | - |

2018

| 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 | 77,349 | 123,102 | 49,816 | 69,086 | 4,200 | - | - |
| Interest receivable related to projects | 393 | 1,904 | 1,904 | | | | |
| Other receivables | 900 | 900 | 191 | 709 | - | - | - |
| Cash and cash equivalents | 44 | 44 | 44 | | | | |
| Total assets | 78,686 | 125,950 | 51,955 | 69,795 | 4,200 | - | - |
| Liabilities | | | | | | | |
| Drawn on credit facilities | 22,552 | 22,552 | | 22,552 | | | |
| Total liabilities | 22,552 | 22,552 | - | 22,552 | - | - | - |
| Off-balance | | | | | | | |
| Amounts payable on share capital and loan agreements | | - | - | | | | |
| Total off-balance | | - | - | - | - | - | - |

21 Classification of financial instruments

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

| 2019 | Designated at fair value through profit and loss | Loans and receivables at amortised cost | Other liabilities at amortised cost | Total |
|---|--|---|--|-----------------|
| DKK 1,000 | | | | |
| Financial assets | | | | |
| Share capital investment in projects | 27,152 | - | | 27,152 |
| Project loans | - | 90,121 | | 90,121 |
| Interest receivable related to projects | - | 172 | | 172 |
| Other receivables | - | 922 | | 922 |
| Cash and cash equivalents | - | 12,841 | | 12,841 |
| Total financial assets | 27,152 | 104,056 | - | 131,208 |
| | | | | - |
| Financial liabilities | | | | - |
| Current liabilities: | | | | - |
| Drawn on credit facilities | | | - | - |
| Total financial liabilities | - | - | - | - |
| 2018 | Designated at fair value through profit and loss | Loans and receivables at amortised cost | Other liabilities at amortised cost | Total |
| DKK 1,000 | | | | |
| Financial assets | | | | |
| Share capital investment in projects | 43,208 | - | | 43,208 |
| Project loans | - | 77,349 | | 77,349 |
| Interest receivable related to projects | - | 393 | | 393 |
| Other receivables | - | 900 | | 900 |
| Cash and cash equivalents | - | - | | - |
| Total financial assets | 43,208 | 78,642 | - | 121,850 |
| | | | | - |
| Financial liabilities | | | | - |
| Current liabilities: | | | | - |
| Drawn on credit facilities | - | | (22,508) | (22,508) |
| Total financial liabilities | - | - | (22,508) | (22,508) |

The carrying amount of project loans with fixed interest terms amount to DKK 0m (2018: 0m). The fair value of project loans amount to DKK 0m (2018: DKK 0m) 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.

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.

2019

| DKK 1,000 | Level 1 | Level 2 | Level 3 | Total |
|--|---------|------------|---------------|---------------|
| Share capital investments | | | | |
| Opening balance | - | - | 43,208 | 43,208 |
| Transfers into the level | - | - | - | - |
| Transfers out of the level | - | - | - | - |
| Total gains/ losses for the period included in profit or loss ¹ | - | - | 2,667 | 2,667 |
| Paid-in share capital in projects | - | - | - | - |
| Proceeds from divestment of shares | - | - | (18,723) | (18,723) |
| Closing balance | - | - | 27,152 | 27,152 |
| Other receivables | | | | |
| Opening balance | - | 900 | - | 900 |
| Closing balance | - | 922 | - | 922 |
| Total recurring fair value measurements | - | 922 | 27,152 | 28,074 |

2018

| DKK 1,000 | Level 1 | Level 2 | Level 3 | Total |
|--|---------|------------|---------------|---------------|
| Share capital investments | | | | |
| Opening balance | - | - | 57,958 | 57,958 |
| Transfers into the level | - | - | - | - |
| Transfers out of the level | - | - | - | - |
| Total gains/ losses for the period included in profit or loss ¹ | - | - | (4,630) | (4,630) |
| Paid-in share capital in projects | - | - | - | - |
| Proceeds from divestment of shares | - | - | (10,120) | (10,120) |
| Closing balance | - | - | 43,208 | 43,208 |
| Other receivables | | | | |
| Opening balance | - | - | - | - |
| Closing balance | - | 900 | - | 900 |
| Total recurring fair value measurements | - | 900 | 43,208 | 44,108 |

1) Recognised in Contribution from share capital investments.

Hereof DKK 2m (2018: DKK (8)m) 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.

2018

DKK 1,000

| Type of investment | Fair value at 31/12/2019 | Valuation technique | Unobservable inputs | Reasonable possible shift in % | Change in fair value |
|--|-----------------------------|--|------------------------|--------------------------------------|----------------------------|
| Indirect investments through financial intermediaries | | | | | |
| Externally managed funds | 0 | Net assets value | | | |
| Direct investments | 0 | Binding offers/transaction/exit terms | | | |
| | 27,152 | Book value of equity (small investments) | | | |
| Share capital investments | 27,152 | | | | |

2018

DKK 1,000

| Type of investment | Fair value at 31/12/2018 | Valuation technique | Unobservable inputs | Reasonable possible shift in % | Change in fair value |
|--|-----------------------------|--|------------------------|--------------------------------------|----------------------------|
| Indirect investments through financial intermediaries | | | | | |
| Externally managed funds | 0 | Net assets value | | | |
| Direct investments | 0 | Binding offers/transaction/exit terms | | | |
| | 43,208 | Book value of equity (small investments) | | | |
| Share capital investments | 43,208 | | | | |

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, according to Section 9 of the Danish Act on International Development Cooperation. Each appointment is personal. The current three-year term ends on 31 July 2021.

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

Since 1 January 2013, an observer from the Ministry of Foreign Affairs has been appointed to IØ'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 IØ in 2019 had business transactions with Nykredit Bank A/S (part of the Nykredit group, in which the chairman is CEO).

The rules of procedure for the board contain detailed rules regarding conflict 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 business transactions are not considered to be of a nature as to impair the general independence of the board members.

Michael Rasmussen, Chairman, board member since 2000

CEO, Nykredit.

Other board memberships: Nykredit Bank A/S (chairman), Totalkredit A/S (chairman), Finance Denmark (chairman), Copenhagen Business School (deputy chairman), Sparinvest Holding SE (chairman).

Lars Andersen, Deputy Chairman, board member since 1994

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

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

Ambassador (retired).

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

Managing Director, FSR – Danish Auditors

Other board memberships: Plan Børnefonden, Pantebrevselskabet Boligkredit A/S, Groupcare A/S.

Anne Broeng, board member since 2019

Professional board member.

Other board memberships: Velliv (chairman), NNIT A/S, VKR Holding A/S, Velux A/S, ATP, Aquaporin A/S, NASDAQ Nordic OY, Rodinia ApS.

Signe Skovbakke Winding Albjerg, board observer since 2020

Head of Department, Ministry of Foreign Affairs

Executive management

The Danish minister for development cooperation appoints the CEO.

Torben Huss, CEO

Board memberships: Nordic Microfinance Initiative.

Lars Krogsgaard, CIO

Board memberships: ViroGates A/S, Samplix ApS, DCR Solutions A/S.