

IFU Investment Partners K/S

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

CVR no. 34 45 39 69

Annual report 2021

Approved at the Company's annual general meeting on 29 April 2022

Chairman:

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Nicolai Boserup

Contents

Statement by Management on the annual report	2
Independent auditor's report	3
Management's review	5
Operating review	7
Sustainability reporting	7
Sustainability policy framework	7
Operational framework	10
Financial review 2021	10
Financial statements 1 January - 31 December	11
Income statement	11
Balance sheet	12
Statement of changes in equity	13
Cash flow statement	14
Notes	15

Statement by Management on the annual report

Today, the undersigned have discussed and approved the annual report of IFU Investment Partners K/S for the financial year 1 January - 31 December 2021.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2021 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2021.

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

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

Copenhagen, 29 April 2022

Management of IFU Investments Komplementar ApS:

Nicolai Boserup
Chairman

Torben Huss

Lars Krogsgaard

Independent auditor's report

To the limited partners of IFU Investment Partners K/S

Opinion

We have audited the financial statements of IFU Investment Partners K/S for the financial year 1 January - 31 December 2021, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2021 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Independence

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditor's report

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

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Copenhagen, 29 April 2022
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Lars Rhod Søndergaard
State Authorised
Public Accountant
mne28632

Management's review

Company details

Name	IFU Investment Partners K/S
Address, zip code, city	c/o IFU, Fredericiagade 27, 1310 Copenhagen K, Denmark
CVR no.	34 45 39 69
Established	5 March 2012
Registered office	Copenhagen
Financial year	1 January - 31 December
General partner	IFU Investment Partners GP P/S
Manager of the Partnership	IFU - Investment Fund for Developing Countries
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36, 2000 Frederiksberg, Denmark

Management's review

Financial Highlights

Seen over a five-year period, the development of the fund is described by the following financial highlights.

Key figures

DKK'000	2021	2020	2019	2018	2017
Profit/loss					
Profit/loss before financial income and expenses	10,142	3,315	(17,076)	(22,164)	(5,656)
Net financials	(41)	(48)	(93)	(34)	(75)
Net profit/loss for the year	10,101	3,267	(17,169)	(22,198)	(5,731)
Balance sheet					
Balance sheet total	408,151	397,663	395,021	414,419	434,834
Equity	407,320	397,219	393,961	411,130	433,678
Cash flows					
Cash flows from operating activities	(426)	(1,365)	(1,207)	(1,216)	(1,690)
Cash flows from investing activities	-	9	-	(42,117)	66,719
Cash flows from financing activities	-	1,967	3,525	41,027	(59,421)
Change in the year	(426)	611	2,318	(2,306)	5,608
Financial ratios					
Return on assets	2.5%	0.8%	(4.3)%	(5.3)%	(1.3)%
Solvency ratio	99.8%	99.9%	99.7 %	99.2 %	99.7 %
Return on equity	2.5%	0.8%	(4.3)%	(5.3)%	(2.1)%

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

Management's review

Operating review

The Annual Report of IFU Investment Partners K/S (IIP) for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

Main activity

In March 2012, the IFU Investment Partners K/S was established as a public-private partnership and capitalised by the two pension funds Pensionskassernes Administration A/S (PKA) and Pensionskassen for Børne- og Ungdomspædagoger (PBU). The total capital committed to IIP was DKK 500 million.

IIP is managed by IFU.

The purpose of IIP is to participate as a co-investor in large IFU projects together with Danish companies. The projects co-financed by IIP must be commercially viable and offer an attractive return to its investors.

At the end of 2021, IIP had co-financed a total of five projects. Of these, IIP was still participating in three investments, while two had been exited or cancelled. IIP's investment period ended on 31 December 2017.

Investments in 2021

IIP made no investments in 2021.

Sustainability reporting

SUSTAINABILITY IN IFU'S INVESTMENT PROCESS

IIP 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.

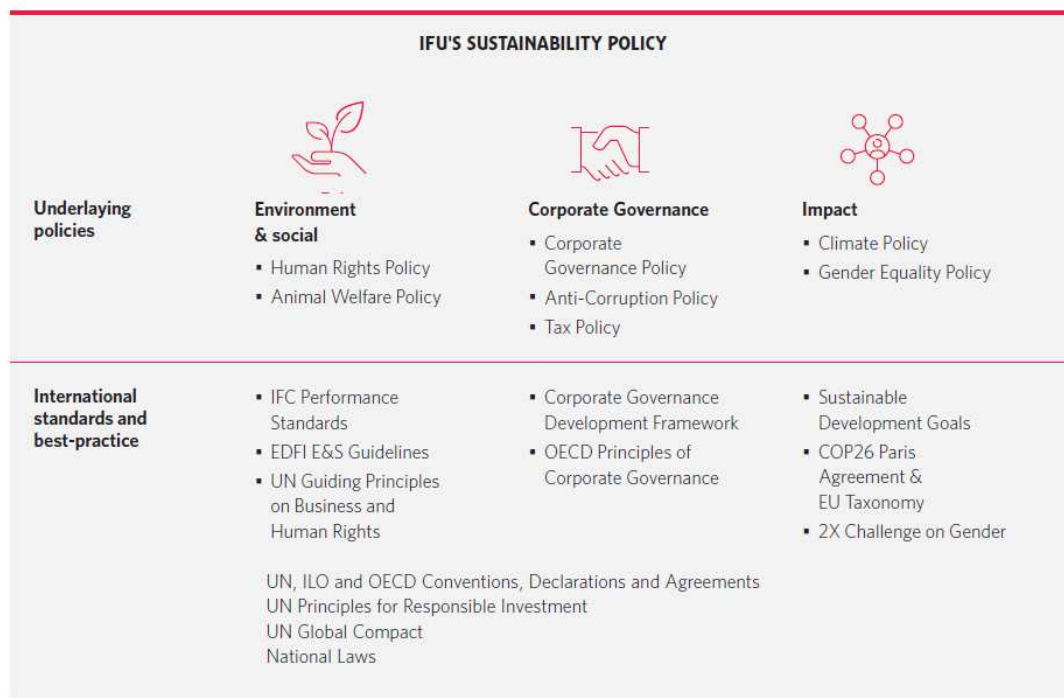
IFU has a comprehensive framework for managing sustainability risks and impacts as an integral part of the investment process for both direct investments and investments in funds and financial institutions. This ensures that the investments contribute to building a green, just and inclusive economy and that environmental and social (E&S) risks and adverse impacts are mitigated.

Sustainability policy framework

IFU's Sustainability Policy is the foundation that sets out IFU's commitment to invest in sustainable development and to contribute to the realisation of the Sustainable Development Goals (SDGs). The policy highlights sustainability issues that IFU considers particularly relevant in order for investments to contribute to the SDGs. Furthermore, the policy has annexes with specific sustainability requirements for IFU's direct investments in the form of equity and loans to project companies, as well as investments in private equity funds, financial institutions and other financial intermediaries. IFU's commitments in relation to major global sustainability issues are clarified in underlying policies, which further explain how IFU implements responsible business conduct measures.

This section describes IFU's current sustainability policy. Since the inception of the IIP, IFU's sustainability policy has gradually been developed to include new requirements, standards and policies. Accordingly, the policies forming the basis for the due diligence of the individual investments were those applicable at the time the investments were made.

Management's review



Sustainability in the investment process

IFU's investment process follows four main phases that are aligned with the standards adopted by the European Development Finance Institutions (EDFIs). The process will therefore be applied in a similar way when co-financing among EDFIs occurs.

During appraisal, IFU assesses and approves investments according to a gradually increased engagement level passing several approval stages from the initial screening phase, through a thorough due diligence phase to final approval.

Management's review

Sustainability in the investment process

	• Creation of impact hypothesis • First gate impact screening against investment strategy • Identification of project-related sustainability risks and opportunities, and impact potential • Pre-assessment of potential adverse impacts on human rights • Evaluation of projects' sustainability awareness, capability and track record • Categorisation of projects according to environmental and social risk level
	• Development of impact areas aligned with the SDGs in a results framework • UN Global Compact Self Assessment for low-risk projects • Environmental and Social Impact Assessment (ESIA) for high-risk projects • Complementary assessment of severe adverse human rights impacts • Site visit, including stakeholder identification and engagement for high-risk projects
	• Binding commitment to IFU's sustainability requirements and to environmental and social action plan and impact creation plan • Agreement on results framework with indicators and targets for reporting
	• Ongoing monitoring of sustainability performance • Follow-up on environmental and social action plan and impact creation plan • Annual sustainability status report, including impact reporting

Development impact

In order to create sustainable societies in the developing world, private capital and investments are vital. This is the reason for IFU and IFU managed funds to offer advice and risk capital to private investors and companies wishing to do business in developing countries.

IFU and IFU managed funds contribute to the realisation of the 17 UN Sustainable Development Goals by promoting investments which support sustainable development in its three dimensions – economic, social and environmental – in a balanced and integrated manner.

To get funding, projects must have measurable, beneficial development impact in the investment country and be deemed commercially viable. Commercial viability ensures that the business is making a profit on invested capital and can continue to operate; creating decent jobs, producing important goods and services and paying taxes to society.

The spin-off is increased income for workers, transfer of knowledge, company-sponsored employee training, interaction with local business and funding for the public sector in the host country, which can be invested in for example education, healthcare and infrastructure.

Projects contracted by IIP are included in the impact reporting in IFU's Annual Report 2021.

Actual direct employment in the projects included in IIP's active portfolio was 1,441 people.

Management's review

Operational framework

Normally, IIP, together with IFU, invests between 5 and 49 per cent of the share capital in a project.

For projects to qualify for co-investment by IIP, Danish investors or Danish know-how, services or technology must be included.

IIP's revenues will consist of interest, dividends and profit from sale of shares.

Financial review 2021

IIP recorded a net income of DKK 10 million in 2021 compared to a net income of DKK 3 million in 2020. Gross contribution from the three investments in the portfolio was DKK 12m in 2021 against DKK 5m in 2020. In terms of yield, the portfolio provided a gross return before expenses and fees of 18% in 2021 measured against average fair value of the portfolio during the year. In 2020, the yield was 8%. Management fees and expenses were unchanged at DKK (1) million.

Capital position and capital resources

As at 31 December 2021, the investors had paid in DKK 160 million corresponding to 32 per cent of the capital commitment of DKK 500 million. The undisbursed commitment was DKK 340 million.

At year-end 2021, IIP's equity was DKK 67 million excluding the undisbursed commitment.

Financial risks

IIP makes investments in developing countries, where political and economic conditions may be volatile, and the investments are often subject to high commercial risks. As a result, and as IIP measures its investments at fair market value, IIP's future results may fluctuate considerably.

Uncertainty regarding recognition and measurement

When preparing the financial statements, Management makes a number of estimates about future conditions that may affect the financial value of assets and liabilities. The area mostly affected by the estimates made by Management is the valuation of share capital investments at fair market value.

Events after the balance sheet date

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

IIP has no exposure towards either Ukraine, Russia or Belarus.

It is however noted that the tragic Russian invasion of Ukraine on 24 February 2022 may have wider negative macroeconomic impacts on portfolio companies in other countries due to the war in Ukraine, e.g. following increasing food and fuel prices.

Outlook for 2022

Currently, no follow-up investments are expected. A positive result is expected in 2022, however with added uncertainty and downside risk due to the war in Ukraine and possible wider implications for the global economy.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2021	2020
	Contribution from investments	11,505	4,628
	Operating expenses, net	(1,363)	(1,313)
	Gross profit/loss	10,142	3,315
	Financial income, net	(41)	(48)
	Profit/loss before tax	10,101	3,267
	Net profit/loss for the year	10,101	3,267
	Recommended appropriation of profit/loss		
	Retained earnings	10,101	3,267
		10,101	3,267

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

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2021	2020
	ASSETS		
	Non-current assets		
4	Investments	68,181	57,647
	Total non-current assets	68,181	57,647
	Current assets		
	Undisbursed commitments	339,943	339,943
	Prepayments	1	7
	Cash	26	66
	Total current assets	339,970	340,016
	TOTAL ASSETS	408,151	397,663
	EQUITY AND LIABILITIES		
	Equity		
	Paid-in capital	160,057	160,057
	Undisbursed commitments	339,943	339,943
	Total commitment	500,000	500,000
	Repaid capital	(68,889)	(68,889)
	Retained earnings	(23,791)	(33,892)
	Total equity	407,320	397,219
	Current liabilities		
	Drawn on bank credit facility	387	1
	Payables to group enterprises	424	423
	Other payables	20	20
	Total current liabilities	831	444
	Total liabilities	831	444
	TOTAL EQUITY AND LIABILITIES	408,151	397,663

- 1 Accounting policies
- 2 Contingent liabilities and other financial obligations
- 3 Related parties and ownership
- 7 Financial risk management
- 8 Equity and credit risk
- 9 Currency risk
- 10 Liquidity risk
- 11 Classification of financial instruments
- 12 Fair value measurements basis

Financial statements 1 January - 31 December

Statement of changes in equity

DKK'000	2021	2020
Total equity		
Paid-in capital beginning of year	160,057	158,081
Paid-in capital during the year	-	1,976
Paid-in capital end of year	160,057	160,057
Undisbursed commitments	339,943	339,943
Total committed capital	500,000	500,000
Repaid capital beginning of year	(68,889)	(68,880)
Repaid capital during the year	-	(9)
Repaid capital end of year	(68,889)	(68,889)
Total capital end of year, net	431,111	431,111
Retained earnings beginning of year	(33,892)	(37,159)
Transferred from net income for the year	10,101	3,267
Retained earnings end of year	(23,791)	(33,892)
Total equity end of year	407,320	397,219

At 31 December 2021, the investors had paid in DKK 160 million corresponding to 32% of the capital commitment of DKK 500 million. Thus, the remaining commitment is DKK 339.9 million.

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2021	2020
	Cash flow from operating activities		
	Net profit for the year	10,101	3,267
5	Adjustments	(10,534)	(4,627)
6	Change in working capital	7	(5)
	Net cash from operating activities	(426)	(1,365)
	Cash flow from (to) investing activities		
	Received from projects	-	9
	Paid-out to investments and loans	-	-
	Net cash from (to) investing activities	-	9
	Cash flow from (to) financing activities		
	Paid-in capital from partners	-	1,976
	Repaid capital to partners	-	(9)
	Net cash from (to) financing activities	-	1,967
	Net change in cash	(426)	611
	Cash beginning of year	65	(546)
	Cash end of year	(361)	65
	- Shown as cash in current assets	26	66
	- Shown as drawn on bank credit facility	(387)	(1)

Financial statements 1 January - 31 December

Notes

1 Accounting policies

The annual report of IFU Investment Partners K/S for 2021 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

The financial statements have been prepared in accordance with the same accounting policies as last year.

Presentation and classification

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

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

On initial recognition, financial assets and liabilities are measured at fair value, which is generally equivalent to cost. Adjustment subsequent to initial recognition is affected as described below for each item.

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

Information brought to IIP'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.

Financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

For assets and liabilities that are measured at fair value on a recurring basis, IIP identifies transfers to and from the three levels of the fair value hierarchy by re-assessing the categorisation, and deems transfers to have occurred at the beginning of each reporting period.

Foreign currency adjustment

Foreign currency transactions are initially recognised in DKK using the exchange rate at the transaction date. Loans, receivables, payables and other monetary items denominated in foreign currencies, which have not been settled at the balance sheet date, are converted into DKK using the exchange rate at the balance sheet date. All exchange rate adjustments, including those that arise at the payment date, are recognised in the income statement as contribution from investments or financial income and financial expenses, depending on their nature.

Non-monetary items

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

Income statement

Contribution from investments

Contribution from investments consists of contribution from share capital investments and includes declared dividends (after tax), contributions from divested share capital investments and value adjustments in relation to the outstanding portfolio at year-end.

Operating expenses, net

The Investment Fund for Developing Countries (IFU) manages the administration and accounting of the Company. Operating expenses, net, comprise fee to Manager and external costs.

Financial income, net

Financial income, net comprises interest income on cash, interest expenses, exchange rate adjustments on cash and bank charges.

Tax on profit for the year

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

Balance sheet

Investments

Investments consist of share capital investments.

Share capital investments are recognised when they are disbursed. Share capital investments 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.

Financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Share capital investments where IIP has significant influence are associates and are accounted for as share capital investments.

Other receivables

Other receivables include dividends and prepayments.

Current liabilities

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

Cash flow statement

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

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

Contingent liabilities

Undisbursed commitments to investments 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 IIP's control.

Financial ratios

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

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

Financial statements 1 January - 31 December

Notes

2 Contingent liabilities and other financial obligations

Contingent liabilities

IIP has entered into the following commitments to investments:

DKK'000	2021	2020
Undisbursed contracted commitments	9,625	8,886
Total undisbursed to investments	9,625	8,886

IIP has signed a management agreement with IFU, whereby IFU performs administration, monitoring, and investment advice for IIP. The management agreement cannot be cancelled. For 2021, the payment amounts to DKK 1,248 thousand incl. VAT

3 Related parties and ownership

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

- ▶ Pensionskassernes Administration A/S (limited partner)
- ▶ Pensionskassen for Børne og Ungdomspædagoger (limited partner)

Other related parties:

- ▶ IFU Investment Partners GP P/S
- ▶ IFU Investments Komplementar ApS
- ▶ IFU (manager)

Financial statements 1 January - 31 December

Notes

DKK'000		2021	2020
4 Investments	Cost at beginning of year	79,436	79,436
	Additions for the year	-	-
	Cost at 31 December	79,436	79,436
	Accumulated value adjustment beginning of year	(21,789)	(26,407)
	Value adjustments	10,534	4,618
	Accumulated value adjustment end of year	(11,255)	(21,789)
	Carrying amount at 31 December	68,181	57,647
Hereof associated companies:			
	Share capital investment in projects end of year at cost	31,273	31,378
	Accumulated value adjustment end of year	10,633	7,531
		41,906	38,909

Associated companies

Name:	Domicile:	Form of company:	IIP K/S' ownership interest (%)	Result According to the latest approved annual report	Equity
Danper Agrícola Olmos S.A.C	Peru	S.A.C	25.00%	10,354	162,934

DKK'000		2021	2020
5 Cash flow statement - adjustments	Value adjustments	(10,534)	(4,618)
	Gain/loss on sale of shares	-	(9)
		(10,534)	(4,627)
6 Cash flow statement - changes in working capital	Change in payables, etc.	7	(5)
		7	(5)

Financial statements 1 January - 31 December

Notes

7 Financial risk management

Introduction

Though investments, IIP is exposed to financial risks such as equity and credit risk on investments, currency risk and liquidity risk.

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

8 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 IIP will incur a financial loss due to a counterparty not fulfilling its obligations.

Managing equity and credit risk

At the portfolio level, IIP mitigates equity risk and credit risk by investing in a variety of countries and by limiting the investment in a single project. IIP assesses concentration of risks on the basis of total commitments to the Fund. Furthermore, IIP assesses, through the due diligence process, the specific risks for each share capital investment and seeks to mitigate associated equity risks.

For some of IIP's share capital investments, IIP has the opportunity to sell the shares through pre-agreed exit agreements. In this way, IIP mitigates the risk of not being able to exit the investments. See note 12 for fair value measurement basis.

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

2021	Share capital investments		Commitments (off balance)	
	DKK'000	%	DKK'000	%
OECD				
2	16,425	21	-	-
3	31,273	39	9,625	100
7	31,738	40	-	-
	79,436	100	9,625	100
2020	Share capital investments		Commitments (off balance)	
	DKK'000	%	DKK'000	%
OECD				
2	16,425	21	-	-
3	31,273	39	8,886	100
7	31,738	40	-	-
	79,436	100	8,886	100

Financial statements 1 January - 31 December

Notes

8 Equity and credit risk (continued)

Maximum exposure to credit risk

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

	2021		2020	
	Carrying amount	Maximum credit exposure (contractual cash flow)	Carrying amount	Maximum credit exposure (contractual cash flow)
DKK'000				
Other receivables	1	1	7	7
Cash	26	26	66	66
	27	27	73	73

9 Currency risk

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

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

Currency exposure and sensitivity

In 2021, there is no currency risk besides share capital investments.

10 Liquidity risk

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

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

To meet these and other obligations, IIP depends on its limited partners being able to honour their commitments to IIP. A DKK 25 million credit facility is in place to cover unexpected negative short-term fluctuations in cash flows. At year-end, DKK 25 million was available for drawing.

For information of commitments from the limited partners, see note 2.

Financial statements 1 January - 31 December

Notes

10 Liquidity risk (continued)

Contractual maturities

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

2021

DKK'000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Other receivables	1	1	-	1	-	-	-
Cash and cash equivalents	26	26	26	-	-	-	-
Total assets	27	27	26	1	-	-	-
Liabilities							
Drawn on bank credit facility	387	387	-	387	-	-	-
Other current liabilities	444	444	-	444	-	-	-
Total liabilities	831	831	-	831	-	-	-
Off-balance							
Amounts payable on share capital and loan agreements	-	9,625	9,625	-	-	-	-
Total off-balance	-	9,625	9,625	-	-	-	-

2020

DKK'000	Carrying amount	Contractual cash flows	On demand	0-1 year	1-5 years	Over 5 years	No fixed maturity
Assets							
Other receivables	7	7	-	7	-	-	-
Cash and cash equivalents	66	66	66	-	-	-	-
Total assets	73	73	66	7	-	-	-
Liabilities							
Drawn on bank credit facility	1	1	-	1	-	-	-
Other current liabilities	443	443	-	443	-	-	-
Total liabilities	444	444	-	444	-	-	-
Off-balance							
Amounts payable on share capital and loan agreements	-	8,886	8,886	-	-	-	-
Total off-balance	-	8,886	8,886	-	-	-	-

Financial statements 1 January - 31 December

Notes

11 Classification of financial instruments

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

2021

DKK'000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Other liabilities at amortised cost	Total
Financial assets				
Share capital investment in projects	68,181	-	-	68,181
Other receivables	-	1	-	1
Cash and cash equivalents	-	26	-	26
Total financial assets	68,181	27	-	68,208
Financial liabilities				
Current liabilities:				
Other current liabilities	-	-	831	831
Total financial liabilities	-	-	831	831

2020

DKK'000	Designated at fair value through profit and loss	Loans and receivables at amortised cost	Other liabilities at amortised cost	Total
Financial assets				
Share capital investment in projects	57,647	-	-	57,647
Other receivables	-	7	-	7
Cash and cash equivalents	-	66	-	66
Total financial assets	57,647	73	-	57,720
Financial liabilities				
Current liabilities:				
Other current liabilities	-	-	444	444
Total financial liabilities	-	-	444	444

Financial statements 1 January - 31 December

Notes

12 Fair value measurement basis

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

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

In the following sections, a short description of the overall principle for IIP'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

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

Investments are valued as follows:

- ▶ In the initial phase, all investments are valued at cost price less any impairment adjustment, as this is deemed to provide a good indication of fair value. Hereafter, investments will be valued at either the Discounted Cash Flow method (DCF), by an earnings multiple if appropriate and reliable transaction/earnings multiples are available, or by the net assets methodology, if appropriate.
- ▶ If during the 12-month period prior to the reporting date, IIP has received a binding offer in writing from a third party or a significant transaction has taken place, the shares will normally be valued based on the offer or the recent transaction.

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

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

Valuing private investments in developing countries at fair values involves a large inherent uncertainty. Due to these uncertainties, a degree of caution is applied when exercising judgements and making the necessary estimates.

Some share capital investments include a pre-agreed exit agreement. In these cases, the value of the exit agreements is taken into consideration as part of the fair value calculation. Investments valued according to exit agreements are disclosed in the table below together with investments valued based on a recent binding offer or transaction.

Financial statements 1 January - 31 December

Notes

12 Fair value measurement basis (continued)

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.

2021

DKK'000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	14,917	-	42,730	57,647
Total gains/losses for the period included in profit or loss ¹⁾	(5,396)	-	15,930	10,534
Proceeds from divestment of shares	-	-	-	-
Closing balance	9,521	-	58,660	68,181
Total recurring fair value measurements	9,521	-	58,660	68,181

2020

DKK'000	Level 1	Level 2	Level 3	Total
Share capital investments				
Opening balance	10,791	-	42,238	53,029
Total gains/losses for the period included in profit or loss ¹⁾	4,135	-	492	4,627
Proceeds from divestment of shares	(9)	-	-	(9)
Closing balance	14,917	-	42,730	57,647
Total recurring fair value measurements	14,917	-	42,730	57,647

1) Recognised in contribution from share capital investments.

Hereof DKK 16 million (2020: DKK 0 million) is attributable to assets held at 31 December for level 3.

Financial statements 1 January - 31 December

Notes

12 Fair value measurement basis (continued)

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

2021

Type of investment	Fair value at 31/12/2021	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Investments					
	41,906	Binding offers/ transaction/exit terms			
	16,754	Discounted cash flow	WACC	+10	(2,160)
			Growth in terminal value	-20	(576)
Share capital investments	<u>58,660</u>				

2020

Type of investment	Fair value at 31/12/2020	Valuation technique	Unobservable inputs	Reasonable possible shift in %	Change in fair value
Investments					
	35,339	Binding offers/ transaction/exit terms			
	7,391	Discounted cash flow	WACC	+10	(1,570)
			Growth in terminal value	-20	(681)
Share capital investments	<u>42,730</u>				

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State Authorised Public Accountant

På vegne af: EY Godkendt Revisionspartnerselskab

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