

**Capidea Kapital III K/S
Store Kongensgade 118, 1. th.
DK-1264 Copenhagen K
Business Registration No 39184168
Annual report 2020**

The Annual General Meeting adopted the annual report on 28.04.2021

Chairman of the General Meeting

Name: Gert Eg

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Fund details

Fund

Capidea Kapital III K/S
Store Kongensgade 118, 1. th.
DK-1264 Copenhagen K

Business Registration No: 39184168

Registered in: Copenhagen
Financial year: 01.01.2020 – 31.12.2020

Executive Board

Capidea Komplementar III ApS

Auditor

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
DK-2300 Copenhagen S

Statement by Management on the annual report

The Executive Board has today considered and approved the annual report of Capidea Kapital III K/S (“the Fund”) for the financial year 01.01.2020 - 31.12.2020.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Fund’s financial position at 31.12.2020 and of the results of its operations and cash flows for the financial year 01.01.2020 - 31.12.2020.

In our opinion, the management commentary contains a fair review of the development of the Fund’s business and financial matters, the results for the year and of the Fund’s financial position as a whole, together with a description of the principal risks and uncertainties that the Fund faces.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 08.02.2021

Executive Board

Capidea Komplementar III ApS

Independent auditor's report

To the General Partner and Limited Partners of Capidea Kapital III K/S

Opinion

We have audited the financial statements of Capidea Kapital III K/S ("the Fund") for the financial year 01.01.2020 - 31.12.2020, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Fund's financial position at 31.12.2020 and of the results of its operations and cash flows for the financial year 01.01.2020 - 31.12.2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 this auditor's report. We are independent of the Fund in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

General Partner's responsibilities for the financial statements

The General Partner is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as the General Partner 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, the General Partner is responsible for assessing the Fund's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless the General Partner either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

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 the 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 these financial statements.

As part of an audit conducted in accordance with ISAs and the 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.
- 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the General Partner.
- Conclude on the appropriateness of the General Partner'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 Fund'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 Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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.

Independent auditor's report

Statement on the management commentary

The General Partner is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary 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 commentary.

Copenhagen, 08.02.2021

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Bjørn Winkler Jakobsen
State-Authorised Public Accountant
Identification number (MNE) mne32127

Bill Haudal Pedersen
State-Authorised Public Accountant
Identification number (MNE) mne30131

Management commentary

	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>	<u>2017/18</u> <u>DKK'000</u>
Financial highlights			
Key figures			
Profit/loss from operating activities	47,712	19,384	(17,799)
Profit/loss for the year	47,689	19,357	(17,811)
Equity	253,235	284,956	126,612
Balance sheet total	253,438	285,310	128,246
Ratios			
Solvency ratio (%)	99.9	99.9	98.7
Distributed to Paid In (%)	31	0	0

Primary activities

The objective of Capidea Kapital III K/S (the Fund) is to perform long-term investments in small and mid-sized Danish enterprises, either directly or through wholly or partially-owned holding companies, with focus on trade, service and industry and related areas.

Decisions made to invest in a portfolio enterprise is made by the Investment Committee based on recommendations prepared by Management in Capidea Management ApS.

Development in activities and finances

Profit/loss for the year showed a gain of DKK 47,689k primarily reflecting the development in the portfolio companies and the market for unlisted companies in general.

Outlook

Increases in values of the Fund's enterprises partly depend on their financial results and partly on the share market utilised to determine the price for unlisted shares.

Due to uncertainty on the share market, it is difficult to list well-founded expectations to the results for 2021.

Particular risks

The objective of the Fund is to contribute capital to competitive enterprises. The most significant risk factor is thus changes to the values of the investments made.

Management commentary

Portfolio enterprises

From the establishment and until 31 December 2020, the Fund has acquired five enterprises of which one has been sold in 2020. The Fund has acquired the voting rights majority in all of its portfolio enterprises.

Presentation of portfolio enterprises:

Budweg Caliper A/S

Budweg Caliper develops, produces, remanufacturers and sells brake calipers to the independent automotive aftermarket. The customers are primarily large spare part distributors as well as suppliers of brake systems. The largest markets are Scandinavia, Germany and the UK. Budweg Caliper produces products of OE-quality and has a wide product range offering more than 4,000 calipers. The company is headquartered in Odense, Denmark where significant investments have been made in new production facilities during the latest years. The company also has facilities in South Korea and a joint venture in China. In total Budweg Caliper has 137 employees.

T.A.P. ApS

T.A.P. develops, produces and sells vitamins and dietary supplements to private customers either directly to the consumer branded “Wellvita” or indirectly via wholesalers and retail stores branded “Mezina”. T.A.P. has its own developed products and a total product portfolio of more than 100 products. Wellvita has more than 70,000 active customers, many of whom buy on subscription like basis thus generating recurring revenue and earnings. Denmark is the largest market making up 56% of the revenue, while the next largest markets are Norway (17%) and Sweden (12%). T.A.P. is headquartered in Esbjerg, Denmark and has 80 employees.

European House of Beds – Denmark A/S

European House of Beds is designing and producing beds and mattresses for retailers and e-commerce primarily to the Danish and the Swedish markets. European House of Beds operates through the use of their own brands, i.e. LivingBed, and through customer brands for leading retailers. The retail market in Denmark is consolidated with Ikea and Jysk Group having far the largest market shares. European House of Beds is headquartered in Horsens, Denmark and has 93 employees.

Holiday Group

Holiday Group is an Online Travel Agency providing the consumers with an aggregated offering of vacation rentals from the partners. Holiday Group has partnerships with all major organisers in Denmark and thus provides the consumer with a broader offering of rental homes than each partner does directly. Holiday Group has built its leading position based on the widest offering of rental listings in Denmark, a strong online presence and an own developed IT platform acting as the backbone of the company. Holiday Group consists of several brands and websites, forming a leading online provider of vacation rentals in Denmark, servicing primarily Danish and German consumers. The company has 20 employees in Denmark.

Management commentary

Uncertainty relating to recognition and measurement

When preparing the Fund's annual report, the General Partner, in accordance with legislative provisions, makes accounting judgements and estimates, which form the basis of the annual report. The accounting judgements and estimates made by the General Partner are described in the paragraph "Significant accounting judgements and estimates" under accounting policies to which we refer. Such estimates are made on the basis of assumptions which the General Partner considers reasonable and realistic, but which are uncertain by nature.

Unusual circumstances affecting recognition and measurement

Except for the fair value changes on investments, the annual report is not influenced by unusual circumstances.

Events after the balance sheet date

No events have occurred after the reporting date, which would materially influence the evaluation of this annual report.

Statement of comprehensive income

	<u>Notes</u>	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>
Income from investments in portfolio enterprises	3	62,275	36,090
Administrative expenses	4	<u>(14,563)</u>	<u>(16,706)</u>
Profit/loss before financial items (EBIT)		<u>47,712</u>	<u>19,384</u>
Financial expenses		<u>(23)</u>	<u>(27)</u>
Profit/loss for the year		<u>47,689</u>	<u>19,357</u>
Other comprehensive income		<u>0</u>	<u>0</u>
Total comprehensive income for the year		<u><u>47,689</u></u>	<u><u>19,357</u></u>

Statement of financial position

	<u>Notes</u>	<u>2020 DKK'000</u>	<u>2019 DKK'000</u>
Assets			
Investments in portfolio enterprises	5	<u>250,720</u>	<u>284,079</u>
Fixed asset investments		<u>250,720</u>	<u>284,079</u>
Non-current assets		<u>250,720</u>	<u>284,079</u>
Other receivables		<u>252</u>	<u>4</u>
Receivables		<u>252</u>	<u>4</u>
Cash		<u>2,466</u>	<u>1,227</u>
Current assets		<u>2,718</u>	<u>1,231</u>
Assets		<u><u>253,438</u></u>	<u><u>285,310</u></u>

Statement of financial position

	<u>Notes</u>	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>
Equity and liabilities			
Limited Partners' contributions		203,999	283,410
Retained earnings		<u>49,235</u>	<u>1,546</u>
Equity		<u>253,234</u>	<u>284,956</u>
Trade payables		204	202
Other payables	7	<u>0</u>	<u>152</u>
Current liabilities		<u>204</u>	<u>354</u>
Liabilities		<u>204</u>	<u>354</u>
Equity and liabilities		<u><u>253,438</u></u>	<u><u>285,310</u></u>

Statement of changes in equity for 2020

	Limited Partners' contributions DKK'000	Retained earnings DKK'000	Total DKK'000
Balance at 1 January 2019	144,423	(17,811)	126,612
Contributions from Limited Partners	138,987	0	138,987
Comprehensive income for the year 2019	<u>0</u>	<u>19,357</u>	<u>19,357</u>
Balance at 31 December 2019	<u>283,410</u>	<u>1,546</u>	<u>284,956</u>
Contributions from Limited Partners	14,160	0	14,160
Distribution to Limited Partners	(93,571)	0	(93,571)
Comprehensive income for the year 2020	<u>0</u>	<u>47,689</u>	<u>47,689</u>
Balance at 31 December 2020	<u>203,999</u>	<u>49,235</u>	<u>253,234</u>

Statement of cash flows

	<u>Notes</u>	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>
Profit/loss before financial items (EBIT)		47,712	19,384
Working capital changes	8	(399)	(1,279)
Unrealised fair value adjustments		<u>(19,141)</u>	<u>(36,090)</u>
Cash flows from ordinary primary activities		<u>28,172</u>	<u>(17,985)</u>
Financial expenses paid		<u>(22)</u>	<u>(27)</u>
Cash flows from operating activities		<u>28,150</u>	<u>(18,012)</u>
Income from sale of portfolio enterprises		52,500	0
Investments in portfolio enterprises		<u>0</u>	<u>(120,036)</u>
Cash flows from investing activities		<u>52,500</u>	<u>(120,036)</u>
Contributions from Limited Partners		14,160	138,987
Distribution to Limited Partners		<u>(93,571)</u>	<u>0</u>
Cash flows from financing activities		<u>(79,411)</u>	<u>138,987</u>
Increase/decrease in cash and cash equivalents		<u>1,239</u>	<u>939</u>
Cash and cash equivalents at 1 December 2020		<u>1,227</u>	<u>288</u>
Cash and cash equivalents at 31 December 2020		<u>2,466</u>	<u>1,227</u>

Notes to the financial statements

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Notes

1. Accounting policies

The financial statements of Capidea Kapital III K/S for 2020 are prepared in accordance with International Financial Reporting Standards as approved by the EU and disclosure requirements of the Danish Financial Statements Act governing reporting class B enterprises as further outlined in the Danish Executive Order on Adoption of IFRS issued in accordance with the Danish Financial Statements Act.

The financial statements are presented in Danish kroner (DKK), which is the functional currency of the Fund.

The financial statements are presented based on historical costs apart from investments in portfolio enterprises, which are measured at fair value.

The accounting policies applied to these financial statements are consistent with those applied last year.

Statement regarding the omission of consolidated financial statements

With reference to IFRS 10, the General Partner of Capidea Kapital III K/S has assessed that the Fund meets the definition of an investment company, as the following conditions exist:

- 1) The Fund has more than one portfolio investment
- 2) The Fund has more than one investor, and the investors are not related to each other
- 3) The Fund's investments in portfolio enterprises primarily occur as equity instruments or similar investments
- 4) The investments are measured and evaluated on a fair value basis.

As a result, the General Partner has decided to apply the exemption rule in IFRS 10 on not to prepare consolidated financial statements where the controlled subsidiaries are consolidated, and instead the controlled subsidiaries are accounted for at fair value through profit or loss.

Similarly, Capidea Kapital III K/S holds investments in portfolio enterprises, which meet the definition of an associate over which the Fund has significant influence. Such investments are also accounted for at fair value through profit or loss whereby all investments are treated as investments in portfolio enterprises no matter the ownership share at fair value through profit or loss.

Standards and interpretations not yet effective

All new and changed standards and interpretations relevant to Capidea Kapital III K/S and effective for the financial period beginning at 1 January 2020 have been applied in connection with the preparation of the financial statements.

Notes

1. Accounting policies (continued)

Standards and interpretations not yet effective (continued)

At the time of the publication of the financial statements, a number of new or changed standards and interpretations have not yet become effective. It is the General Partner's assessment that these standards and interpretations will not materially impact the financial statements for the forthcoming years.

Significant accounting policies and estimates

When preparing the financial statements, the General Partner makes several accounting estimates forming the basis for the presentation, recognition and measurement of the Fund's assets and liabilities. The most significant accounting estimates and assessments are presented in note 2.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Fund, and the value of the asset can be measured reliably. Assets are eliminated from the balance sheet when it is no longer probable that future economic benefits will flow to the Fund.

Acquisition and sale of financial assets and liabilities are recognised in the balance sheet at the commitment date.

Liabilities are recognised in the balance sheet when the Fund 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 the Fund, and the value of the liability can be measured reliably. Liabilities are eliminated from the balance sheet when it is no longer probable that future economic benefits will flow out of the Fund.

On initial recognition, assets and liabilities are measured at cost; however, on initial recognition, investment assets are measured at fair value, ordinarily corresponding to cost less direct expenses incurred. Measurement subsequent to initial recognition is affected as described below for each financial statement item. Consideration is made for events occurring during the period from the balance sheet date until the presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date.

Income is recognised in the statement of comprehensive income when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, transactions made in a different currency than the Fund's functional currency are translated applying the exchange rate at the transaction date.

Notes

1. Accounting policies (continued)

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date or the rate at the balance sheet date are recognised in the statement of comprehensive income as financial income or financial expenses.

Exchange rate adjustments relating to investments in portfolio enterprises are presented in the statement of comprehensive income together with other fair value adjustments concerning the investments.

Income taxes

The annual report does not include current or deferred tax due to the corporate form of the Fund.

Statement of comprehensive income

Income from investments in portfolio enterprises

Income from investments in portfolio enterprises comprises gains/losses from divestments, fair value changes and received dividends and other similar types of returns from the investments.

Gains/losses from divestment of investments in portfolio enterprises are stated as the difference between the selling price or disposal consideration and the carrying amount of the portfolio enterprises at the time of sale or disposal, respectively.

Dividends from investments in portfolio enterprises are recognised as income when final entitlement to the dividends is obtained, which is usually at the time of the approval of the declaring dividends by the portfolio enterprise.

Administrative expenses and other operating expenses

Other operating expenses include general costs and investment costs relating to incomplete investments and administrative expenses include management fee to the management company, Capidea Management ApS.

Financial expenses

Other financial expenses comprise interest expenses, which are accrued based on the principal amount and the effective interest rate. The effective interest rate represents the discount rate which should be used when discounting future payments related to the financial asset or the financial liability, in order for the present value of these to correspond with the carrying amount of the asset and the liability, respectively.

Notes

1. Accounting policies (continued)

Balance sheet

Investments in portfolio enterprises

Investments in portfolio enterprises comprise equity investments in portfolio enterprises and loans to portfolio enterprises measured at fair value through profit or loss.

The fair value of investments, which are traded on a stock exchange, is based on the quoted market prices at the reporting date. The fair value of the unlisted investments is determined in accordance with IPEV's Valuation Guidelines, according to which the fair value – depending on the type and maturity of the investment – is determined to be equal to cost (typically applied for new investments), the price of recent investments, multiple-based calculations based on industry benchmarks or discounted cash flow models. The price of a recent investment is only applied if the transaction includes the participation of new investors obtaining more than an insignificant ownership share in the portfolio enterprise.

Other financial liabilities

Other financial liabilities comprise other payables.

Statement of cash flows

The statement of cash flows is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented as the operating profit/loss adjusted for non-cash operating items including fair value adjustments of investments in portfolio enterprises and working capital changes attributable to the operating activities.

Cash flows from investing activities comprise payments in connection with investments, including follow-up investments, and proceeds from divestment of portfolio enterprises.

Cash flows from financing activities comprise changes in the limited partners' contribution, distributions to Limited Partners as well as the raising of loans and instalments on interest-bearing debt, if any.

Notes

2. Critical accounting judgements, estimates, assumptions and uncertainties

Capidea Kapital III K/S invests in portfolio enterprises which primarily includes equity investments and to a smaller extent contribution of loans to development-oriented enterprises, and which may require continuous contribution of capital. The investments are accounted for at a fair value through profit or loss. When measuring the fair value of the unlisted investments, the General Partner assesses the development stage of the portfolio enterprises compared to the initial plans at the time of making the initial investments, future financing requirements, commercialisation possibilities, timing of exit and possible exit values.

The fair value of each unlisted portfolio enterprise is determined in accordance with commonly used valuation principles based on the IPEV Valuation Guidelines, taking into account the assessment of the development stage of the enterprise as well as its market potential and expected cash flows in order to reflect the fair value of the portfolio enterprise in the best way possible.

Methods and assumptions for determining the fair value of investments in unlisted portfolio enterprises are described in note 5.

	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>
3. Income from investments in portfolio enterprises		
Realised value adjustments of investments in portfolio enterprises	60,634	0
Recirculation of prior years' unrealised gains	<u>(17,500)</u>	<u>0</u>
Total earnings impact of portfolio enterprises sold	43,134	0
Unrealised value adjustments of portfolio enterprises	<u>19,141</u>	<u>36,090</u>
	62,275	36,090
4. Administrative expenses		
Management fee	14,160	14,160
Establishment costs	0	161
Other administrative expenses	<u>403</u>	<u>2,385</u>
	14,563	16,706

Notes

	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>
5. Investments in portfolio enterprises		
Cost at beginning of year	247,989	127,953
Additions	0	120,036
Disposals	<u>(35,000)</u>	<u>0</u>
Cost end of year	<u>212,989</u>	<u>247,989</u>
Revaluations at beginning of year	36,090	0
Revaluations for the year	19,141	36,090
Reversal regarding disposals	<u>(17,500)</u>	<u>0</u>
Revaluation end of year	<u>37,731</u>	<u>36,090</u>
Carrying amount end of year	<u>250,720</u>	<u>284,079</u>

Portfolio enterprise	Corporate form	Regis-tered in	Equity interest %	Equity DKK'000	Profit/loss DKK'000
TopCap BudWeg Caliper ApS*	ApS	Denmark	98	109,901	6,715
TOPCAP T ApS*	ApS	Denmark	98	58,184	(16)
TOPCO E ApS**	ApS	Denmark	98	31,046	1,267
TopCo H ApS*	ApS	Denmark	98	35,626	(38)

* The Company has not yet presented its annual report for 2020, these financial figures comprise 2019.

** The Company has not yet presented its annual report for the entire 2020, these financial figures comprise the period 01.01.2020 – 31.03.2020.

The General Partner regularly and at least on a quarterly basis reviews the fair value of its portfolio enterprises in connection with its non-public reporting to its Limited Partners and in connection with the preparation of the financial statements.

The Fund's portfolio enterprises are not classified as investment companies. They are engaged in doing business in trading and development, etc. The Fund has no limitations concerning the potential reception of dividends or having loans etc. repaid from the portfolio enterprises, apart from the fact that distribution from the portfolio enterprises can only take place if it is considered proper and prudent.

The Fund has not provided financial support for its subsidiaries during the financial year in areas not included in the contractual terms.

Notes

5. Investments in portfolio enterprises (continued)

Methods and assumptions for determining fair values in unlisted portfolio enterprises

The fair value for each unlisted portfolio enterprise is determined based on methods which best reflect the individual investment's potential and risk.

In general, the fair value is determined following the IPEV Valuation Guidelines which prescribe the use of accepted valuation methods, such as price of recent investments, multiple analyses/benchmarking, most recent transaction multiple and other relevant methods. The Fund invests capital primarily in development stage companies without any or with only limited revenue entailing that the fair value measurement of each of the investments is inherently subject to considerable uncertainty.

Upon initial investment, cost of the investment is generally determined to represent the fair value. If new investors join the portfolio enterprises and obtain more than just an insignificant share of the enterprise, the price of a recent investment is used as basis for determining the fair value.

Throughout the life of the investment, the General Partner reviews its investments for potential impairment, which may materialise if the portfolio enterprises have been subject to pervasive negative development and/or if the Fund decides that it will no longer participate in the further funding and there is a considerable risk that the portfolio enterprise may not be able to continue its operations or it is by other means obvious that there is a pervasive decline in the fair value of the portfolio enterprise. In these cases, the value is written down to a new lower fair value based on the General Partner's best estimate.

As investments mature, other valuation models for determining the fair value may be more appropriate. Such models are typically based on peer group multiples, which are subsequently discounted depending on whether the portfolio enterprise is cash flow positive or cash flow negative.

The Peer Group Multiple-method uses comparable entities, in which market value and earnings are known. Based on this, a market level for revenue multiples is determined for the comparable entities.

The determined value is reduced by a certain factor depending on whether the portfolio enterprise is cash flow positive or cash flow negative.

In connection with the use of this method, the Fund assesses which multiples are applicable as well as assesses the determination of the applicable earnings to be used in the calculation of the deemed fair value.

The fair value of investments, which are traded on a stock exchange, is based on the quoted market prices at the reporting date.

Notes

5. Investments in portfolio enterprises (continued)

The fair value is determined in the functional currency of the portfolio enterprise, which is then translated to DKK at the exchange rate at the balance sheet date, and any exchange rate adjustment is included in the fair value adjustment of the investment in profit or loss.

Fair value hierarchy for determining fair value for investments in portfolio enterprises

IFRS has established a fair value hierarchy for certain assets measured at fair value:

- Quoted prices in active markets for identical instruments (level 1)
- Quoted prices in active markets for similar assets or liabilities or other valuation methods under which all material inputs are based on observable market data (level 2)
- Valuation techniques under which any material inputs are not based on observable market data (level 3).

The measurement of investments in portfolio enterprises classified according to level 3 is based on measurement methods, in which material non-observable inputs are included such as assessment of which method best reflects fair value, assessment of the performance of each portfolio enterprise, determination of multiples and future earnings, and assessment of whether a pervasive negative development should result in the recognition of impairment write-downs.

The fair value of the Fund's portfolio enterprises is impacted by the development in applied multiples as well as expected future earnings and development in each portfolio enterprise. A decrease or increase in the above-mentioned material non-observable inputs may have a direct effect on the measurement of the portfolio enterprises, just as the fair value of the Fund's portfolio enterprises is impacted by the development in macroeconomic conditions.

	<u>2020</u>	<u>2019</u>
	<u>DKK'000</u>	<u>DKK'000</u>
6. Limited Partners' contributions		
Limited Partners' contributions at beginning of year	283,410	144,423
Contributions made during the year	14,160	138,987
Distributions made during the year	<u>(93,571)</u>	<u>0</u>
Limited Partners' contributions end of year	<u>203,999</u>	<u>283,410</u>

The limited partners' contributions are not divided into classes. Special rights (carried interest rights) are attached to the distribution of dividends from the enterprise when the total realised gains of the enterprise exceed an agreed minimum interest rate of 8% p.a. of the cash injections of the limited partners. The calculation is made according to the so-called "European Waterfall" method.

Notes

7. Other payables

The value of other payables consists of other liabilities. The amounts recognised equals the fair value of the liabilities.

	2020	2019
	DKK'000	DKK'000
8. Working capital changes		
Change in receivables	(248)	1
Change in liabilities	<u>(151)</u>	<u>(1,280)</u>
	(399)	(1,279)

9. Financial risks and financial instruments

Categories of financial instruments:

Investments in portfolio enterprises	<u>250,720</u>	<u>284,079</u>
Financial assets measured at fair value through profit/loss	<u>250,720</u>	<u>284,079</u>
Trade payables	203	202
Other payables	<u>0</u>	<u>152</u>
Financial liabilities measured at amortised cost	<u>203</u>	<u>354</u>

The Fund adheres to an investment strategy approved by the investors. As a result of its investments in portfolio enterprises, the Fund is directly exposed to changes in liquidity, credit, interest and currency risks.

Liquidity risks

Maturity of financial liabilities is specified below divided into timing intervals. The specified amounts represent the amounts due for payment.

	Within	Between	After	Total
	1 year	1 and 5 years	5 years	DKK'000
	DKK'000	DKK'000	DKK'000	DKK'000
Trade payables	203	-	-	203
Other payables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
31 December 2020	<u>203</u>	<u>-</u>	<u>-</u>	<u>203</u>
Trade payables	202	-	-	202
Other payables	<u>152</u>	<u>-</u>	<u>-</u>	<u>152</u>
31 December 2019	<u>354</u>	<u>-</u>	<u>-</u>	<u>354</u>

Notes

9. Financial risks and financial instruments (continued)

Credit risks

In some cases, the Fund can provide loans to its portfolio enterprises, but has not. These loans are considered part of the investment and are, therefore, not considered to represent a separate credit risk, but is rather considered being part of the total investment risk and risk relating to determining a fair value of the investments.

In some cases, the Fund has receivables from the sale of investments. Typically, the payment is secured by the buyer depositing the receivable on escrow accounts in accepted credit institutions and, therefore, the credit risk is considered limited. At 31 December 2020, the Fund is not exposed to any credit risks.

Interest risks

The risk related to the interest rate implies that the portfolio enterprises work with loan capital and are thus affected by the interest-rate level. An increase of the interest-rate level constitutes a potential risk for the fair value of the investments.

Currency risks

Some of the Fund's investments are exposed to changes in foreign currencies like USD, GBP or EUR. The Fund considers the currency risk as part of the whole investment risk and hence, the Fund does not separately hedge the currency risk relating to its investments in portfolio enterprises.

In addition, the Fund is indirectly exposed to currency risks through investments in portfolio enterprises which trade in other currencies than their functional currencies and hence, development in exchange rates may influence income and thereby their determination of fair value of the portfolio enterprises.

Significant unobservable inputs for level 3

Financial instruments measured at fair value in the balance sheet statement is based on valuation methods in which significant unobservable inputs are included.

Significant unobservable assumptions in connection with the measurement of unlisted investments in portfolio enterprises comprise multiples and expectations for the future earnings of the portfolio enterprises. According to Management's estimate, the applied multiples level the market for comparable Danish enterprises. At the measurement, net interest-bearing debt in the portfolio enterprises is also taken into consideration.

Interval for applied multiples, 2020	5-10
Interval for applied multiples, 2019	6-7

A significant unobservable assumption on other receivables is the subjective assessment of the credit risk.

Notes

9. Financial risks and financial instruments (continued)

Sensitivity analysis

The fair value of the Fund's portfolio enterprises is affected by the development of applied multiples as well as the expected future earnings of the portfolio enterprises. A decline or increase in the above-stated significant unobservable inputs would directly affect the measurement of portfolio enterprises, just as the fair value of the Fund's portfolio enterprises is affected by the development in macroeconomic matters.

An adjustment to applied multiples would have the below impact on the fair value of the portfolio enterprises.

	<u>2020</u> <u>DKKm</u>	<u>2019</u> <u>DKKm</u>
Adjustment to the average multiply by one point	<u>47,5</u>	<u>33,0</u>

10. Related party transactions

Related parties with control

The Fund has no controlling investors or related parties with control.

	<u>2020</u> <u>DKK'000</u>	<u>2019</u> <u>DKK'000</u>
Transactions with related parties		
Payment of risk premium to the General Partner		
The General Partner receives a risk premium for the obligations entailed under being General Partner for Capidea Kapital III K/S	<u>10</u>	<u>10</u>
Management fee		
Management fee for administration and management	<u>14,150</u>	<u>14,150</u>

11. Assets charged and contingent liabilities, etc.

The Fund has no assets charged.

Notes

12. Investor relations

The Fund has registered the following limited partners to hold more than 5% of the voting share capital or of the nominal value of the share capital:

European Investment Fund

Dansk Vækstkapital II K/S

Nordea Fonden

Velliv, Pension & Livsforsikring A/S

Nykredit Realkredit A/S

13. Events after the reporting date

No events have occurred after the reporting date, which would materially influence the evaluation of this annual report.

14. Approval of the financial statements for publication

At a board meeting on 8 February 2021, Management adopted this annual report for publication on 9 February 2021. The annual report is presented to the limited partners for adoption at the annual general meeting on 28 April 2021.

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Jens Thøger Hansen

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Gert Eg

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