Norfund

NORWEGIAN INVESTMENT FUND FOR DEVELOPING COUNTRIES

ANNUAL REPORT **2011**

CREATES VALUE | COMBATS POVERTY

ANNUAL REPORT 2011

Norfund – The Norwegian Investment Fund for Developing Countries – was established by the Norwegian parliament Stortinget in 1997 as a state-owned investment company. Norfund is an instrument of Norwegian development policy. By investing in profitable companies, particularly in the fields of renewable energy and financial institutions, and transferring knowledge and technology, Norfund contributes to economic development and profitable, sustainable workplaces in poor countries. At the end of 2011 the total investment portfolio amounted to NOK 7.6 billion.

1. SUMMARY OF THE YEAR

Norfund entered into investment agreements for NOK 2.2 billion in 2011. This is the Fund's highest ever investment level. Approximately NOK 1.2 billion was invested in renewable energy, while NOK 0.7 billion was invested in financial institutions.

Renewable energy is still the largest investment area, and about 48 per cent of Norfund's investment portfolio is in renewable energy projects.

In 2011, Norfund designated agriculture and related industry as a prioritised sector in addition to renewable energy and financial institutions. Substantial resources have been invested in following up existing projects and developing new agricultural projects.

In 2011, the scope of investment in private equity funds was still restricted by the rules for the use of third-party countries for financial transactions.

Significant resources have been spent on showcasing investment opportunities in developing countries and on increasing Norwegian investors' interest in these ventures by means of conferences, seminars, interviews and newspaper articles.

In addition to Norfund's strategic prioritisation of renewable energy, investment in sub-Saharan Africa and the least developed countries (LDCs) featured prominently in 2011. Excluding investments in SN Power Invest, 46 per cent of new investments were made in sub-Saharan Africa, while 24 per cent were made in LDCs.

In autumn 2011, Norfund opened its Asia office in Bangkok. Close contact with investment projects in Asia is ensured by a local presence, and puts Norfund in a better position to follow up and assess existing and new projects.

Adjusted equity at the end of 2011 was NOK 10 038 million, compared with NOK 8 298 million at the end of 2010. The return on Norfund's adjusted equity in 2011 was 8.5 per cent.

2. NORFUND'S ACTIVITY

2.1. Activity and investment areas

Norfund's goal is to contribute to development by investing in viable, profitable enterprises. Investments are intended to be additional, in the sense that they boost the supply of capital and expertise to poor countries. Norfund is also intended to act as a catalyst by mobilising further capital from both Norway and abroad. Norfund's contribution in the majority of projects is a combination of capital (equity and/or loans) and the exercise of corporate governance. The exercise of corporate governance demands considerable knowledge of countries and sectors, investment know-how and, not least, identifying and choosing the right partner(s), as well as hands-on follow-up of investments.

Norfund's operations are divided into the following four investment areas:

Renewable energy
Investment in renewable energy is intended to improve and increase electricity production from renewable energy sources, thereby helping to provide a sound basis for economic development. The projects are characterised by large capital requirements and high risk associated with, for example, development and geological and hydrological conditions. Norfund's investments in renewable energy have been highly profitable and have significant development effects.

In 2011, Norfund invested NOK 1.1 billion in SN Power Invest and Agua Imara to finance hydropower investments in Zambia, Panama, India, Peru and Brazil. Norfund also provided NOK 43.4 million in guarantees to lenders to underpin the financing of Agua Imara's Bajo Frio hydropower project in Panama.

Investments outside the SN Power group included an equity investment of NOK 31.6 million in Actuate Pty Ltd – the company that distributes small-scale solar power products under the Tough Stuff brand. In addition, Norfund committed financing in the form of loans and mezzanine loans to small-scale hydropower projects – the 9 MW Nam Sim in Laos and the 5 MW Hidro Santa Cruz in Guatemala.

Norfund has established a financing facility for the development of energy projects (project development facility). The facility has two committed investments: NOK 12.5 million to wind power projects and NOK 8.4 million to three small-scale hydropower projects. All the projects are in Kenya.

Financial institutions
Norfund invests in or provides loans to banks, microfinance institutions and other financial institutions in poor countries. The main aim is to extend the range of financial services to small and medium-sized enterprises (SMEs) and to individuals who would not otherwise have access to such services.

Investments in 2011 totalled NOK 695.8 billion, distributed among twelve financial institutions. Seven of these were new projects to Norfund, while five were capital injections to companies already in the investment portfolio. The largest new investments are loans to the Vietnamese banks Sacombank (NOK 166.5 million) and Techcombank (NOK 89.9 million). Both of these banks focus on SME clients and the growing retail markets, and the new resources are earmarked for further work in these segments. Other new projects are located in Costa Rica and elsewhere in Latin America and in Zambia. The projects that Norfund has decided to follow up with new capital are CIFI in Latin America, with a loan of NOK 136.3 million, and RealPeople in South Africa, with equity and loans totalling NOK 148 million. Whereas CFI focuses on the SME market, RealPeople focuses on microfinance. In addition Norfund has increased its involvement in three existing microfinance projects targeting Cambodia, Kenya and Uganda.

SME funds
Small and medium-sized enterprises play a key role in the building up of a well functioning business sector and local workplaces. However, in developing countries these enterprises often have very limited access to capital. Private equity funds that can offer risk capital are therefore an important part of the financial industry in these countries. Norfund invests directly in a number of these funds.

In 2011, a total of NOK 172.2 million was invested in four different SME funds. NOK 15 million went to increasing Norfund's existing involvement in Fundo de Investimento Privado Angola (FIPA) in Angola, for which Norfund took the original initiative and in which it still plays a crucial part. The three investments in new projects consist of NOK 74.6 million in Vantage Mezzanine Fund II, which invests risk capital in South Africa and elsewhere in Africa, NOK 59.8 million in Africa Health Fund, which is managed by Aureos Capital and targets small and medium-sized health enterprises with a particularly measurable poverty profile, and NOK 22.7 million in the recently started Voxtra East Africa Agribusiness Initiative, together with Norwegian co-investors. All the funds are run by experienced fund management teams which thereby expand their engagement and apply their expertise and experience to new areas.

Industrial partnerships
Norfund's industrial partnership investments are equity investments in projects upon which traditional investors will not venture, in newly established companies and in other projects which carry a high risk but yield considerable development effects. In this kind of investment, Norfund's expertise and role as an active owner is just as important as the financing itself. Norfund only makes new investments in individual projects in southern and eastern Africa.

In 2011, Norfund made three investments in individual companies with a total commitment of NOK 80.7 million. One new project started up in 2011, and capital was provided to two projects that already where in Norfund's portfolio at the start of the year. The largest individual investment was made in collaboration with the Aga Khan Fund for Economic Development (AKFED) in a new hotel in the Serena chain in Dar es Salaam. Norfund contributed NOK 55.6 million in equity and loans. This investment is a continuation of Norfund's collaboration over a number of years with the Aga Khan in the field of tourism.

The investment in Casquip Starch (Swaziland) was increased by NOK 8.3 million to further develop the cassava plantation and associated starch production factory. The Matanuska banana plantation also received further equity and a mezzanine loan of NOK 16.8 million.

Grant facility
Norfund's grant facility is intended to foster sustainability and enhance the development effects of the investments. The facility is designed to offer professional and technical assistance over and above what is normally expected of a private investor. Grants are distributed among three different project categories: project development, enterprise improvements and ESG, and local community development.

In 2011, the Norwegian Ministry of Foreign Affairs accepted grant-based projects to proceed over several budget periods. This means that Norfund can now approve long-term grant-based projects.

In 2011, Norfund managed NOK 34.7 million by way of its grant facility. NOK 7.3 million represented unused resources that had been transferred from 2010. NOK 11 million of the new resources was earmarked for NMI and NOK 6.3 million was earmarked for developing the Fula Rapids hydropower project in South Sudan. In addition the grant facility approved new projects for a total of NOK 24.1 million, distributed among 29 projects in 2011. 24 per cent of these were project development, 52 operational improvements and 24 per cent community development projects.

As part of Norfund's new strategic focus on agriculture, support has been given to the development of outgrower schemes. These are programmes intend to help local small farmers be a part of the economic development generated by Norfund's investment in agriculture. It is important, but challenging, to find models that function for each individual investment, and Norfund will therefore use the grant facility to part-finance these initiatives going forward.

Other initiatives in 2011 include developing instruments for investing in highly demanding projects in South Sudan, developing digital payment systems for microfinance customers, strengthening IT platforms and information systems and providing support for the development of an all-encompassing plan for protecting the indigenous population's rights and conserving the land around Masai Mara National Park.

Norfund has also received a supplementary fund earmarked for projects in the Balkans, and most of the resources have been granted as loans to finance companies.

Norfund administers on behalf of Norad a mixed credit facility of NOK 38 million for the Nam Sim hydropower project in Laos. This was transferred to Norfund by Norad in December 2011, and Norfund expects to disburse it gradually to the project in the course of 2012 on the basis of agreed milestones in the construction process.

Information Office
The Information Office for Private Sector Development in Developing Countries was established in conjunction with the Norwegian Agency for Development Cooperation (Norad) to offer first-line support for inquiries from Norwegian actors who want to invest in developing countries. In 2011 the office had 265 new inquiries and tasks. This is approximately the same level as the previous year.

2.2. Exits

Norfund exited four investments in 2011: FEDHA Fund, Horizon TechVentures and Siam Investment Fund II, and a shareholding in Equity Bank Ltd.

Norfund invested a total of NOK 9.9 million in FEDHA Fund and NOK 5.5 million was repaid, representing an annual IRR of -15 per cent. In local currency, however, the fund delivered a positive gross return of 16 per cent. The Fund was one of the first in which Norfund invested. FEDHA Fund has contributed equity to enterprises in a demanding Tanzanian market, with the focus on greenfield enterprises distinguished by lack of capital.

Horizon TechVentures was one of Norfund's first investments in South Africa. The fund has invested in technology companies with growth potential, and several of them are now market leaders in South Africa. Norfund has invested a total of NOK 19.6 million in Horizon TechVentures since 2001 and has been repaid NOK 43.8 million. The average annual IRR was accordingly 25 per cent.

Norfund invested in Siam Investment Fund II in 2000. The fund has invested equity in Thai companies that suffered severely from lack of capital after the financial crisis in Asia in the late 1990s. Norfund disbursed a total of NOK 40.9 million to the fund and was repaid NOK 32.9 million. The average annual IRR was -3 per cent.

Norfund had a stake in Uganda Microfinance Ltd. In 2008, Uganda Microfinance Ltd was sold to Kenyan Equity Bank Ltd., and Norfund received settlement in the form of shares in Equity Bank. The shares in Equity Bank have been sold over time. The last part of the holding in Equity Bank was sold in 2011, leaving Norfund with an average IRR of 9 per cent.

2.3. Financial risk

In keeping with Norfund's development policy goals, priority is given to investments in countries in which high risk characterises the framework conditions, markets and companies. The financial crisis in Europe and the USA has also created uncertainty in countries in which Norfund invests and, among other things, reduces the supply of investment capital from the West. There is also considerable counterparty risk associated with many of Norfund's investments. In general, investments have a medium time horizon of from seven to ten years, often with limited opportunities for financial exit during that period. Considerable credit risk is associated with the loans. Norfund has procedures for assessing risk prior to making investment decisions, and for risk management during the investment period.

Our investments are largely made in foreign currency: Mainly US dollars, but also euros and South African rand, while Norfund's financial results are reported in Norwegian kroner. There is also currency risk associated with individual investments, between Norfund's investment currency and the enterprises' cash flows in the local currencies. According to our mandate, Norfund should not use resources on securing the value of the portfolio in Norwegian kroner, since the object is not that the resources should be used in the longer term to finance activities in Norway, but rather that they should be reinvested outside Norway. Norfund's investment commitments are thus in foreign currency. Disbursements from our reserves in Norwegian kroner often take place long after a contract has been signed, and at an unknown exchange rate. A portion of the investment resources is retained as a buffer in Norges Bank to manage this risk.

In Norfund's committed portfolio, direct equity investment accounts for 54 per cent, indirect equity investment through funds 26 per cent and loans 19 per cent. 34 per cent is invested in sub-Saharan Africa and 22 per cent in LDCs. The LCD share excluding investments in SN Power is 34 per cent. The risk profile in our portfolio is in accordance with our mandate, which requires us to contribute to development by establishing viable, profitable operations that would otherwise not be initiated because of perceived high risk. Write-downs were made on seven out of 35 loans, but none of them are non-performing. Write-downs make up a total of 1.6 per cent of the total principal of loans made by Norfund.

2.4. Socially responsible investor

Norfund is a socially responsible investor with stringent requirements as to how the enterprises in which we have invested should be operated. Norfund has zero tolerance for corruption, and requires that account be taken of human rights, gender equality, local communities as well as environmental concerns and biological diversity. In many of the countries in which Norfund invests, laws and rules that protect employees and the rights of fragile groups are poorly developed. Norfund therefore stipulates requirements over and above those that are regulated in the national legislation and commits the enterprises to endeavouring to comply with the environmental and social standards of the World Bank's International Finance Corporation (IFC). These standards cover indigenous peoples' rights, biodiversity, impact on local communities and the core conventions of the International Labour Organisation (ILO). The standards were recently revised, and Norfund will implement the new IFC standards in 2012.

Norfund has adopted corporate governance principles. Norfund is operated in accordance with current rules and regulations for public sector financial management, and prevention of financial default is an integral part of Norfund's mandate and operations. In 2011 Norfund also adopted guidelines for management of employee relations in its direct investments. The new guidelines stipulate that a review of and a plan for managing employee relations shall always be drawn up when new investments are made. In 2011, Norfund and 28 other development investors also signed a framework for integrating corporate governance into investments in developing countries: the *Corporate Governance Development Framework.*

Good working conditions for employees are a fundamental goal for Norfund. Helping to ensure that the enterprises in which we have invested place emphasis on health, environment and safety (HES) is therefore of the greatest importance. It is a considerable challenge, particularly in the case of major construction projects, to ensure that the necessary safety equipment is used and that procedures are followed by all those involved, including subcontractors. Norfund therefore spends considerable resources on monitoring compliance with HES requirements.

Targeted work to reduce serious accidents has yielded results. Efforts to reduce accidents at SN Power's large construction projects have delivered good results in recent years. There were no fatal accidents at either SN Power's or Agua Imara's facilities or development projects in 2011.

Despite preventive work, accidents and personal injuries were reported at several of our other projects, unfortunately. There were a total of 15 deaths in 2011. A fatal accident occurred on 15 February 2011, when the manager of the Fanisi portfolio company Elris' Uganda office was killed on the way from Kampala to a meeting in Nairobi, when the car he was driving hit a herd of elephants on a poorly marked stretch of road with limited visibility. Elris' insurance scheme covers compensation to his family. Another fatal accident occurred on 18 March 2011, when an assistant in a car belonging to EnviroServ, one of Evolution One Fund's portfolio companies, was killed when collecting refuse from one of the company's clients in Gauteng, South Africa. The accident has been investigated by EnviroServ and a report submitted on the matter. The conclusions of the report and the steps it is proposed taking are regarded as a satisfactory means of avoiding similar accidents in the future. An employee of one of EnviroServ's subcontractors was killed on 31 March 2011 when some scaffolding collapsed in KwaZulu-Natal, South Africa. Another employee was seriously injured in the same accident. The accident is being investigated by the South African Ministry of Labour, which will submit its report to the public prosecutor. As a consequence of the accident, EnviroServ has reviewed its safety and training procedures and improved its systems for verification before work commences. Norfund has also taken up the matter with Evolution One Fund to ensure that fund managers improve the portfolio companies' practice when it comes to safeguarding health and safety, their reporting procedures and follow-up of this specific accident with respect to compensation to the injured employee and to the surviving family of the deceased employee. On 28 June 2011 an employee of Sathapana Bank, Cambodia, who was travelling on the bank's motorcycle from one meeting to another, was involved in a collision with a car and died two days later. The employee was wearing a helmet. The police report shows that the driver of the car was to blame for the accident. The deceased's family received compensation from the car owner as well as from National Social Security Funds and from his employer. There were nine deaths at the Matanuska banana plantation in Mozambique. They were all traffic accidents, and several of them took place when the employee was not at work. Norfund has ordered an accident investigation by an experienced international consultant associated with ERM and has drawn up a traffic safety policy which we will take steps to ensure that the company applies in its operations. There were also two deaths at the Agrica rice plantation in Tanzania. In one of the accidents, an employee fell under a planting machine. As a result of this accident, Agrica has changed its practice and replaced the machine with an automated machine, to prevent similar accidents occurring. The other accident was a drowning, when a boy from the local community entered Agrica's construction site and was swimming in a pool in a sand quarry. Information to the local community was stepped up with a view to preventing similar drowning accidents in the future.

Norfund always invests jointly with other investors, and often through structures or funds that have been set up by others. Our possibility of influencing the choice of jurisdiction may therefore be limited. Choice of jurisdiction means choosing which country's legal authority is to apply to agreements with co-investors. In countries with weak legal systems and/or where there is a risk of corruption in the legal system, it cannot be assumed that the administration and enforcement of laws and rules is effective or predictable. This makes it more difficult for Norfund and our partners to ensure that our investment capital is used for the intended purposes and that legal steps can be taken in the event of financial default or disputes in the recipient country. The result is an investment risk that is too high for many investors. It is therefore often required that the jurisdiction of another country, a third-party country, is used for investments in weakly developed countries. These countries are usually termed offshore financial centres or OFCs. The use of OFCs gives Norfund a special responsibility for ensuring that we have full insight into the transactions that takes place and that we in no way contribute to tax evasion or unlawful flows of capital. Norfund exercises great caution in its use of OFCs. When it is necessary to use the jurisdiction of a third country, Norfund calls only on OECD countries or countries with which Norway has made tax or disclosure agreements. The practical consequences of the restrictions on the use of OFCs have made it more difficult to invest in a number of enterprises in Africa.

2.5. Development effects

Each year Norfund publishes a report on its activities which provides a detailed account of Norfund's investments and the development effects they have. Norfund's objective is to contribute to sustainable development through profitable investments in commercial activities in developing countries. Profitable enterprises are the cornerstone of economic growth and development. We contribute through the production of goods and services to higher value creation and more jobs. Norfund creates development effects by investing according to stringent environmental and social requirements in enterprises and projects that would not otherwise be realised. Norfund gives priority to investment in countries and sectors with a particular lack of capital, for example greenfield companies, agriculture and development of renewable energy sources. This is challenging, but by operating prudently Norfund's activities can contribute to permanent development effects, and at the same time pave the way for other investors. Active ownership is required to ensure that the enterprises are operating in accordance with our requirements and expectations, and that we achieve the desired development effects. An important part of this work is transfer of expertise. Through its presence on the board and through close follow-up of projects, Norfund contributes to improved management of enterprises, financial procedures, and health, environment and safety systems. This increases the viability of the enterprises and thereby enhances development effects. Norfund also uses its grant facility to strengthen development effects.

At the end of 2011, a total of NOK 7.6 billion was invested in projects in Norfund's portfolio. Enterprises in which Norfund had invested employed 265 000 people, 33 per cent of whom were women. NOK 4.2 billion was paid to the authorities in the form of corporate tax, levies, licences etc. Norfund's weighted share of corporate income tax alone, paid by the companies in which Norfund has invested equity, amounted to NOK 77 million in 2011. That the figure is not larger is attributable to the fact that many of the companies in which Norfund has invested equity are in an early phase of development.

Electricity generated through Norfund's investments in renewable energy corresponds to the consumption of 14.6 million people in the countries in question.

In 2011 SN Power's portfolio companies had total value added of NOK 2 167.7 million. Salaries and other employee benefits amounted to 9.9 per cent, and 7.8 per cent went on taxes and levies to national authorities.

CO_2 emissions due to the activities of SN Power's portfolio companies were reduced by 3.4 million tons in 2011, and a total reduction in CO_2 emissions of 36.8 million tons has been recorded as part of the Kyoto Protocol's Clean Development Mechanism for emission-reduction projects in developing countries. Norfund's weighted share of the reduction was approximately 834 000 tons in 2011.

3. ORGANISATION AND OPERATIONS

3.1. Corporate governance

In accordance with the Norfund Act, the Norwegian Ministry of Foreign Affairs appointed a new Board of Directors for Norfund with effect from 1 July 2011. One of the new Board members, Finn Jebsen, entered the Board on 1 January 2012. The Board now consists of Kristin Clemet (chair), Stein Tønnesson, Borghild Holen, Finn Jebsen, Svein Tveitdal and Anne Kristin Sydnes (alternate).

The Ministry is preparing a review of the current Norfund legislation with a view, among other things, to establishing an annual general meeting and allowing employee representation on the company's board.

Norfund's internal control system is based on a structure in which documents are allocated to different levels, ranging from governing documents such as the Norfund Act and regulations, to specific follow-up procedures. The structure is operationalised and makes inspections, measurement and verification possible.

3.2. Personnel, organisation and gender equality

Norfund is an expertise-based organisation which has established guidelines for recruitment, expertise and equal opportunities. There are established procedures for employee follow-up and rewards. Recruitment is targeted, with a view to strengthening the organisation in pursuance of Norfund's strategy.

An external survey of the working environment conducted in 2011 concluded that the working environment is good.

In 2011 Norfund had 46 full-time positions. At 31 December 2011 there were 49 employees, 19 of whom came from countries other than Norway. Sixteen of the staff were employed at regional offices in South Africa, Kenya, Costa Rica and Bangkok.

Sickness absence in 2011 amounted to 5.5 per cent of the total working hours, equivalent to 472 days. This is approximately two per cent higher than in 2010. The increase is largely due to several long-term sickness absences in 2011. There were no personal injuries or damage to Norfund's material assets.

The proportion of women who were permanent members of the Board was 50 per cent. Two out of six members of Norfund's management team were women, and the proportion of women among the employees overall was 38 per cent. Six of the nine persons who were engaged in 2011 were women. Norfund focuses on gender equality in its human resources policy, and urges women and persons of non-Norwegian origin to apply for positions.

3.3. Environmental impact

By integrating environmental considerations into operations, Norfund aims to follow guidelines for a 'green government'. The guidelines require that consideration for the environment be integrated into activities, and that a system of ecological management be developed. A few years ago, a survey was made of Norfund's impact on the external environment. As a small, knowledge-based enterprise, Norfund has limited environmental impact. The greatest burden on the environment caused by Norfund's own business activities relates to air travel. In 2011, Norfund's travel involved the emission of some 291 tonnes of carbon dioxide emissions, against 240 tonnes in 2010.

4. THE FINANCIAL STATEMENTS

Norfund had a profit for 2011 of NOK 27 million (NOK 182 million in 2010). Since Norfund is an investment company, its operating income consists of interest, dividends etc. These are classified as financial items for traditional production enterprises. Similarly, investment in associated companies is a part of operations, and Norfund's share of the profits of associated companies is moved up in Norfund's accounts and recorded as part of operating income.

Norfund's income amounted to NOK 144 million (NOK 221 million in 2010). The higher interest income (NOK 66 million compared with NOK 49 million in 2010) was a result of an increase in the loan portfolio, primarily in the second half of 2011. At NOK 28 million, dividends from funds and equity investments were NOK 3 million higher than in 2010, as a result of higher dividends from individual investments. SN Power reported a decline in earnings in 2011; Norfund's share was NOK 45 million. The decline was largely due to expensing of a forward exchange transaction relating to the planned acquisition of a stake in Desenvix (Brazil). The book loss in 2011 attributable to the forward exchange transaction will be reversed over time, starting in 2012, and taken to income in SN Power Invest.

Norfund's operating costs prior to exchange rate adjustment of loans and write-downs increased by NOK 36 million, to NOK 114 million, in 2011.

Personnel costs increased by NOK 18 million in 2011, to NOK 63 million. The increase is primarily due to higher pension costs as a result of changes in the basis for calculating pensions. Added to this are wage regulation and an increase in staff. More external assistance was used in 2011 than in 2010, largely in connection with Norfund's projects. Appreciation of the investment currencies has resulted in a positive currency adjustment on our loans of NOK 5 million, compared with a gain of NOK 26 million in 2010. Large write-downs were made on three or four investments in 2011, and funds and equity investments were written down by a total of NOK 49 million in 2011.

Other interest income of NOK 39 million was recorded, which was the same level as in 2010. Norfund's profit of NOK 27 million in 2011 has been transferred to Norfund's surplus fund in accordance with the regulations governing Norfund. Norfund's internal valuations indicate that there is still considerable excess value in the portfolio over and above the recorded values. Norfund's balance at the end of 2011 was NOK 7 820 million, as against NOK 6 790 million at the end of the previous year. The increase is due to NOK 1 000 million transferred by Norfund's owner plus a surplus generated by operations. Norfund's equity amounted to NOK 7 734 million (against NOK 6 747 million in 2010). At year-end, NOK 6 225 was disbursed for investments (compared with NOK 4 226 million in 2010). Norfund has no interest-bearing debt. Norfund disbursed a total of NOK 2 174 million to investments and had a return of NOK 218 million from investments in 2011. The Board regards the company's liquidity as satisfactory.

In the opinion of the Board, the annual accounts at 31 December 2011 provide a true and fair view of the company's financial position. The Board confirms that the going concern assumption applies.

5. OUTLOOK FOR THE FUTURE

Norfund's investment level in 2011 was the highest ever. The high investment level reflects a large supply of good projects with substantial development effects, and that Norfund has increased its capacity by means of improved work procedures and enhancement of employee competencies. Norfund also recruits highly qualified personnel, and is an attractive place to work. Although the annual capital allocation has increased, the Fund is now entering a phase where investment demand and the Fund's capacity to make investments are higher than the available capital. The Fund therefore has to prioritise its resources between different investment possibilities to a greater extent than previously. In the period going forward the Fund's resources will be channelled to an even larger extent to areas where the shortage of capital is greatest, not least in the LDCs, and by offering equity to greenfield companies. Norfund has also started working on the development of new instruments and ways of working adapted to conditions in fragile states such as Myanmar and South Sudan.

The financial crisis in the euro area has heightened uncertainty in the financial market. Many similar Western investment funds finance some of their activities by borrowing in the market. These funds are experiencing higher borrowing costs and a lower rating from the rating agencies. Their overall ability to invest in poor countries is reduced. Norfund is not affected by this because our activities, including our loan portfolio, are financed exclusively by equity from our owner. As Norfund is governed today, the scope of our activities is therefore determined entirely by the supply of capital from the Fund's owner.

Investment in renewable energy receives high priority, and a substantial portion of this year's capital allocations are intended to be used to invest in renewable energy. Investment through SN Power will continue. Norfund also places emphasis on building up Agua Imara, which targets sub-Saharan Africa and Central America. We are also finding new, interesting opportunities to invest in wind power, and expect several important investments in wind power projects in the next few years.

Norfund is experiencing a growing interest on the part of the Norwegian business sector in investment in developing countries, and is increasingly viewed as an interesting partner for such investments. Norfund will continue its work focused on the Norwegian investor community in order to disseminate information about Norfund's activities. The fact that Norfund reports solid financial results has boosted the interest of other investors in this kind of investment. Norfund places great emphasis on being catalytic and increasing overall investment in developing countries, and will continue the work of showcasing and generating investment opportunities in these countries.

The key to success in establishing and following up good investment projects is expertise. Norfund will continue its efforts to build up Norway's best professional environment for investment in developing countries.
A shortage of equity is an important constraint on development. Norfund will therefore continue to prioritise equity investments that also open the door to greater influence and active ownership. But there is also an enormous demand for loans, and loan instruments will therefore form a natural part of Norfund's portfolio. Since Norfund works in very challenging markets, there will be considerable uncertainty associated with future earnings.

The Board assumes that the present four areas of activity will be continued, however, the role of fund investments will be reduced . Norfund will continue to concentrate its investment activities in the sectors of renewable energy, financial institutions and agriculture and related industry, as well as in small and medium-sized enterprises. The Fund's strategy will be developed further with the point of departure in the strategic geographical and sectoral focus the Fund has had in recent years. The clear direction of Norfund's work is considered an important factor in efforts to establish the company as an attractive investment partner.

Oslo, 28 March 2012

Kristin Clemet
Chairman

Stein Tønnesson Borghild Holen Svein Tveitdal Finn Jebsen

Kjell Roland
Managing Director

PROFIT AND LOSS ACCOUNT

(in 1000s of NOK)	Note	2011	2010
OPERATING INCOME			
Interest income loans - invested portfolio	1	66 225	48 522
Realised gain on shares	1	570	9 473
Dividends received	1	27 896	24 924
Interest and other project income, Norad loan portfolio	1,6	1 506	11 557
Other operating income	1	2 538	1 290
Share of profit/loss associated company	5	45 143	124 848
Total operating income		143 879	220 614
OPERATING EXPENSES			
Payroll expenses	2	62 778	44 506
Depreciation tangible fixed assets	4	1 457	1 111
Other operating expenses	2,3	49 268	32 340
Total operating expenses		113 503	77 957
Adjustment for gain/loss on FX, project loans	1	4 547	26 440
Reversal of write-down/write-down of investment projects (-)	1	-48 692	-27 287
Operating profit/loss		-13 770	141 810
Other interest income		38 569	39 669
Other financial income		7 904	5 601
Other financial expenses		5 263	4 463
Profit/loss financial items		41 210	40 807
Profit before tax		27 441	182 617
Tax	11	-562	-551
Profit/loss for the year		26 879	182 067
TRANSFERS			
Transferred to surplus fund	13	26 879	182 067
Transferred from surplus fund		0	0
Total allocations		26 879	182 067

BALANCE SHEET

(in 1000s of NOK)	Note	2011	2010
ASSETS			
FIXED ASSETS			
Tangible fixed assets			
Operating equipment, fittings and fixtures, tools etc.	4	3 920	2 978
Total tangible fixed assets		3 920	2 978
Financial fixed assets			
Investments in associated companies	5	3 874 046	2 841 228
Total financial fixed assets		3 874 046	2 841 228
Total fixed assets		3 877 966	2 844 206
CURRENT ASSETS			
Receivables			
Other receivables	6	77 561	47 520
Norad loan portfolio	6	0	0
Total receivables		77 561	47 520
Investments			
Capitalised project development costs	7	14 136	3 604
Loans to investment projects	1,8	1 209 672	645 429
Equity investments	1,9	1 671 621	1 305 924
Total investments		2 895 429	1 954 958
Bank deposits, cash and cash equivalents			
Bank deposits	12	969 752	1 943 770
Total bank deposits, cash and cash equivalents		969 752	1 943 770
Total current assets		3 942 743	3 946 248
Total assets		7 820 708	6 790 453

(in 1000s of NOK)	Note	2011	2010
EQUITY AND LIABILITIES			
EQUITY			
Called up and fully paid share capital			
Primary capital	13	4 550 250	3 801 750
Reserve capital	13	1 728 750	1 477 250
Total called up and fully paid capital		6 279 000	5 279 000
Retained earnings			
Surplus fund	13	1 455 510	1 468 176
Total retained earnings		1 455 510	1 468 176
Total equity		7 734 510	6 747 176
LIABILITIES			
Provision for liabilities and charges			
Pension commitments	2	14 741	7 162
Total provisions for liabilities		14 741	7 162
Other long-term liabilities		0	0
Current liabilities			
Accounts payable		3 447	2 716
Unpaid government charges and special taxes		4 099	3 556
Unused funds (Grant facility)	14	54 225	25 590
Other current liabilities		9 687	4 254
Total current liabilities		71 457	36 115
Total liabilities		86 198	43 277
Total equity and liabilities		7 820 708	6 790 453

Oslo, 28. March 2012

Kristin Clemet
Chairman

Stein Tønnesson   Borghild Holen   Svein Tveitdal   Finn Jebsen

Kjell Roland
Managing Director

CASH FLOW STATEMENT

(Figures in 1000s of NOK)	Note	2011	2010
CASH FLOW FROM OPERATIONS			
Profit before tax		26 879	182 067
Ordinary depreciation	5	1 457	1 111
(Reversal of write-down)/Write-down of investment projects		69 178	26 370
Differences in pension costs and receipts/disbursements, pension scheme		7 489	-2 141
Share of profit/(loss) associated company	5	-45 143	-124 848
Effect of exchange rate changes		-4 385	-18 902
Change in other accruals		-33 865	-20 990
Net cash flow from operations		21 610	42 667
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investment in tangible fixed assets	4	-2 399	-1 113
Proceeds of sales/repayment of shares/interests recorded at cost price		74 964	151 363
Disbursement in connection with purchase of shares/interests in other enterprises		-1 492 477	-437 375
Disbursement of investment loans		-668 754	-198 073
Repayment of principal, investment loans		64 651	120 845
Repayment other investments		0	0
Net cash flow from investment activities		-2 024 014	-364 352
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new short-term debt	14	65 450	34 000
Repayment of long-term debt		0	0
Disbursements of short-term debt	14	-37 063	-27 127
Increase in/repayment of equity	13	1 000 000	629 000
Net cash flow from financing activities		1 028 387	635 873
EXCHANGE RATE CHANGES, CASH AND CASH EQUIVALENTS			
Net change in cash and cash equivalents		-974 017	314 189
Bank deposits, cash and cash equivalents at 1 January		1 943 770	1 629 583
Bank deposits, cash and cash equivalents at 31 December	12	969 752	1 943 770

ACCOUNTING PRINCIPLES

The financial statements for Norfund consist of the following:

- *Profit and loss account*
- *Balance sheet*
- *Cash flow statement*
- *Notes*

The financial statements, which are prepared by the board of directors and the executive management of the institution, must be read in conjunction with the directors' report and the auditor's report.

BASIC PRINCIPLES – ASSESSMENT AND CLASSIFICATION

The financial statements are presented in compliance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles in effect at 31 December 2010.The financial statements provide a true and fair view of assets and liabilities, financial standing and profit.

The financial statements have been prepared on the basis of fundamental principles governing historical cost accounting, comparability, the going concern assumption, congruence and prudence. Transactions are recorded at their value at the time of the transaction. Income is recognised at the time of delivery of goods or services. Costs are expensed in the same period as the income to which they relate. A more detailed account of the accounting principles is provided below. When actual figures are not available at the time the accounts are closed, generally accepted accounting principles require management to make the best possible estimate for use in the profit and loss account and the balance sheet. Actual results could differ from these estimates.

Current assets/liabilities are recorded at the lower/higher of acquisition cost and fair value. The definition of fair value is the estimated future sales price reduced by expected sales costs. Other assets are classified as fixed assets. Fixed assets are entered in the accounts at historical cost, with deductions for depreciation. In the event of a decline in value that is not temporary, the fixed asset will be subject to a write-down. Investments are valued in accordance with IPEV's valuation guidelines.

Some exceptions are made to the general valuation rules in accordance with generally accepted accounting principles. Comments to these exceptions can be found in the notes to the accounts. When applying the basic accounting principles and disclosure of transactions and other items, the "substance over form" rule is applied. Contingent losses that are probable and quantifiable are expensed. The segmentation is based on the institution's internal management and reporting requirements as well as on risk and earnings. Figures are presented for geographical markets, since the geographical division of activities is of material importance to the users of the financial statements. Figures are reconciled with the institution's profit and loss account and balance sheet.

THE MOST IMPORTANT ACCOUNTING PRINCIPLES USED BY NORFUND ARE DESCRIBED BELOW.

Principles for revenue recognition
Operating income includes dividends, gain on the sale of shares/interests in other companies, interest on loans made to other companies, directors' fees, other project income, gain on the sale of fixed assets, and payments of interest and principal on the loan portfolio.

Gains on the sale of shares/interests in other companies are recorded in the year in which the sale takes place. Gains from funds are recorded as dividend. Interest is recorded as and when it is earned. Other proceeds from shares/interests are deducted from the book value, and are accordingly not recorded as income.

Payments from the investment portfolio are recorded when received (the cash principle).

When loans to development projects are classified as doubtful, interest is recorded as income on the basis of the written-down value. Interest recorded but not paid owing to a default is reversed.

Financial income and expenses
Interest on Norfund's liquidity reserve in Norges Bank and other Norwegian banks is recorded as financial income. The profit or loss on matured forward contracts for portfolio hedging purposes are recorded in their entirety against financial income or other financial expenses.

Associated companies
Associated companies are enterprises in which Norfund has substantial influence, but which are not subsidiaries or joint ventures. Associated companies are incorporated in the accounts according to the equity method. Norfund's share of income from associated companies is incorporated as a separate item in the profit and loss account. Similarly, equity investments are presented as a separate item on the asset side of the balance sheet. The investment in Statkraft Norfund Power Invest AS is recorded as an associated company in accordance with generally accepted accounting practice. Where final figures are unavailable, estimates of the expected result are used.

Equity investments
Norfund normally treats its investments in other companies as current assets. In other words, the equity method is not used even though Norfund's equity interests endow it with considerable influence. This is because the purpose of the institution's investments is to dispose of all or part of each investment, normally after three to 10 years. This is in accordance with Norfund's object and with the provisions of the Accounting Act and generally accepted accounting practice. Under generally accepted accounting practice, such investments are temporary by their very nature and should therefore be included under current assets. Equity investments in companies are valued at the lower of cost or market value, on the basis of a specific assessment of each investment, such that

each investment is written down where this is considered necessary because of a fall in value regarded as permanent (individually assessed loss provision). No group write-downs are made. See also the section below relating to the treatment of currency items.

When investments are realised wholly or in part, the gain/loss is calculated on the basis of the historical cost in NOK. This makes realisations a function of changes in exchange rates and the change in the value of the investment expressed in foreign currency.

"Committed investments" implies an external obligation to pay a specified amount.

Norfund often utilises various instruments – such as options, conversion options and so forth – in investment agreements in order to reduce risk. These are taken into account when valuing the individual investment.

LOANS

Norfund manages two types of loans:

- loans relating to Norfund's investments and made by the institution (project loans)
- loans to enterprises in developing countries, taken over from Norad (loan portfolio).

Project loans are treated as current assets.

Loans are valued at amortised cost in accordance with a straight-line allocation method.

On the basis of the institution's strategy, the loan portfolio acquired from Norad is classified as a current asset and recorded in the accounts at historical cost, which is NOK 0. Receipts from the loan scheme are therefore treated on a cash basis and recorded as income when they are paid.

Known losses
Losses recognised as a result of insolvency, the winding-up of a company and the like, and losses on the sale of shares, are recorded as known losses.

Currency items
Monetary items are recorded at the exchange rate prevailing on 31 December. Unrealised FX gains/losses on loans is included in the operating profit.. Unrealised gains/losses on other monetary items are recorded as financial income/expenses respectively. The assessment of changes in the value of investments (see above) also includes an assessment of changes caused by exchange rate movements.

Norfund has not hedged its invested portfolio by means of hedging instruments. However, it has accepted that SN Power makes use of hedge accounting for its portfolio. For further details, see the annual report of SN Power.

Bank deposits, cash and cash equivalents
Liquid assets consist of bank deposits.

Current receivables
Current receivables are recorded at their estimated value and adjusted for irrecoverable items.

Tangible fixed assets
Tangible fixed assets are entered at cost price reduced by commercial depreciation on the basis of the estimated economic life of the asset in question.

Leases
Rent paid under leases not recorded in the balance sheet is treated as an operating cost and allocated systematically over the whole term of the lease.

Equity
Norfund's equity is divided into primary, reserve and surplus capital. This division is made on the basis of the framework conditions for Norfund's activities, which specify that the Ministry of Foreign Affairs must be notified if the institution's losses are so great that its primary capital is affected. Any net profit is added to surplus capital, while any net losses are deducted from this or from reserve capital if the former fund is insufficient to cover the net loss.

Government grants
Norfund receives government grants, which are treated in accordance with Norwegian Accounting Standard (NRS) 4. In Norfund's view, net recording of government grants received by the institution provides the best picture of the accounts.

Related parties
Norfund defines Statkraft Norfund Power Invest AS as a related party.

Deferred tax and tax expense
Norfund is exempt from tax pursuant to a separate section in the Taxation Act. In certain countries Norfund is obliged to pay withholding tax on interests and dividends.

Cash flow statement
The cash flow statement is prepared using the indirect method.

Pension liability and costs
The institution has pension plans known as defined benefit plans which entitle employees in Norway to defined future benefits. The pension liability is calculated on a straight-line earnings basis, taking into account assumptions regarding the number of years of employment, discount rate, future return on plan assets, future changes in pay, pensions and the size of National Insurance benefits, and actuarial assumptions regarding mortality, voluntary retirement and so on. Plan assets are stated at fair market value. Net pension liability comprises the gross pension liability less the fair value of plan assets. Net pension liabilities from underfunded pension schemes are included in the balance sheet as a provision, while net plan assets in overfunded schemes are included as long-term interest-free receivables if it is likely that the overfunding can be utilised. Provision for payroll tax is made on the basis of net plan assets.

The effect of changes in pension plans with retroactive effect not conditional on future earnings is recognised immediately in the profit and loss account.

Net pension costs, which consist of gross pension costs less estimated return on plan assets adjusted for the effect of changes in estimates and pension plans, is classified as an ordinary operating cost and included in the payroll expenses item. Payroll taxes are calculated on contributions paid to the pension plans.

The company has pension plans for employees at the regional offices outside Norway. This is mainly contribution plans.

NOTES

NOTE 1 - SEGMENT INFORMATION

Segment information by business area:

The table below presents an overview of the results of Norfund's investment departments, the loan portfolio taken over from Norad (see note 6), shared functions and other activities. The costs of shared functions have largely been allocated in accordance with the number of employees in each area, and are recorded as part of other operating expenses.

2011

(Figures in 1000s of NOK)	NORFUND total	SME Funds	Financial institutions	Renewable energy	Industrial partnerships	Shared functions	Other activity	Loan portfolio*
OPERATING INCOME								
Interest - invested portfolio	66 367	141	50 391	5 480	10 213	0	0	143
Realised gains	570	0	570	0	0	0	0	0
Dividends received	27 896	23 109	4 611	0	176	0	0	0
Other project revenues	3 902	12	1 915	128	480	3	0	1 364
Profit from assosiated companies	45 143	0	0	45 143	0	0	0	0
Total operating income	143 879	23 261	57 488	50 751	10 869	3	0	1 506
OPERATING EXPENSES								
Payroll expenses	-62 778	-7 074	-8 355	-6 312	-14 050	-25 923	-953	-111
Depreciation tangible fixed assets	-1 457	-25	-25	0	0	-1 407	0	0
Loss on sale of operating assets	0	0	0	0	0	0	0	0
Other operating expenses	-49 268	-1 804	-3 033	-18 390	-4 804	-19 645	-1 568	-24
Allocation of shared expenses	0	-9 660	-10 419	-9 010	-16 365	46 965	-1 390	-121
Total operating expenses	-113 503	-18 562	-21 832	-33 713	-35 219	-10	-3 911	-256
Gain/loss on FX, project loans	4 571	0	2 951	2 041	-421	0	0	0
(Provision for)/reversal of loss on projects	-48 681	-8 514	-23 112	-12 631	-4 423	0	0	0
Profit/(loss) on operations	-13 735	-3 815	15 494	6 448	-29 195	-7	-3 911	1 250
Net financial items	41 176	18 956	8 860	3 335	6 696	3 351	0	-23
Profit before tax	27 441	15 141	24 355	9 783	-22 499	3 344	-3 911	1 228
Tax	-562	0	-562	0	0	0	0	0
Total profit/(loss)	26 879	15 141	23 793	9 783	-22 499	3 344	-3 911	1 228

2010

(Figures in 1000s of NOK)	NORFUND total	SME Funds	Financial institutions	Renewable energy	Industrial partnerships	Shared functions	Other activity	Loan portfolio*
OPERATING INCOME								
Interest - invested portfolio	49 449	0	35 291	3 660	9 571	0	0	927
Realised gains	9 473	0	204	8 775	494	0	0	0
Dividends received	24 924	19 683	5 241	0	0	0	0	0
Other project revenues	11 920	39	770	58	415	7	0	10 631
Profit from assosiated companies	124 848	0	0	124 848	0	0	0	0
Total operating income	220 614	19 722	41 506	137 341	10 481	7	0	11 557
OPERATING EXPENSES								
Payroll expenses	-44 506	-6 477	-6 940	-4 727	-12 659	-12 420	-1 000	-283
Depreciation tangible fixed assets	-1 111	-10	-10	0	0	-1 092	0	0
Loss on sale of operating assets	0	0	0	0	0	0	0	0
Other operating expenses	-32 340	-3 688	-3 191	-3 931	-3 497	-17 439	-587	-8
Allocation of shared expenses	0	-7 023	-7 605	-4 308	-10 457	30 950	-743	-815
Total operating expenses	-77 957	-17 197	-17 745	-12 966	-26 613	0	-2 329	-1 106
Gain/loss on FX, project loans	26 440	0	23 586	555	2 299	0	0	0
(Provision for)/reversal of loss on projects	-27 287	-16 092	-14 160	0	2 965	0	0	0
Profit/(loss) on operations	141 810	-13 567	33 187	124 930	-10 869	7	-2 329	10 451
Net financial items	40 807	8 248	4 228	9 497	4 780	14 089	0	-35
Profit before tax	182 617	-5 319	37 415	134 427	-6 089	14 096	-2 329	10 416
Tax	-551	0	-551	0	0	0	0	0
Total profit/(loss)	182 067	-5 319	36 864	134 427	-6 089	14 096	-2 329	10 416

Income is directly attributable. Expenses are partly directly attributable and partly shared costs allocated in accordance with a distribution formula based on the number of people employed.

Other activities include the Information Office for Private Sector Development in Developing Countries and the tender guarantee scheme.

Segment information by geographical region (2011):

(Figures in 1000s of NOK)	Africa	Asia	Latin America	Europe	Global	Write-downs	Total
BALANCE SHEET							
Equity investments	1 032 469	416 990	354 597	18 090	9 365	-159 889	1 671 621
Loans to investments	677 871	289 118	262 142	0	0	-19 459	1 209 672
Total balance sheet	1 710 340	706 108	616 739	18 090	9 365	-179 348	2 881 294
Interest income loans	45 359	14 418	6 447	0	0		66 225
Realised gain on shares	570	0	0	0	0		570
Dividends received	15 053	10 760	2 058	25	0		27 896
Directors' fees received	41	0	52	0	3		96
Fees	1 323	603	515	0	0		2 442
Repayments of principal, loan portfolio	0	1 364	0	0	0		1 364
Interest paid on loan portfolio	81	62	0	0	0		143
Profit from assosiated companies	2 224	229 586	-186 667	0	0		45 143
Total operating income	64 652	256 792	-177 594	25	3	0	143 879
Gain/loss on FX, project loans	-21 036	7 582	18 025	0	-24		4 547

NOTE 2 – PAYROLL EXPENSES

Wages, salaries and other payroll expenses

(Figures in 1000s of NOK)	2011	2010
Wages and salaries	40 566	32 139
Directors' fees	527	525
Payroll tax	5 040	4 155
Personnel insurance	765	639
Pension expenses	13 253	4 015
Other benefits	2 793	2 907
Payroll expenses reimbursed	-166	125
Total wages, salaries and other payroll expenses	62 778	44 506

Remuneration of senior personnel

	Managing director	Chairman	Boardmembers
Wages and salaries/fees	2 091 355	145 000	385 088
Pension contributions	651 762		
Other remuneration	81 922		
Total	2 825 039	145 000	385 088

Managing director has in 2011 received salery for unused holiday. In total NOK 78 332

The managing director is not covered by any agreement for pay after termination of employment beyond the ordinary three-month period of notice. The chair does not have an agreement for pay after termination of employment. Neither the managing director nor the chairman has a bonus agreement.

The chairman received NOK 145 000 for boardroom work for Norfund in 2011. Other boardmembers received fees of NOK 85 000 each for 2011.

The company has no share or option schemes for its employees, and there are no plans for such schemes.

Norfund have a variable salary component (bonus) whitch applies for all except managing director. The scheme i sin total 2,5 per cent of Norfunds salary costs. Bonus is paid for extraordinary efforts.

Fees in the amount of NOK 549 573 (NOK 498 125 in 2010) were recorded for the auditor, of which NOK 294 100 (NOK 336 157 in 2010) related to auditing that is required by law, NOK 0 (NOK 0 in 2010) for other attestation services and NOK 255 573 (NOK 161 968 in 2010) for services other than auditing. No fees were paid to the auditor for tax advice. All figures include VAT.

Employees
The company had 49 employees at 31 December 2011. The number of person-years was 46.

Pensions
Pursuant to the Norwegian Act on Mandatory Occupational Pensions, Norfund is required to have an occupational pension scheme. For all employees in Norway the scheme is with defined future benefits. The size of the benefits depends primarily on the number of qualifying years, pay level on achieving retirement age and the size of National Insurance benefits. The full pension entitlement is based on 30 qualifying years, and is equivalent to 70 per cent of pay up to a maximum of 12 times the National Insurance base rate (G). This scheme satisfies the requirements of the Act on Mandatory Occupational Pensions. Norfund also has a general scheme which entitles employees to pension rights for pay above 12 G. This scheme is closed for new members in 2011. The scheme, which is funded from operations, consists of 66 per cent of pay above 12 G and uses a retirement of age of 67 in the calculation base. On termination of employment or on reaching retirement age, employees receive a settlement for the value of the amount saved. The cost of this scheme is included in the calculation of pension expenses.

Employees at Norfund regional branches in South Africa, Kenya and Costa Rica have a pension scheme based on annual contributions. Norfund have no obligations beyond the annual contributions. In 2011, USD 223 657 has been expensed related to this scheme.

The managing director and one other employee have a retirement age of 65.

Pension expenses, resources and commitments have been calculated by the insurance company's actuary. Variances between the book value at 31 December of the previous year and the estimated value in the Natural Resources Systems Programme (NRSP) calculation at 1 January of the following year are recorded directly in the profit and loss account. At 31 December 2011, 36 persons were covered by the scheme.

Financial assumptions

	2011	2010
Discount rate	2,60 %	4,00 %
Expected return on pension assets	4,10 %	5,40 %
Wage adjustment	3,50 %	4,00 %
Pension adjustment	3,25 %	3,75 %
Adjustment of the basic amount in the National Insurance System (G)	3,25 %	3,75 %
Turnover	9,00 %	9,00 %
Payroll tax	14,1 %	14,1 %

(Figures in 1000s of NOK)	2011	2010
Net present value of pension earnings in the period	6 098	5 965
Capital cost of previously earned pensions	1 355	1 421
Expected return on pension assets	-1 520	-1 402
Administrative costs	159	138
Recorded variances in estimates	6 303	-2 970
Accrued payroll tax[1]	859	863
Net pension liabilities for the year incl. payroll tax	13 253	4 015

1 - Payroll tax is calculated on the amount paid in.

Calculated pension liabilities	Insured	Uninsured	2011
Estimated pension liabilities	38 912	6 783	45 695
Estimated pension assets	32 776		32 776
Net pension liablities 31 December	6 137	6 783	12 919
Unrecorded variances in estimates	0	0	0
Accrued payroll tax[1]	865	956	1 822
Net pension liablities 31 December	7 002	7 739	14 741

1 - Accrued payroll tax is calculated on the net pension liability.

Reconciliation opening/closing balance	2011	2010
Capitalised net pension liabilities 1 January incl. payroll tax	7 162	8 935
Net pension expenses for the year incl. payroll tax	13 253	4 015
Pensions paid, early retirement / unfunded, incl. payroll tax	0	0
Investment in pension assets, etc., incl. payroll tax	-5 674	-5 788
Capitalised net pension liabilities 31 December incl. payroll tax	14 741	7 162

Nordea Livs Asset Mix*	30.09.11	31.12.10
Property	17,6 %	19,6 %
Shares	5,0 %	14,5 %
Short-term bonds/certificates	42,6 %	45,3 %
Long-term bonds	31,3 %	18,9 %
Other	3,5 %	1,7 %
Total financial assets	100 %	100 %

**) known values at calculation date*

NOTE 3 – OTHER OPERATING EXPENSES

(Figures in 1000s of NOK)	2011	2010
Seminars, conferences, upgrading of competencies	2 207	1 807
Travel costs	7 512	6 719
External assistance	27 726	13 560
Costs, tender guarantee scheme	1 257	364
Rent, incl. shared costs	4 952	5 105
Advertising/printing	996	888
Other expenses	4 618	3 897
Total operating expenses	49 268	32 340

NOTE 4 – FIXED ASSETS

(Figures in 1000s of NOK)	Operating equipment fixtures, etc.	Permanent building fittings and fixtures	Vehicles	Works of art	Total
Cost price, ordinary depreciation and write-downs					
Cost price at 1 January	3 148	806	657	67	4 677
+ acquisitions during the period	2 399				2 399
- disposals during the period					0
Cost price at 31 December	5 547	806	657	67	7 077
Accumulated ordinary depreciation at 1 January	1 174	202	323	0	1 699
+ ordinary depreciation for the period	1 164	166	127		1 457
- accum. ordinary depreciation, operating assets sold	0	0			0
Accumulated ordinary depreciation at 31 December	2 338	368	451	0	3 156
Write-down of operating assets at 1 January	0	0	0	0	0
+ write-downs for the period	0	0	0	0	0
- accum depreciation, operating assets sold	0	0	0	0	0
Accum. write-downs at 31 December	0	0	0	0	0
Book value for accounting purposes at 31 December	3 209	438	207	67	3 920

Operating assets, fixtures and fittings etc. are depreciated on a straight-line basis. The expected life of operating assets is 3-4 years. Office fixtures and fittings are depreciated over the life of the lease. Works of art are not depreciated. Vehicles are depreciated on a straight-line basis over 8 years.

NOTE 5 – INVESTMENT IN ASSOCIATED COMPANY

(Figures in 1000s of NOK)	Statkraft Norfund Power Invest AS
Formal information:	
Date of acquisition	27.06.02
Registered office	Oslo
Shareholding	40 %
Voting share	40 %
Information relating to the date of acquisition	
Acquisition cost	3 164 047
Information relating to the figures for the year:	
Opening balance 1 January 2011	2 841 228
Acquisitions during the year	1 027 220
Disposals during the year	0
Value added share issue	0
Share of annual profit/(loss)[1]	45 143
Share of adjustments for the year charged directly against equity in SNPI	-39 545
Closing balance, 31 December 2011	3 874 046

[1] Share of results for the year is based on final figures from the associated company.

Committed investments in associated company

Norfund and Statkraft have entered into a new shareholders' agreement whereby Norfund has the option of selling out, partially or wholly, from SN Power Invest as of 31st of March 2010, year-end 2013, 2014 and 2015. Statkraft has an option to increase its holding from 60 to 67 per cent by 2015 at the latest. The shareholder agreement commits Norfund to injecting USD 94 million annually to new investments from 2010 up to and including 2015, unless Norfund decides to sell down.

Key figures from SN Power Invest AS's consolidated accounts

Key figures from SN Power Invest's consolidated accounts are presented below.

PROFIT AND LOSS ACCOUNT

(Figures in 1000s of NOK)	SN Power group 2011	2010
Operating income	1 039 379	690 783
Operating expenses	947 728	779 444
Operating profit/(loss)	91 651	-88 661
Net financial items[1]	141 655	425 694
Ordinary profit before tax	233 306	337 033
Tax on ordinary profit	-59 647	-15 236
Ordinary profit	173 660	321 797
Net profit	173 660	321 797
Minority interest	60 802	9 676
Majority interest	112 858	312 121

[1] Net financial result includes approximately 235 million in realized loss due to a currency swap related to the planned acquisition of 40.65% of Desenvix (Brazil). Norfund share of this amounts to approximately NOK 95 million.

BALANCE SHEET

Assets	2011	2010
Intangible assets	165 902	322 448
Tangible fixed assets	6 930 827	4 157 868
Financial fixed assets	3 077 186	3 787 480
Total fixed assets	10 173 915	8 267 796
Inventories	0	3 625
Receivables	1 465 796	236 060
Investments	7 071	12 796
Cash and cash equivalents	3 301 420	1 740 499
Total current assets	4 774 288	1 992 980
Total assets	14 948 203	10 260 776

Equity and liabilities	2011	2010
Called up and fully paid share capital	9 525 762	6 539 561
Retained earnings	159 370	563 456
Total equity	9 685 132	7 103 017
Minority interest	870 937	538 566
Provisions for liabilities and charges	1 153 103	328 825
Other long-term liabilities	2 016 891	1 862 962
Current liabilities	1 222 139	427 406
Total liabilities	4 392 134	2 619 193
Total equity and liabilities	14 948 203	10 260 776

SN Power reports in accordance with International Financial Reporting Standards (IFRS), and has been using the US dollar (USD) as its functional currency since fiscal 2008. The profit/loss is converted to NOK at the average exchange rate for the year of USD 5,61 and the balance sheet at the rate of USD 5,99 prevailing at 31 December 2011.

The annual accounts for the associated company can be obtained from Norfund on request.

NOTE 6 – RECEIVABLES

The loan portfolio is recorded under receivables. When acquired from NORAD, it was valued at zero in the Norfund accounts pursuant to Proposition no. 1 to the Storting (2000-2001), which transferred the loan portfolio to Norfund without an appropriation decision. Pursuant to the Norwegian Accounting Act, receipts (interest and principal repayments) from this portfolio are recorded as income in Norfund's accounts.

(Figures in 1000s of NOK)	Opening loan balance 01.01.11	Repayments received 01.01-31.12	Repayments interest 01.01-31.12	Depreciation during the year	Gain/loss on exchange during the year	Closing loan balance 31.12.11
TOTAL	17 909	1 364	143	0	0	16 545
Depreciation	17 909					-16 545
Book value	0					0

Norfund has valued the loan portfolio at 31 December 2011 at NOK 718 000.

TOTAL RECEIPTS LOAN PORTFOLIO

(Figures in 1000s of NOK)	Repayments	Interest	Total
2011	1 364	143	1 506
2010	10 631	927	11 557
2009	17 112	1 023	18 135
2008	18 361	1 899	20 259
2007	24 592	2 493	27 086
2006	36 192	4 384	40 576
2005	58 198	6 335	64 534
2004	36 986	6 156	43 142
2003	48 693	7 928	56 621
2002	43 325	10 886	54 211
2001	39 460	9 372	48 832
Totalt innbetalt	334 914	51 545	386 459

OTHER RECEIVABLES

(Figures in 1000s of NOK)	Other receivables	
	31.12.11	31.12.10
Receivable/Right[1]	8 057	8 078
Other receivables	69 504	39 442
Total receivables	77 561	47 520

[1] *In connection with the sale of Aureos Capital, Norfund received a cash settlement and a right to a share of future carried interests in the first-generation funds. The right is valued in relation to the value of the first-generation funds at 31 December 2011.*

Other receivables. All receivables fall due within one year.

NOTE 7 – CAPITALIZED PROJECT DEVELOPMENT COSTS

(Figures in 1000s of NOK)	2011	2010
Project		
Kikagati HPP	3 619	3 156
Nsongiezi Hydro Power	460	448
Lake Turkana Wind Project	10 057	
Total capitalized project development costs	14 136	3 604

Project development costs include accrued costs for developing projects to a stage where investment decision can be made. The capitalized costs will be converted to investment if an investment decision is made. In case not, the capitalized costs will be written down in the profit and loss statement. Capitalized costs require at least 50 % probability for a positive investment decision.

Increased project development is part of Norfunds increased efforts on Renewable energy and is the Project development facility.

Norfund has a licence together with TrønderEnergi in connection with the Kikagati project. This has previously been defined as an intangible asset in Norfunds accounts. The licence is part of the project development costs and is therefore been reclassified to this category.

NOTE 8 – LOANS TO COMPANIES IN INVESTMENT PORTFOLIO

(Figures in 1000s of NOK)	Valuta	Book value[1] (in currency)	Book value[1] (NOK)
Safa Marine Industries Ltd	EUR	56	435
LAAD	USD	10 834	64 924
Nicafish	USD	884	5 299
Trønderpower Limited (Bugoye HPP)	USD	6 962	41 722
Locfund	USD	1 500	8 989
Brac NGO	BDT	293 443	21 190
EXIM Bank (Tanzania) Ltd.	USD	600	3 596
Abacus	UGS	3 864 257	9 197
Samic Ltd	USD	143	856
AMRET Co. Ltd.	KHR	4 126 000	6 065
Brac Africa Loan Fund	USD	2 117	12 684
Euro TechBridge AS	NOK	2 250	2 250
Casquip Starch (Pty) Ltd	ZAR	28 543	20 533
CIFI	USD	25 000	149 818
Capitec Bank Main Account	ZAR	150 000	110 955
Scandinavian Water Technology	NOK	2 500	2 500
European Financing Partners EUR [2]	EUR	355	2 751
European Financing Partners USD [2]	USD	4 693	28 123
Green Resources	USD	3 500	20 974
Sathapana Ltd.	USD	5 667	33 959
Pride Architects AS	NOK	2 000	2 000
Africado	EUR	670	5 195
E+CO	USD	3 300	19 776
Real People Investment PTY	ZAR	240 000	177 528
Hattha Kaksekar Ltd	KHR	8 478 000	12 463
DFCU Limited	UGS	22 842 857	54 366
Sacom Bank Leasing Ltd	USD	5 000	29 964
Sacombank (Saigon Thuong Tin Joint Stock Commercial Bank)	USD	25 000	149 818
Micro Africa Limited	KES	167 000	11 576
Micro Uganda Limited	UGS	4 800 000	11 424
TPS (Dar) Ltd.	USD	5 000	29 964
Hidro Santa Cruz	USD	500	2 994
African Banking Corporation Zambia Limited	USD	5 000	29 964
Hydel Kenya Hydro	USD	1 500	8 419
EXIM Bank (Tanzania) Ltd.	USD	5 000	29 964
DFCU	USD	3 000	17 978
Afrinor Hotel Investments A/S	EUR	1 260	9 770
Matanuska Africa Ltd.	USD	1 800	10 787
Matanuska Mozambique	USD	2 200	13 184
BRAC Bank Limitied	BDT	490 000	35 383
Matanuska Africa Ltd.(Banana Finance Company two limited)	USD	1 000	5 995
Hidro Santa Cruz	USD	1 250	7 493
Financiera Desyfin S.A.	USD	2 000	11 985
Vantage Mezzanine Fund II(Partnersh)			
Accrual start-up fee loans			-5 677
Total loans to companies			1 229 131
Provision for bad debts at 31 Dec 2011			-19 459
Book value loans/total interest received			1 209 672

Committed investments in loans

In addition to the loans specified above, Norfund made two loans charged to unused funds Balkans which is recorded at NOK 0 in accordance with the requirements of NRS 4 concerning net recording of government grants received. See Note 14.

Some of the loans carry a risk comparable with that of equity investments.

[1] *Figures at 31 December 2011 and before any write-downs.*

[2] *Loans syndicated by members of European Financing Partners are co-invested. Norfund's holding varies from 1-5 per cent. Loans have been granted to Olkaria III, CDS II, Care Works, Precision Air, Equity Bank, Maputo Hospital, Milicom, Rabai Power, Zambeef, AFL, Jamaica Public Sevices and PTA Bank.*

EQUITY INVESTMENTS IN FUNDS

(Figures in 1000s of NOK)	Currency	Share Holding	Committed investment (in currency)	Historical cost price[1] (in currency)	Committed investment (in NOK)	Historical cost price[1] (in NOK)
CAIF	USD	4,0 %	719	719	5 874	5 876
African Infrastructure Fund	USD	1,2 %	42	42	243	243
SEAF Trans-Balkan Fund	USD	22,9 %	362	362	2 140	2 140
CASEIF	USD	31,8 %	1 646	1 646	11 397	11 397
SEAF Sichuan SME Investment Fund	USD	13,3 %	1 877	1 762	11 773	11 085
Aureos Central America Fund	USD	27,5 %	5 071	4 995	30 653	30 194
Aureos East Africa Fund	USD	20,0 %	3 979	3 907	23 557	23 127
Aureos West Africa Fund	USD	26,0 %	6 205	4 916	35 215	27 488
Aureos Southern Africa Fund	USD	25,1 %	10 018	8 529	56 261	47 339
Aureos South Asia Fund I[2]	USD	50,0 %	1 555	1 255	9 929	8 129
Aureos South East Asia Fund	USD	28,6 %	18 234	16 363	108 249	97 036
APIDC Biotech Fund	USD	7,7 %	2 750	2 750	16 697	16 697
China Environment Fund	USD	10,0 %	1 920	1 679	10 653	9 210
Aureos South Asia Fund (Holdings)	USD	23,5 %	17 501	13 958	102 351	81 118
Business Partners Madagascar SME Fund	EUR	14,1 %	1 200	738	6 430	6 082
Solidus Investment Fund	USD	6,3 %	1 600	1 600	9 322	9 322
Aureos Central America Growth Fund (EMERGE)	USD	14,3 %	3 040	2 266	18 423	13 787
CASEIF II	USD	13,8 %	4 000	2 169	23 993	13 022
Locfund	USD	10,0 %	1 485	1 485	8 740	8 740
The Currency Exchange	USD	2,4 %	10 000	10 000	55 000	55 000
I&P Capital	EUR	13,4 %	3 497	1 828	16 257	14 999
Horizon Equity Partners Fund III	ZAR	9,0 %	26 776	10 705	19 635	7 747
Africap Microfinance Investment Company	USD	7,1 %	3 000	2 607	16 511	14 154
Aureos Latin America Fund (ALAF)	USD	13,6 %	23 991	17 189	145 557	104 794
Seaf Blue Water Growth Fund	USD	20,0 %	5 000	3 561	29 346	20 720
NMI Global Fund[2]	NOK	45,0 %	162 000	116 640	162 000	116 640
NMI Frontier Fund[2]	NOK	45,0 %	108 000	71 900	108 000	71 900
GroFin Africa Fund	USD	9,4 %	14 426	5 660	86 715	34 185
Aureos Africa Fund L.L.C	USD	10,5 %	38 093	20 588	234 453	129 549
Fundo de Investimento Priv.Angola	USD	26,8 %	10 677	1 066	63 951	6 355
Fanisi Venture Capital Fund SCA	USD	30,0 %	15 000	4 720	89 296	27 690
Cambodia-Laos Development Fund[2]	USD	40,0 %	4 000	1 104	23 666	6 309
Evolution One Fund	ZAR	7,2 %	50 000	13 236	37 909	10 715
AgriVie Fund	ZAR	9,4 %	75 000	37 171	58 475	30 493
Frontier Fund	USD	11,3 %	10 000	1 945	59 244	10 974
Prospero Microfinanzas Fund B.L.P.	USD	21,7 %	5 000	310	29 749	1 643
Aureos South East Asia Fund II	USD	7,3 %	5 000	704	29 546	3 799
Vantage Mezzanine Fund II(Partnersh)	USD	17,4 %	100 000	31 894	432 380	24 243
Voxtra East Africa Agribusiness Ini	NOK	35,0 %	22 740	3 411	22 740	3 411
Africa Health Fund SA En Commandite	USD	9,5 %	10 000	1 675	59 842	9 955
Total invested in funds					2 302 133	1 127 307

"Committed" means that an external commitment exists for the specified amount. For conversions to NOK, the exchange rate at the time of disbursement is used for the part of the amount that has been paid. The exchange rate at 31 December 2011 is used for the part that has not been disbursed.

[1] *Figures at 31 December 2011 and before any write-downs.*

[2] ***Fund investmetns with more than 35% owner share***

Aureos South Asia Fund I (ASAF) was established by CDC and Norfund in anticipation of Aureos South Asia Fund (Holdings) which started operations in January 2006. Thus ASAF I will not invest further, but only manage investments approved up to December 2005. Norfund and CDC co-financed minority holdings in companies in Sri Lanka through ASAF. Norfund's share of individual investments will therefore be less than 25 per cent. Norfund is in process for reducing the owner share to under 35 %.

NMI Global Fund and NMI Frontier Fund is part of the private-public joint project in micro finance (Norwegian micro finance initiative). It was a condition for this joint project that Norfund contributed with as much capital as the private investors combined.

Cambodia Laos Development Fund is a new investment in 2010 with Norfund owner share on 40%. Norfund consider this investment to be a special case because this fund is first of its kind in these countries. Norfund emphasis to develop the local capital market and it was especially challenging to raise other capital. Norfunds investment was vital for closing the funding of the fund.

EQUITY INVESTMENTS IN MANAGEMENT COMPANIES

(Figures in 1000s of NOK)	Currency	Share Holding	Committed investment (in FX)	Historical cost price[1] (in FX)	Committed investment (in NOK)	Historical cost price[1] (in NOK)
AMSCO	EUR	4,8 %	240	240	1 837	1 837
Lafise Investment Management	USD	20,0 %	2	2	17	17
NMI Portfolio Manager AS[2]	NOK	50,0 %	30 000	30 000	30 000	30 000
European Financing Partners mgm	EUR	7,6 %	25	25	195	195
Angola Capital Partners LLC[2]	USD	50,0 %	250	250	1 417	1 417
Batian Management Company	USD	25,0 %	250	0	1 498	0
Interact Climate Change Facility S.A.	EUR	7,7 %	6	6	47	47
Fanisi Venture Capital management[2]	USD	50,0 %	275	25	1 639	143
Total invested in management companies					36 651	33 657

[1] *Figures at 31 December 2011 and before any write-downs.*

[2] ***Joint Ventures with 50% owner share***

Angola Capital Partners LLC is a fund management company, where Norfund was one of the promoters. The management company is a joint venture with Banco Africano de Investimento (BAI). The joint venture is established to develop the local capital market. The company is first of its kind in Angola and would not have had financial close without Norfund. Norfund will reduce the owner share at a later stage.

Fanisi Venture Management Companis is a fund management company, where Norfund was one of the promoters. The management company is a joint venture with Armani Capital partners. Norfund will through this investment contribute to Norfunds objectives by further develop the financial markets in eastern Africa and raise capital for small and medium sized enterprises. The company is one of the first venture capital fund managers in eastern Africa, and would not have had financial close without Norfunds participation.

Norfund established in 2008 NMI (Norwegian micro finance initiative) together with KLP, DnB NOR, Ferd and Storebrand. It was a condition for this joint project that Norfund contributed with as much capital as the private investors combined. Norfund owns 50 per cent in the fund manager NMI AS and 45 per cent in the two funds; NMI Global and NMI Frontier. Indirect through NMI AS owns Norfund an additional 5 per cent in both funds. Total committed investment in NMI is NOK 600 million, of which Norfund in total has committed NOK 300 million. Norfunds power of ownership in both the management company and the funds is less than the actual ownership share and the investment have same expected investment period as Norfunds other investments. The investment in NMI is therefore treated as a current investment in Norfunds accounts.

EQUITY INVESTMENTS IN COMPANIES

(Figures in 1000s of NOK)	Currency	Holding	Committed investment (in FX)	Historical cost price[1] (in FX)	Committed investment (in NOK)	Historical cost price[1] (in NOK)
DFCU	UGS	10,0 %	4 600 000	4 600 000	17 607	17 607
CIFI	USD	9,3 %	5 000	5 000	31 225	31 225
TPS Afghanistan (Kabul Serena Hotel) Ltd	USD	17,1 %	5 000	5 000	33 785	33 785
Afrinord Hotels Africa	EUR	20,0 %	50	50	392	392
Micro Africa Ltd II	USD	15,3 %	250	250	1 558	1 558
Banco Terra	MZN	27,5 %	293 000	293 000	61 464	61 464
TPS Pakistan	USD	4,7 %	3 967	3 967	21 161	21 161
Trønderpower Limited (Bugoye HPP)	USD	27,5 %	2 368	2 368	12 551	12 551
Matanuska Africa Limited	USD	33,3 %	4 834	4 833	26 169	26 165
Hattha Kaksekar Ltd	USD	17,6 %	2 057	2 057	11 379	11 382
Casquip Starsh (Pty) ltd	SZL	28,7 %	30 000	26 000	21 515	18 593
Agua Imara	NOK	19,0 %	135 808	101 650	135 808	101 650
TMP[2]	USD	43,4 %	4 903	4 903	26 298	26 298
Africado[2]	EUR	40,0 %	2 000	1 000	8 587	7 833
Real People Investment PTY	ZAR	12,5 %	152 125	152 125	119 738	119 738
Socremo	MZN	35,6 %	127 134	127 134	24 530	24 530
Agrica Limited	USD	23,8 %	10 000	10 000	60 798	60 798
Tourism Promotion Services TPS	RWF	11,4 %	1 287 434	1 287 434	12 510	12 510
Family Bank Ltd	KES	5,6 %	229 500	229 500	18 009	18 009
Basecamp Explorer Kenya Ltd[2]	NOK	40,0 %	9 000	9 000	9 000	9 000
ToughStuff International Ltd	EUR	24,0 %	5 500	4 700	31 590	26 795
TPS (Dar) Ltd	USD	24,5 %	4 900	4 900	27 502	27 502
Total invested in companies					713 176	670 546

Write-down equity investments at 31 December 2011	-159 889
Book value equity investments	1 671 621

[1] *Figures at 31 December 2011 and before any write-downs.*

[2] ***Equity investmetns with more than 35% owner share***

Norfunds has an owner share of 40% in Africado Ltd. The project is an agriculture greenfield project, and the partners had limited access to capital. Norfund consider this to be a special case due to the extra capital constrains which made it necessary for Norfund to go beyond 35 % owner share to get a financial close in the project.
Telecom Management Partner is in liquidation. The company is empty without any activity or employees.
The company is to be considered a settlement company after the sale of Powercom just pending final auditor reports and striking of the company.
Norfund has a 40 per cent owner share in Basecamp Explorer Kenya Ltd. The high ownership percentage was necessary to inject sufficient capital for this Norwegian company to further develop. Investments within the tourism industry has often higher equity share than normal to counteract global market conditions.

NOTE 10 – EXITED INVESTMENTS

Applies for investment projects where Norfund has exited the entire investment.
The table presents realised profits over the entire investment period.

(Figures in 1000s of NOK)	Fedha Fund	Siam II Investment Fund	Horizon Tech Ventures	Equity Bank
Cost price, paid-in capital	9 873	40 934	19 615	31 371
Total reflow from investment	5 528	32 908	43 813	33 219
Gain/(loss) on investment	-4 345	-8 025	24 198	1 849
Realised gain	-3 973	-2 409	26 581	2 455
Realised FX gain	-373	-5 616	-2 383	-606
Year of first disbursemnt	1998	2001	2001	2008
Investment currency	USD	USD	ZAR	KES
Calculated annual IRR in investment currency	-15 %	-3 %	25 %	9 %

There has been no repayment of loans during the year.

NOTE 11 – TAX

Tax costs is withholding tax on dividend and interests from foreign investments.
Norfund is tax exempted in Norway pursuant to a separate section in the Taxation Act.

NOTE 12 – BANK DEPOSITS, CASH AND CASH EQUIVALENTS

Bank deposits of NOK 969 751 948 include NOK 2 037 140 in the blocked tax withholding account. In addition, NOK 54 224 976 of the company's liquid assets are tied up in unused resources. These assets can only be used in accordance with the guidelines established for the application of unused resources (see note 14)

NOK 707 242 071 of the company's total bank deposits are placed in Norges Bank.

NOTE 13 – CAPITAL MOVEMENTS

(Figures in 1000s of NOK)	Primary capital	Capital in reserves	Surplus fund	Total equity
Capital at 1 January 2011	3 801 750	1 477 250	1 468 176	6 747 176
Capital added in 2011	748 500	251 500		1 000 000
Equity adjustment ass. co. recorded directly against equity (see note 5)			-39 545	-39 545
Net profit			26 879	26 879
Capital at 31 December 2011	4 550 250	1 728 750	1 455 510	7 734 510

Capital in legal reserves can only be used to meet losses that cannot be covered from other reserves excluding primary capital.

Of the capital received in 2011, 75 per cent was allocated to primary capital and 25 per cent to legal reserves in accordance with Article 9 of Norfund's instructions. Norfund has received NOK 6 279 million in capital from the Norwgian government, of which NOK 1 000 million in 2011.

NOTE 14 – UNUSED FUNDS (NORFUND'S GRANT FACILITY)

Proposition no. 1 to the Storting (2009-2010) provided for the allocation of resources to a grant facility to cover professional assistance in connection with Norfund's investment activities. These funds must be used during the budget year. As specified in NRS 4, loans made are recorded net in the accounts.

In 2011 Norfund received NOK 27.45 million in capital for the grant facility of which 11 million is earmarked for grants to NMI and 6.25 million allocated to hydropower project Fula Rapid in southern Sudan. The resources are devoted to developing new projects in sectors and countries with particularly high risk levels and to boosting the development effect of Norfund's investments. Support can be provided for project development, training and transfer of expertise, measures to prevent HIV and AIDS, to promote equal opportunities and to promote health, safety and the environment. The resources are treated as current liabilities, and undisbursed amounts are included in Norfund's liquid assets. When costs are met from the resources, the liability is reduced by an equivalent amount. A total of NOK 24.45 million in costs was charged to the fund in 2011.

Norfund has also received a grant funds earmarked for projects in the Balkans, and most of the funds given in loans to finance companies.

On behalf of Norad, Norfund administers the institution a grant (mixed credit) at 38 million for hydropower project Nam Sim in Laos. The grant was paid from NORAD in December 2011 and Norfund expects to disburse the grant for the project gradually during 2012 based on agreed milestones in the construction process.

	Unused funds Norfund		Unused funds Balkan		Unused funds Norad	
	31.12.11	31.12.10	31.12.11	31.12.10	31.12.11	31.12.10
RECEIPTS						
Carried over from previous year	7 251	76	18 339	18 362	0	0
Received during the year	27 450	34 000	0	0	38 000	0
Total receipts	34 701	34 076	18 339	18 362	38 000	0
Income			466	276	0	0
DISBURSEMENTS						
General costs						
Fund management	0	277	0	0	0	0
General follow-up	0	0	-585	-517	0	0
Intervention						
Project development (incl. Energy Initiative)	-5 576	-12 238	0	0	0	0
Boost and support development effects of projects	-5 417	-3 530	0	0	0	0
Boost social responsibility	-2 457	-1 017	0	0	0	0
NMI start-up support	-11 000	-11 000	0	0	0	0
Repaid grant funds	0	683	0	0	0	0
Local investment funds						
Follow-up costs	0	0	-114	-61	0	0
Loans to projects	0	0	-12 380	0	0	0
Total disbursements	-24 451	-26 825	-13 079	-579	0	0
Allocated interest income			248	281	0	0
Non-disbursed resources	10 251	7 251	5 974	18 339	38 000	0
Total non-disbursed funds at 31 December 2011	54 225					

At the end of 2011, unused funds Balkans consisted of two outstanding loans of EUR 1.6 million each.

NOTE 15 – DESCRIPTION OF NORFUNDS RISK

Market and currency risk
Norfund's investments are made in developing countries in which the country itself, markets and companies are characterised by high risk. Future return depend on the ability to manage the opportunities and risk during the investment period.

Norfund's investments are largely made in USD, but in some cases in other currencies. Since Norfunds's base currency is NOK, its future returns are heavily influenced by the exchange rate between NOK and USD (or other currency where relevant). The various projects in which Norfund invests may also be subject to fluctuations between local currency and USD.

Norfund's investment commitments are largely denominated in USD, while its liquidity assets are placed in NOK-denominated interest bearing accounts in Norges Bank.

FX RATES USED IN CONVERSION

		31.12.11	31.12.10	Change durring the year
US Dollar	USD	5,993	5,856	2,3 %
South African Rand	ZAR	0,740	0,884	-16,3 %
Rwanda Franc	RWF	0,0098	0,0098	-0,2 %
Kenyanske Schilling	KES	0,069	0,071	-2,0 %
Uganda Shilling	UGS	0,00238	0,00251	-5,2 %
Mozambique Metical	MZN	0,2237	0,1809	23,6 %
Bangladesh Taka	BDT	0,0722	0,0820	-12,0 %
Cambodien Riel	KHR	0,00147	0,00144	2,1 %
Swaziland Lilangeni	SZL	0,730	0,876	-16,7 %
Euro	EUR	7,754	7,813	-0,7 %

Interest-rate risk
Norfund's interest-rate risk is primarily affected by liquid assets placed in Norwegian banks.
The interest-rate on loans to projects may also be affected by interest-rate risk, depending on the rate of risk charged on various loans.
Loans to projects are usually based on variable LIBOR rate plus a margin. The past year Norfund has increased its loan commitments.

Credit risk
Project loans are assessed at their estimated fair value. The risk associated with these loans is also partly reflected in the terms for the individual loan. What Norfund defines as its "Loan portfolio" entails no credit risk in accounting terms, since its value on the balance shett is zero. As a rule the risk associated with loans is regarded as relativly high, and to be considered more as equity risk than traditional loan risk.

Liquidity risk
Norfund has no interest-bearing debt. An attempt has been made to show Norfund's liquidity risk by quantifying the committed investments.

NOTE 16 – CONTRACTUAL OBLIGATIONS

	Lease duration	Annual rental costs
Premisis in Støperigata 2, Oslo	01.07.09 - 30.06.2014	3 478 056

In 2004 Norfund decided to establish a tender guarantee scheme to encurage increased financial cooperation and investment in developing countries. The scheme is administrated by the Norwegian Guarantee Institute for Expost Credits (GIEK). NOK 1 256 815 was charged Norfunds accounts in 2011 in respect of the scheme. The tender guarantee scheme had initially a three-year trial period that ran to the end of 2007. The scheme has been extended.

Crowe Horwath

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To the owners' meeting in
Norfund, a company under special law

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Norfund, which comprise the balance sheet as at 31 December 2011, and the income statement, showing a profit of NOK 26 879 000 and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Norfund as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 30. March 2012
Crowe Horwath AS

Not to be signed – for information purposes only

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