



Annual report  
2020

# Board of Directors' report

After many years of steadily decreasing world poverty, this positive trend came to an abrupt halt in 2020. The COVID-19 pandemic hit developing countries hard, not least economically. While global direct investment in developing countries fell by 12% in 2020 as a result of the pandemic<sup>1</sup>, Norfund's investment increased by 20% compared with the previous year to a record high NOK 4.8 billion. Norfund has thereby demonstrated its ability to maintain a high investment level and contribute to economic development in a demanding situation, and to help companies in its portfolio to stay afloat through the pandemic. An agreement for the sale of SN Power was also concluded in 2020. This means some NOK 10 billion will be released for reinvestment in new development-promoting activities in the years ahead.

## 1. Norfund and its mandate

Norfund was founded by the Storting (Norwegian parliament) in 1997. Its mission is to contribute to the development of sustainable business and industry in developing countries by providing equity capital and other risk capital and by furnishing loans and guarantees. The aim is to establish viable, profitable activities that would not otherwise be initiated because of the high risk involved.

Norfund's investments make a direct contribution to the achievement of the UN sustainable development goals – especially the goals of eradicating poverty, achieving sustainable economic growth, gender equality, access to energy, industry, innovation and infrastructure and climate action. The development effects are measured annually, and the results for 2020 are published in the *Report on Operations 2020*.

Norfund has four investment areas, with **Clean Energy** accounting for almost half of its portfolio. **Financial Institutions** covers investment in banks, microfinance, insurance and other financial institutions. The area **Scalable Enterprises** is concerned with investment in the agricultural value chain, manufacturing industry and private equity funds. Through its new investment area, **Green Infrastructure**, Norfund will also be investing in water and waste management, but as yet no investments have been made. Each of the four investment areas has set ambitions that contribute directly and in a measurable way to the achievement of the UN Sustainable Development Goals.

Norfund receives annual capital allocations from the Norwegian government amounting in 2020 to NOK 1 820 million. Norfund was additionally allocated NOK 25 million in fresh capital for a

Project Development and Risk Mitigation facility and NOK 25 million for its Business Support Programme. As of 31 December 2020, Norfund's committed portfolio amounted to NOK 28.4 billion.

The fund's investment is intended to be additional; in other words, the Fund supplies capital and expertise that enterprises would otherwise have difficulty in accessing. The Fund is also intended to mobilise capital from other investors, both in Norway and abroad.

Most countries in which Norfund invests hold little attraction for international investors because the risk associated is considered too high. Norfund's expertise, willingness and ability to manage high risk is therefore important for success in these countries.

Developing countries are dependent on access to more energy to enable them to eradicate poverty, so half of the capital allocated to Norfund over time is to be invested in renewable energy. After building up SN Power as a leading hydropower company in developing countries, Norfund sold SN Power to Scatec for NOK 10.9 billion in October 2020. As part of the transaction, Norfund retains its investments in Zambia and Panama, and a joint venture is being established for other activities in Africa, with Scatec owning 51% and Norfund 49% of the shares.

The facilities that were owned by SN Power now produce power equivalent to the electricity consumption of 7 million people, and avoid 3 million tons of greenhouse gas emissions annually. The exit is an example of Norfund's efforts to be a predictable, long-term investor that does not retain ownership for longer than necessary. Norfund creates the greatest development effects by ensuring that its capital is constantly deployed where it contributes most.

## 1.2. Developments in Norfund's markets

The global economy and Norfund's markets were severely impacted by the economic slowdown due to the COVID-19 pandemic. The World Bank<sup>2</sup> indicates negative global economic growth of -4.3 per cent in 2020.

Latin America was among the Norfund markets that were hardest hit, with an estimated fall in GDP of -6.9 per cent in 2020. Women, young people and low-income households were hit particularly hard, as they are disproportionately represented in lines of business where most jobs were lost. The outlook for 2021 is brighter. According to the World Bank, most of Norfund's prioritised countries in the region, with the exception of Nicaragua, can expect growth of 2.6 to 5.1 per cent.

COVID-19 has also set its stamp on economic growth in Sub-Saharan Africa. Whereas large economies such as Nigeria and South Africa experienced significant negative growth of -4.1 per cent and -7.8 per cent in 2020, several smaller economies such as Ethiopia and Côte d'Ivoire maintained positive growth in 2020. However, this part of the world has a rapidly growing population, and per capita income fell for the region as a whole. The economic slowdown could potentially drive tens of millions of people into extreme poverty. According to the World Bank, most countries in the region can expect growth of 3–4 per cent in 2021.

Norfund's core markets in Asia are also affected by COVID-19. Some countries experienced a fall in output in 2020, with the Philippines at the forefront (estimated at -8.1% of GDP), while countries such as Myanmar, Vietnam and Bangladesh got through the year with weak positive growth.

[2] World Bank Global Economic Prospects, January 2021

## 2. Investments and results in 2020

### 2.1. Investments in 2020

Norfund's investment level in 2020 was historically high in terms of both the total committed amount of NOK 4.8 billion and the number of investments. Investments were broadly distributed within Norfund's investment areas, with Clean Energy accounting for the largest portion, at NOK 1.65 billion. Financial Institutions accounted for NOK 1.35 billion and NOK 1.2 billion was invested via funds. NOK 670 million was invested in the area Scalable Enterprises in the manufacturing and agricultural value chains. In 2020, investments in the Least Developed Countries (LDCs) accounted for 31% of new commitments. At portfolio level, 39 per cent is now invested in these countries. Sub-Saharan Africa received 51per cent of new investments, while 54per cent of the whole portfolio is invested in this region. Norfund's portfolio is therefore well within the key indicators stipulated by the Board that at least 33 per cent of the portfolio must be in LDCs and 50 per cent must be in Sub-Saharan Africa.

As a consequence of the pandemic and subsequent reticence of market lenders, Norfund capital has been sorely needed. The Fund made COVID-19-related investments amounting to over NOK 800 million in 2020. This includes Norfund's contribution to an earmarked COVID-19 loan facility for developing countries of EUR 280 million which was established through the co-financing mechanism European Financing Partners (EFP) and the European Investment Bank (EIB).

## 2.2. Review of the financial statements

The financial statements for 2020 show a negative loss after tax of NOK 128 million. The negative result is due to larger write-downs on the investment portfolio than in previous years, mainly due to the impact of COVID-19 in Norfund's markets. The pandemic has affected results in 2020 both through write-down of values in the existing portfolio but also in the form of lower dividends and realisation of equity instruments and funds. Turbulence in the foreign exchange market through the early phase of the pandemic and subsequent strengthening of the Norwegian krone against our investment currencies also resulted in substantial foreign exchange losses.

In 2020, Norfund's portfolio delivered an estimated internal rate of return (IRR), of -0.1% measured in investment currencies and -3.6% measured in NOK. Since its inception, the portfolio has had an IRR of 5.2% measured in investment currencies and 7.7% measured in NOK, and the portfolio has thus exhibited solid profitability over time.

Norfund's overall balance at the end of 2020 was NOK 25 billion. This is an increase of NOK 1.8 billion from 31 December 2019, the same allocation from the Owner as in 2020. New commitments have gone to equity investments, funds and loans, despite substantial write-downs. The net asset value, based on estimated market values in Norfund's portfolio, is NOK 31.7 billion.

At the end of 2020, Norfund had outstanding, unpaid commitments totalling NOK 5.7 billion. Cash holdings at the same time were NOK 2.9 billion, in addition to current assets of NOK 884 million. Although the outstanding commitments are higher than the cash holdings, the Board regards liquidity as sound and confirms that the going concern assumption applies. In 2020, Norfund entered into an agreement to sell SN Power to Scatec Solar (see section 1). The purchase sum for the shares was estimated at USD 966 million in cash and USD 200 million as a seller's credit. The agreement was concluded in 2020 and financial risk was transferred to Scatec with effect from 31 December 2020. Settlement and transfer of shares took place in January 2021, and the realised gain - estimated at NOK 6 billion - will therefore be recorded in 2021. The transaction therefore does not appear in the financial statements for 2020. Norfund is now preparing a strategy for reinvesting the capital from the exit from SN Power where it is most needed to combat poverty and promote sustainable economic development. In 2020, Norfund also exited from three funds and four loans were repaid in their entirety.

In the opinion of the Board of Directors, the financial statements for 2020 provide a true and fair view of Norfund's financial position.

## **3. Organisation, environment and corporate social responsibility**

### **3.1. Corporate governance**

The General Meeting is Norfund's supreme body, and Norfund's corporate governance is exercised through Articles of Association adopted by the General Meeting. The Norwegian Ministry of Foreign Affairs receives quarterly reports, and regular meetings are held throughout the year. Norfund's Board of Directors is elected by the General Meeting, and two members are elected by and from among Norfund employees. The Board consists of nine members. In 2020, the Board held a total of 12 board meetings, of which three were extraordinary. The Board also travelled to Tanzania to visit a selection of Norfund's investments.

2020 was a demanding year. Managing and following up the fraud case (see 3.2), reinforcing Norfund's risk management and internal control, following up Norfund's handling of COVID-19 and the exit from SN Power were particularly important cases for the Board.

Norfund has a framework of governing documents ranging from acts and statutes, via guidelines for important areas, to procedures for the conduct and follow-up of investment activities. The structure is geared to Norfund's activities. It is constantly developing and makes measurement and verification possible. The Investment Committee considers investment proposals and contributes to quality assurance. The committee consists of eight persons, two of whom are external, and is authorised to approve individual investments in the range USD 4–15 million. The Investment Committee also makes recommendations about investments in excess of USD 15 million, but these are approved by the Board. Investments of less than USD 4 million are considered and approved by the administration.

Norfund invests in high risk markets. This risk is mitigated by thorough analyses and investigation in the investment phase of commercial, financial, legal and environmental, social and governance (ESG) factors. During Norfund's ownership period, assessments of the risk in each investment are carried out twice annually, and risk-mitigating measures are implemented as needed.

### **3.2. Fortifying risk management and internal control**

In the spring of 2020, Norfund was to the victim of a serious IT-related fraud and defrauded of USD 10 million. A number of measures were implemented immediately to strengthen IT security and risk management, and Norfund had PwC conduct an independent review of the incident. The

review showed that a chain of factors combined to make Norfund vulnerable to fraud. Norfund accordingly made concerted efforts to close the gap and strengthen the organisation's security and expertise.

In December, the Office of the Auditor General published its report *Revisjonens kontroll med forvaltningen av statens interesser i selskaper – 2019* [Monitoring of the administration of state interests in companies – 2019] in which they concluded that Norfund had underestimated data security as a risk, did not have adequate follow-up of the supplier of ICT services, and that the implementation of decisions taken in previous years to strengthen data security took too long. This was consistent with Norfund's own evaluation and the findings in the PwC report, and the report provided a good basis for the Fund's continuing work to strengthen IT security.

Norfund has implemented a number of measures, both before and after the Auditor General's review, to strengthen the organisation's IT security. The Board has boosted risk management by appointing a risk and audit committee consisting of three Board members, engaged EY as external internal auditor and established a separate Enterprise Risk Management position.

### 3.3. Personnel, organisation and gender equality

Norfund has guidelines for recruitment, competencies and gender equality and procedures for employee follow-up and remuneration. Targeted recruitment takes place to enhance the organisation's ability to deliver on Norfund's strategy, and there is continuous work to build and develop employee competencies internally. As Norfund's portfolio grows, so also does the need to strengthen several parts of the organisation, including Environmental, Social and Governance (ESG) work. Three new permanent ESG positions were established in 2020: one in Oslo, one in Nairobi and one in Costa Rica. The work of further developing financial reporting and internal control continued in 2020, and an internal IT department was established.

In 2020, Norfund's staff consisted of 94 full-time equivalents. As of 31 December 2020, Norfund had 96 employees, 41 of them with backgrounds from countries other than Norway. Norfund currently has five regional offices: in Accra, Cape Town and Nairobi in Africa, Bangkok in Asia, and San José in Central America. In 2020, 30 of the employees were working at regional offices. Where possible, personnel for regional offices are recruited from the countries in which Norfund is investing.

Diversity and equal opportunities are important, both in the organisation itself and in the companies in which Norfund invests. This is described in the *Gender Position Paper* and in the

annual *Report on Operations*, both available on Norfund's website. In an international operation like Norfund, diversity of gender, nationality, age, background and competencies is vital for ensuring that the company makes good decisions. At the 2020 annual wage settlement, Norfund's focus was on evening out any differences in pay for comparable positions. Planned for 2021 is an analysis of the wage gap between men and women for comparable positions, and an external review across staff functions.

**Table 1 Gender balance in different position categories**

Norfund	Women	Men
Board of Directors	55%	45%
Management team	43%	57%
Head of regional office	40%	60%
New employees	47%	53%

In 2020, Norfund continued the intern programme that was established in 2019, and four students/newly qualified persons were engaged in different departments to enhance diversity, profile Norfund as an attractive workplace and challenge managers and other company employees. Among other things, this involved a reverse mentor scheme, where the four interns mentored members of the management group.

Norfund's management, together with the Working Environment Committee and Social Affairs Committee, has supported the establishment of home offices, digital meeting places and social arrangements to maintain the employees' health, well-being and work motivation during the pandemic. The internal training platform Norfund Academy was established in 2020 to strengthen skills development. The capacity to adjust demonstrated by the organisation during this period has been impressive, as has its ability to maintain a high pace of work.

Sickness absence in 2020 amounted to 2.3 per cent of total working hours. This is 0.3 percentage point higher than in 2019. The Board of Directors does not find it necessary to implement any special measures relating to the working environment or designed to promote the aims of the Norwegian Anti-Discrimination Act and Anti-Discrimination and Accessibility Act.

**Table 2 Temporary employees, parental leave and voluntary part-time work for Oslo employees**

Temporary employees as a percentage of all employees [3]		Parental leave, average number of weeks		Part-time as a percentage of all employees [4]	
Men	Women	Men	Women	Men	Women
8%	5%	6.2	13.8	0%	3%

[3] Four temporary employees, two men and two women, are participating in an intern programme. In addition, some resources were hired as substitutes for personnel on leave or for temporary projects/periods with an increased amount of work. [1] No non-voluntary part-time

[4] No non-voluntary part-time

### 3.4. Corporate social responsibility

Social responsibility lies at the heart of Norfund's activities and is discharged through requirements set for both Norfund's own activities and those of the companies in the portfolio. The cross-cutting considerations of Norwegian development policy – human rights, gender equality, anti-corruption, climate and environment – all form part of these efforts.

In 2020, Norfund adopted a new climate position, which entails our contributing to reducing greenhouse gas emissions, managing climate risk in our portfolio and promoting climate resilience in our markets. In practice this means: i) increasing investment in climate solutions, in particular renewable energy ii) excluding direct investment in fossil fuels except gas-fired power where this supports an energy transition aligned with the Paris agreement, iii) mapping and managing climate risk in all new investments and iv) continuing to prioritise the Least Developed Countries and Africa, which are expected to be hardest hit by climate change. In its work on the position, the Fund has drawn on analyses of climate-related work by other development finance institutions and investment funds, relevant guidelines and legislation, such as the Report on Diverse and Value-creating Ownership, Task Force on Climate-related Financial Disclosures (TCFD) and Principles for Responsible Investment (PRI) and discussions with experts and environmental organisations. In 2020, Norfund analysed, for the first time, the climate effect of the Fund's total investments in building and expansion of renewable energy, including investments from which the Fund has exited. The analysis shows that the investments avoid 8 million tons annually of emissions – equivalent to a sixth of Norway's annual emissions.

As a small, knowledge-based enterprise, Norfund has limited direct environmental impact, associated largely with air travel which is necessary for business operations. Norfund has been shifting over time to increased use of digital meetings rather than travel, where this serves the purpose. The amount of air travel in 2020 was very limited because of travel restrictions.

Norfund's Board of Directors adopted a new ESG policy in 2020 and Norfund works systematically with ESG throughout the investment process. The IFC Performance Standards for Environmental and Social Sustainability provide the basis for our assessments. The IFC standards are tailored to Norfund's activities. This approach contributes to meeting the government's expectations of responsible business conduct described in Meld. St. 8 (2019–2020) Report to the Storting (white paper) including the expectation of conducting due diligence to avoid harm to society, people and the environment described in the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights (UNGP).

Good working conditions are a fundamental objective. Norfund monitors HSE in all its investments, with a particular focus on training and compliance with HSE procedures. The investment agreements contain a requirement that serious accidents and fatalities must be reported. Sadly, in 2020 there were six deaths related to Norfund's direct investments, five of them a result of traffic accidents. These incidents are reported to the Board, and in special cases also to Norfund's owner, the Ministry of Foreign Affairs. Information about any project-related fatalities in Norfund's indirect investments is collected and reported annually. Norfund follows up fatalities associated with operations in our direct investments to ensure that they are investigated, that safety procedures are modified if necessary, and that the next of kin receive the compensation to which they are entitled.

In 2020, Norfund's Board adopted a revised Business Integrity Policy which sets out requirements and expectations of employees, partners and portfolio companies in a number of areas, including zero tolerance for corruption, money laundering and financing of terrorism. Systems have also been established for dealing with matters that are not in line with Norfund's requirements. One case of financial irregularity was reported in 2020 and reported on to the Ministry of Foreign Affairs.

Norfund has a clear responsible tax policy. The guidelines were drawn up with input from civil society and consist of seven fundamental principles. They include requirements regarding transparency; Norfund's investees shall pay taxes to the countries in which they operate and where the income occurs, and that third countries must only be used when necessary to meet the fund's development priority of investing in high risk markets and to protect the fund's capital. In

2020, the investments in funds increased appreciably, and hence so did the use of third countries.

Norfund engages regularly in dialogue with different stakeholder groups, including civil society organisations and other partners. Some of these meetings in 2020 concerned Norfund's positions on gender equality and climate.

Norfund has a dedicated Business Support Programme funded by the Ministry of Foreign Affairs that is intended to be used to enhance the development effects of our investments, including intensifying work on the four cross-cutting issues: human rights, gender equality, anti-corruption and health, safety and environment. For example, Norfund can provide assistance for project development, local community development, building of skills and operational improvements. Of the thirteen projects that received support from this scheme in 2020, four were related to COVID-19.

The Storting has established a dedicated project development and risk mitigation scheme which enables Norfund to make risk capital available in the most demanding markets when access to early stage risk capital is limited. The scheme has two aims: early stage project development in Norfund's priority investment areas, and risk mitigation for commercial investors who invest in Norfund-financed projects. The scheme is to be used for projects with higher risk than the investments in Norfund's ordinary portfolio and is to be managed separately. In 2020, NOK 34.91 million was committed to two projects under this scheme.

## 4. Outlook for the future

The UN Sustainable Development Goals and the climate ambitions set out in the Paris Climate Agreement provide important guidelines for development going forward. The fact that the world has been hit by a pandemic has set back development. The funding gap hindering the attainment of the Sustainable Development Goals was formidable in developing countries even before the pandemic. Now it yawns even wider. The market cannot solve the investment challenges alone, and development finance institutions will be even more important going forward. Norfund is the Norwegian government's most important tool for private sector investment in developing countries, and therefore has a key part to play.

Norfund's strategy for 2019–2022 is ambitious, and based on the Fund growing, in terms of both invested capital and number of employees. The Fund has achieved this goal in 2020 and aims to follow the same path in 2021.

Norfund's investment in energy has been an important contributor to returns in recent years. The exit from SN Power has released NOK 10.9 billion, which is to be deployed in the years ahead in new, development-promoting investments, with the emphasis on investment in renewable energy. In the short term, this liquidity will mean lower expected returns. In the longer term, the increased level of investment may result in a substantial change in the composition of the portfolio, with associated new risk and return properties.

There is still great uncertainty associated with the effects of COVID-19. This will significantly influence Norfund's markets and operations, also in 2021. The economic downturn ensuing from the pandemic will have a strong negative impact on a number of portfolio companies, which may depress the return on the Fund's investments.

The military coup in Myanmar has created a critical situation in the country, and also poses challenges for Norfund's portfolio companies. Norfund has committed investments in Myanmar for a total of NOK 927 million, and has a current portfolio of NOK 585 million. The risk this implies, and the potential reduction in the value of the portfolio companies, is not reflected in the accounts and return figures for 2020, but value may be impacted in the future if the situation does not stabilise.

The Board regards Norfund as well equipped to deliver on the goals that have been set, and thanks the management and employees for their work in a demanding year. Despite the negative result for 2020, returns measured over time have been satisfactory. Norfund will continue to make an important contribution to the success of an ambitious development policy and contribute to creating jobs and improving lives in the developing countries of the world.

*Oslo, 23 March 2021*

Olaug Svarva, Chair

Vibeke Hammer Madsen	Tove Stuhr Sjøblom
Brit K. S. Rugland	Martin Skancke
Vidar Helgesen Finn Marum Jebsen	
Marianne Halvorsen	Lasse David Nergaard

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# Income Statement

Income Statement			
Figures in 1000s of NOK.	Note	2020	2019
Interest income loans – invested portfolio	2	322 143	269 183
Realised gain on shares	2	0	78 037
Dividends received	2	597 585	985 253
Other operating income	2	22 067	12 860
<b>Total operating income</b>		<b>941 795</b>	<b>1 345 333</b>
Operating expenses			
Payroll expenses	5	135 273	114 046
Depreciation tangible fixed assets	8	2 331	1 362
Other operating expenses	5/6	80 095	71 822
Total operating expenses prior to exchange rate adjustment of loans and write-downs, investment projects			
<b>Investment projects</b>		<b>217 699</b>	<b>187 231</b>
Adjustment for gain/loss on FX, project loans	2	-243 243	28 654
Write-down investment projects (-) / reversals (+)	2	-717 923	-155 929
<b>Profit/loss on operations</b>		<b>-237 070</b>	<b>1 030 828</b>
<b>Net financial items</b>	<b>7</b>	<b>115 298</b>	<b>86 838</b>
<b>Profit/loss before tax</b>		<b>-121 772</b>	<b>1 117 665</b>
- Tax	10	-6 389	-4 350
<b>Profit/loss for the year</b>		<b>-128 161</b>	<b>1 113 315</b>
Allocations			
Transferred to / from surplus fund	12	-128 161	1 113 315
<b>Total allocations</b>		<b>-128.161</b>	<b>1 113 315</b>

# Balance

Balance Sheet			
(1000 NOK)	Note	2020	2019
<b>Assets</b>			
<b>Fixed assets</b>			
<b>Tangible fixed assets</b>			
Operating equipment, fittings and fixtures, tools etc.	8	7 976	8 128
<b>Total tangible fixed assets</b>		<b>7 976</b>	<b>8 128</b>
<b>Financial fixed assets</b>			
Pension plan assets	5	21 620	23 345
<b>Total financial fixed assets</b>		<b>21 620</b>	<b>23 345</b>
<b>Total fixed assets</b>		<b>29 596</b>	<b>31 473</b>
<b>Current assets</b>			
<b>Receivables</b>			
Other receivables	9	227 576	306 795
<b>Total receivables</b>		<b>227 576</b>	<b>306 795</b>
<b>Investments</b>			
Capitalised project development costs		8 650	20 965
Loans to investment projects	2/3	4 546 618	3 964 228
Investments in equities and funds	2/3	16 423 502	15 169 104
Other current assets	11	884 675	883 533
<b>Total investments</b>		<b>21 863 444</b>	<b>20 037 831</b>
<b>Bank deposits, cash and cash equivalents</b>			
Bank deposits	11	2 897 203	2 824 044
<b>Total bank deposits, cash and cash equivalents</b>		<b>2 897 203</b>	<b>2 824 044</b>
<b>Total current assets</b>		<b>24 988 224</b>	<b>23 168 670</b>
<b>Total assets</b>		<b>25 017 820</b>	<b>23 200 143</b>

Balance Sheet			
(1000 NOK)	Note	2020	2019
Equity and liabilities			
Equity			
Called and fully paid capital			
Primary capital	12	14 574 125	13 209 125
Reserve capital	12	5 025 926	4 578 375
<b>Total called and fully paid capital</b>		<b>19 600 051</b>	<b>17 787 500</b>
Retained earnings			
Surplus fund	12	5 060 694	5 221 324
<b>Total retained earnings</b>		<b>5 060 694</b>	<b>5 221 324</b>
<b>Total equity</b>		<b>24 660 745</b>	<b>23 008 824</b>
Liabilities			
Provision for liabilities and charges			
Pension commitments	5	58 074	25 632
<b>Total provision for liabilities</b>		<b>58 074</b>	<b>25 632</b>
Current liabilities			
Accounts payable		0	5 520
Unpaid government charges and special taxes		9 963	8 313
Grants from the Ministry of Foreign Affairs	13	158 835	118 538
Other current liabilities	15	130 202	33 317
<b>Total current liabilities</b>		<b>299 000</b>	<b>165 688</b>
<b>Total liabilities</b>		<b>357 074</b>	<b>191 320</b>
<b>Total equity and liabilities</b>		<b>25 017 820</b>	<b>23 200 143</b>

Figures in 1000s of NOK.

# Cash Flow Statement

Figures in 1000s of NOK.

Cash flows from operations	Note	2020	2019
Profit before tax		-121 772	1 117 665
Taxes paid		-6 389	-4 350
Ordinary depreciation	8	2 331	1 362
Reversal of write-down (-) / Write-down investment projects		496 105	82 328
Differences in pension costs and receipts/disbursements, pension plan		1 834	-571
Effect of exchange rate changes		157 828	-64 211
Investments in tangible fixed assets	8	-2 179	-3 521
Change in other accruals		174 846	-233 995
<b>Net cash flow from operations</b>		<b>702 605</b>	<b>894 708</b>
Cash flows from investment activities			
Proceeds of sales/reflows from shares/holdings recorded at cost price		122 032	270 234
Disbursements in connection with purchase of shares/interests in other enterprises		-1 775 768	-1 495 007
Disbursements of investment loans		-1 785 976	-1 358 887
Repayment of principal, investment loans		941 407	492 507
Changes current investments	11	-1 141	-883 533
<b>Net cash flow from investments</b>		<b>-2 499 446</b>	<b>-2 974 685</b>
Cash flows from financing activities			
Receipt of grant resources carried as current liabilities	13	50 000	130 000
Increase in/repayment of equity	12	1 820 000	1 905 000
<b>Net cash flow from financing activities</b>		<b>1 870 000</b>	<b>2 035 000</b>
Exchange rate changes, cash and cash equivalents			
Net change in cash and cash equivalents		73 159	-44 977
Bank deposits, cash and cash equivalents at 01.01		2 824 044	2 869 021
<b>Bank deposits, cash and cash equivalents at 31.12</b>	<b>11</b>	<b>2 897 203</b>	<b>2 824 044</b>

## **Note 1 – Accounting principles**

### **The financial statements for NORFUND consist of the following:**

- Income statement
- Balance sheet
- Cash flow statement
- Notes

The financial statements, which are prepared by the Board of Directors and the executive management of Norfund, 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 2020. 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. Revenue is recognised when it accrues and expenses are matched with the related revenue. A more detailed account of the accounting policies 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 income statement 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 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 a portfolio such as Norfund's, with a large share of both listed and unlisted equities in markets of variable liquidity, there will always be substantial uncertainty associated with valuation. Investments are valued on the basis of available information, in accordance with IPEV guidelines. In the event of a change in value where the estimated market value is lower than the cost of acquisition, the investment will be subject to write-down.

Some exceptions are made to the general valuation rules, and these are commented upon in the relevant notes. 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 Norfund’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 income statement and balance sheet.

## **The most important accounting principles used by Norfund are described below.**

### **Principles for revenue recognition**

Operating income includes dividends, gain on sale of shares/ownership interests in other companies, interest on loans made to other companies, directors’ fees, other project income.

Gains on sales of shares/ownership interests in other companies are recorded in the year in which the sale takes place. Value changes for funds are calculated as they occur for the individual fund. Receipts are recorded as dividend or reflow of capital according to individual assessments. Other reflows from shares/ownership interests are deducted from the book value, and are accordingly not recorded as income.

Interest is recognised as and when it is estimated to be earned.

When loans to development projects are classified as problem loans, interest is recorded to income on the basis of the written-down value or, if an evaluation indicates that interest cannot be expected, interest is not recorded. In the event of known losses, recorded interest is reversed.

### **Financial income and expenses**

Interest on Norfund’s liquidity reserve in Norges Bank and other banks is recorded as financial income.

### **Project development expenses**

Development expenses are entered on the balance sheet when it is probable that they will lead to future investments and a positive return on the investment. Determining such probabilities entails using judgement based on experience and best estimate of future developments. In view of

Norfund's investment strategy and geographical investment areas, there is a high degree of uncertainty associated with expectations of future developments. In an early phase of project development, some of the costs will be expensed as they accrue.

## Equity investments

Norfund treats its investments in other companies as current assets. In other words, the equity method is not used, even though Norfund's shareholdings provide it with considerable influence. This is because the aim 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 objects and with the provisions of the Norwegian Accounting Act and generally accepted accounting practice. According to generally accepted accounting practice, such investments are temporary by their very nature and should therefore be included under current assets.

Pursuant to Norfund's Statute 12, Norfund's injection of capital into a portfolio company shall not exceed 35 per cent of the company's total equity. Norfund's share of the equity may be higher in special cases, but nonetheless such that the Fund's total equity holding does not exceed 49 per cent of the portfolio company's total equity.

Equity investments in companies are valued at the lower of cost price or market value on the basis of a concrete evaluation of each investment. Individual investments are written down where this is seen to be required according to the lowest value principle, to the lower of acquisition cost or assumed fair value. Norfund conducts individual valuation of all its investments. Because of the nature and volume of the investment portfolio, the management calculates estimates, makes discretionary assessments and makes assumptions that affect the amount of the book values of investments. Estimates of fair value are evaluated continuously and are based on historical experience, known information and other factors that are regarded as probable and relevant on balance sheet date.

No group write-downs are made for either the company's equity investments or its loan investments. See also the section below relating to the treatment of currency items.

When investments are exited wholly or in part, the gain/loss is calculated on the basis of the historical cost in NOK. This means that realisations are 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 future commitment for 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 disbursed by Norfund (project loans)
  - loans to enterprises in developing countries, taken over from NORAD (loan portfolio).
- Project loans are treated as current assets.

Loans are carried at amortised cost in accordance with the straight-line allocation method.

In accordance with Norfund's strategy, the loan portfolio taken over from NORAD is classified as a current asset and carried 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 estimating write-down of loans, both the current and the anticipated future financial position of the client in question are considered. Key considerations when assessing whether the client will be able to repay the loan are for example the general market situation, company-specific factors, the risk of bankruptcy and associated collateral.

Individual assessments are made, and any write-down of the individual loans. Group write-downs are not made for the company's loan portfolio.

There will be uncertainty regarding valuation of the loan portfolio and associated collateral.

## **Guarantees**

In some cases, Norfund issues guarantees in connection with investments. Accounting provisions are made when the likelihood of the guarantee being invoked is 50% or higher. On the balance sheet, the guarantee provision is entered under other current liabilities.

## **Known losses**

Losses as 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 foreign exchange gains/losses on loans are 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 assessing changes caused by exchange rate movements.

Norfund has not hedged its invested portfolio by means of hedging instruments.

### **Bank deposits, cash and cash equivalents**

Liquid assets consist of bank deposits.

### **Current receivables/Accounts receivable**

Current receivables, including accounts receivable, are recorded at their estimated value and adjusted for irrecoverable items.

### **Tangible fixed assets**

Fixed assets are recorded 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 that are 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 breakdown 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 the surplus capital 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**

Two parties are related if one party can influence the other's decisions. Relations with related parties are regarded as normal in business.

Norfund's ' related parties are mainly companies in which Norfund has invested, and which it buys services from and sells services to. Norfund's investments are presented in a separate note in the accounts.

The company has direct transactions with a limited number of companies in its investment portfolio. There are some transactions of an administrative nature with companies we have a stake in, including SN Power AS, Norfinance AS, KLP Norfund Investments AS. All transactions are according to separate agreements and pricing based on the arm's length principle.

## **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 interest and dividends.

## **Cash flow statement**

The cash flow statement is compiled using the indirect method.

## **Pension liabilities and costs**

Norfund has pension plans known as defined benefit plans which entitle employees in Norway to defined future benefits. Pension liabilities are 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 National Insurance benefits, and actuarial assumptions regarding mortality, voluntary retirement etc. The chosen principle is the IAS 19R option of NRS 6, with unamortised actuarial losses over equity. 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 plans 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.

Employer's social insurance contribution 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

defined as an actuarial gain or loss and charged directly to the company's equity.

Net pension costs, which consist of gross pension costs less estimated return on plan assets, are classified as an ordinary operating cost and presented as part of the payroll expenses item. All actuarial gains or losses are charged directly to the company's equity. Employer's social security contribution is calculated on contributions paid to the pension plans.

In 2018 the company closed its defined benefit plan and introduced defined contribution plans for new employees. At the end of year the company therefore had two different pension plans.

In addition the company has pension plans for employees at regional offices outside Norway, mainly defined contribution plans.

### **Estimates and uncertainties**

Determining such estimates and probabilities entails using judgement based on experience and best estimate of future developments. Given Norfund's investment strategy and geographical investment areas, there is a high degree of uncertainty associated with expectations of future developments. Specific areas that include extensive estimates and judgement are net asset value / valuation of equity investments, write-down of equity investments including currency adjustment and provision for losses on loans to investment projects.

## Note 2 – Segment Information

Norfund's operations fall into the segments Funds, Financial Institutions, Clean Energy, Green Infrastructure and Scalable Enterprises. The table below provides an overview of results in each area. The costs of shared functions have largely been allocated according to the number of employees in each area, and are recorded as part of other operating expenses.

	2020						
(Figures in 1000s of NOK.)	Nofund Total	SME Funds	Financial Institutions	Clean Energy	Green Infrastructure	Scalable Enterprises	Shared Functions and Other Activity
Operating income							
Interest – invested portfolio	322 143	371	226 569	43 297	0	51 906	0
Realised gains	0	0	0	0	0	0	0
Dividends received	597 585	5 578	47 473	544 535	0	0	0
Other project revenues	22 067	7	11 068	7 901	0	2 655	436
<b>Total operating income</b>	<b>941 795</b>	<b>5 956</b>	<b>285 109</b>	<b>595 733</b>	<b>0</b>	<b>54 560</b>	<b>436</b>
Operating expenses							
Payroll expenses	-135 253	-9 888	-27 147	-26 329	-722	-23 910	-47 257
Depreciation tangible fixed assets	-2 331	0	0	0	0	0	-2 331
Other operating expenses	-80 115	-2 253	-5 207	-8 753	-1	-15 040	-48 862

2020							
(Figures in 1000s of NOK.)	Nofund Total	SME Funds	Financial Institutions	Clean Energy	Green Infrastructure	Scalable Enterprises	Shared Functions and Other Activity
Allocation of shared expenses	1	-11 174	-24 750	-25 491	0	-34 907	96 323
Total operating expenses	-217 698	-23 315	-57 103	-60 573	-723	-73 857	-2 127
Gain/loss (-) on FX, project loans	-243 243	-689	-195 016	-29 702	0	-17 835	0
Provision for (-)/reversal of (+) loss on projects	-717 923	-230 530	-195 104	-81 986	0	-210 303	0
Profit/loss on operations	-237 069	-248 578	-162 114	423 472	-723	-247 435	-1 690
Net financial items**	115 298	-648	284	819	0	-366	115 209
Profit/loss before tax	-121 770	-249 226	-161 830	424 291	-723	-247 801	113 519
- Taxes	-6 389	0	-6 389	0	0	0	0
Profit/loss for the year	-128 161	-249 226	-168 220	424 291	-723	-247 801	113 519

\*Income is directly attributable. Expenses that are not directly attributable are shared costs which are allocated in accordance with distribution formulae based on employee numbers.

\*\*Financial items include gain/loss on FX bank deposits and current liabilities”

**Balance Sheet (Investments and Loans) Net Book Values**

	<b>Norfund Total</b>	<b>Funds</b>	<b>Financial Institutions</b>	<b>Clean Energy</b>	<b>Scalable Enterprises</b>
Investments	22384849	1879 069	8 156 610	10 503 844	1 845 326
Write-downs	-1 414 731	-544 326	-231 405	-231 954	-407 046
<b>Total investments business area</b>	<b>20 970 119</b>	<b>1 334 743</b>	<b>7 925 205</b>	<b>10 271 890</b>	<b>1 438 280</b>

<b>Balance Sheet</b>	<b>Africa</b>	<b>Asia</b>	<b>America</b>	<b>Europe / Asia</b>	<b>Global</b>	<b>Accumulated Depreciation</b>	<b>Total</b>
Loans to investments	1 453 336	1 292 722	1 954 928	10 571	0	-164 938	4 546 618
Equity investments	11 977 289	4 984 160	692 009	12 978	6 856	-1 249 792	16 423 501
<b>Total balance sheet</b>	<b>13 430 625</b>	<b>6 276 882</b>	<b>2 646 938</b>	<b>23 548</b>	<b>6 856</b>	<b>-1 414 731</b>	<b>20 970 119</b>
Interest income loans	116 048	89 118	116 330	646	0	0	322 143
Realised gain on shares	0	0	0	0	0	0	0
Dividends received	282 188	303 982	11 415	0	0	0	597 585
Other project revenues	9 286	5 843	6 005	47	886	0	22 067
<b>Total operating income</b>	<b>407 521</b>	<b>398 944</b>	<b>133 750</b>	<b>693</b>	<b>886</b>	<b>0</b>	<b>941.795</b>
Gain/loss on FX, project loans	65 315	41 997	135 834	96	0	0	243 243

**LOSS ON PROJECTS**

The losses for the year include NOK 102 000 in connection with the fraud suffered by Norfund in March 2020.

## Note 3 – Loans and Investments

Loans to Companies				
(Figures in 1000s of NOK.)	Committed Investment	Historical Cost Price	Accumulated Loan Loss Provision	Recorded Value
Financial Institutions	3 439 808	3 522 778	-13 011	3 509 767
Clean Energy	1 252 197	592 447	-43 868	548 579
Scalable Enterprises	1 126 190	572 585	-103 938	468 647
Funds	38 576	23 746	-4 121	19 625
<b>Total loans</b>	<b>5 856 771</b>	<b>4 711 556</b>	<b>-164 938</b>	<b>4 546 618</b>

By 'committed investment' is meant an external commitment for a specific amount. When converting to NOK, the exchange rate at the time of disbursement is used for the part of the amount that is disbursed. The exchange rate at 31.12.2020 is used for the part that is not disbursed. In addition to the loans specified above, Norfund made three loans that are charged to unused resources Balkans, and which are recorded at NOK 0 in accordance with the requirements of NRS.

4 concerning net recording of government grants received; see note 14. Norfund makes a semi-annual assessment of each of the loans in the loan portfolio, including provisions for losses.

### Loan loss provision

A loan is regarded as non-performing when borrower has not made due payments within 60 days of the due date. On balance sheet date Norfund had 14 (10 in 2019) non-performing loans with total interest and repayments due of NOK 125 million (NOK 103 million in 2019) and a total outstanding amount of NOK 410 million (235 million in 2019). Examples of default or losses are significant financial problems on the part of debtor, restrictions on foreign exchange transfers in countries in which debtor operates, debt negotiations or winding up of a business.

These loans are written down by up to 100% of the outstanding principal and accumulated interest, depending on the probability of reflow.

### Repayment

Six loans were repaid in the course of the year (11 in 2019), while 3 were converted into equity.

<b>Equity Investments in Funds</b>				
<b>(Figures in 1000s of NOK.)</b>	<b>Committed Investment</b>	<b>Historical Cost Price</b>	<b>Accumulated Loan Loss Provision</b>	<b>Recorded Value</b>
Financial Institutions	829 631	660 554	-35 675	624 879
Clean Energy	641 240	182 534	-37 372	145 163
Funds	3 818 980	1 802 132	-518 648	1 283 484
<b>Total invested in funds</b>	<b>5 289 851</b>	<b>2 645 220</b>	<b>-591 694</b>	<b>2 053 526</b>

<b>Equity Investments in Companies</b>				
<b>(Figures in 1000s NOK.)</b>	<b>Committed Investment</b>	<b>Historical Cost Price</b>	<b>Accumulated Loan Loss Provision</b>	<b>Recorded Value</b>
Financial Institutions	4 805 722	3 973 278	-182 719	3 790 559
Clean Energy	10 974 603	9 728 863	-150 714	9 578 149
Scalable Enterprises	1 282 340	1 272 741	-303 108	969 633
Funds	53 406	53 191	-21 557	31 634
<b>Total invested in equity</b>	<b>17 116 071</b>	<b>15 028 073</b>	<b>-658 098</b>	<b>14 369 975</b>

By 'committed investment' is meant that there is an external commitment for a specific amount. For conversions to NOK, the exchange rate at the time of disbursement is used for the part of the amount that is disbursed. The exchange rate at 31 December 2020 is used for the part that is not disbursed.

Accumulated loan loss provisions are accrued, not realised losses on portfolio investments.

## Note 4 – Exited Investments

The note shows estimated gain/loss and annual IRR during the period of Norfund's ownership for investments exited in 2020. Total reflow from investments includes all cash flows, for example dividends, sales sums and other returns, during the period of Norfund's ownership. Investment in and exiting from projects may take place over a period of years, and the estimated realised gain/loss may thus be entered in the accounts in different periods.

(In 1000s of NOK)	Fanisi Venture Capital Fund	Horizon Equity Partners Fund III	SEAF Sichuan Small Inv. Funds
Cost price, called and fully paid capital	96 492	22 467	19 921
Total reflow investment	22 253	18 610	32 677
Gain/loss (-) on exited investments	-74 239	-3 857	12 757
Realised gain / loss (-)	-106 371	-3 683	10 563
Realised FX gain/loss (-)	32 132	-174	2 194
Year of first disbursement	2009	2007	2001
Investment currency	USD	ZAR	USD
IRR NOK	-27%	-3%	6%

## **Note 5 – Payroll Expenses**

### **Statement on the setting of salaries and other remuneration to senior employees**

Norfund complies with the government guidelines laid down on 13 February 2015 with respect to the setting of salaries and other remuneration for senior employees. These are based on changes published in the white paper A diverse and value-creating ownership St. meld. 27 (2013-1024).

### **Guidelines for Norfund on the setting of salaries and other remuneration in 2020**

The following guidelines apply to the setting of salaries for senior Norfund employees up to the ordinary General Meeting in 2021.

The salary system is designed to attract and retain competent personnel. In setting salaries, emphasis is placed on the individual's contribution to fulfilling Norfund's mandate.

Norfund wishes to promote moderation in executive salaries. The aim in setting salaries is that senior Norfund employees should have pay conditions that are competitive, but not at the top end of the scale.

Norfund considers that a relevant benchmark is other government funds such as the National Insurance Scheme Fund, Export Credit Norway and Investinor.

The Board sets the salary of the managing director. The managing director sets the salaries of the corporate heads of department who report to him. This group consists of senior company employees. Norfund's pay conditions for senior employees consist of fixed salary, pension and insurance schemes and other benefits (newspapers, electronic communications). Norfund has a moderate bonus scheme that covers all company employees except the managing director.

Bonuses are awarded twice a year, and individual bonuses vary from NOK 10 000 to NOK 100 000.

The highest total bonus allocation in 2020 was NOK 100 000. All members of the management team, with the exception of the managing director, received a bonus of between NOK 75 000 and 100 000 at the end of 2020. The reason for this was the work involved in the exit from SN Power, a record-high commitment level, extraordinary work input in a demanding work situation because of COVID, home office and special incidents. The bonus scheme is in line with the guidelines' requirement of variable pay. Bonuses awarded are fixed by the managing director.

The fixed pay is subject to regulation with the point of departure in wage developments in the financial sector, represented by reference figures from Finance Norway, the results of the main settlement and for companies Norfund has defined as its peers. In addition, an assessment is made of the individual's performance and goal achievement in the 2020 accounting year. Annual goals for the individual senior employee are fixed by the managing director in the case of management, and by the Board in the case of the managing director.

Norfund had the following pension and insurance conditions for the 2020 accounting year:

In 2018 Norfund closed the defined benefit pension scheme to new employees, and now offers a defined contribution scheme to all company employees, including managers. As the transition to the new scheme was voluntary for existing employees, this means that in a transitional phase Norfund will have both a defined benefit and a defined contribution scheme. The defined benefit scheme entitles the individual to defined future benefits and depends primarily on the number of qualifying years, pay level on reaching retirement age and the size of National Insurance benefits. For historic reasons, the earlier scheme is being continued for the present, where the full qualifying period is 30 years and pension amounts to 70% of salaries up to 12G. This scheme satisfies the requirements of the Act on Mandatory Occupational Pensions. At present 47 employees are covered by the defined contribution scheme and 30 by the defined benefit scheme. Norfund also has a scheme which entitles employees to pension rights for pay in excess of 12G. This scheme was closed to new members in 2012. This scheme, which is funded from operations, consists of 66% of pay in excess of 12G with a retirement age of 67 and a full qualification period of 30 years, in the calculation base. If the service period is calculated as being less than 30 years, the pension is reduced proportionately. On termination of employment or on reaching retirement age, employees receive a settlement for the value of the amount saved. This scheme currently covers 4 employees. In the defined contribution scheme, 7% of salary is set aside from pay from 0–7 G, and 20% from salaries of 7.1–12 G. The costs of both schemes are included in the calculation of pension expenses.

Senior Norfund employees are covered by insurance schemes that apply to all Norfund employees. Senior employees have a 3-month notice period. The CEO has an agreement for pay after termination of employment equivalent to 6 months' salary. This arrangement is in line with the guidelines for salary and other remuneration.

Salary policy in the 2020 accounting year has adhered to the principles of the Management Salary Statement as adopted by the General Meeting on 18 June 2018. Salary adjustment for the CEO and

other members of management in 2019 was 2.6% on average. In 2019 the management team was increased by one member. In 2019, an assessment was carried out of the pay level for men and women in the management team. The review resulted in an increase in the pay level for woman managers. At 31.12 On 1 January 2020 a revision of the Equality and Anti-Discrimination Act entered into force. The change means that every two years companies must survey pay conditions by gender. The total pay adjustment in 2020 for the management team, including the CEO, amounts to NOK 341 553.

Wages, salaries and other payroll expenses (In 1000s of NOK.)	Norfund	
	2020	2019
Wages and salaries	91 451	82 055
Employer's social security contribution	16 334	15 038
Pension expenses	14 694	6 956
Other benefits	12 795	9 997
<b>Total wages, salaries and other payroll expenses</b>	<b>135 273</b>	<b>114 046</b>

### Pay for Senior Employees

	<b>Title</b>	<b>Salary</b>	<b>Bonus</b>	<b>Taxable Portion of Insurance and other Payments in Kind</b>	<b>Pensions</b>	<b>Total</b>
Jan Tellef Thorleifsson	CEO	2 909 326	0	23 226	122 841	3 055 393
Hege E. Seel up to 01.10.20	EVP Org & HR	1 608 046	0	33 787	669 248	2 311 091
Ylva Lindberg	EVP Strategy & Analysis	1 586 274	75 000	21 898	119 708	1 802 880
Cathrine Kaasen Conradi	EVP CFRO	1 640 952	75 000	24 067	118 458	1 858 477
Thomas Fjeld Heltne	EVP Legal Department	1 596 799	75 000	21 995	119 457	1 813 251
Erik Sandersen	EVP Financial Institutions	1 900 568	75 000	22 105	366 865	2 364 538
Mark Davis	EVP Clean Energy	2 054 695	100 000	80 797	863 740	3 099 232
Ellen C. Rasmussen from 01.03.20	Scalable Enterprises	1 360 888	75 000	18 941	102 067	1 556 895
Olaug Svarva	Chair	270 000	0	0	0	270 000

The Chair has annual remuneration of NOK 270 000 (NOK 260 000) for boardroom work for Norfund. The Board members each receive annual remuneration of NOK 135 000 (NOK 127 500). In 2020 a Risk and Audit Committee consisting of three Board members was appointed. The committee chairman, Martin Skancke, received remuneration of NOK 37 500 and other members NOK 32 500 in addition to the ordinary Board remuneration.

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

Norfund has a variable bonus scheme for all employees excluding the managing director. In all, the scheme accounted for 1.9% of Norfund's payroll expenses in 2020. Bonuses are paid for

extraordinary performance, and the average payment in 2020 to bonus recipients was NOK 49 423. The highest bonus payment represented 13 per cent of salary and is thus far lower than the requirement in Report no. 27 (2013–2014) to the Storting on Diverse and Value-creating Ownership (Eierskapsmeldingen) that bonuses be a maximum of 50 per cent of the employee's salary.

<b>Auditors Fee</b>		
(Figures in 1000s of NOK.)	2020	2019
Statutory audit	607	686
Accounting assistance	14	31
Other attestation services	0	49
Other services	578	207
<b>Total</b>	<b>1 199</b>	<b>973</b>

Auditor's fee is inclusive of VAT

In addition, business partners of Deloitte AS in other countries delivered other services expensed in the amount of NOK 4 670 000 (473 000).

### **Employees**

The company had 102 (87) employees at the end of 2020, accounting for 100.5 (82.6) full-time equivalents.

### **Pensions**

In addition to the employee pension plans described in the Executive Pay Statement, local employees at Norfund's regional offices in South Africa, Ghana, Thailand, Kenya and Costa Rica have defined contribution pension plans. Norfund therefore has no obligations other than what has been paid through the year. In 2020, NOK 1 943 140 (1 522 524) was expensed in connection with these schemes.

Financial Assumptions		
	2020	2019
Discount rate	1.70%	2.30%
Expected return on plan assets	1.70%	2.30%
Salary adjustment	2.25%	2.25%
Pension adjustment	2.00%	2.00%
Adjustment of the basic amount (G) in the National Insurance System	2.00%	2.00%
Turnover	9.00%	9.00%
Employer's social security contribution	19.10%	19.10%

Financial Assumptions		
(Figures in 1000s of NOK.)	2020	2019
Net present value of pension earned in the period	7 529	9 529
Capital cost of previously earned pensions	2070	2.63
Expected return on plan assets	-1 737	-1 785
Administrative costs	1 133	1 024
Accrued employer's social security contribution*	2 438	1 366
<b>Net pension liabilities for the year incl. employer's</b>	<b>11 433</b>	<b>12 763</b>

\*Employer's social security contribution is calculated on the amount paid in.

<b>Estimated Pension Liabilities</b>						
	<b>2020</b>			<b>2019</b>		
	<b>Funded</b>	<b>Unfunded</b>	<b>Total</b>	<b>Funded</b>	<b>Unfunded</b>	<b>Total</b>
Estimated pension liabilities	109 483	20 683	130 166	82 091	8 476	90 567
Estimated plan assets*	81 406	0	81 406	69 046	0	69 046
Net pension liabilities 31.12	28 078	20 683	48 760	13 045	8 476	21 521
Accrued employer's social security contribution**	5 363	3 950	9 313	2 492	1 619	4 111
<b>Net pension liabilities 31.12</b>	<b>33 441</b>	<b>24 633</b>	<b>58 074</b>	<b>15 537</b>	<b>10 095</b>	<b>25 632</b>

\*Estimated plan assets consist of paid premiums invested in Nordea Life.

\*\*Accrued employer's social security contribution is based on net pension liability.

<b>Reconciliation Opening/Closing Balance</b>		
	<b>2020</b>	<b>2019</b>
Carrying amount net pension liabilities 01.01 incl. employer's social security contribution	25 632	49 203
Net pension expenses for the year incl. employer's social security contribution	10 215	11 409
Actuarial gain/loss charged directly to equity 32 469	-19 706	0
Pensions paid, early retirement / unfunded, incl. employer's social security contribution	-1 161	-8 123
Investment in plan assets, etc., incl. employer's social security contribution	-9 082	-7 152
Carrying amount net pension liabilities 31.12. incl. employer's social security contribution	58 074	25 632

**Nordea Life's Asset Mix\***

	<b>30 September 2020</b>	<b>30 September 2019</b>
Property	14.40%	14.00%
Equities	9.90%	10.40%
Bonds at amortised cost	3.50%	12.50%
Short-term bonds/certificates	61.30%	61.70%
Other	10.60%	1.40%
Total financial assets	100.00%	100.00%

\* Known values at calculation date

## Note 6 – Other Operating Expenses

(Figures in 1000s NOK.)	2020	2019
Seminars, conferences, upgrading of competencies	2 234	4 345
Travel expenses	3 591	13 385
External assistance, projects	23 445	10 311
External assistance, other	15 124	12 884
Rent, including shared costs	11 268	9 853
Other expenses	24 433	21 044
<b>Total operating expenses</b>	<b>80 095</b>	<b>71 822</b>

	Lease Duration	Annual Rental Costs
Premises at Fridtjof Nansens Plass 4, Oslo	15.11.16 – 31.12.2026	6 320 302

## Note 7 - Net financial income/expense

(Figures in 1000s of NOK.)	2020	2019
Other interest income	32 527	48 803
Other financial income	213 484	79 180
Other financial expenses	-130 713	-41 145
<b>Total financial income/expenses</b>	<b>115 298</b>	<b>86 838</b>

## Note 8 - Fixed Assets

(Figures in 1000s of NOK.)	Equipment and vehicles, fittings and fixtures etc.	Works of Art	Total
Cost of acquisition at 01.01	19 458	1 463	20 922
+ acquisitions during the period	2 179	0	2 179
- disposals during the period	0	0	0
Cost of acquisition at end of period	21 637	1 463	23 100
Accumulated ordinary depreciation at 01.01	12 793	0	12 793
+ ordinary depreciation for the period	2 331	0	2 331
- acc. ord. depreciation, operating assets disposed of	0	0	0
Acc.ordinary depreciation at 31 December	15 124	0	15 124
<b>Carrying value for accounting purposes at end of period</b>	<b>6 512</b>	<b>1 463</b>	<b>7 976</b>
Depreciation period	3- 4 years	Non-depreciable	

## Note 9 – Other Receivables

(Figures in 1000s of NOK.)	31. 12 2020	31. 12 2019
Accrued interest	74 789	147 588
Other receivables	152 787	159 207
<b>Total receivables</b>	<b>227 576</b>	<b>306 795</b>

NOK 125 million of ‘Other receivables’ relates to agreed settlement of a sale of equities during the period. Settlement was considerably delayed because of the COVID situation and the payment plan was renegotiated. NOK 65 million of the payment is planned for 2022.

## **Note 10 – Tax**

Tax expenses are attributable in their entirety to withholding tax on dividends and interest on foreign investments. Norfund is tax-exempt in Norway pursuant to a special section in the Norwegian Taxation Act.

## Note 11 – Bank Deposits, Cash and Cash Equivalents

(Figures in 1000s of NOK.)	2020	2019
Deposits in Norges Bank	2 345 227	2 157 103
Tax deductions	5 316	4 990
Unused resources, note 14	158 837	118 539
Ordinary bank deposits	387 822	543 410
<b>Total bank deposits</b>	<b>2 897 203</b>	<b>2 824 044</b>

### Other current assets

Other current assets are bank deposits in USD and with agreed short-term interest due dates of 3-6 months.

## Note 12 – Capital Movements

Company				
(Figures in 1000s of NOK.)	Primary Capital	Capital in Reserves	Surplus Fund	Total Equity
Capital at 31.12. 2019	13 209 125	4 578 375	5 221 324	23 008 824
Capital supplied in 2020	1 365 000	455 000	0	1 820 000
Other changes		-7 449	0	-7 449
Actuarial gains/losses, pensions	0	0	-32 469	-32 469
Net surplus/deficit (-)	0	0	-128 161	-128 161
<b>Capital at 31.12.2020</b>	<b>14 574 125</b>	<b>5 025 926</b>	<b>5 060 694</b>	<b>24 660 745</b>

Capital in legal reserves can only be used to meet losses that cannot be covered from other reserves apart from primary capital. Of the capital received in 2020, 75% was allocated to primary capital and 25% to legal reserves.

### Other changes

Norfund administered a loan scheme for providing loans to small Norwegian companies wanting to invest in LDCs.

This was only used to a limited extent. A total of NOK 30 million was granted in this scheme, of which NOK 14 million was allocated to legal reserves (loan loss provision). In Proposition 117 S to the Storting it was decided that the residual of the loan loss provision of NOK 7.4 million should be re-allocated to the project development and risk mitigation facility; see also [Note 13](#).

## Note 13 – Unused Resources

In 2019 the Storting established a special scheme that enables Norfund to make risk capital available in the most demanding markets, particularly in vulnerable states and in the least developed countries (LDCs), where access to risk capital is limited. The scheme is to be used for projects with higher risk than investments in Norfund's ordinary portfolio, and is to be administered as a separate scheme. The Storting granted NOK 25 million to the scheme for 2020 (NOK 25 million in 2019). At the end of 2020, NOK 1.8 million remained to be allocated, while NOK 27.1 million had not yet been disbursed.

In addition Norfund received NOK 25 million (NOK 105 million in 2019) in grant resources in the previously established scheme which are to be used to increase the developmental effect of Norfund's investments through operational improvements and local community development, and to develop new projects in sectors and countries with particularly high risk levels. Support may, for example, be provided for training and transfer of expertise, health and equal opportunity programmes, workers' rights, improvement of internal control, corporate governance and energy efficiency. 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. At the end of 2020, NOK 36.1 million remained to be allocated, while NOK 76.9 million had not yet been disbursed.

The grant fund earmarked for projects in the Balkans has primarily taken the form of loans to finance companies. At the end of 2020, unused resources relating to the Balkans consisted of three outstanding loans totalling EUR 2.9 million, and one equity investment of EUR 0.3 million.

In Proposition no. 23 S to the Storting for 2017, resources were granted to the Nordic Horn of Africa Opportunities Fund. The resources are to be used to enable the establishment of an investment fund for small and medium-sized enterprises in Somalia. This type of investment is highly risky, and the grant resources are used as buffer capital to protect other investors against losses.

The buffer capital is a crucial instrument for attracting investors. The fund is the first of its kind in Somalia, and is expected to have significant development effects.

As of 31.12.2020, no resources remained in the Nordic Hon of Africa Opportunities Fund[], but there is still a possibility of having some previously granted resources reversed in the future.

(Figures in 1000s of NOK.)	Unused Resources: Norfund		Unused Resources: Balkan	
	31.12.2020	12.12.2019	31.12.2020	31.12.2019
Receipts				
Carried over from previous year	106 898	5 485	11 639	5 557
Received during the year	50 000	130 000	0	0
Corrections grant resources	7 448	0	0	0
<b>Total receipts</b>	<b>164 346</b>	<b>135 485</b>	<b>11 639</b>	<b>5 557</b>
<b>Income</b>	<b>0</b>	<b>0</b>	<b>1 207</b>	<b>376</b>
Disbursements				
General follow-up	0	0	-345	-360
Intervention				
Project development:	-2 408	-2 976	0	0
Boost and support project development effects	-7 924	-10 215	0	0
Local investment funds				
Follow-up costs	0	0	-134	484
Loans / investment projects	-11 263	-14 349	4 879	5 583
<b>Total disbursements</b>	<b>-22 758</b>	<b>-28 587</b>	<b>4 399</b>	<b>5 707</b>
Overspending covered by Norfund				
<b>Non-disbursed resources</b>	<b>141 588</b>	<b>106 898</b>	<b>17 247</b>	<b>11 639</b>
<b>Total non-disbursed resources at 31.12.2020</b>	<b>158 835</b>			

## **Note 14 – Information on financial market risk and the use of financial instruments**

According to Norfund's mandate, the company's investments are intended to be additional, in that they provide access to capital and expertise to enterprises that would not otherwise have had such funding because of the high risk involved. Norfund's investments are assessed through an extensive selection process that consists of checking against Norfund's mandate, thorough evaluations and analysis of legal, financial, commercial and ESG-related aspects. The Investment Committee and/or the Board take the final decision regarding investment.

Efforts are made to diversify portfolio risk by achieving portfolio breadth in terms of countries, industries, business partners, instruments and investment times. Norfund exercises active ownership in the largest investments in its portfolio through representation on boards, investment committees or other governance bodies .

Norfund is exposed to several different types of risk, including liquidity risk, credit risk, currency risk, interest-rate risk and other market risk. The financial risk management has been established to identify and analyse these risks, and to establish appropriate risk limits and risk controls. Norfund regularly reviews the established risk management guidelines and the system that has been established to ensure that changes in markets are reflected in the risk limits. Responsibility for Norfund's risk management and control is shared between Board and management. The Board decides on goals and limits within all risk areas, including risk management guidelines.

### **Market risk**

Norfund's mandate is to invest in developing countries, which means investing in countries, markets and companies that are characterised by high risk. Future returns depend among other things on the ability to manage and mitigate risk in all phases of an investment.

In addition, movements in interest rate levels and inflation in the individual markets in which Norfund operates will influence the results achieved. Loans to projects are usually based on variable LIBOR plus a margin.

## **Credit risk**

Norfund has a substantial number of loans, and a semi-annual review is made of the borrowers' financial situation and their ability to service the loan in accordance with the payment plan. Loans are assessed individually, and if default appears highly likely, the value of the loan is written down.

Norfund does not carry any general loss provisions for the loan portfolio, because the loans are very different, particularly in respect of context.

## **Liquidity risk**

Liquidity risk is the risk of Norfund being unable to fulfil its commitments. This risk is regarded as low, as Norfund operates with substantial cash holdings, receives annual allocations from the Owner and has an investment portfolio that generates reflows in the form of interest, payments, dividends and through sale of enterprises. These are intended to cover committed investments that have not yet been disbursed.

The cash holdings are mainly placed in Norges Bank.

## **Currency risk**

Norfund's investments are largely made in USD (more than 90%), but in some cases in other currencies, the next largest being EUR and ZAR. Since Norfund's base currency is NOK, its future returns are strongly influenced by the USD/NOK exchange rate. The portfolio companies may also be subject to fluctuations in the exchange rates between local currencies and USD, which in turn may affect the results and value of the companies.

Norfund does not use any currency hedging instruments.

Norfund's liquid assets are mainly placed in NOK-denominated, interest-bearing accounts in Norges Bank.

<b>FX Rates Used in Conversion</b>				
		<b>31.12.2020</b>	<b>31.12.2019</b>	<b>Change During the Year</b>
US Dollar	USD	8533	8780	-2.80%
South African rand	ZAR	0.581	0.625	-7.10%
Rwandan franc	RWF	0.009	0.009	-6.60%
Kenyan shilling	KES	0.078	0.086	-9.50%
Ugandan shilling	UGS	0.002	0.002	-2.10%
Mozambican metical	MZN	0.113	0.142	-20.20%
Bangladeshi taka	BDT	0.099	0.102	-2.40%
Cambodian riel	KHR	0.002	0.002	-1.90%
Swaziland lilangeni	SZL	0.584	0.626	-6.70%

## Operational risk

Operational risk is the risk of financial losses occurring as a consequence of faults in internal processes and systems, human error or as a consequence of external events. In principle, we expect this risk to be low. Norfund's procedures and guidelines are used to manage operational risk.

As described in the annual report, Norfund suffered a major incident in 2020 which inflicted a financial loss of NOK 102 million. In the wake of this event, Norfund's internal control procedures have been reviewed and strengthened where it was considered to be necessary.

## **Note 15 – Current liabilities and guarantees**

### **Other current liabilities**

Included in other current liabilities is an item of NOK 98.2 million to the Dutch bank FMO in connection with the acquisition of shares in Green Resources, of which Norfund was the owner at the end of 2020.

### **Guarantees**

As part of its activities, Norfund has issued 5 guarantees totalling NOK 146.9 million. An annual assessment is made by the project manager as to whether the guarantee is at risk of being invoked, and a proportional provision is made accordingly. As at 31.12 a provision of NOK 6.6 million had therefore been made for guarantee obligations.

## **Note 16 – Events after balance-sheet date**

### **Sale of SN Power**

The sale of SN Power was published in October 2020. Owing to lack of approval from the Filipino competition authorities, the sale was first formally completed on 29 January 2021. The estimated gain on the sale amounts to approximately NOK 6 000 million, and will be recorded in 2021.

### **Military coup in Myanmar**

As per 31.12.202, Norfund had six ongoing projects in Myanmar with a book value of NOK 535 million. As a consequence of the military coup and the ongoing political destabilisation of the country, the risk of a permanent fall in the value of the investments is increasing considerably. The situation is still very unclear, and it is too early to estimate any long-term consequences. Therefore no general write-down has been made on the investments as a consequence of this event. Norfund is monitoring the situation closely.

### **Global pandemic**

There is still great uncertainty associated with the effects of COVID-19. Write-downs were made on a number of investments as a consequence of the long-term effects of the pandemic, and the uncertainty is expected to continue having an impact through 2021.

# Auditors report

[Auditors report \(PDF\)Download](#)





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To the General Meeting of Norfund

## INDEPENDENT AUDITOR'S REPORT

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Norfund showing a deficit of NOK 128 160 863. The financial statements comprise the balance sheet as at 31 December 2020, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2020, 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.

#### Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including a true and fair view of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

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Organisasjonsnummer: 980 211 282



#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

#### **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, the going concern assumption and the proposed allocation of the result 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.

**Deloitte.**

Page 3  
Independent Auditor's Report -  
Norfund

Oslo, 23 March 2021  
Deloitte AS

**Grete Elgåen**  
State Authorised Public Accountant (Norway)

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