Norfund

NORWEGIAN INVESTMENT FUND FOR DEVELOPING COUNTRIES

ANNUAL REPORT **2012**

CREATES VALUE | COMBATS POVERTY

ANNUAL REPORT 2012

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. Norfund contributes to economic development and profitable, sustainable workplaces in poor countries through the development of profitable companies, particularly in the fields of renewable energy and financial institutions, and through the transfer of knowledge and technology.. At the end of 2012, the total investment portfolio amounted to NOK 8.3 billion.

1. SUMMARY OF THE YEAR

Norfund entered into investment agreements for NOK 1.2 billion in 2012. Approximately NOK 0.5 billion was invested in renewable energy, while NOK 0.4 billion was invested in financial institutions.

The development of renewable energy is essential for ensuring an environmentally sustainable development, and it is still Norfund's largest investment area. Approximately 50 per cent of Norfund's investment portfolio is in renewable energy projects, while 22 per cent of the portfolio is in financial institutions, including microfinance, and 7 per cent is in agriculture and related industry. The remaining portion of the portfolio is primarily invested in tourism and other small and medium-sized enterprises.

In addition to Norfund's strategic prioritisation of renewable energy, investment in sub-Saharan Africa and the least developed countries (LDCs) featured prominently in 2012. Excluding investments in SN Power Invest, 82 per cent of new investments were made in sub-Saharan Africa, while 45 per cent were made in LDCs. Including SN Power, 52 per cent is invested in Africa and 54 per cent in LDCs.

Norfund revised its strategy in 2012. Norfund is expecting an increasing shortage of investment capital available as a result of an expanding organisation and abundant supply of good projects. The strategy therefore entails greater prioritisation among the available projects, all of which will have a substantial development effect.

Overall, the main features of the existing strategy remain, with a geographic focus on eastern and southern Africa, Central America and selected countries in Southeast Asia, and sectoral focus on renewable energy, financial institutions, and agriculture and related industry. The fund investments will concentrate on markets in which the needs are particularly great, especially in the least developed countries and projects where Norfund's participation may have a particular additional importance.

Norfund attaches importance to investments in fragile states, such as South Sudan and Myanmar. Kinyeti Capital was established in Juba, South Sudan in February, as one of the first investment companies in the country. Norfund also continues to work on the development of a hydropower plant in Fula Rapids, South Sudan.

In the autumn of 2012, Norfund opened its third office in Africa, in Maputo, Mozambique, in addition to its existing offices in Nairobi, Kenya and Johannesburg, South Africa. The Maputo office will primarily function as a centre of agricultural investments in the region.

Norfund's Asia office in Bangkok, Thailand completed its first full year of operations in 2012. A special effort has been made to prepare investments in Myanmar, initially in the area of microfinance. The Central America office in Costa Rica acquired a new employee to strengthen its work with investments in renewable energy.

Norfund will strengthen its efforts to showcase investment opportunities in developing countries and to increase Norwegian investors' interest in such investments. A breakthrough was made in the efforts to mobilise private capital in August when an agreement was signed with the life insurance company KLP to make joint investments in Norfund's investment countries, focusing primarily on Africa.

Restrictions on Norfund's investments through third countries have continued to limit investments in 2012. However, Norway entered into a tax inspection treaty with Mauritius in 2012, which will enable additional investments in Africa under the current provisional guidelines for investments through third countries. Norfund will continue to be restrictive with the use of third countries, ensure the transparency of the investments, and provide development policy grounds in each individual case.

Adjusted equity at the end of 2012 was NOK 10,854 million, compared with NOK 10,038 million at the end of 2011.

2. NORFUND'S ACTIVITY

2.1. Activity and investment areas

Norfund's goal is to contribute to development by investing in viable, profitable enterprises. By investing, Norfund contributes to the creation of profitable workplaces and income for the employees and owners, as well as tax revenue for the government. 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 always invests jointly with other investors, and does not normally contribute more than 35 per cent of a company's capital. 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 good 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, for example, with the actual development and hydrological conditions. Norfund's investments in renewable energy have been highly profitable and have significant development effects.

Norfund committed USD 80 million through SN Power in 2012 in connection with projects in Latin America and Southeast Asia. In addition, Norfund invested ZAR 118 million in the Kalkbult solar energy project in South Africa jointly with Scatec Solar as its partner.

Norfund and KLP entered into a co-investment agreement, in which both of the parties invested NOK 500 million in renewable energy and financial institutions. The agreement became operative from January 2013.

Norfund has established a financing facility for the development of energy projects (project development facility). Four new investments were established under this facility. NOK 8.4 million for a wind power project in Kenya, NOK 7.5 million for two hydropower projects in Uganda and NOK 1.5 million for a biogas project in South Africa.

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 2012 totalled NOK 393 million, distributed among six financial institutions. Three of these were new projects for Norfund, while the others were capital injections to companies already in the investment portfolio. The new investments are a loan of NOK 18 million to the microfinance institution ODEF and a loan of NOK 75 million to the SME bank Fichosa, both located in Honduras. In addition, Norfund invested equity of NOK 53 million in the regional financial institution Norsad in southern Africa. Norfund and its Nordic sister organisations Swedfund, Finnfund and IFU took over the equity interests of the Nordic states in Norsad in connection with a restructuring of the institution.

SME funds: SME funds are an important instrument for reaching small and medium-sized enterprises (SME). These enterprises play a key role in building up a well-functioning business sector and local workplaces. Norfund plays an additional role in investments through such funds due to the lack of capital in the SME sector.

As at 31 December 2012, the fund portfolio consisted of 32 active funds in Africa, Asia and Latin America, with primary emphasis on Africa. In addition, Norfund has equity interests in three fund management companies. The total committed portfolio is NOK 1,485 million and has been invested in approximately 400 small and medium-sized enterprises. Manufacturing, trade and financial services are the three most important sectors. The financial performance of the portfolio was satisfactory. Norfund invested in a new fund in 2012, CoreCo, in Central America, with a total commitment of NOK 56 million.

Industrial partnerships: Norfund's industrial partnership investments are equity investments in newly established companies and in other projects that carry a high risk, but yield considerable development effects. In this kind of investment, Norfund's expertise and role as an active owner are just as important as the financing itself. Norfund only made new investments in southern and eastern Africa in 2012.

In 2012, Norfund made seven investments in individual companies with a total commitment of NOK 243 million. Four new projects were initiated in 2012, and three follow-up investments were made in existing portfolio companies. The new investments were in Chayton Atlas, which produces wheat, corn and soy on six farms in Zambia, and the agricultural enterprise Great Lakes Agriculture Developments in Uganda. The investment company Kinyeti Venture Capital was established and received NOK 4 million for investment in SMEs in South Sudan, and we signed a loan agreement with Yara for their new plant for fertilizer mixing and packaging in Dar es Salam.

A new loan was granted to the forestry company Green Resources with a limit of up to NOK 85 million. The Matanuska banana plantation also received further equity and a mezzanine loan of NOK 58 million, and Basecamp Explorer in Kenya, which is engaged in sustainable tourism in Masai Mara, received new equity of NOK 1 million.

Grant facility

Norfund has a grant facility that is designed to strengthen the development effects of our investment activity. The facility provides professional and technical assistance for Norfund's investment projects through operational improvement (such as training, strengthening internal control systems or improving HES routines), local community development, and project development.

In 2012, Norfund managed NOK 45.1 million through its grant facility, NOK 10.3 million of which represented unused resources transferred from 2011. NOK 27.9 million was earmarked for the establishment of the microfinance fund NMI (NOK 11 million), and the hydropower station Fula Rapids in South Sudan (NOK 16.9 million, NOK 4.9 million of which represented unused resources transferred from 2011).

In addition, Norfund approved new projects under the grant facility totalling NOK 17.7 million, distributed among 19 projects in 2012. Of these projects, 26 per cent was for project development (16 per cent of the funds), 58 per cent for operational improvement (56 per cent of the funds) and 16 per cent for local community development (28 per cent of the funds). Projects in Africa received 76 per cent of the funds (distributed among 13 projects), and 12 of the new grants for the year (43 per cent of the funds) were for projects in the least developed countries (LDCs).

In addition to the 19 new projects, 24 projects from earlier years continued in 2012. Overall, 33 per cent of the projects in the portfolio are related to Norfund's strategic focus on agriculture. Support has, for example, been provided towards the development of models for the inclusion of small farmers in the agricultural investments. This applies both to surveying the investment opportunities that benefit small farmers and methods for the inclusion of small farmers in the value chain of larger agricultural companies. The intention is to also help small farmers to take part in the economic development generated by Norfund's investment in agriculture. It is important, but challenging, to find sustainable models for this. Norfund will therefore continue to strengthen these efforts.

Two important focus areas for Norfund are renewable energy and fragile states. In addition to earmarked support from the Ministry of Foreign Affairs, Norfund has received NOK 10.4 million to support projects in South Sudan and Myanmar over the last two years. In South Sudan, Norfund has given support through the grant facility in connection with the establishment of the country's first finance company Kinyeti Capital Ltd., and the hydropower station Fula Rapids. In Myanmar, the grants are used, for example, for a local consultant and the development of a microfinance institution for small farmers. NOK 5.8 million was used in 2012 to support investments in renewable energy. This represents a decline in relation to earlier years and is attributed in part to a special project development facility for renewable energy (PDF), which was established in 2011.

Norfund also manages a grant fund for the Ministry of Foreign Affairs that is earmarked for projects in the Balkans. Most of the funds are given in loans to a finance company.

Norfund manages a grant (mixed credit) of NOK 38 million for the hydropower project Nam Sim in Laos on behalf of Norad. This was transferred to Norfund by Norad in December 2011, and Norfund expects to disburse it gradually to the project in the course of 2013 and 2014.

Information Office
The Information Office for Private Sector Development in Developing Countries is operated in conjunction with Norad and offers first-line support for inquiries from Norwegian actors who want to make commercial investments in developing countries. The office offers advice and guidance on financial grant and finance schemes, primarily to companies. In 2012, the office received approximately 15 per cent fewer inquiries than in 2011. The decline is attributed primarily to fewer inquiries from the smallest actors. This is a desirable trend, since it has proven to be more appropriate to concentrate the business sector support on larger projects with a stronger implementation capacity, and therefore a greater probability of success.

2.2. Exits
Norfund exited three investments in 2012: Family Bank, Micro Africa and the SEAF Trans Balkan Fund.

Family Bank: Norfund invested NOK 18 million in the Kenyan company Family Bank in 2010, corresponding to an equity interest of 5.6 per cent in the company. The bank has grown significantly since 2010, and is currently the 15th largest bank in the country. New investors were interested in taking part in the positive development, and Norfund decided to sell its shares. Norfund received proceeds of approximately NOK 30 million from the sale, which resulted in an annual return of over 30 per cent.

Micro Africa: In 2006, Norfund invested USD 250,000 in convertible preference shares for 15.3 per cent of the Micro Africa Group. This project was in cooperation with Aureos East Africa Fund (AEAF). Norfund concluded its investment as Letshego Holdings, a regional microfinance actor, purchased a majority of the shares in 2012. Norfund's annual return was 27 per cent. Norfund is still a lender to the Letshego Group through its subsidiaries in Kenya and Uganda.

SEAF Trans Balkan Fund: Following the Balkan conflict at the end of the 1990s, Norfund invested USD 5 million in the SEAF Trans Balkan Fund in 2000. This fund has made investments in Croatia, Romania and Bulgaria. The fund completed several successful exits during the period from 2005 to 2007, and had exited from most of its investments by 2008. The fund was established with an A/B class shareholder structure, in which B class shareholders, including Norfund, received their entire capital contribution refunded, including an annual return of 6 per cent. In 2011, the B class shareholders entered into an agreement with SEAF to sell their shares back to SEAF at a nominal value. The transaction was completed early in 2012.

2.3. Financial risk
In keeping with Norfund's development policy goals, priority is given to investments in countries in which risks relating to regulatory frameworks, markets, and companies are high. There is thus a great deal of uncertainty surrounding the future. The North Atlantic financial crisis has accentuated this uncertainty in countries that Norfund invests in, and the supply of investment capital from the West is still low. There is also considerable counterparty risk associated with many of Norfund's investments. In general, investments have a medium time horizon of seven to ten years, often with limited opportunities for a 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. The risk profile of our portfolio is in accordance with Norfund's mandate.

Our investments are largely made in foreign currency: mainly US dollars, but also euros, South African rands or other local currencies. Norfund's 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 61 per cent, indirect equity investment through funds 23 per cent and loans 16 per cent. A total of 34 per cent is invested in sub-Saharan Africa and 28 per cent in LDCs. Excluding investments in SN Power, the LDC share is 37 per cent, and 60 per cent is invested in Africa.

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 vulnerable groups are of varying quality and often poorly implemented. Norfund therefore stipulates requirements over and above those that are regulated in the national legislation and commits the enterprises to strive for compliance 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 implemented the new IFC standards in 2012.

Norfund has adopted corporate governance principles. Norfund is operated in accordance with the current rules and regulations for public sector financial management, and the prevention of financial default is an integral part of Norfund's mandate and operations.

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 HSE 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 nevertheless two fatal accidents in SN Power's projects in Peru in 2012. One was the result of a rock slide in a tunnel in July, in which four contract workers were injured, one of which was fatally injured. The second death occurred in October during concrete work in a tunnel. An employee of a contractor perished as a result of an electrical shock due to an earth fault in a vehicle light. The contractor has arranged financial compensation for the families.

Fatal accidents have unfortunately also been reported by our other projects. There was a total of 16 deaths in 2012. In addition to the two deaths at SN Power in Peru, eight persons were killed in traffic accidents and seven in other accidents related to work or the workplace. The microfinance institution Amret in Cambodia lost four employees in 2012. Three of these were traffic accidents. The fourth death occurred when a watchman received an electrical shock while repairing a sign on the roof of one of Amret's branch offices. Financial compensation was paid to the families. The other traffic accidents occurred at the microfinance institution Sathapana in Cambodia, the rice plantation Agrica in Tanzania, Fairfield Dairies in South Africa, which is a sub-investment of the Agri-Vie fund, Sacombank in Vietnam and Mtanga Farms in Tanzania, which is a sub-investment of the Voxtra fund.

At Sao Hill Industries Ltd. in Tanzania, a company owned by Green Resources, a contract worker died in an accident during tree felling. The deceased was an experienced power saw operator, and he had participated in a safety course a few days before the accident. The safety routines have been reviewed and measures have been implemented.

At the Bugoye hydropower station in Uganda, a 14 year-old boy was found drowned in a channel near the power station in November. The company is cooperating with the local authorities to clarify the circumstances surrounding the boy's death. The company has also reviewed the level of safety along the channel and implemented measures in the local community to increase awareness of the hazards and level of safety associated with playing or loitering in and around the power station. Norfund has contributed support to portions of this programme through the grant facility.

There were two serious incidents at the Islamabad Serena Hotel in Pakistan that resulted in three deaths in 2012. In March two contract workers perished after they had spent the night and were exposed to chemical fumes in a chemical storeroom. An autopsy showed that they had suffocated as a result of the chemical fumes. The police were notified, and an internal investigation was launched. In order to avoid any recurrence, a lock system was installed immediately after the incident. The third death at the hotel took place as a result of injuries a plumber sustained during a gas explosion attributed to a gas leak that arose and was ignited during the replacement of a gas meter.

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. This represents an investment risk that is too high for many investors and lenders. It is therefore often required that the jurisdiction of another country, a third-party country, is used for investments in weakly developed countries. The use of offshore financial centres (OFCs) gives Norfund a special responsibility for ensuring that we have full insight into the transactions that take 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 the 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 2012, enterprises in which Norfund had invested employed 294,000 people, 42 per cent of them women.
NOK 4.3 billion was paid to the authorities in the form of corporate tax, levies, licences etc.

Electricity generated through Norfund's investments in renewable energy corresponds to the consumption of 11.9 million people in the countries in question.

In 2012, SN Power's portfolio companies had total value added of NOK 2,546 million. Salaries and other employee benefits amounted to 10.1 per cent of the value added. NOK 477 million was paid in taxes and levies to national authorities.

CO_2 emissions due to the activities of SN Power's portfolio companies were reduced by 2.6 million tons in 2012, and a total reduction in CO_2 emissions of 46.3 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 676,300 tonnes of CO_2 emissions in 2012.

3. ORGANISATION AND OPERATIONS

3.1. Corporate governance
Norfund's current Board of Directors was appointed in 2011. The Board consists of Kristin Clemet (chair), Stein Tønnesson, Borghild Holen, Finn Jebsen, and Svein Tveitdal. Anne Kristin Sydnes, who was appointed as an alternate, resigned in the second half of the year as a result of assuming a new position. 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 enables inspections, measurement, and verification.

3.1. Personnel, organisation and gender equality
Norfund is a knowledge-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.

In 2012, Norfund employed 49.1 full-time equivalents. As at 31 December 2011, there were 50 employees, 19 of whom came from countries other than Norway. Seventeen of the staff were employed at the regional offices in South Africa, Kenya, Mozambique, Costa Rica and Bangkok. The proportion of women who were permanent members of the Board was 40 per cent. Two out of six members of Norfund's management team were women, and the proportion of women among the employees overall was 19 per cent. One out of six persons recruited in 2012 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.

Sickness absence in 2012 amounted to 5.6 per cent of the total working hours, equivalent to 560 days. This is approximately 0.1 per cent higher than in 2011. There were no personal injuries or damage to Norfund's material assets.

An internal survey of the working environment was conducted in 2012, and the response rate was 90 per cent. The survey concluded that the working environment was good.

The Board of Directors does not find it necessary to implement any special measures related to the working environment or to promote the objects of the Anti-Discrimination Act and the Anti-Discrimination and Accessibility Act.

3.2. 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 2012, travel by Norfund's Norwegian-based employees entailed the emission of some 172.4 tonnes of CO2, compared with 291 tonnes in 2011. From 2012 most of the flights departing from or arriving in the European Economic Area (EEA) are subject to a mandatory quota through the European quota system. The airlines are thus responsible for the emission quotas for this travel on official business.

4. THE FINANCIAL STATEMENTS

Norfund had a profit for 2012 of NOK 42 million (NOK 27 million in 2011). Norfund is an investment company. Norfund's operating income consists thus 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 427 million (NOK 144 million in 2011). The higher interest income (NOK 101 million compared with NOK 66 million in 2011) was a result of growth in the loan portfolio, primarily in the second half of 2011. At NOK 83 million, dividends from funds and equity investments were NOK 53 million higher than in 2011, as a result of higher dividends from individual investments. Compared with 2011, SN Power reported higher earnings in 2012, and Norfund's share was NOK 225 million. This increase was largely due to charges associated with a forward exchange contract relating to the planned acquisition of Desenvix (Brazil) in 2011. The losses attributed to the foreign exchange contract recognised in 2011 have been partially reversed in 2012.

Norfund's operating costs prior to exchange rate adjustment of loans and write-downs increased by NOK 7 million, to NOK 106 million in 2012. Personnel costs are at approximately the same level as in 2011. A weakening of the investment currencies relative to the Norwegian krone has resulted in a negative currency adjustment on our loans of NOK 93 million, compared with a gain of NOK 5 million in 2011. Large write-downs were made on five to six investments in 2012, and funds and equity investments were written down by a total of NOK 191 million in 2012.

Other interest income of NOK 26 million was recorded, which was a reduction of approximately NOK 13 million, compared with 2011. Norfund's profit of NOK 42 million 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 sheet at the end of 2012 was NOK 8,534 million (compared with NOK 7,820 million for the previous year), an increase of NOK 713 million. The change in the balance sheet is essentially due to the transfer of NOK 1,030 million from Norfund's owner, a surplus generated by the operations and a reduction of NOK 368 million as a result of an equity adjustment for Norfund's interest in SNPI as a result of a weakening of the US dollar relative to the Norwegian krone. At year end, Norfund's equity amounted to NOK 8,439 million (compared with NOK 7,734 million in 2011) and NOK 6 624 million had been disbursed for investments (compared with NOK 6 225 million in 2011). Norfund has no interest-bearing debt. Norfund disbursed a total of NOK 982 million for investments and received a return of NOK 678 million from investments in 2012. The Board regards the company's liquidity as satisfactory. Write-downs were made on 9 out of 39 loans as at 31 December 2012. The write-downs represented 1.64 per cent of the committed amount.

In the opinion of the Board, the annual accounts as at 31 December 2012 provide a true and fair view of the company's financial position. The Board confirms that the going concern assumption applies.

Norfund does not perform any special research or development activities that are of significance to the accounts.
No significant events have occurred after the balance sheet date that have an actual or potential affect on the results or financial standing.

5. OUTLOOK FOR THE FUTURE

The development of profitable and sustainable business and industry is essential for bringing poor countries out of poverty, creating workplaces and economic growth. Internationally, there is increasing development policy recognition of the importance of contributing to business development. The message from poor countries to Norwegian politicians is becoming ever clearer: investing in business activity is the most important contribution to development that we can make. Norfund is Norway's main policy instrument for the development of business and industry in developing countries, and it could therefore assume a more important role in Norway's future development policy.

The key to success in establishing and following up good investment projects that yield substantial development effects is expertise. Building up an organisation with expertise in investing in poor countries is a demanding and long-term process. In recent years, Norfund has systematically strengthened its organisation, and it is in the process of successfully establishing itself as an attractive investment partner for Norwegian and international investors. The quality and scope of the investments have increased. Norfund recruits highly qualified personnel, and is an attractive place to work.

Norfund's investment level was high in 2012 as well. The high investment level reflects a large supply of good projects with substantial development effects. Although the supply of capital has increased in recent years, the Fund is now in a phase where investment demand and the Fund's capacity to make investments are higher than the available capital. The Fund will therefore continue its efforts to mobilise more capital in cooperation with other partners. For Norfund, profitability is not a goal in itself, it is a prerequisite for creating sustainable enterprises. Being able to show good financial results is also important in order to increase the interest of commercial investors in investing in poor countries.

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. The agreement with KLP was a breakthrough in the efforts to mobilise private capital. Norfund will continue its work focused on the Norwegian investor community in order to create greater interest and illustrate the opportunities for investment in developing countries.

The Board of Directors would welcome a clarification of what goals should be set for Norfund's activities up until 2020. This would make it possible to continue the long-term efforts to build up the expertise and capacity required for continued expansion of our activities. One possible ambition could be that the value of the Fund in 2020 should correspond to 1 per cent of the Government Pension Fund Global.

The needs of the developing countries and the major opportunities that lie in these markets in the future will increasingly place the question of whether a greater share of Norway's economic wealth should be invested in developing countries on the agenda. This will require, for example, that more of the wealth is placed in direct investments. It raises the question of whether the expertise that Norfund has built up could benefit this future administration.

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 the conditions in fragile states, such as Myanmar and South Sudan, and it already has ongoing investment projects in these countries.

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

Norfund will continue to prioritise investments that yield substantial development effects. This requires the prioritisation of investments in renewable energy production, agriculture and related industry, as well as financial institutions (especially financial institutions that finance small and medium-sized enterprises and low income groups). The primary investment instrument will be equity and equity-like instruments. Norfund will also offer long-term loans to financial institutions, including loans in local currencies. Norfund will continue to invest through private equity funds in order to reach small and medium-sized enterprises, but these investments will increasingly be concentrated on funds that invest in markets in which the level of risk is particularly high and there is a limited access to alternative sources of capital.

Norfund will maintain its high level of ambition with regard to environmental and social standards, as well as sound corporate management. In this context, we will provide assistance and require that the portfolio companies satisfy the IFC's Performance Standards. We aim to be at the forefront with regard to the development of good employee relations in connection with our direct investments. Our ambitions with regard to maximising, measuring, and documenting the development effects from investments will be heightened further. We will emphasise in particular the realisation of Norfund's strategic goals: prioritise the least developed countries (LDCs), sub-Saharan Africa, greenfield companies, ensure additionality, and mobilise private capital.

Oslo, 20. March 2013

Kristin Clemet
Chairman

Stein Tønnesson | Borghild Holen | Svein Tveitdal | Finn Jebsen

Kjell Roland
Managing Director

PROFIT AND LOSS ACCOUNT

(in 1000s of NOK)	Note	2012	2011
OPERATING INCOME			
Interest income loans - invested portfolio	1	100 538	66 225
Realised gain on shares	1	15 220	570
Dividends received	1	83 394	27 896
Interest and instalments paid Norad loan portfolio	1,6	422	1 506
Other operating income	1	2 599	2 538
Share of profit/loss associated company	5	225 261	45 143
Total operating income		427 433	143 879
OPERATING EXPENSES			
Payroll expenses	2	63 121	62 778
Depreciation tangible fixed assets	4	1 846	1 457
Other operating expenses	2,3	41 508	49 268
Total operating expenses		106 475	113 503
Adjustment for gain/loss on FX project loans	1	-92 612	4 547
Reversal of write-down(-)/write-down of investment projects	1	-191 122	-48 692
Operating profit/loss		37 225	-13 770
Other interest income		25 698	38 569
Other financial income		7 731	7 904
Other financial expenses		27 898	5 263
Profit/loss financial items		5 531	41 210
Profit before tax		42 756	27 441
Tax	11	-382	-562
Profit/loss for the year		42 374	26 879
TRANSFERS			
Transferred to surplus fund	13	42 374	26 879
Transferred from surplus fund		0	0
Total allocations		42 374	26 879

BALANCE SHEET

(in 1000s of NOK)	Note	2012	2011
ASSETS			
Tangible fixed assets			
Operating equipment, fittings and fixtures, tools etc.	4	4 490	3 920
Total tangible fixed assets		4 490	3 920
Financial fixed assets			
Investments in associated companies	5	3 868 661	3 874 046
Total financial fixed assets		3 868 661	3 874 046
Total fixed assets		3 873 151	3 877 966
CURRENT ASSETS			
Receivables			
Other receivables	6	81 468	77 561
Norad loan portfolio	6	0	0
Total receivables		81 468	77 561
Investments			
Capitalised project development costs	7	30 576	14 136
Loans to investment projects	1,8	1 109 118	1 209 672
Equity investments	1,9	1 829 861	1 671 621
Total investments		2 969 555	2 895 429
Bank deposits, cash and cash equivalents			
Bank deposits	12	1 609 557	969 752
Total bank deposits, cash and cash equivalents		1 609 557	969 752
Total current assets		4 660 580	3 942 743
Total assets		8 533 731	7 820 708

BALANCE SHEET

(in 1000s of NOK)	Note	2012	2011
EQUITY AND LIABILITIES			
EQUITY			
Called up and fully paid share capital			
Primary capital	13	5 337 750	4 550 250
Reserve capital	13	1 971 250	1 728 750
Total called up and fully paid capital		7 309 000	6 279 000
Retained earnings			
Surplus fund	13	1 129 907	1 455 510
Total retained earnings		1 129 907	1 455 510
Total equity		8 438 907	7 734 510
LIABILITIES			
Provision for liabilities and charges			
Pension commitments	2	20 489	14 741
Total provisions for liabilities		20 489	14 741
Other long-term liabilities		0	0
Current liabilities			
Accounts payable		8 096	3 447
Unpaid government charges and special taxes		4 274	4 099
Unused funds (Grant facility)	14	53 759	54 225
Other current liabilities		8 207	9 687
Total current liabilities		74 336	71 457
Total liabilities		94 824	86 198
Total equity and liabilities		8 533 731	7 820 708

Oslo, 20. March 2013

Kristin Clemet
Chairman

Stein Tønnesson Borghild Holen Svein Tveitdal Finn Jebsen

Kjell Roland
Managing Director

CASHFLOW STATEMENT

(in 1000s of NOK)	Note	2012	2011
CASHFLOW FROM OPERATIONS			
Profit before tax		42 374	26 879
Ordinary depreciation	5	1 846	1 457
(Reversal of write-down)/Write-down of investment projects		202 400	69 178
Differences in pension costs and receipts/disbursements pension scheme		6 461	7 489
Share of profit / loss associated company	5	-225 261	-45 143
Effect of exchange rate changes		95 234	-4 385
Change in other accruals		-17 002	-33 865
Net cash flow from operations		106 051	21 610
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments in tangible fixed assets	4	-2 254	-2 399
Proceeds of sales/repayment of shares /interests recorded at cost price		145 551	74 964
Disbursements in connection with purchase of shares/interests in other enterprises		-596 716	-1 492 477
Disbursements of investment loans		-385 502	-668 754
Repayment of principal investment loans		343 142	64 651
Repayment other investments		0	0
Net cash flow from investment activities		-495 779	-2 024 014
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new short-term debt	14	34 033	65 450
Repayment of long-term debt		0	0
Repayment of short-term debt	14	-34 499	-37 063
Increase in/repayment of equity	13	1 030 000	1 000 000
Net cash flow from financing activities		1 029 534	1 028 387
EXCHANGE RATE CHANGES CASH AND CASH EQUIVALENTS			
Net change in cash and cash equivalents		639 806	-974 017
Bank deposits cash and cash equivalent at 1 January		969 752	1 943 770
Bank deposits cash and cash equivalents at 31 December	12	1 609 556	969 752

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 2012.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.

Figures in 1000s of NOK	2012								2011							
	NORFUND total	SME Funds	Financial institutions	Renewable energy	Industrial partnerships	Shared functions	Other activity	Loan portfolio*	NORFUND total	SME Funds	Financial institutions	Renewable energy	Industrial partnerships	Shared finctions	Other activity	Loan portfolio*
OPERATING INCOME																
Interest - invested portfolio	100 538	1 609	78 871	4 283	15 775	0	0	0	66 367	141	50 391	5 480	10 213	0	0	143
Realised gains	15 220	46	15 174	0	0	0	0	0	570	0	570	0	0	0	0	0
Dividends received	83 394	74 645	8 523	0	226	0	0	0	27 896	23 109	4 611	0	176	0	0	0
Other project revenues	3 021	55	1 682	454	385	23	0	422	3 902	12	1 915	128	480	3	0	1 364
Profit from associated companies	225 261	0	0	225 261	0	0	0	0	45 143	0	0	45 143	0	0	0	0
Total operating income	427 433	76 356	104 249	229 998	16 386	23	0	422	143 879	23 261	57 488	50 751	10 869	3	0	1 506
OPERATING EXPENSES																
Payroll expenses	-63 121	-6 574	-9 872	-7 927	-16 675	-20 890	-1 096	-87	-62 778	-7 074	-8 355	-6 312	-14 050	-25 923	-953	-111
Depreciation tangible fixed assets	-1 846	-18	-18	0	0	-1 810	0	0	-1 457	-25	-25	0	0	-1 407	0	0
Loss on sale of operating assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other operating expenses	-41 508	-1 007	-3 487	-5 037	-6 131	-24 139	-1 703	-4	-49 268	-1 804	-3 033	-18 390	-4 804	-19 645	-1 568	-24
Allocation of shared expenses	0	-8 556	-11 644	-7 448	-17 740	46 839	-1 387	-63	0	-9 660	-10 419	-9 010	-16 365	46 965	-1 390	-121
Total operating expenses	-106 475	-16 156	-25 021	-20 412	-40 547	0	-4 185	-153	-113 503	-18 562	-21 832	-33 713	-35 219	-10	-3 911	-256
Gain/loss on FX, project loans	-92 612	-29	-73 878	-5 048	-13 657	0	0	0	4 571	0	2 951	2 041	-421	0	0	0
(Provision for)/reversal of loss on projects	-191 122	-43 640	-45 117	-25 236	-77 128	0	0	0	-48 681	-8 514	-23 112	-12 631	-4 423	0	0	0
Profit/(loss) on operations	37 225	16 531	-39 768	179 301	-114 947	23	-4 185	269	-13 735	-3 815	15 494	6 448	-29 195	-7	-3 911	1 250
Net financial items	5 531	5 516	1 878	3 691	2 379	-7 933	0	0	41 176	18 956	8 860	3 335	6 696	3 351	0	-23
Profit before tax	42 756	22 047	-37 890	182 993	-112 568	-7 910	-4 185	269	27 441	15 141	24 355	9 783	-22 499	3 344	-3 911	1 228
Tax	-382	0	-382	0	0	0	0	0	-562	0	-562	0	0	0	0	0
Total profit/(loss)	42 374	22 047	-38 272	182 993	-112 568	-7 910	-4 185	269	26 879	15 141	23 793	9 783	-22 499	3 344	-3 911	1 228

** 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:

(Figures in 1000s of NOK)	Africa	Asia	Latin America	Europe	Global	Write-downs	Total
BALANCE SHEET							
Equity investments	1 376 849	374 705	324 221	8 250	53 877	-308 041	1 829 861
Loans to investments	583 490	327 269	246 876	0	0	-19 459	1 138 176
Total balance sheet	1 960 339	701 974	571 097	8 250	53 877	-344 321	2 951 215
Interest income loans	60 734	28 373	11 431	0	0	0	100 538
Realised gain on shares	15 174	20	27	0	0	0	15 220
Dividends received	24 482	56 009	2 904	0	0	0	83 394
Directors' fees received	0	0	0	0	0	0	0
Fees	1 234	485	663	0	216	0	2 599
Repayments of principal, loan portfolio	422	0	0	0	0	0	422
Interest paid on loan portfolio	0	0	0	0	0	0	0
Profit from associated companies	13 511	30 753	180 996	0	0	0	225 261
Total operating income	115 557	115 639	196 021	0	216	0	427 433
Gain/loss on FX, project loans	-53 629	-20 279	-18 703	0	0	0	-92 612

NOTE 2 - PAYROLL EXPENSES

Wages, salaries and other payroll expenses

(Figures in 1000s of NOK)	2012	2011
Wages and salaries	39 632	40 566
Directors' fees	954	527
Payroll tax	6 350	5 040
Personnel insurance	851	765
Pension expenses	12 668	13 253
Other benefits	2 806	2 793
Payroll expenses reimbursed	-140	-166
Total wages, salaries and other payroll expenses	63 121	62 778

Remuneration of senior personnel

(Figures in 1000s of NOK)	Managing director	Chairman	Boardmembers
Wages and salaries/fees	2 177 596	170 000	443 333
Pension contributions	711 286	0	0
Other remuneration	93 953	0	0
Total	2 982 835	170 000	443 333

The managing director has in 2012 received salary for unused holiday, in total NOK 39 163.

The managing director is not covered by any agreement for pay after termination of employment beyond the ordinary three-month period of notice. The chairman 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 170 000 (145 000 in 2011) for boardroom work for Norfund in 2012. Other boardmembers received fees of NOK 95 000 each for 2012.

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 is in total 2,5 per cent of Norfunds salary costs. Bonus is paid for extraordinary efforts.

Fees in the amount of NOK 697 176 were recorded for the auditor, of which NOK 470 725 related to auditing that is required by law, NOK 0 for other attestation services and NOK 226 451 for services other than auditing. No fees were paid to the auditor for tax advice. All figures includes VAT.

Employees
The company had 50 employees at 31 December 2012. The number of person-years was 49.

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 2012. 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, Mozambique and Costa Rica have a pension scheme based on annual contributions. Norfund have no obligations beyond the annual contributions. In 2012 NOK 361 216 is related to these contributions.

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 2012, 33 persons were covered by the scheme.

Financial assumptions

	2012	2011
Discount rate	2,30 %	2,60 %
Expected return on pension assets	4,00 %	4,10 %
Wage adjustment	3,50 %	3,50 %
Pension adjustment	3,25 %	3,25 %
Adjustment of the basic amount in the National Insurance System (G)	3,25 %	3,25 %
Turnover	9,00 %	9,00 %
Payroll tax	14,1 %	14,1 %

(Figures in 1000s of NOK)	2012	2011
Net present value of pension earnings in the period	6 631	6 098
Capital cost of previously earned pensions	1 183	1 355
Expected return on pension assets	-1 360	-1 520
Administrative costs	169	159
Recorded variances in estimates	5 110	6 303
Accrued payroll tax[1]	934	859
Net pension liabilities for the year incl. payroll tax	12 668	13 253

[1]Payroll tax is calculated on the amount paid in.

Calculated pension liabilities	Insured	Uninsured	2012
Estimated pension liabilities	45 560	7 961	53 521
Estimated pension assets	35 565	0	35 565
Net pension liablities 31 December	9 996	7 961	17 957
Unrecorded variances in estimates	0	0	0
Accrued payroll tax[1]	1 409	1 123	2 532
Net pension liablities 31 December	11 405	9 084	20 489

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

Reconciliation opening/closing balance	2012	2011
Capitalised net pension liabilities 1 January incl. payroll tax	14 741	7 162
Net pension expenses for the year incl. payroll tax	12 668	13 253
Pensions paid, early retirement / unfunded, incl. payroll tax	0	0
Investment in pension assets, etc., incl. payroll tax	-6 920	-5 674
Capitalised net pension liabilities 31 December incl. payroll tax	20 489	14 741

Nordea Livs Asset Mix*	30.09.12	30.09.11
Property	16,5 %	17,6 %
Shares	8,7 %	5,0 %
Short-term bonds/certificates	39,6 %	42,6 %
Long-term bonds	32,0 %	31,3 %
Other	3,4 %	3,5 %
Total financial assets	100 %	100 %

**) known values at calculation date*

NOTE 3 - OTHER OPERATING EXPENSES

(Figures in 1000s of NOK)	2012	2011
Seminars, conferences, upgrading of competencies	2 743	2 207
Travel costs	8 442	7 512
External assistance	16 472	27 726
Costs, tender guarantee scheme	1 443	1 257
Rent, incl. shared costs	5 998	4 952
Advertising/printing	789	996
Other expenses	5 622	4 618
Total operating expenses	41 508	49 268

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	5 547	806	657	67	7 077
+ acquisitions during the period	2 561	0	0	0	2 561
- disposals during the period	-1 014	0	-256	0	-1 270
Cost price at 31 December	7 094	806	402	67	8 368
Accumulated ordinary depreciation at 1 January	2 338	368	451	0	3 156
+ ordinary depreciation for the period	1 619	166	61	0	1 846
- accumulated ordinary depreciation, operating assets sold	-1 014	0	-111	0	-1 125
Accumulated ordinary depreciation at 31 December	2 943	534	401	0	3 878
Write-down of operating assets at 1 January	0	0	0	0	0
+ write-downs for the period	0	0	0	0	0
- accumulated depreciation, operating assets sold	0	0	0	0	0
Accumulated write-downs at 31 December	0	0	0	0	0
Book value for accounting purposes at 31 December	4 151	272	0	67	4 490

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	27.06.2002
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 2012	3 874 046
Acquisitions during the year	137 331
Disposals during the year	0
Value added share issue	0
Share of annual profit/(loss)[1]	225 261
Share of adjustments for the year charged directly against equity in SNPI	-367 977
Closing balance, 31 December 2012	3 868 661

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 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	
	2012	2011
Operating income	1 515 375	1 039 379
Operating expenses	1 378 060	947 728
Operating profit/(loss)	137 315	91 651
Net financial items[1]	540 866	141 655
Ordinary profit before tax	678 181	233 306
Tax on ordinary profit	-55 112	-59 647
Ordinary profit	623 069	173 660
Net profit	623 069	173 660
Minority interest	59 917	60 802
Majority interest	563 151	112 858

1 Net financial result in 2011 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 (Figures in 1000s of NOK)	2012	2011
Intangible assets	206 469	165 902
Tangible fixed assets	6 388 084	6 930 827
Financial fixed assets	5 734 745	3 077 186
Total fixed assets	12 329 298	10 173 915
Inventories	4 052	0
Receivables	1 271 483	1 465 796
Investments	0	7 071
Cash and cash equivalents	1 043 962	3 301 420
Total current assets	2 319 497	4 774 288
Total assets	14 648 794	14 948 203

Equity and liabilities	2012	2011
Called up and fully paid share capital	9 182 122	9 525 762
Retained earnings	489 531	159 370
Total equity	9 671 653	9 685 132
Minority interest	864 612	870 937
Provisions for liabilities and charges	1 044 702	1 153 103
Other long-term liabilities	2 120 899	2 016 891
Current liabilities	946 928	1 222 139
Total liabilities	4 112 529	4 392 134
Total equity and liabilities	14 648 794	14 948 203

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 5.82 and the balance sheet at the rate of USD 5.57 prevailing at 31 December 2012.

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 01.01.12	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 31.12.12
TOTAL	16 545	422	0	10 507	0	5 616
Depreciation	-16 545					-5 616
Book value	0					0

Norfund has valued the loan portfolio at 31 December 2012 at NOK 0,–

TOTAL RECEIPTS LOAN PORTFOLIO

Year	(Figures in 1000s of NOK)		
	Repayments	Interest	Total
2012	422	0	422
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
Total receipts	335 337	51 545	386 881

OTHER RECEIVABLES

(Figures in 1000s of NOK)	Other receivables	
	31.12.12	31.12.11
Receivable/Right[1]	9 018	17 858
Other receivables	72 451	59 703
Total receivables	81 468	77 561

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 2012.

Other receivables. All receivables fall due within one year.

NOTE 7 - CAPITALIZED PROJECT DEVELOPMENT COSTS

Project	(Figures in 1000s of NOK)	
	2012	2011
Kikagati HPP	6 187	3 619
Nsongiezi Hydro Power	2 769	460
Lake Turkana Wind Project	13 694	10 057
Other projects	7 925	0
Total capitalized project development costs	30 576	14 136

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.

In addition it is given a loan to project development in Hydeli Kenya Ltd, Kikagati Power Company Ltd and Bio2Watt totaling to NOK 9 950' (Specified in note 8)

NOTE 8 - LOANS TO COMPANIES IN THE INVESTMENT PORTFOLIO

	Currency	(Figures in whole 1000s)	
		Book value[1] (in currency)	Book value[1] (NOK)
Safa Marine Industries Ltd	EUR	56	412
LAAD	USD	8 751	48 709
Nicafish	USD	663	3 691
Trønderpower Limited (Bugoye HPP)	USD	3 962	22 055
Locfund	USD	1 500	8 350
Brac NGO	BDT	195 627	13 680
EXIM Bank (Tanzania) Ltd.	USD	600	3 340
Brac Africa Loan Fund	USD	2 117	11 782
Euro TechBridge AS	NOK	2 250	2 250
Casquip Starch (Pty) Ltd	ZAR	29 043	19 063
CIFI	USD	25 000	139 160
Capitec Bank Main Account	ZAR	60 000	39 348
Scandinavian Water Technology	NOK	2 500	2 500
European Financing Partners EUR	EUR	306	2 245
European Financing Partners USD	USD	4 085	22 739
Green Resources	USD	12 533	69 766
Sathapana Ltd.	USD	5 000	27 832
Pride Architects AS	NOK	2 000	2 000
Africado	EUR	670	4 918
E+CO	USD	2 551	14 201
Real People Investment PTY	ZAR	220 000	144 276
DFCU Limited	UGS	19 328 571	39 817
Sacom Bank Leasing Ltd	USD	5 000	27 832
Sacombank (Saigon Thuong Tin Joint Stock Commercial Bank)	USD	25 000	139 160
Micro Africa Limited	KES	125 250	8 094
Micro Uganda Limited	UGS	3 600 000	7 416
TPS (Dar) Ltd.	USD	3 100	17 256
Hidro Santa Cruz	USD	1 750	9 741
African Banking Corporation Zambia Limited	USD	4 000	22 266
Hydel Kenya Hydro	USD	1 500	8 350
Tecombank	USD	15 000	83 496
Kikagati Power Company LTD	USD	40	223
Great Lakes Agricultural Development Ltd	USD	150	835
Bio2Watt	ZAR	2 100	1 377
Interact Climate Change Facility	USD	1 081	6 015
Basecamp Explorer Kenya Ltd	USD	80	445
ODEF Financiera S.A	USD	3 000	16 699
EXIM Bank (Tanzania) Ltd.	USD	5 000	27 832
DFCU	USD	2 250	12 524
Afrinor Hotel Investments A/S	EUR	1 449	10 634
Matanuska Africa Ltd.	USD	3 800	21 152
Matanuska Mozambique	USD	2 200	12 246
BRAC Bank Limitied	BDT	490 000	34 266
Matanuska Africa Ltd.(Banana Finance Company two limited)	USD	7 700	42 861
Financiera Desyfin S.A.	USD	2 000	11 133
Accrual start-up fee loans			-6 352
Total loans to companies			1 157 635
Provision for bad debts at 31 Dec 2012			-48 517
Book value loans/total interest received			1 109 118

1 Figures at 31 December 2012 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.

COMMITTED INVESTMENTS IN LOANS

In addition to the loans specified above, Norfund made a loan 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 to equity investments.

NOTE 9 - EQUITY INVESTMENTS

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
ECP African Fund	USD	1,2 %	42	59	247	342
CASEIF	USD	31,8 %	1 646	1 327	10 874	9 098
SEAF Sichuan SME Investment Fund	USD	13,3 %	1 877	1 682	11 683	10 595
Aureos Central America Fund	USD	27,5 %	5 071	4 676	30 363	28 163
Aureos East Africa Fund	USD	20,0 %	3 979	3 290	23 133	19 297
Aureos West Africa Fund	USD	26,0 %	6 205	4 703	34 639	26 276
Aureos Southern Africa Fund	USD	25,1 %	10 018	5 389	54 948	29 182
Aureos South Asia Fund I [2]	USD	50,0 %	1 555	1 255	9 801	8 129
Aureos South East Asia Fund	USD	28,6 %	18 234	5 289	103 713	31 659
APIDC Biotech Fund	USD	7,7 %	2 750	2 711	16 657	16 437
China Environment Fund	USD	10,0 %	1 920	1 486	10 445	8 026
Aureos South Asia Fund (Holdings)	USD	23,5 %	17 501	16 538	101 780	96 419
Business Partners Madagascar SME Fund	EUR	14,1 %	1 200	738	9 471	6 082
Solidus Investment Fund	USD	6,3 %	1 600	1 540	9 286	8 952
Aureos Central America Growth Fund (EMERGE)	USD	14,3 %	3 040	2 142	18 119	13 119
CASEIF II	USD	13,8 %	4 000	2 565	23 335	15 348
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	2 540	27 035	20 011
Horizon Equity Partners Fund III	ZAR	9,0 %	26 776	18 338	18 963	13 430
Africap Microfinance Investment Company	USD	7,1 %	3 000	2 607	16 343	14 154
Aureos Latin America Fund (ALAF)	USD	13,6 %	23 991	23 492	144 463	141 684
Seaf Blue Water Growth Fund	USD	20,0 %	5 000	3 620	28 759	21 078
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	8 915	83 021	52 347
Aureos Africa Fund L.L.C	USD	10,5 %	38 093	26 375	227 973	162 745
Fundo de Investimento Priv.Angola	USD	29,4 %	10 677	3 323	60 844	19 908
Fanisi Venture Capital Fund SCA	USD	30,0 %	15 000	4 795	84 613	27 807
Cambodia- Laos Development Fund	USD	20,3 %	4 000	1 775	22 656	10 270
Evolution One Fund	ZAR	7,2 %	50 000	33 305	35 765	24 816
AgriVie Fund	ZAR	9,4 %	75 000	40 824	55 539	33 127
Frontier Fund	USD	11,3 %	10 000	6 134	56 908	35 387
Prospero Microfinanzas Fund B.L.P.	USD	21,7 %	5 000	2 364	28 436	13 765
Aureos South East Asia Fund II	USD	4,0 %	5 000	929	27 732	5 071
Vantage Mezzanine Fund II(Partnersh)	USD	5,4 %	100 000	17 461	472 184	12 738
Voxtra East Africa Agribusiness Ini	NOK	35,0 %	22 740	7 609	22 740	7 609
Africa Health Fund SA En Commandite	USD	9,5 %	10 000	2 980	56 574	17 499
Higher Education Financing Fund	USD	33,0 %	5 000	552	28 084	3 325
Coreco Central America Fund I LP	USD	18,9 %	7 500	1 136	42 179	6 753
Total invested in funds					2 348 921	1 228 803

1 Figures at 31 December 2012 and before any write-downs.

*2 **Fund investments with more than 35% ownership***

Aureos South Asia Fund I (ASAF I) was established by the CDC and Norfund in anticipation of Aureos South Asia Fund (Holdings), which started operations in January 2006. Through ASAF I Norfund and CD co-financed minority interests in two companies in Sri Lanka. Norfund's indirect share of these investments, both approved before the end of 2005, will therefore be less than 25 percent. Norfund tried in 2011 to reduce its stake in the fund for less than 35%, but did not find relevant buyers to the shares. Both underlying investments have since been realized and ASAF I are in the process of being formally discontinued..

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.

"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 2012 is used for the part that has not been disbursed.

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
Interact Climate Change Facility S.A.	EUR	7,7 %	6	6	47	47
Fanisi Venture Capital management [2]	USD	50,0 %	275	25	1 532	143
Total invested in management companies					35 045	33 657

1 Figures at 31 December 2012 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.

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 og 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, Norfund owns 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	Share 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
Banco Terra	MZN	32,7 %	293 000	456 700	65 850	96 568
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	5 834	26 204	31 768
Hattha Kaksekar Ltd	USD	17,6 %	2 057	2 057	11 380	11 382
Casquip Starsh (Pty) ltd	SZL	24,7 %	30 000	26 000	21 219	18 593
Aqua Imara	NOK	19,0 %	135 808	23 831	247 789	135 812
TMP [2]	USD	43,4 %	4 903	4 903	26 298	26 298
Africado [2]	EUR	40,0 %	2 000	2 000	15 359	15 359
Real People Investment PTY	ZAR	18,0 %	152 125	224 251	120 135	167 436
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
Basecamp Explorer Kenya Ltd [2]	NOK	40,0 %	9 000	1 561	16 439	9 000
ToughStuff International Ltd	EUR	24,0 %	5 500	5 500	31 389	31 389
TPS (Dar) Ltd	USD	28,5 %	4 900	6 800	28 513	39 089
Chayton Atlas Investments	USD	21,8 %	4 900	10 000	29 078	57 467
Kinyeti Venture Capital Limited	USD	49,0 %	750	750	4 302	4 302
Scatec Solar SA 165 PTY Ltd	ZAR	35,0 %	750	25 000	517	16 420
Norsad [3]	USD	11,0 %	9 297	0	51 753	0
Total invested in companies					910 784	875 442
Write-down equity investments at 31 December 2012						-308 041
Book value equity investments						1 829 861

1 Figures at 31 December 2012 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.

Kinyeti Venture Capital Ltd. is the first investment company established in South Sudan. Norfund's ownership is 49%. Norfund has taken an active role in Kinyeti to offer small business venture capital in a very difficult area. The goal is to bring in additional capital from other partners so that Norfund's ownershare over time is reduced.

3 In 2012 Norfund acquired shares in Norsad free of charge from the Norwegian government. The proportion of shares represented 11% of the ordinary share capital and shares were valued at 15.9 MNOK at the acquisition date.

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)	Family Bank	Micro Africa	SEAF Trans Balkan Fund
Cost price, paid-in capital	18 009	1 558	36 386
Total reflow from investment	27 084	4 820	28 722
Gain/(loss) on investment	9 075	3 262	-7 664
Realised gain	12 232	3 325	-2 139
Realised FX gain	-3 156	-62	-5 525
Year of first disbursemnt	2011	2006	2001
Investment currency	KES	USD	USD
Calculated annual IRR in investment currency	30 %	24 %	7 %

7 loans has been repaid during the year.

NOTE 11 - TAX

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

NOTE 12 - BANK DEPOSITS, CASH AND CASH EQUIVALENTS

Bank deposits of NOK 1 609 557 080 include NOK 2 126 570 in the blocked tax withholding account.
In addition, NOK 57 572 493 of the company's liquid assets are tied up in unused resources.
These assets can only be used in accordance with the guidelines establihed for the application of unused resources (see note 14).
NOK 1 339 554 894 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 2012	4 550 250	1 728 750	1 455 510	7 734 510
Capital added in 21012	787 500	242 500		1 030 000
Equity adjustment ass. co. recorded directly against equity (see note 5)			-367 976	-367 976
Net profit			42 374	42 374
Capital at 31 December 2012	5 337 750	1 971 250	1 129 907	8 438 907

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 2012, 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 7 309 million in capital from the Norwgian government, of which NOK 1 030 million in 2012.

The equity adjustment is caused by the exchange rate adjustment of Norfund's share in SNPI cuased by a weak USD to NOK. SNPI presents its financial statements in USD.

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 2012 Norfund received NOK 34.0 million in capital for the grant facility of which 12 million is earmarked for grants to the hydropower project Fula Rapid in southern Sudan, and 11 million allocated to NMI. 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, 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 34,52 million in costs was charged to the fund in 2012.

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 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 the year 2013 based on agreed milestones in the construction process.

(Figures in 1000s of NOK)	Unused funds Norfund		Unused funds Balkans		Unused funds Norad	
	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11
RECEIPTS						
Carried over from previous year	10 251	7 251	5 974	18 339	38 000	0
Received during the year	34 033	27 450	0	0	0	38 000
Repaid grant funds	798	0	0	0	0	0
Total receipts	45 080	34 701	5 974	18 339	38 000	38 000
Income	0	0	609	466	0	0
DISBURSEMENT						
General costs	0	0	0	0	0	0
Fund management	0	0	0	0	0	0
General follow-up	0	0	-601	-585	0	0
Intervention						
Project development (incl. Energy Initiative)	-15 478	-5 576	0	0	0	0
Boost and support development effects of projects	-5 624	-5 417	0	0	0	0
Boost social responsibility	-3 215	-2 457	0	0	0	0
NMI start-up support	-11 000	-11 000	0	0	0	0
Local investment funds	0	0	0	0	0	0
Follow-up costs	0	0	-12	-114	0	0
Loans to projects	0	0	0	-12 380	0	0
Total disbursements	-35 317	-24 451	-614	-13 079	0	0
Allocated interest income			23	248	0	0
Non-disbursed resources	9 764	10 251	5 995	5 974	38 000	38 000
Total non-disbursed funds at 31 December 2012	53 759					

At the end of 2012, unused funds Balkans consisted of two outstanding loans of EUR 1.6 million each.

NOTE 15 - DESCRIPTION OF NORFUNDS RISK

Marked 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 largly denominated in USD, while its liquidity assets are placed in NOK-denominated interest bearing accounts in Norges Bank.

FX RATES USED IN CONVERSION

		31.12.12	31.12.11	Change during the year
US Dollar	USD	5,566	5,993	-7,1 %
South African Rand	ZAR	0,656	0,740	-11,3 %
Rwandan Franc	RWF	0,0090	0,0098	-8,4 %
Kenyan Schilling	KES	0,065	0,069	-6,8 %
Ugandan Shilling	UGS	0,00206	0,00238	-13,4 %
Mozambique Metical	MZN	0,1877	0,2237	-16,1 %
Bangladesh Taka	BDT	0,0699	0,0722	-3,2 %
Cambodien Riel	KHR	0,00139	0,00147	-5,4 %
Swaziland Lilangeni	SZL	0,656	0,730	-10,1 %
Euro	EUR	7,341	7,754	-5,3 %

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.

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 sheet 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

(Figures in 1000s of NOK)	Lease duration	Annual rental costs
Premises at Støperigata 2, Oslo	01.07.09 - 30.06.2014	3 852 096

Tender guarantee scheme
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 1 442 695 was charged Norfunds accounts in 2012 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.

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To the owners' meeting of **NORFUND, a company under special law**

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of NORFUND, a company under special law, which comprise the balance sheet as at 31 December 2012, and the income statement, showing a profit of NOK 42 374 000 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 company'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 are prepared in accordance with the law and regulations and give a true and fair view of the financial position of NORFUND, a company under special law as at 31 December 2012, and 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 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 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, 20th March 2013
BDO AS

Not to be signed – for information purposes only
Johan Henrik L'orange
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

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