



2016

ANNUAL REPORT

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Norfund – The Norwegian Investment Fund for Developing Countries – was established by the Storting (Norwegian parliament) in 1997 as a state-owned and state-funded investment company. Norfund is a Norwegian development instrument, and as such contributes to economic development and profitable, sustainable jobs in poor countries through the development of profitable enterprises. Norfund's focus is on clean energy, the financial sector and agribusiness, coupled with transfer of knowledge and technology. At the end of 2016, the total investment portfolio amounted to NOK 16.8 billion.

This report covers both Norfund and the Norfund group. Norfininvest AS, in which Norfund has a 75 per cent holding, is a consolidated subsidiary of the Norfund group. Norfininvest AS owns 12.2 per cent of Equity Group Holdings Ltd (Equity Bank), which it owns jointly with Norfinance AS. Matters concerning either the Norfund group or Norfund individually are specifically indicated in the report. Otherwise, the report applies to both companies.

## 1. SUMMARY OF THE YEAR

Economic developments in the regions prioritised by Norfund have been mixed this past year. According to the OECD, global GDP growth was less than 3 per cent in 2016, the lowest since 2009. Economic developments in Central America were weak as a result of sluggish growth in the West. The countries of Southeast Asia had generally stronger growth than the global economy as a whole, with the exception of Myanmar, which experienced storms, floods and low prices for export goods. The countries of southern Africa are still severely affected by the fall in commodity prices, with deteriorated balance of payments and weakened public finances. The light in the darkness is East Africa, which has enjoyed relatively strong economic growth, driven in part by increased intra-regional trade and the positive effect of low prices for imported petroleum products. South Sudan and Burundi are exceptions. Economic developments in both have been weak as a result of internal conflicts and, in the case of South Sudan, also an almost complete loss of oil revenue as a result of low oil prices.

The still uncertain global economic situation has sapped investors' willingness to invest, particularly in poor countries. Despite the abundance of capital in the West, less capital is flowing into the countries in our regions, particularly Africa. This means that Norfund and other development finance institutions (DFIs) have an even more important part to play

in supplying capital to the private sector. Norfund operates in countries that are challenging for many reasons, which makes special demands in terms of expertise and the Fund's ability to handle different kinds of risk.

In 2016 Norfund again invested extensively, entering into investment agreements for NOK 2.8 billion. Approximately NOK 870 million was invested in renewable energy. Investment agreements for NOK 145 billion were made in the financial institutions sector, and NOK 248 million in agribusiness. NOK 214 million was invested in funds for small and medium-sized enterprises (SME funds).

Approximately 49 per cent of Norfund's investments are in clean energy as at 31 December 2016. Norfund distinguishes between the concepts "clean energy", which is the name of the investment department, and covers the whole energy portfolio, and "renewable energy", which only covers energy based on renewable sources. The difference is largely accounted for by investments in gas-fired power plants in East and West Africa. Renewable energy accounts for 41 per cent of the total portfolio. Some 30 per cent of the portfolio is in financial institutions, including microfinance, and 9 per cent is in agribusiness. The remainder of the portfolio (11 per cent) is mainly in small and medium-sized enterprises, through private equity funds. A full 73 per cent of new investments in 2016 were made in Sub-Saharan Africa, while 57 per cent were made in least developed countries (LDCs). In 2016, investments in renewable energy accounted for 62 per cent of the capital supplied that year, well over the Owner's target figure. However, investment in renewable energy can vary substantially from year to year.

Norfund's revised strategy was adopted by the Board in January 2016. The primary features of the strategy are growth based on expertise, with geographic concentration on eastern

and southern Africa, Central America and selected countries in Southeast Asia and priority for investments in clean energy, financial institutions, agribusiness and SMEs. Norfund intends to expand its role as an active, strategic minority investor with chief emphasis on the use of equity instruments.

The Fund has initiated a number of processes as part of its follow-up of the revised strategy. The geographical scope was expanded in 2016 to include Ethiopia, Somaliland, and a gradual venture into West Africa. A new regional office in Accra, Ghana, is being established, and will constitute a first step into West Africa. The Fund has launched processes to buttress its work to ensure compliance with rules and regulations, financial risk and documentation of development effects.

Norfund has four regional offices: Maputo and Nairobi in Africa, Bangkok in Asia and San José in Central America. The Johannesburg office was closed on 31 December 2016. Norfund's policy is to recruit personnel from the countries in which we invest. The trainee scheme established in 2015 was continued in 2016 with three locally recruited trainees at the regional offices in Africa.

## 2. NORFUND'S BUSINESS

### 2.1. Operations and business areas

Norfund's objective is to promote development by investing in viable, profitable enterprises. By so doing, Norfund helps to create jobs and income for employees and owners, as well as tax revenue for the authorities. The investments must be additional, in that they boost the supply of capital and expertise in poor countries. Norfund is also to act as a catalyst by mobilising capital from other investors, both in Norway and abroad. Norfund always invests jointly with other investors, and does not normally take more than a 35 per cent stake in a company's equity. In the majority of projects, Norfund's contribution is a combination of capital (equity and/or loans) and the exercise of corporate governance. Exercising good corporate governance demands considerable knowledge of countries, sectors, investment skills and, not least, the ability to identify and choose the right partner(s), as well as to actively follow up investments. Norfund receives capital contributions from the Norwegian government which in 2016 amounted to NOK 148 billion.

The most important individual event in 2016 was the agreement on the establishment of Arise, an investment company for banks in Sub-Saharan Africa, which became operational on 1 January 2017. Arise was established through a collaboration between Rabobank, FMO, a Dutch DFI, and Norfund, with a view to strengthening the banking sector in Sub-Saharan Africa and increasing the supply of capital to SMEs, and to enable financial inclusion. Norfund and the other Norwegian partners in Norfinance jointly own 48 per cent of the company. Another important milestone was the decision of the Danish DFI, IFU, to

engage in the NMI joint venture and to invest in the third NMI fund. NMI thereby became the Nordic Microfinance Initiative. With IFU on the team, NMI's ambition is to be the leading micro-finance platform in the Nordic countries, with possible participation by investors from other Nordic countries in the future. A third important event was the closing of an agreement between Scatec Solar and KLP Norfund Invest AS with the state Electricidade de Mozambique (EDM), which will ensure sale of solar energy from the planned first large-scale solar power plant in Mozambique. The planned power plant is an important first step towards realising Mozambique's ambition to increase the renewable portion of its energy mix, and will represent important capacity in energy-impooverished northern Mozambique.

Norfund's operations are grouped in the following four investment areas:

**Clean energy:** Investment in clean energy is intended to improve and increase electricity production from clean energy sources, thereby helping to provide a sound basis for economic development. Projects are characterised by substantial capital requirements and high risk, associated with both the development itself and hydrological conditions to which the hydropower plants are subject. Norfund's investments in power production have been highly profitable over time and generated significant development effects.

Norfund entered into agreements for investment in clean energy, in all cases renewable, for a total value of NOK 870 million in 2016. Important agreements signed in 2016 included:

- Scatec Solar and KLP Norfund Invest entered into a power purchase agreement (PPA) for Mozambique's first large-scale solar power plant. The 40 MWp Mocuba plant is expected to deliver energy equivalent to the consumption of 175 000 households. The amount committed is NOK 122.4 million.
- The Interact Climate Change Facility (ICCF) is a mechanism for co-financing climate-related projects in developing countries established by a group of European DFIs, French ADF and the European Investment Bank. Norfund was involved from the start in 2010, and in 2016 committed NOK 182.2 million.
- Through the company d.light design Inc, Norfund has invested in a leading off-grid power supplier. The company d.light sells solar power lamps and household energy systems. Norfund's investment will fuel expansion in the markets for household power systems in East Africa and the Democratic Republic Congo, and later Nigeria and Ethiopia. The amount committed is NOK 43.6 million.

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- Norfund committed about NOK 500 million to SN Power's venture in Sub-Saharan Africa. The Fund also continued its support for the development of greenfield projects via Globeleq and SN Power, and by using Norfund's project development facility for renewable energy projects.
- The Stortemelk hydropower plant on a river in South Africa started operating in 2016. The hydropower plant is a startup, and has an installed power of 4.5 MW. Its annual production will be 28 GWh.

**Financial institutions:** Norfund invests in or provides loans to banks, microfinance institutions and other financial institutions. The primary aim is to extend the range of financial services available to SMEs and individuals who would not otherwise have access to such services. In 2016, Norfund entered into investment agreements for a total of NOK 1 452 million in financial institutions.

Norfund and its partners in Norfinance joined forces with Rabobank and FMO, a Dutch DFI, to establish the bank investment company Arise. Arise is intended to strengthen and develop effective, including banks in Africa. Norfund's existing equities and primary capital certificates in African banks are being placed in Arise. In the years ahead, new equity investments in African banks will primarily be channelled through Arise. In 2016 Arise committed a net amount of NOK 918.9 million. Norfund now plans to step up its investment in financial institutions in Asia and Latin America.

Norfund committed to three investments in Central America: an equity investment in Banco Promerica Guatemala in the amount of NOK 82.8 million, a loan of NOK 86.4 to Fedecredito, a microfinance institution in El Salvador, and an equity investment of NOK 41.7 million in Fondo de Desarrollo Local (FDL), a microfinance institution in Nicaragua.

In 2016 Norfund sold its 21 per cent holding in the Cambodian microfinance institution Hatta Kaksekar Limited (HKL) to the Bank of Ayudhya, a major Thailand-based bank. HKL was originally an Oxfam project, established in 1994 in response to the food crisis in Cambodia, and it has grown rapidly from a small NGO to the fourth largest microfinance bank in the country. Norfund invested in HKL for the first time in 2007, and since 2008 has been an active owner. HKL's ambition is to be a full service bank, and the new owner is regarded as the right strategic partner to ensure further expansion of the institution.

**SME funds:** SME funds are useful instruments for reaching small and medium-sized enterprises. These enterprises play a key role in building up a well-functioning business sector and creating local jobs. Because of the shortage of capital in the SME sector, Norfund's role is to be additional by investing in these

funds. Investments are concentrated on markets with particularly urgent needs, particularly in LDCs. As a rule, investments are channelled through local managers, who contribute to active ownership and boosting competencies in the enterprises. Norfund entered into investment agreements worth NOK 214 million with SME funds in 2016.

Two new fund investments were made in 2016. FIPA II, a follow-up to FIPA, which invests in Angola and is managed by a fund manager that Norfund established in 2009 together with a local partner, and Frontier Fund II, an SME that invests in Bangladesh and is a follow-up to Frontier Fund, in which Norfund invested in 2010. The amounts committed are NOK 149.7 million in FIPA II and NOK 64.4 million in Frontier Fund II.

**Agribusiness:** Norfund's investments in agribusiness mainly target growth enterprises in Africa with strong development effects. In this kind of investment, Norfund's expertise and the part it plays in corporate governance are as important as the actual funding.

Norfund faced challenges in its agribusiness portfolio also in 2016. This was not unexpected, however, given the high proportion of startups in challenging markets. At the same time, there was work through the year on several investments that are expected to be completed in the first half of 2017.

In all, Norfund entered into investment agreements for NOK 248 million in the investment area Agribusiness in 2016. A new investment of NOK 16.4 million was made in the company Associated Foods Zimbabwe (Pvt) Ltd, a company that processes agricultural products for the consumer market. Norfund also committed NOK 179.3 million to European Financing Partners (EFP), a co-financing mechanism for developing countries established by European DFIs and the European Investment Bank. Norfund invested in EFP for the first time in 2009.

**The grant facility**

Norfund has a grant facility that is designed to strengthen the development effects of our investments. The facility provides professional and technical assistance for projects through product development, operational improvements and ESG (environment, social, governance), such as training, improvement of internal control systems or HSE procedures and local community development.

Norfund approved grants for a total of NOK 111 million in 2016. These were distributed among 14 projects. Twenty-one per cent of these grants (accounting for 16 per cent of the resources) were channelled into project development, 71 per cent went to streamlining of operations and to ESG (78 per cent) and 7 went to local community development (7 per cent). The resources were distributed such that 86 per cent went to projects in Sub-

Saharan Africa (71 per cent of the projects) and 31 per cent to projects in least developed countries (LDCs). In addition to 14 completely new projects, 28 projects from previous years were continued in 2016. Owing to an extraordinary budget situation, new capital was not transferred in 2016. In a letter of 19 April, however, the Ministry of Foreign Affairs temporarily authorised Norfund to finance grant projects over the operations budget. Norfund also administers earmarked resources from the Ministry of Foreign Affairs (MFA) and the embassies for risk-reducing measures in connection with our investments in South Sudan and Myanmar, and a grant from the Ministry of Climate and the Environment to Nordic Microfinance Initiative (NMI) for a pilot study under the climate and forest initiative.

On behalf of the Ministry, Norfund also administers a grant fund earmarked for projects in the Balkans. Most of the resources have taken the form of loans to two finance companies.

#### **Information Office**

The Information Office for Private Sector Development in Developing Countries was established by the Norwegian Agency for Development Cooperation (NORAD) and Norfund jointly in 2007 to offer first-line support for enquiries from commercial operators interested in investing in developing countries. The office registered 224 enquiries in 2016, an increase of more than 15 per cent compared with 2015. Because the situation has changed since the establishment of the office, in that Norad's subsidy schemes have gradually changed and Norfund has come better known in the market than when the Information Office was established, Norfund and Norad decided that there is no need for a joint structure for information and guidance services. The office in its present form was closed in February 2017. The office's responsibilities will continue to be discharged by the respective owner institutions.

#### **2.2. Exits**

In 2016 Norfund exited from three equity investments: Hattha Kaksekar Ltd (Cambodia), Matanuska Africa (Mozambique), and TPS Pakistan. The key figures for the exits are to be found in Note 10 to the accounts. Nine loans were also repaid.

#### **2.3. Financial risk**

In accordance with Norfund's development policy goals, we invest in countries where the operating parameters, markets and companies are characterised by high risk. There is thus considerable uncertainty concerning the future. There is also substantial counterparty risk associated with many of Norfund's investments. Significant credit risk is associated with 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.

Norfund's investments are largely made in foreign currency: mainly US dollars, but also euros, South African rand and other local currencies. 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 currency. According to our mandate, Norfund should not spend resources on hedging the value of the portfolio in Norwegian kroner, since the resources are to 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.

Direct and indirect equity investments account for 85 per cent of Norfund's committed portfolio and loans for 15 per cent. A total of 52 per cent is invested in Sub-Saharan Africa and 33 per cent in LDCs.

Market conditions also constitute an important risk factor. Norfund has high exposure to the energy market, and falling energy prices impact profitability, particularly in parts of the portfolio that are exposed to short-term markets. Political and regulatory risk are also important factors.

Other risk factors are detailed in Note 15 to the company's financial statements.

#### **2.4. Social responsibility and human rights**

Norfund's mandate and operations entail a high level of social responsibility, and the Fund works systematically to augment efforts in this respect. The Owner expects Norfund to comply with the requirements set out in the white paper Meld. St. 27 (2013–2014) Diverse and value-creating ownership. Norfund assumes social responsibility by setting high standards for its own operations and for the operation of enterprises in its portfolio. Norfund has zero tolerance for corruption, and requires consideration for human rights, gender equality and local communities, as well as safeguarding of the environment and biological diversity. All these factors are thoroughly reviewed before investment agreements are signed; if necessary, actions plans are established for the companies to follow up, and these factors will be in focus in Norfund's exercise of active ownership in the companies, and in reporting from the companies in which Norfund has invested.

In many of the countries in which Norfund invests, laws and rules to protect employees and the rights of vulnerable groups are poorly implemented. In its investment agreements, Norfund therefore stipulates compliance requirements over and above those that are often general practice, and commits the enterprises to complying with the environmental and social »

standards of the World Bank's International Finance Corporation (IFC). These standards cover indigenous peoples' rights, biodiversity, the interests of local communities and the core conventions of the International Labour Organisation (ILO). Relevant portions of the Declaration of Human Rights and the UN guidelines for human rights are incorporated in the IFC standards. Compliance with these standards is an integral part of the work of entering into investment agreements and monitoring the investments as owner and lender. Norfund has established a 'Business Integrity Policy' and reporting procedures that are to be used if financial irregularities or corruption are suspected, and these are constantly followed up in all parts of the organisation. If financial irregularities or corruption are suspected, there is a special procedure for reporting to the Norwegian Ministry of Foreign Affairs.

An important result of the work to promote human rights and anti-corruption in its investments is that Norfund has gained a reputation as an investor that does not tolerate breaches of important principles, and for that reason has become an attractive investment partner. The number of whistleblower cases and incidents related to corruption and/or business ethics is small. Four cases of suspected financial irregularities were reported in 2016.

Norfund has adopted corporate governance principles and is run in accordance with current rules and regulations for public sector financial management. An integral part of its mandate and operations is the prevention of financial irregularities.

Norfund has adopted a gender equality strategy that defines priorities, considerations and action both within its own organisation and in its work with portfolio companies. The strategy is based on the Ministry of Foreign Affairs' action plan Freedom, empowerment and opportunities – Action plan for Women's Rights and Gender Equality in Foreign and Development policy 2016–2020, which was adopted in 2016, and the State Ownership Report, which points out that state-owned enterprises are expected to establish a strategy and take action to promote gender equality. Norfund will concentrate mainly on promoting women's participation in the economy and on non-discrimination in employment relationships. A number of measures have already been initiated under the strategy, including support for participation by female portfolio company employees in the Female Future Programme, a leadership and boardroom competence programme in East Africa run by the Norwegian Employers' Confederation (NHO). Norfund co-arranged a conference on female entrepreneurship in Oslo in November 2016. The Fund has also appointed a dedicated personnel resource to strengthen the work of recruiting female candidates for external boardroom positions.

One of Norfund's fundamental goals is that employees should have good working conditions. Ensuring that the enterprises

maintain a focus on health, safety and the environment (HSE) is a considerable challenge, particularly in connection with major construction projects and overland transport. Our aim is to ensure that the necessary safety equipment is used and that procedures are followed by all concerned, including sub-contractors. Norfund spends considerable amounts on following up on HSE requirements in all our investments.

Our investment agreements contain a mandatory contractual requirement that serious accidents and deaths be reported. Regrettably, nineteen project-related fatalities were reported from enterprises in Norfund's portfolio in 2016. Two of them were our direct investments, while seventeen were in subsidiaries of our funds. Fatal accidents in Norfund's direct investment enterprises are reported immediately to Norfund's Board and Owner. Norfund follows up all fatalities to ensure that the accidents are investigated, that safety procedures are modified if necessary, and that the next of kin receive the compensation to which they are entitled. Norfund will continue to work to reduce accidents associated with its investments.

Norfund always invests jointly with other investors, and often through structures or funds that have been set up by others. In countries with weak legal systems and/or where there is a risk of corruption in the legal system, the administration and enforcement of laws and rules is often neither effective nor predictable. In countries like this, it may be difficult for Norfund and our partners to ensure that legal steps can be taken in the event of financial irregularities or disputes. This is a risk that is too high for many investors and lenders. It is therefore often necessary to call on a third-party country in connection with investments in weakly developed countries. The use of such offshore financial centres (OFCs) implies a special responsibility for Norfund to ensure that we have full insight into the transactions that take place and that we in no way contribute to tax evasion or illegal capital flows. In accordance with guidelines issued by the Norwegian Ministry of Foreign Affairs in 2014, Norfund is now subject to the same guidelines as other state-owned companies and funds with international operations, and exercises great caution in its use of OFCs. Norfund follows OECD guidelines on tax-related matters, including avoiding using tax havens that do not comply with the Global Forum standards on transparency and effective information exchange, and countries that have not made tax disclosure agreements with Norway. In 2016, Norfund launched an initiative in the European Trade Organisation EDI for the development of common guidelines on taxation, work that is now in progress.

Norfund integrates consideration for the external environment into its operations, and endeavours to follow the guidelines for a 'green state'. These guidelines require that environmental interests form an integral part of operations, and that an ecological management system be developed. A few years ago, a

survey was therefore 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 is due to air travel. In 2016, travel by Norfund's Norway-based employees entailed the emission of some 301 tonnes of CO<sub>2</sub>. Since 2012, most flights departing from or arriving in the European Economic Area (EEA) have been subject to a mandatory quota through the European quota system. The airlines are thus responsible for emission quotas for this business travel.

## 2.5. Development effects

Norfund's remit is to contribute to the establishment and development of profitable and sustainable enterprises in developing countries. Profitable enterprises are fundamental to economic growth, and contribute to development by creating jobs and generating tax revenue. As a result of changes in the composition of Norfund's portfolio (exits, loan redemptions and new investments), the figures may fluctuate sharply from year to year. This year, in order to highlight actual developments in our portfolio enterprises, we are also reporting changes from year-end 2015 to year-end 2016 for those enterprises that were included in the portfolio and submitted reports in each of the last two years.

At the end of 2016, a total of 276 000 people were employed in enterprises in which Norfund had invested, directly, or indirectly through platforms and funds. Women accounted for 36 per cent of the total numbers employed, while the share of women in managerial positions was 27 per cent. The enterprises that have been in the portfolio for the past two years reported a total increase in permanent jobs of 6 per cent, making a total of 13 000 new jobs. 42 per cent of the enterprises reported an increase in jobs during the period. Job growth was highest among enterprises in Asia (10 per cent), followed by Africa (4 per cent) and Latin America (2 per cent). The total number of temporary jobs fell by 25 per cent from 2015 to 2016, partly because of the completion of several power plants.

The enterprises also contributed indirectly to growth and job creation by buying goods and services from local businesses for a total amount of NOK 18 billion in 2016. Those enterprises that submitted reports for 2015 and 2016 increased their total purchases by 29 per cent.

Access to stable energy promotes economic activity and job creation. In 2016, the energy companies in Norfund's portfolio produced a total of 19.2 TWh of electricity. This is equivalent to the consumption of 30.1 million people in the countries in question. Renewable energy sources generated 61 per cent of the electricity and in 2016 companies in Norfund's renewable energy portfolio helped to prevent about 75 million tons of CO<sub>2</sub> emissions, all told.

At the end of 2016, financial institutions in which Norfund has invested had granted 11 million loans to their customers. The enterprises reporting for each of the last two years increased their combined lending volume by 13 per cent and the number of loans to customers by 17 per cent. In addition to this, NMI has invested in 11 microfinance funds with a total portfolio of 253 microfinance institutions. We lack data for the development effects of NMI's indirect investment.

Agribusiness is one of the most important sectors for combatting poverty in Africa. In 2016, Norfund's agribusiness companies cultivated 41 000 hectares of land, and produced 91 000 tonnes of food. About 11 000 small farmers were associated with the enterprises through outgrower or similar schemes.

In 2016, the enterprises in Norfund's portfolio paid some NOK 10.9 billion in direct and indirect taxes to the governments of the countries in which they operate. The enterprises reporting for each of the last two years reported paying 33 per cent higher taxes in 2016 than in 2015.

Active ownership is required to ensure that the portfolio companies are operating in accordance with our requirements and expectations. Transfer of expertise is an important part of this work. By maintaining a presence on boards of directors and monitoring projects closely, Norfund promotes improved corporate governance, financial procedures, and health, safety and environment systems. This increases the viability of the enterprises and thereby amplifies development effects. Norfund also uses its grant facility to augment development effects.

## 3. ORGANISATION AND OPERATIONS

### 3.1. Corporate governance

The General Meeting is Norfund's supreme body. Norfund's Board of Directors is elected by the General Meeting. The Board consists of Kristin Clemet (chair), Per Kristian Sbertoli, Borghild Holen, Finn Jebsen, Martin Skancke, Britt K.S. Rugland, Nina Elisabeth Hansen and Vegard Benterud. The latter two persons have been elected by and from among Norfund's employees.

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

The Owner's governance regime for Norfund was changed with effect from 2016, in that Norfund no longer receives an allocation letter but is governed through guidelines in statutes and decisions made by the General Meeting.

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**3.2. Personnel, organisation and gender equality**

Norfund is an expertise-based organisation which has established guidelines for recruitment, expertise and equal opportunities. There are established procedures for employee follow-up and rewards. Targeted recruitment is used to enhance the organisation's ability to deliver on the strategy that has been adopted.

In 2016, Norfund had 69 full-time positions. At 31 December there were 69 employees, 29 of them with a background in a country other than Norway. Twenty-three of the employees worked at regional offices. Women accounted for 50 per cent of the permanent Board members. Two of the six members of Norfund's management team were women, and the proportion of women among the employees overall was 43 per cent. Three of the 6 persons who were engaged in 2016 were women. Norfund is concerned with gender equality in its human resources policy, and urges women and persons of non-Norwegian origin to apply for vacant positions. Norfund's new gender equality strategy is also presented under the point "Social responsibility and human rights".

Sickness absence in 2016 amounted to two per cent of total working hours, equivalent to 301 days. This is the same as in 2015. There were no personal injuries or damage to Norfund property.

In December 2016, Norfund moved its head office to new, modern and functional premises in central Oslo that meet the requirements of universal design. The previous regional office in Johannesburg was closed on 31 December 2016. All employees at the office were offered employment in the newly established investment company Arise in Cape Town. One of them declined the offer.

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.

There are no employees in the Norfund group other than those mentioned in the information provided above about Norfund.

**4. THE FINANCIAL STATEMENTS**

Norfund is an investment company, so its operating income consists of interest, dividends and gains on sales. In traditional production enterprises, these are classified as financial items. Similarly, investment in associated companies is a part of operations, and Norfund's share of the profits of associated companies is therefore recorded as operating income.

The Norfund group includes the consolidated subsidiary Norfininvest AS, of which Norfund owns 87.5 per cent: 75 per cent directly, and 12.25 per cent indirectly through Norfinance

AS, which owns 25 per cent of Norfininvest AS. Comments to the financial statements of the Norfund group are to be found in a separate section.

Norfund had a profit of NOK 64 million in 2016 (NOK 426 million in 2015). Norfund's income amounted to NOK 428 million (NOK 340 million in 2015). At NOK 137 million, interest income was NOK 41 million less than in 2015. Dividends from funds and equity investments amounted to NOK 240 million, an increase of NOK 153 million on 2015. Other operating income in 2016 increased by NOK 16 million, to NOK 23 million. The result from associated companies of NOK -173 million includes the result from Norfund's 50 per cent share in SN Power AS. In addition, shares from KLP Norfund Investments AS (51 per cent), Norfinance AS (49.8 per cent), Norfininvest AS (75 per cent) and Arise BV (33.1 per cent) were taken to income; see Note 5 to the financial statements.

Norfund's operating costs prior to exchange rate adjustment of loans and write-downs were reduced by NOK 20 million, to NOK 153 million, in 2016. This is attributable to lower costs for external assistance in connection with the company's investments. A marginal strengthening of the Norwegian krone relative to the investment currencies has resulted in a small negative currency adjustment of our loans of NOK 11 million, compared with a gain of NOK 233 million in 2015. Large write-downs were made on five investments in 2016, and investments were written down by a total of NOK 163 million in 2016.

Other interest income amounted to NOK 10 million, a reduction of NOK 5 million. This is due to lower returns on bank deposits. Other financial income of NOK 50 million is largely attributable to exchange gains on the company's FX bank deposits as a result of the strengthening of currencies, primarily USD, against NOK in the last quarter. Other financial expenses of NOK 92 million include currency losses on current liabilities of USD 187 million. An additional NOK 11 million has accrued in the form of interest expenses on current liabilities. Norfund's surplus of NOK 64 million has been transferred to the surplus fund.

Norfund's internal valuations indicate that there is still considerable excess value in the portfolio over and above the carrying values. Norfund's balance sheet at the end of 2016 was NOK 18 105 million (compared with NOK 15 085 million the previous year), an increase of NOK 3 020 million. The change in the balance sheet is largely due to a transfer of NOK 1 478 million from Norfund's Owner, the investment in Arise BV with equivalent current liabilities of NOK 1 563 million (see also Note 5 to the financial statements) and a surplus generated by operations. At year-end, Norfund's equity amounted to NOK 16 410 million (compared with NOK 15 006 million in 2015) and by year-end NOK 13 394 million had been disbursed to investments (com-



pared with NOK 12 866 million in 2015). Norfund has interest-bearing debt of USD 36 million due to the investment in Arise BV. Norfund disbursed a total of NOK 1 104 million to its investments, and received NOK 1 196 million in return on its investments in 2016. The Board regards the company's liquidity as satisfactory. Write-downs were made on 10 out of 65 loans as at 31 December 2016. The write-downs represent one per cent of the committed, contractual amount.

The Norfund group had a deficit of NOK 6 million in 2016 (NOK 458 million in 2015). The group's income amounted to NOK 567 million (NOK 431 million in 2015). Group income is the same as Norfund's income with the exception of profit for associated company. The share of the result attributable to Norfininvest AS is not included, as this company's results are consolidated with those of the Norfund group. The Norfund's group's operating costs of NOK 153 million in 2016 include NOK 0.3 million of accrued costs for Norfininvest AS. The group's financial result of NOK -31 million corresponds on the whole to Norfund's financial result, as Norfininvest AS's financial result is marginal.

Norfund has no special research or development activities of significance for the accounts. There have been no major events since balance sheet date with an actual or potential effect on the results or financial standing.

In the opinion of the Board, the financial statements at 31 December 2016 provide a true and fair view of the company's financial position. The Board confirms that the going concern assumption applies.

## 5. NET ASSET VALUE AND RETURN

The net asset value is an estimate of Norfund's total market value. As Norfund's investments are mainly non-liquid positions in demanding markets with high risk, estimates of net asset value are shrouded in uncertainty. The estimates are based on the carrying values of the individual investments, and are adjusted for increase or decrease in value on the basis of the valuation principles of the European Venture Capital Association (EVCA). Where there are relevant transaction values, these should as a general rule form the basis, but in most cases the estimated value is based on discounted future cash flows. Such valuations are subjective, and the fair values will only emerge on Norfund's exit from the investment.

The net asset value at 31 December 2016 was NOK 20 665 million, compared with NOK 19 400 million at the end of 2015.

Norfund's object is to create profitable enterprises in poor countries. Whereas most other Norwegian investors invest with a view to later repatriating the returns to Norway, our money is intended to be reinvested in poor countries. Conse-

quently, we measure the return on investments in the investment currency, not in NOK. This is also the manner employed by co-investors for whom the investment currency is their functional currency. For our Norwegian co-investors, the return in Norwegian kroner will be more relevant. Around 84 per cent of Norfund's total investments are denominated in USD, the remainder in other currencies. Exchange rate fluctuations have an impact on the accounting results, the portfolio evaluations and the return calculated in NOK compared with USD.

The overall annual return on the investment portfolio, expressed in the investment currencies, is calculated to be 4.9 per cent. The return is calculated from the time of making the investments. Similarly, the annual return calculated in Norwegian kroner is 9.2 per cent. In 2016, the return in investment currency was 2.9 per cent, and in Norwegian kroner 1.3 per cent. The relatively weak figures for 2016 are mainly due to weak energy prices in markets where our energy investments are subject to market exposure, and write-downs on a limited number of projects, including several investments in primary agriculture and energy.

## 6. OUTLOOK FOR THE FUTURE

The new sustainable development goals adopted by the UN in 2015 underscore the crucial importance of the business sector to economic growth and the battle against poverty. Norfund's activities provide support for several important sustainability goals, including the goals of eliminating poverty, combatting hunger, sustainable economic growth, gender equality, access to energy, industrial innovation and infrastructure, and the climate target. Several of the underlying subsidiary goals point directly at key elements of Norfund's strategy, including the mobilisation of capital for renewable energy, financing of small and medium-sized enterprises, microfinance and financial inclusion, along with increased food production and higher agricultural sector productivity.

Profitability is a prerequisite for creating sustainable enterprises, and for generating capital that can be reinvested. In order to interest commercial investors in investing in poor countries, it is also important to be able to demonstrate solid financial results. Over time, Norfund has built up a substantial portfolio of investments that are both profitable and sustainable, and an organisation with the capacity to make new and follow up existing investments on a substantial scale.

Expertise is the key to success in establishing and following up good investment projects that yield substantial development effects. Norfund will continue to work systematically over time to build up an organisation with expertise in investing in poor countries. Today Norfund is an attractive employer and an attractive investment partner for Norwegian and international investors. Norfund has zero tolerance for corruption, »

and works systematically to identify and limit risk related to failure to comply with rules and procedures, and to maintain full integrity.

The right partners are essential to successful investments. Norfund has for many years sought close collaboration with other investors in selected areas in which their partners possess specialised expertise and can contribute to the realisation of goals. A growing share of Norfund's investments take place through platforms and strategic cooperation with partners such as the solar energy company Scatec Solar. Important platforms are SN Power for hydropower investments, collaboration with British CDC through Globeleq, which encompasses solar, wind and gas power, and Nordic Microfinance Initiative (NMI) for investment in microfinance, in which Danish IFU is now also involved. An important platform for bank investment in Sub-Saharan Africa has been established in the form of the bank investment company Arise, in collaboration with Dutch FMO and Rabobank.

Norfund has an important role in the work of living up to the sustainability goals, solving poverty problems and limiting climate change. Substantial investment and transfer of technology from the business sector in wealthy countries is required to build up commerce and industry in poor countries.

Unfortunately, we are seeing a global tendency that is cause for concern, with Western banks and investors, including Norwegian investors, withdrawing from poor developing countries. Our regions are hard hit. Many investors perceive the risk of investing in developing countries as too high. However, the risks at home, in the West, of harm to reputations if something goes wrong, the consequences of potential penal reactions and exclusion from markets, for example as a result of accusations of corruption, are often the real reasons for investors withdrawing. Development finance institutions such as Norfund have a vital part to play in this situation. Norfund is equipped to expand its portfolio and play a key role in business development, job creation, mobilisation of private capital and the development of a green energy supply for poor countries.

At the same time, low energy prices will continue to constitute a challenge to energy investment in places where power production is subject to market exposure. Similarly, weak

economic developments and unstable currencies in countries that have been hit by low commodity prices, particularly in southern Africa, will continue to present a challenge to several of the investments in both the energy sector and other sectors in these countries.

Norfund will continue to prioritise investments with high additionality that yield substantial development effects. This means giving priority to investment in energy production, food and agriculture, as well as financial institutions, especially those that finance small and medium-sized enterprises and low income groups, including microfinance. The primary investment instruments will continue to be equity and similar instruments.

Norfund will maintain its high level of ambition with regard to environmental and social standards, along with sound corporate governance. This includes the requirement in all our investments that the IFC Performance Standards be met. Norfund will assist our companies in the work of satisfying these requirements. Our grant facilities enable us to assist in strengthening internal control systems or improved HSE procedures.

Our ambitions with regard to maximising, measuring and documenting the development effects of investments will be raised further. We will place particular emphasis on achieving Norfund's strategic goals, which include prioritising LDCs, sub-Saharan Africa and startups, and on ensuring additionality and mobilising private capital. Norfund has already completed investment projects in fragile states such as Myanmar and South Sudan, and will continue its efforts to develop new instruments and working methods appropriate to the conditions in fragile countries.

Norfund celebrates its 20th anniversary this year. In the time ahead, Norfund will continue the focused strategy that has characterised its investments for the past ten years by building further on our investment platforms, our expertise and our role as an active, strategic minority investor. In 2017, a new regional office is being established in Accra, Ghana, as a springboard for new investments in West Africa. In a 10-year perspective, it may be relevant to include the whole of Sub-Saharan Africa in Norfund's geographical range.

Oslo, 28 March 2017

Kristin Clemet  
**Chair**

Per Kristian Sbertoli

Borghild Holen

Britt K.S. Rugland

Martin Skancke

Finn Marum Jepsen

Vegard Benterud

Kjell Roland  
**Chief Executive Officer**

Nina Elisabeth Hansen

## PROFIT AND LOSS ACCOUNT

(Figures in 1000s of NOK)	Note	Norfund		Norfund group	
		2016	2015	2016	2015
Interest income loans - invested portfolio	1	137 265	178 073	137 265	178 073
Realised gain on shares	1	200 780	1 123	200 780	1 123
Dividends received	1	239 894	87 175	253 420	87 175
Other operating income	1	23 419	7 581	23 471	7 218
Share of profit associated company	5	-172 906	66 474	-47 825	157 624
<b>Total operating income</b>		<b>428 452</b>	<b>340 425</b>	<b>567 111</b>	<b>431 212</b>
<b>OPERATING EXPENSES</b>					
Payroll expenses	2	90 659	85 845	90 659	85 845
Depreciation tangible fixed assets	4	1 706	1 834	1 706	1 834
Other operating expenses	2,3	60 831	85 139	61 020	88 124
<b>Total operating expenses prior to exchange rate adjustment of loans and write-downs, investment projects</b>		<b>153 196</b>	<b>172 818</b>	<b>153 385</b>	<b>175 803</b>
Adjustment for gain/loss on FX, project loans	1	-11 179	233 656	-11 179	209 714
Write-down investment projects (-)/reversals (+)	1	-163 216	-139 327	-372 543	-139 327
<b>Profit/loss on operations</b>		<b>100 861</b>	<b>261 936</b>	<b>30 004</b>	<b>325 797</b>
Other interest income		9 694	15 177	9 700	15 242
Other financial income		50 421	160 640	52 326	161 149
Other financial expenses		91 974	11 438	92 604	43 771
<b>Net financial items</b>		<b>-31 859</b>	<b>164 378</b>	<b>-30 578</b>	<b>132 620</b>
<b>Profit/loss before tax</b>		<b>69 002</b>	<b>426 314</b>	<b>-574</b>	<b>458 417</b>
<b>Tax</b>	11	<b>-5 221</b>	<b>-141</b>	<b>-5 221</b>	<b>-141</b>
<b>PROFIT/LOSS FOR THE YEAR</b>		<b>63 781</b>	<b>426 173</b>	<b>-5 795</b>	<b>458 276</b>
<b>ALLOCATIONS</b>					
Transferred to surplus fund	13	63 781	426 173		
Majority interest					
Minority interest					
<b>TOTAL ALLOCATIONS</b>		<b>63 781</b>	<b>426 173</b>		

## BALANCE SHEET

(Figures in 1000s of NOK)	Note	Norfund		Norfund group	
		2016	2015	2016	2015
<b>ASSETS</b>					
<b>Fixed assets</b>					
<b>Tangible fixed assets</b>					
Operating equipment, fittings and fixtures, tools etc.	4	7 768	3 593	7 768	3 593
<b>Total tangible fixed assets</b>		<b>7 768</b>	<b>3 593</b>	<b>7 768</b>	<b>3 593</b>
<b>Financial fixed assets</b>					
Investments in associated company	5	6 190 899	4 679 205	5 229 154	3 592 379
<b>Total financial fixed assets</b>		<b>6 190 899</b>	<b>4 679 205</b>	<b>5 229 154</b>	<b>3 592 379</b>
<b>Total fixed assets</b>		<b>6 198 667</b>	<b>4 682 798</b>	<b>5 236 922</b>	<b>3 595 972</b>
<b>Current assets</b>					
<b>Receivables</b>					
Other receivables	6	141 016	130 379	141 016	130 276
<b>Total receivables</b>		<b>141 016</b>	<b>130 379</b>	<b>141 016</b>	<b>130 276</b>
<b>Investments</b>					
Capitalised project development costs	7	17 412	3 372	17 412	3 372
Loans to investment projects	1,8	1 994 851	2 024 637	1 994 851	2 024 637
Equity investments	1,9	7 368 327	7 100 301	8 679 311	8 620 612
<b>Total investments</b>		<b>9 380 590</b>	<b>9 128 310</b>	<b>10 691 574</b>	<b>10 648 621</b>
<b>Bank deposits, cash and cash equivalents</b>					
Bank deposits	12	2 384 994	1 143 201	2 385 068	1 145 857
<b>Total bank deposits, cash and cash equivalents</b>		<b>2 384 994</b>	<b>1 143 201</b>	<b>2 385 068</b>	<b>1 145 857</b>
<b>Total current assets</b>		<b>11 906 600</b>	<b>10 401 889</b>	<b>13 217 658</b>	<b>11 924 754</b>
<b>TOTAL ASSETS</b>		<b>18 105 268</b>	<b>15 084 688</b>	<b>18 454 580</b>	<b>15 520 727</b>

## BALANCE SHEET

(Figures in 1000s of NOK)	Note	Norfund		Norfund group	
		2016	2015	2016	2015
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
<b>Called and fully paid capital</b>					
Primary capital	13	9 389 750	8 281 250	9 389 750	8 281 250
Reserve capital	13	3 305 250	2 935 750	3 305 250	2 935 750
<b>Total called and fully paid capital</b>		<b>12 695 000</b>	<b>11 217 000</b>	<b>12 695 000</b>	<b>11 217 000</b>
<b>Retained earnings</b>					
Surplus fund	13	3 714 835	3 789 230	3 899 527	4 034 121
<b>Total retained earnings</b>		<b>3 714 835</b>	<b>3 789 230</b>	<b>3 899 527</b>	<b>4 034 121</b>
<b>Minority interest</b>				<b>164 526</b>	<b>191 115</b>
<b>TOTAL EQUITY</b>		<b>16 409 835</b>	<b>15 006 231</b>	<b>16 759 053</b>	<b>15 442 236</b>
<b>Liabilities</b>					
<b>Provision for liabilities and charges</b>					
Pension commitments	2	26 767	24 422	26 767	24 422
<b>Total provisions for liabilities</b>		<b>26 767</b>	<b>24 422</b>	<b>26 767</b>	<b>24 422</b>
<b>Current liabilities</b>					
Accounts payable		0	0	10	33
Unpaid government charges and special taxes		5 687	5 346	5 687	5 346
Unused resources	14	3 588	10 254	3 588	10 254
Other current liabilities	5	1 659 390	38 436	1 659 475	38 436
<b>Total current liabilities</b>		<b>1 668 666</b>	<b>54 036</b>	<b>1 668 760</b>	<b>54 069</b>
<b>Total liabilities</b>		<b>1 695 433</b>	<b>78 458</b>	<b>1 695 528</b>	<b>78 491</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18 105 268</b>	<b>15 084 688</b>	<b>18 454 580</b>	<b>15 520 727</b>

Oslo, 28 March 2017

Kristin Clemet  
Chair

Per Kristian Spertoli

Borghild Holen

Britt K.S. Rugland

Martin Skancke

Finn Marum Jebsen

Vegard Benterud

Kjell Roland  
Chief Executive Officer

Nina Elisabeth Hansen

## CASH FLOW STATEMENT

## CASH FLOW STATEMENT

(Figures in 1000s of NOK)	Note	Norfund		Norfund group	
		2016	2015	2016	2015
<b>CASH FLOWS FROM OPERATIONS</b>					
Profit before tax		63 781	426 173	-5 795	458 276
Ordinary depreciation	4	1 706	1 834	1 706	1 834
Reversal of write-down (-)/Write-down investment projects		-30 347	133 120	178 980	133 120
Differences in pension costs and receipts/disbursements, pension plan		-524	-476	-524	-476
Share of profit associated company	5	172 906	-66 474	47 825	-157 624
Effect of exchange rate changes		44 396	-366 939	44 396	-305 906
Change in other accruals		1 596 367	20 656	1 596 326	20 656
<b>Net cash flow from operations</b>		<b>1 848 286</b>	<b>147 896</b>	<b>1 862 915</b>	<b>149 882</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>					
Investments in tangible fixed assets	4	-5 881	-820	-5 881	-820
Proceeds of sales/repayment of shares/holdings recorded at cost price		598 666	172 172	598 666	172 172
Disbursements in connection with purchase of shares/interests in other enterprises		-2 645 782	-3 313 837	-2 645 782	-3 510 700
Disbursements of investment loans		-530 205	-299 935	-530 205	-299 935
Repayment of principal, investment loans		505 374	459 256	505 374	459 256
Repayment other investments		0	0	0	0
<b>Net cash flow from investment activities</b>		<b>-2 077 828</b>	<b>-2 983 163</b>	<b>-2 077 828</b>	<b>-3 180 026</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from new short-term debt	14	0	21 000	0	21 000
Disbursements - repayment of long-term debt		0	0	0	0
Disbursements - repayment of short-term debt	14	-6 665	-27 183	-6 665	-27 183
Increase in/repayment of equity	13	1 478 000	1 480 000	1 460 788	1 677 534
<b>Net cash flow from financing activities</b>		<b>1 471 335</b>	<b>1 473 817</b>	<b>1 454 123</b>	<b>1 671 351</b>
<b>EXCHANGE RATE CHANGES, CASH AND CASH EQUIVALENTS</b>					
Net change in cash and cash equivalents		1 241 793	-1 361 451	1 239 211	-1 358 793
<b>Bank deposits, cash and cash equivalents at 1 January</b>		<b>1 143 201</b>	<b>2 504 651</b>	<b>1 145 857</b>	<b>2 504 651</b>
<b>Bank deposits, cash and cash equivalents at 31 December</b>	<b>12</b>	<b>2 384 994</b>	<b>1 143 201</b>	<b>2 385 068</b>	<b>1 145 857</b>

# ACCOUNTING PRINCIPLES

## The financial statements for NORFUND/THE NORFUND GROUP 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 Norfund, must be read in conjunction with the directors' report and the auditor's report.

Special matters that concern the Norfund group or Norfund individually are specified in the notes. Otherwise, the notes apply to both companies.

## 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 2016. 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 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 from 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 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 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/ownership 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/ownership 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/ownership 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 problem loans, interest is recorded to income on the basis of the written-down value. Interest recorded but not paid owing to 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 is recorded in its entirety against other financial income or other financial expenses.

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### 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 continuously.

### Associated company

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. Investments in SN Power AS, Norfinance AS, KLP Norfund Investments AS and Arise BV are recorded as associated companies 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 provide 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 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 share does not exceed 49 per cent of the portfolio company's total equity.

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 write-downs). No group write-downs are made. 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 obligation 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.

### Consolidation

The consolidated accounts include Norfininvest AS, in which Norfund owns 75 per cent and Norfinance AS owns 25 per cent. Norfund owns 49.8 per cent of Norfinance AS, and thereby indirectly owns a further 12.4 per cent of Norfininvest AS.

A controlling interest is normally achieved when the group owns more than 50 per cent of the shares in the company, and the group is able to exercise practical control of the company. Minority interests are included in the group's equity. Transactions and inter-company accounts within the group have been eliminated. The consolidated accounts have been prepared according to uniform principles, in that the subsidiary complies with the same accounting principles as the parent company.

The acquisition method is used in the accounting of mergers.

### 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 a straight-line allocation method.

In accordance with 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.

### Guarantee

In some cases, Norfund issues guarantees in connection with investments. Accounting allocations are made when the likelihood of the guarantee being invoked is 10–50 per cent (25 per cent allocation), 50–75 per cent (50 per cent allocation) and > 75 per cent (100 per cent allocation). On the balance sheet, the guarantee allocation 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 recognised 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 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 AS utilises hedge accounting for its portfolio. Gains and losses on hedging that are carried as part of the investment are charged to the company's equity as long as the hedging instrument is effective. In connection with exiting from the investment, the aggregate value of gains/losses will be taken to income together with currency translation differences for the investment. For further details, see the annual report for SN Power AS.

**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 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 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 SN Power AS, Norfinance AS, Norfininvest AS, KLP Norfund Investments AS and Arise BV as related parties.

**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 liability 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 the size of National Insurance benefits, and actuarial assumptions regarding mortality, voluntary retirement etc. 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 plans 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 insurance contribution is calculated on contributions paid to the pension plans.

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

## NOTES

### NOTE

#### 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.

	2016							
(Figures in 1000s of NOK)	NORFUND total	SME Funds	Financial Institutions	Clean Energy	Food & Agri-business	Shared functions	Other activity	Loan portfolio*
<b>OPERATING INCOME</b>								
Interest - invested portfolio	137 265	0	113 165	13 812	10 288	0	0	0
Realised gains	200 780	0	193 671	0	7 109	0	0	0
Dividends received	239 894	125 143	74 373	38 532	1 846	0	0	0
Other project revenues	23 419	192	5 903	15 838	1 222	264	0	0
Share of results associated company	-172 906	0	-164 868	-8 038	0	0	0	0
<b>Total operating income</b>	<b>428 452</b>	<b>125 334</b>	<b>222 245</b>	<b>60 144</b>	<b>20 466</b>	<b>264</b>	<b>0</b>	<b>0</b>
<b>OPERATING EXPENSES</b>								
Payroll expenses	-90 659	-5 874	-17 912	-15 205	-20 057	-30 541	-1 026	-45
Depreciation tangible fixed assets	-1 706	0	0	-63	-67	-1 577	0	0
Loss on sale of operating assets	0	0	0	0	0	0	0	0
Other operating expenses	-60 831	-1 607	-5 928	-8 340	-6 980	-37 346	-632	0
Allocation of shared expenses	0	-7 184	-23 020	-15 581	-21 567	69 463	-2 050	-61
<b>Total operating expenses</b>	<b>-153 196</b>	<b>-14 665</b>	<b>-46 859</b>	<b>-39 189</b>	<b>-48 670</b>	<b>0</b>	<b>-3 708</b>	<b>-105</b>
Gain/loss on FX, project loans	-11 179	0	-9 256	7 351	-9 275	0	0	0
Provision for (-)/reversal of (+) loss on projects	-163 216	-37 451	-51 959	825	-74 631	0	0	0
Profit/loss on operations	100 861	73 219	114 170	29 131	-112 110	264	-3 708	-105
Net financial items**	-31 859	2 439	-51 370	-8 652	1 895	23 829	0	0
Profit/loss before tax	69 002	75 658	62 800	20 479	-110 215	24 093	-3 708	-105
Tax	-5 221	0	-5 221	0	0	0	0	0
<b>Profit/loss for the year</b>	<b>63 781</b>	<b>75 658</b>	<b>57 579</b>	<b>20 479</b>	<b>-110 215</b>	<b>24 093</b>	<b>-3 708</b>	<b>-105</b>
Group account effects	0	0	0	0	0	0	0	0
<b>Total Norfund group</b>	<b>63 781</b>	<b>75 658</b>	<b>57 579</b>	<b>20 479</b>	<b>-110 215</b>	<b>24 093</b>	<b>-3 708</b>	<b>-105</b>

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

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

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

2015								
	NORFUND total	SME Funds	Financial Institutions	Clean Energy	Food & Agri-business	Shared functions	Other activity	Loan portfolio*
	178 073	0	110 727	22 077	45 269	0	0	0
	1 123	0	0	1 123	0	0	0	0
	87 175	76 159	9 019	-570	2 566	0	0	0
	7 581	8	5 393	1 395	784	1	0	0
	66 474	0	-100 511	166 985	0	0	0	0
	<b>340 425</b>	<b>76 167</b>	<b>24 628</b>	<b>191 011</b>	<b>48 619</b>	<b>1</b>	<b>0</b>	<b>0</b>
	-85 845	-5 338	-17 686	-14 993	-18 794	-27 895	-1 078	-59
	-1 834	0	0	-60	-67	-1 708	0	0
	0	0	0	0	0	0	0	0
	-85 139	-1 807	-10 837	-31 967	-6 353	-32 987	-1 187	0
	0	-6 381	-19 621	-14 895	-19 849	62 590	-1 844	0
	<b>-172 818</b>	<b>-13 526</b>	<b>-48 145</b>	<b>-61 914</b>	<b>-45 064</b>	<b>0</b>	<b>-4 109</b>	<b>-59</b>
	233 656	0	131 260	16 444	85 951	0	0	0
	-139 327	17 520	-26 502	-41 905	-88 439	0	0	0
	261 936	80 161	81 241	103 636	1 066	1	-4 109	-59
	164 378	4 185	2 328	8 844	1 602	147 419	0	0
	426 315	84 346	83 569	112 480	2 668	147 420	-4 109	-59
	-141	0	0	0	-141	0	0	0
	<b>426 173</b>	<b>84 346</b>	<b>83 569</b>	<b>112 480</b>	<b>2 527</b>	<b>147 420</b>	<b>-4 109</b>	<b>-59</b>
	32 103	0	32 103	0	0	0	0	0
	<b>458 276</b>	<b>84 346</b>	<b>115 672</b>	<b>112 480</b>	<b>2 527</b>	<b>147 420</b>	<b>-4 109</b>	<b>-59</b>

## NOTES

### SEGMENT INFORMATION BY GEOGRAPHICAL REGION:

2016						
(Figures in 1000s of NOK)	Africa	Asia & Pacific	Latin-America	Global	Write-downs	Total
<b>BALANCE SHEET</b>						
Equity investments	3 684 184	309 752	3 716 912	227 714	-570 235	7 368 327
Loans to investments	998 465	404 678	646 493	74 515	-129 300	1 994 851
<b>Total balance sheet</b>	<b>4 682 650</b>	<b>714 430</b>	<b>4 363 405</b>	<b>302 229</b>	<b>-699 535</b>	<b>9 363 178</b>
Group account effects	1 544 252	0	0	0	-233 268	1 310 984
<b>Total Norfund group</b>	<b>6 226 902</b>	<b>714 430</b>	<b>4 363 405</b>	<b>302 229</b>	<b>-932 803</b>	<b>10 674 162</b>
Interest income loans	73 511	31 786	29 449	2 519		137 265
Realised gain on shares	0	200 780	0	0		200 780
Dividends received	124 354	1 048	111 961	2 530		239 894
Directors' fees received	1 091	0	649	0		1 740
Fees	16 938	1 502	2 252	987		21 679
Repayments of principal, loan portfolio	0	0	0	0		0
Interest paid on loan portfolio	0	0	0	0		0
Share of results associated company	-169 848	-3 058	0	0		-172 906
<b>Total operating income</b>	<b>46 046</b>	<b>232 059</b>	<b>144 310</b>	<b>6 037</b>	<b>0</b>	<b>428 452</b>
Group account effects	138 659	0	0	0	0	138 659
<b>Total Norfund group</b>	<b>184 705</b>	<b>232 059</b>	<b>144 310</b>	<b>6 037</b>	<b>0</b>	<b>567 111</b>
Gain/loss on FX, project loans	15 567	-11 405	-13 463	-1 877	0	-11 179

### NOTE 2 – PAYROLL EXPENSES

#### WAGES, SALARIES AND OTHER PAYROLL EXPENSES

(Figures in 1000s of NOK)	2016	2015
Wages and salaries	64 146	61 587
Directors' fees	759	727
Employer's social insurance contribution	8 593	7 770
Personnel insurance	1 418	1 371
Pension expenses	9 617	9 576
Other benefits	6 233	4 862
Payroll expenses reimbursed	-106	-49
<b>Total wages, salaries and other payroll expenses</b>	<b>90 659</b>	<b>85 845</b>

## REMUNERATION OF SENIOR PERSONNEL

(Figures in 1000s of NOK)	Managing Director	Chair	Board of directors
Wages and salaries/fees	2 382 216	205 000	553 500
Pension contributions	927 050		
Other remuneration	90 563		
<b>Total</b>	<b>3 399 829</b>	<b>205 000</b>	<b>553 500</b>

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

The chair received NOK 205 000 (NOK196 500) for boardroom work for Norfund in 2016. The board members each received remuneration of NOK 110 700 (NOK 106 000).

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. The schemes account for a total of 2.5 per cent of Norfund's payroll expenses. Bonuses are paid for extraordinary performance, and the average payment in 2016 was NOK 37 800 (NOK 26 000). The highest bonus payment represented 13 per cent (8 per cent) of salary and is thus far lower than the requirement in the white paper Report no. 27 (2013–2014) to the Starting on Diverse and Value-creating Ownership (Eierskapsmeldingen) that bonuses be a maximum of 50 per cent of the employee's salary.

Fees in the amount of NOK 2 123 644 (NOK 1 043 798) were recorded for the auditor, of which NOK 532 442 (NOK 507 669) is related to auditing that is required by law, NOK 88 125 (NOK 32 688) for other attestation services and NOK 1 502 967 (NOK 503 442) for services other than auditing. All figures include VAT.

## EMPLOYEES

The company had 69 (67 in 2015) employees at the end of 2016. The number of person-years was 69 (64.3 in 2015).

## PENSIONS

Pursuant to the Norwegian Act on Mandatory Occupational Pensions, Norfund is required to have an occupational pension plan. Norfund has a defined-benefit scheme for all employees in Norway. The scheme entitles employees to defined future benefits. The size of the benefits depends primarily on the number of qualifying years, pay level on reaching 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 in excess of 12 G. This scheme was closed to new members in 2012. This scheme, which is funded from operations, consists of 66 per cent of pay above 12 G and uses a retirement 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.

Local employees at Norfund's regional offices in South Africa, Thailand, Kenya, Mozambique and Costa Rica have defined-contribution pension plans and Norfund has no obligations beyond the annual contributions. In 2016, NOK 777 203 (NOK 659 075) was expensed in connection with this scheme.

The managing director has a retirement age of 65.

## NOTES

### FINANCIAL ASSUMPTIONS

	2016	2015
Discount rate	2,1%	2,5%
Expected return on plan assets	3,0%	3,3%
Salary adjustment	2,3%	2,5%
Pension adjustment	2,0%	2,3%
Adjustment of the basic amount (G) in the National Insurance System	2,0%	2,3%
Turnover	9,0%	9,0%
Employer's social insurance contribution	19,1%	14,1%

Pension lost (Figures in 1000s of NOK)	2016	2015
Net present value of pension earnings in the period	8 549	8 275
Capital cost of previously earned pensions	1 888	1 725
Expected return on plan assets	-1 853	-1 708
Administrative costs	917	237
Recorded actuarial gain/loss	-1 225	0
Accrued employer's social insurance contribution <sup>1</sup>	1 340	1 203
<b>Net pension liabilities for the year incl. payroll tax</b>	<b>9 617</b>	<b>9 732</b>

<sup>1</sup> Employer's social insurance contribution is calculated on the amount paid in.

Calculated pension liabilities (Figures in 1000s of NOK)	Insured	Uninsured	2016
Estimated pension liabilities	68 433	18 741	87 175
Estimated plan assets	64 700		64 700
<b>Net pension liabilities 31 December</b>	<b>3 733</b>	<b>18 741</b>	<b>22 475</b>
Unrecorded actuarial gain/loss	713	3 580	4 293
Accrued employer's social insurance contribution <sup>1</sup>	0	0	0
<b>Net pension liabilities 31 December</b>	<b>4 446</b>	<b>22 321</b>	<b>26 767</b>

<sup>1</sup> Accrued employer's social security contribution is calculated on net pension liability.

Reconciliation opening/closing balance (Figures in 1000s of NOK)	2016	2015
Capitalised net pension liabilities 1 January incl. payroll tax	24 422	25 913
Net pension expenses for the year incl. payroll tax	9 617	9 732
Actuarial gain/loss charged directly to equity	3 642	-133
Pensions paid, early retirement / unfunded, incl. payroll tax	-385	-385
Investment in pension assets, etc., incl. payroll tax	-10 528	-10 705
<b>Capitalised net pension liabilities 31 December incl. payroll tax</b>	<b>26 767</b>	<b>24 422</b>

Nordea Livs Asset Mix*	30.09.16	30.06.15
Property	12,1%	14,7%
Equities	8,4%	9,4%
Bonds at amortised cost	47,5%	39,8%
Short-term bonds/certificates	28,8%	34,0%
Other	3,2%	2,1%
<b>Total financial assets</b>	<b>100,0%</b>	<b>100,0%</b>

\* Known values at calculation date

#### Norfund group

There are no employees in subsidiaries. No salaries or remuneration have been paid to board members of subsidiaries.

Fees in the amount of NOK 2 209 769 (NOK 1 098 767) were recorded for the auditor, of which NOK 612 427 (NOK 538 919) is related to auditing that is required by law, NOK 88 125 (NOK 45 906) for other attestation services and NOK 1 509 217 (NOK 513 942) for services other than auditing. All figures include VAT.

#### NOTE 3 – OTHER OPERATING EXPENSES

(Figures in 1000s of NOK)	Norfund		Norfund group	
	2016	2015	2016	2015
Seminars, conferences, upgrading of competencies	3 218	4 571	3 218	4 571
Travel costs	9 420	9 979	9 441	10 202
External assistance, projects	26 043	49 402	26 048	52 041
Costs, tender guarantee scheme	427	866	427	866
Rent, including shared costs	7 220	7 307	7 220	7 307
Advertising/printing	1 101	813	1 101	813
Other expenses	13 402	12 203	13 566	12 326
<b>Total operating expenses</b>	<b>60 831</b>	<b>85 139</b>	<b>61 020</b>	<b>88 124</b>

## NOTES

### NOTE 4 – TANGIBLE 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	11 306	837	971	69	11 385
+ acquisitions during the period	4 672	0	0	1 209	5 881
- disposals during the period	-2 375	-837	0	0	-3 212
Cost price at 31 December	13 604	0	971	1 278	15 853
Accumulated ordinary depreciation at 1 January	8 313	837	439	0	5 971
+ ordinary depreciation for the period	1 512	0	194	0	1 706
- acc. ord. depreciation, operating assets disposed of	-2 375	-837	0	0	-3 212
Accumulated ordinary depreciation at 31 December	7 451	0	633	0	8 085
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 disposed of	0	0	0	0	0
Accumulated write-downs at 31 December	0	0	0	0	0
<b>Book value for accounting purposes at 31 December</b>	<b>6 152</b>	<b>0</b>	<b>338</b>	<b>1 278</b>	<b>7 768</b>

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/SUBSIDIARY

(Tall i 1000 kr)	Arise BV	SN Power AS	KLP Norfund Investments AS	Norfinance AS	Norfininvest AS	Total
Formal information						
Date of acquisition	31.08.2016	02.06.14	01.01.13	27.06.13	03.12.2014	
Registered office	Utrecht	Oslo	Oslo	Oslo	Oslo	
Shareholding	33,1 %	50 %	51 %	49,8 %	75 %	
Voting share	33,1 %	50 %	50 %	49,8 %	75 %	
	(Associated company)	(Associated company)	(Associated company)	(Associated company)	(Subsidiary/group)	
Information relating to the date of acquisition						
Acquisition cost		1 684 585	235 832	295 660	1 177 976	
Information relating to the figures for the year:						
Opening balance 01.01.2016		3 127 271	180 151	284 957	1 086 826	<b>4 679 205</b>
Acquisitions during the year	1 762 692		56 473			1 819 165
Disposals during the year						
Value added share issue						
Share of annual profit/(loss (+/-) <sup>1</sup>	-4 457	-3 058	-4 980	-35 330	-125 081	<b>-172 906</b>
Write-downs						
Share of adjustments for the year charged directly against equity	60 922	-195 457		-30		-134 565
<b>Closing balance, 31.12.2016</b>	<b>1 819 158</b>	<b>2 928 756</b>	<b>231 644</b>	<b>249 596</b>	<b>961 745</b>	<b>6 190 899</b>

<sup>1</sup> Share of annual profit/loss is based on final figures from the associated company.

## COMMITTED INVESTMENTS IN ASSOCIATED COMPANY/SUBSIDIARY

An agreement was made on 31 August 2016 for the acquisition of 33.1 per cent of the shares in the financial services investment company Arise BV. The acquisition is to be partially financed through the assignment of Norfund's shares in NMBZ, Banco Terra, Real People Pty and Norfininvest AS, and partly in cash. While waiting for government approval, the shares in these companies remain legally owned by Norfund AS as at 31 December 2016. According to the agreement, Norfund undertakes to inject capital equivalent to the agreed value of the assigned shares if legal approval is not obtained for the assignment of these shares to Arise BV. A matching liability of USD 187 million has therefore been recorded.

The shareholder agreement between Norfund and Statkraft concerning the establishment of SN Power involves a capital plan for possible investment with annual grants from Norfund for up to USD 60 million in the period 2016–2018, in the event that SN Power should require capital.

Norfund and KLP have formed a joint investment company, KLP Norfund Investments AS. The purpose of the joint venture is to invest in projects in developing countries with a view to promoting sustainable development for a period of over five years for an amount of up to NOK 1.7 billion.

In 2013, Norfund established the company Norfinance AS jointly with KLP, Perestrokia, Skagen Kon-Tiki Fund and Solbakken AS, for the purpose of investing in African banks and financial institutions, initially for an amount of USD 136 million. Capital deposits and investments in ownership interests were made in 2014 and 2015, and the company can potentially make further investments. In December 2016, Perestroika's share of the company was assigned to KLP.

Norfund and Norfinance AS have formed a joint investment company, Norfininvest AS. In April 2015, the company invested in 12.2 per cent of Equity Bank Ltd. In view of Norfund's 75 per cent holding, Norfininvest AS has been consolidated into the Norfund group. An agreement has been entered into for the sale of the company to Arise BV, contingent on government approval.

## NOTES

### 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 01.01.16	Repayments received 01.01– 31.12	Repayments interest 01.01– 31.12	Depreciation during year	Gain/loss on exchange during year	Closing loan balance 31.12.15
<b>TOTALT</b>	<b>5 616</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5 616</b>
Depreciation	5 616					-5 616
<b>Book value</b>	<b>0</b>					<b>0</b>

Norfund has valued the loan portfolio as at 31.12.2016 at NOK 0.

### OTHER RECEIVABLES

(Figures in 1000s of NOK)	Norfund		Norfund group	
	31.12.16	31.12.15	31.12.16	31.12.15
Receivable/Right <sup>1</sup>	28	1 260	28	1 260
Accrued interest	73 934	86 352	73 934	86 352
Other receivables	67 054	56 696	67 054	42 665
<b>Total receivables</b>	<b>141 016</b>	<b>130 379</b>	<b>141 016</b>	<b>130 276</b>

<sup>1</sup> 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 2016.

Other receivables: All receivables fall due within one year. Of other receivables, 32 547 (30 646) concern the Norfund group or associated company, and are mainly related to project costs.

### NOTE 7 – CAPITALISED PROJECT DEVELOPMENT COSTS

Project (Figures in 1000s of NOK)	31.12.16	31.12.15
Capitalised project development costs	38 866	26 943
Provision for bad debts at 31 December 2016	-21 454	-23 571
<b>Book value capitalised project development costs</b>	<b>17 412</b>	<b>3 372</b>

Increased project development activity is part of Norfund's increased focus on Clean energy and is Norfund's Project development facility. The aim is to increase access to investment opportunities in Clean energy in developing countries.

## NOTE 8 – LOANS TO COMPANIES IN THE INVESTMENT PORTFOLIO

(Figures in 1000s of NOK)	Currency	Book value <sup>1</sup> (in FX)	Book value <sup>1</sup> (in NOK)
LAAD	USD	7 500	64 650
Casquip Starch (Pty) Ltd	ZAR	30 703	19 350
European Financing Partners EUR <sup>2</sup>	EUR	752	6 835
European Financing Partners USD <sup>2</sup>	USD	10 661	91 900
Green Resources	USD	17 604	151 748
Sathapana Ltd	USD	1 400	12 068
Africado	EUR	1 270	11 540
E+CO	USD	1 217	10 495
Real People Investment PTY	ZAR	190 000	119 415
DFCU Limited	UGS	5 271 429	12 493
TPS (Dar) Ltd.	USD	2 255	19 434
Techombank	USD	2 500	21 550
Great Lakes Agricultural Development Ltd	USD	150	1 293
Interact Climate Change Facility	USD	5 802	50 014
Amret Co Ltd	USD	6 000	51 720
Alios Finance Tanzania Ltd	USD	1 500	12 930
Banco Ficosha	USD	4 498	38 769
Agrica Limited	USD	6 332	54 586
Afrinord Hotels Investment	USD	2 157	18 590
Hattha Kaksekar Ltd	USD	5 250	45 255
Yara Tanzania Ltd	USD	3 000	25 860
Prasac	USD	5 000	43 100
First Finance Plc	USD	3 000	25 860
Fondo de Desarrollo Local FDL	USD	3 000	25 860
UAP Properties Limited	USD	4 333	37 353
NMBZ Holdings Limited	USD	1 400	12 068
Alios Finance Zambia Ltd.	USD	2 500	21 550
Proximity Designs	USD	2 000	17 240
Trustco	ZAR	75 000	47 138
Interact Climate Change Facility	EUR	1 865	16 942
Housing Finance Company of Kenya Ltd	KES	1 000 000	82 520
Ficosha Guatemala	USD	1 500	12 930
Focus Financial Services	ZMW	50 000	43 559
ACLEDA Bank Lao Ltd	USD	5 527	47 644
African Century Infrastructure Services Ltd	USD	2 700	23 274
Sunripe (1976) Limited	USD	3 700	31 894

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## NOTES

### » CONTINUES NOTE 8 – LOANS TO COMPANIES IN THE INVESTMENT PORTFOLIO

(Figures in 1000s of NOK)	Currency	Book value <sup>1</sup> (in FX)	Book value <sup>1</sup> (in NOK)
AMC/Confianza	USD	2 500	21 550
Cape Dairy Biogas Plant (Pty) Ltd	ZAR	8 084	5 081
Banco Terra S.A.	EUR	490	4 456
Banco Lafise Bancetro S.A.	USD	10 000	86 200
Across Forest AS	NOK	1 800	1 800
Banco Industrial El Salvador	USD	10 000	86 200
Nam Sim Power Company	USD	3 319	28 606
BRAC Bank Limited	USD	7 500	64 650
Comercial Administradora S.A. Arrend	USD	3 500	30 170
Banco Promerica	USD	10 000	86 200
African Century Food Ltd	USD	3 000	25 860
Rwimi EP Company Ltd	USD	1 322	11 395
Associated Foods Zimbabwe (Private) Limited	USD	1 300	11 206
Banco Promerica S.A.	USD	10 000	86 200
Federacion De Cajas De Credito Y De Bancos De Los Trabajadores	USD	10 000	86 200

#### Mezzanine loans

Afrinor Hotel Investments A/S	EUR	2 710	24 623
BRAC Bank Limited	BDT	465 500	49 920
Financiera Desyfin S.A.	USD	2 633	22 699
Bronkhorstspuit Biogas Plant Pty Ltd	USD	26 046	16 370
Gigawatt Global Rwanda Mezzanine	USD	3 243	27 951
Renewable Energy Holdings Pty Ltd	ZAR	46 347	29 129
<b>Accrual startup fee loans</b>			-11 742
Total loans to projects <sup>1</sup>			2 124 152
Provision for bad debts at 31.12.2016			-129 300
<b>BOOK VALUE LOANS</b>			<b>1 994 851</b>

In addition to the loans specified above, Norfund made two loans charged to unused resources Balkans which are recorded at NOK 0 in accordance with the requirements of NRS 4 concerning net recording of government grants received; see note 14.

Some of the loans carry a risk comparable with that of equity investments. In addition, 7 guarantees were issued for a total amount of NOK 143 million. Six of these had a likelihood of <10 per cent of being called. An allocation of approx. NOK 13 million as a liability has been made for one of the guarantees as at 31.12.2016.

<sup>1</sup> Figures at 31.12.2016 and before any write-downs.

<sup>2</sup> 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, Cement du Sahel, CareWorks, Precision Air, Equity Bank, Maputo Private Hospital, Millicom Tanzania, Rabai Power Ltd., Zambeef, PTA Bank, AFL, Jamaica Public Services, Co-operative Bank, Indorama Eleme Fertilizer, ETG, AFC, Bharti Airtel, NMB Tanzania, Fidelity Bank, Chase Bank, Stanbic Bank, Helios Towers, Eaton Towers, Mobisol, GHIL and Olkaria 4

## NOTE 9 – EQUITY INVESTMENTS

Equity investments in funds (Figures in 1000s of NOK)	Currency	Share- holding	Comitted investment (in FX)	Historical cost price <sup>1</sup> (in FX)	Committed investment (in NOK)	Historical cost price <sup>1</sup> (in NOK)
SEAF Sichuan SME Investment Fund	USD	13,3 %	1 208	1 203	7 522	7 483
Aureos East Africa Fund	USD	20,0 %	710	638	4 468	3 851
Aureos West Africa Fund	USD	26,0 %	1 863	699	14 528	4 495
Aureos Southern Africa Fund	USD	25,1 %	4 420	3 103	28 116	16 766
Aureos South East Asia Fund	USD	28,6 %	1 946	327	15 818	1 858
APIDC Biotech Fund	USD	7,7 %	2 643	2 643	15 994	15 996
China Environment Fund	USD	10,0 %	758	650	4 375	3 448
Aureos South Asia Fund (Holdings)	USD	23,5 %	13 283	11 609	82 283	67 850
Aureos Central America Growth Fund (EMERGE)	USD	14,3 %	1 549	1 376	9 989	8 497
CASEIF II	USD	13,8 %	1 892	1 471	12 115	8 485
Adenia Capital II	EUR	13,4 %	1 254	940	10 585	7 736
Horizon Equity Partners Fund III	ZAR	9,0 %	16 520	15 287	10 622	9 848
Africap Microfinance Investment Company	USD	7,4 %	3 000	1 967	19 741	10 837
Aureos Latin America Fund (ALAF)	USD	13,6 %	9 974	9 953	58 407	58 229
Seaf Blue Water Growth Fund	USD	20,0 %	3 313	1 934	23 330	11 440
NMI Global Fund <sup>2</sup>	NOK	45,0 %	130 935	101 575	130 935	101 575
NMI Frontier Fund <sup>2</sup>	NOK	45,0 %	108 000	71 900	108 000	71 900
GroFin Africa Fund	USD	9,4 %	9 636	7 875	61 990	46 810
Aureos Africa Fund L.L.C	USD	10,5 %	21 809	16 740	143 078	99 383
Fundo de Investimento Priv. Angola	USD	25,6 %	9 729	8 579	63 887	53 976
Fanisi Venture Capital Fund SCA	USD	34,5 %	14 250	12 514	97 077	82 109
Cambodia-Laos Development Fund	USD	20,4 %	4 000	3 707	26 050	23 527
Evolution One Fund	ZAR	6,7 %	38 409	27 233	25 834	18 809
AgriVie Fund	ZAR	9,4 %	73 350	70 956	52 148	50 644
Frontier Fund	USD	11,3 %	10 053	9 615	63 934	60 160
Prospero Microfinanzas Fund B.L.P.	USD	21,7 %	4 869	4 467	30 915	27 451
Aureos South East Asia Fund II	USD	2,2 %	4 726	3 083	37 356	23 194
Vantage Mezzanine Fund II	ZAR	5,4 %	96 784	84 258	58 059	50 187
Voxtra East Africa Agribusiness Ini	NOK	30,0 %	31 656	26 973	31 656	26 973
Africa Health Fund SA En Commandite	USD	9,5 %	9 606	7 219	66 345	45 765
Higher Education Financing Fund	USD	33,0 %	5 000	5 000	38 827	38 827
Coreco Central America Fund I LP	USD	22,0 %	10 000	4 997	76 993	33 868
NMI Fund III	NOK	24,4 %	183 970	82 005	183 970	82 005
Locfund II	USD	26,0 %	8 000	8 000	53 835	53 835
Ascent Rift Valley Fund Ltd	USD	12,8 %	10 000	1 789	85 441	14 665
Novastar Ventures East Africa Fund	USD	12,5 %	9 426	3 121	78 560	24 210

## NOTES

### » CONTINUES NOTE 9 – EQUITY INVESTMENTS

Equity investments in funds (Figures in 1000s of NOK)	Currency	Share- holding	Comitted investment (in FX)	Historical cost price <sup>1</sup> (in FX)	Committed investment (in NOK)	Historical cost price <sup>1</sup> (in NOK)
Caseif III	USD	24,0 %	9 917	3 753	84 264	31 133
Grofin SGB Fund Ltd Partnership	USD	19,0 %	15 000	9 250	128 250	78 685
Cambodia-Laos-Myanmar Development Fund II LP	USD	15,5 %	9 938	549	85 549	4 614
BPI East Africa LLC	USD	16,8 %	6 000	1 359	51 519	11 510
Frontier Bangladesh II LP	USD	7,7 %	8 000	407	68 929	3 481
FIPA II <sup>2</sup>	USD	40,0 %	18 000	0	155 160	0
<b>Total invested in funds<sup>1)</sup></b>					<b>2 406 453</b>	<b>1 396 118</b>

"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 disbursed. The exchange rate at 31.12.2016 is used for the part that has not been disbursed.

<sup>1</sup> Figures at 31.12.2016 and before any write-downs

<sup>2</sup> Fund investments with more than 35 per cent ownership share

NMI Global Fund, NMI Frontier Fund and NMI Fund III are Norfund's most important microfinance investments. Norwegian private commercial investors have contributed considerable equity to all three funds.

Norfund was the promoter of FIPA, the first private equity fund in Angola in 2009. In 2016, Norfund invested 40 per cent of the capital in FIPA II, and the investment is a continuation of Norfund's engagement and strategic interest in the development of the market for private equity funds in Angola.

### EQUITY INVESTMENTS IN MANAGEMENT COMPANIES

(Figures in 1000s of NOK)	Currency	Share- holding	Comitted investment (in FX)	Historical cost price <sup>1</sup> (in FX)	Committed investment (in NOK)	Historical cost price <sup>1</sup> (in NOK)
Lafise Investment Management	USD	20,0 %	2	2	17	17
Nordic Microfinance Initiative AS	NOK	33,3 %	28 370	24 192	28 370	24 192
European Financing Partners SA	EUR	7,6 %	25	25	195	195
Angola Capital Partners LLC <sup>2</sup>	USD	47,5 %	250	250	1 417	1 417
Interact Climate Change Facility S.A.	EUR	7,7 %	6	6	47	47
Fanisi Venture Capital management <sup>2</sup>	USD	50,0 %	275	124	2 216	913
Norwegian Microfinance Initiative AS <sup>2</sup>	NOK	50,0 %	30 000	30 000	30 000	30 000
Norfund Consultores Lda	MZN	99,0 %	20	0	4	0
<b>Total invested in management companies</b>					<b>62 266</b>	<b>56 782</b>

<sup>1</sup> Figures at 31.12.2016 and before any write-downs

<sup>2</sup> Joint ventures with 50 per cent ownership share

Angola Capital Partners is a capital management company for investment in small and medium-sized enterprises in Angola. Norfund was one of the promoters of the company, which is a joint venture project with a local Angolan bank, BAI. Norfund has thereby contributed to realising its own objectives by further developing the capital market in Angola and raising capital for investment in small and medium-sized enterprises. The company was the first of its kind in Angola, and would not have been realised without Norfund's involvement.

Fanisi Venture Management Company is a management company for which Norfund was one of the promoters. It is a joint venture with Armani Capital. Norfund has thereby contributed to realising its own objectives by further developing the capital market in East Africa and raising capital for investment in small and medium-sized enterprises. The company is one of the first venture capital fund managers in East Africa, and would not have been realised without Norfund's participation.

"In 2008, Norfund established NMI (Norwegian microfinance initiative) in collaboration with KLP, the DNB group, Ferd and Storebrand. Norfund owned 50 per cent of the management company Norwegian Microfinance Initiative AS and 45 per cent of each of the NMI Global and NMI Frontier investment funds. Norfund still owns 50 per cent of the new Norwegian Microfinance Initiative AS and 45 per cent of each of the NMI Global and NMI Frontier investment funds, which are managed by the new, demerged company.

In 2013 a new fund was established: NMI Fund III. In the course of 2016, IFI invested in NMI Fund III and in the management company, which changed its name to Nordic Microfinance Initiative AS. Norfund owns 33.33 per cent of Nordic Microfinance Initiative AS and 24.4 per cent of NMI Fund III. Parts of the management company (corresponding to the ownership interests in NMI Global Fund and NMI Frontier Fund) were demerged and received the old name Norwegian Microfinance Initiative AS in 2016.

## EQUITY INVESTMENTS IN COMPANIES

(Figures in 1000s of NOK)	Currency	Share-holding	Comitted investment (in FX)	Historical cost price <sup>1</sup> (in FX)	Committed investment (in NOK)	Historical cost price <sup>1</sup> (in NOK)
CIFI	USD	32,0 %	16 500	16 500	116 182	116 182
TPS Afghanistan (Kabul Serena Hotel) Ltd	USD	17,1 %	5 000	3 000	34 392	17 152
Afrinord Hotels Africa	EUR	20,0 %	50	50	392	392
Banco Terra	MZN	6,5 %	456 700	456 700	96 568	96 568
Casquip Starch (Pty) Ltd	SZL	28,7 %	26 000	26 000	18 593	18 593
Africado 2	EUR	40,0 %	2 000	2 000	15 359	15 359
Real People Investment PTY	ZAR	15,7 %	254 374	254 374	187 107	187 107
Agrica Limited	USD	26,9 %	14 435	14 435	87 670	87 674
Tourism Promotion Services TPS	RWF	11,1 %	1 287 434	1 287 434	12 510	12 510
Basecamp Explorer Kenya Ltd <sup>2</sup>	NOK	40,0 %	9 000	9 000	9 000	9 000
TPS (Dar) Ltd	USD	28,5 %	6 800	6 800	39 089	39 089
Agrivision	USD	22,7 %	24 257	24 257	161 599	161 597
Kinyeti Venture Capital Limited <sup>2</sup>	USD	49,0 %	3 750	3 750	22 121	22 121
Scatec Solar Kalkbult (RF) Pty Ltd	ZAR	35,0 %	69 648	69 649	43 413	43 414
NMBZ Holdings Limited	USD	9,0 %	4 944	4 944	28 803	28 800
Norsad	USD	11,0 %	9 297	9 297	56 844	56 847
African Spirit Group Limited	USD	19,4 %	5 000	5 000	30 694	30 694
Statkraft IH Invest AS	USD	18,0 %	440 290	0		3 253 151
Kinangop Wind Park	USD	18,8 %	13 240	13 370	94 274	95 393
Gigawatt Global Rwanda Ltd	USD	12,8 %	797	589	5 705	3 915
Financiera Desyfin S.A.	USD	23,2 %	6 000	6 000	36 772	36 772
African Century Food Ltd	USD	33,5 %	9 601	9 601	66 059	66 056
African Century Infrastructure Services Ltd.	USD	20,0 %	2 550	2 550	16 260	16 260
Comercial Administradora S.A. Arrend	USD	22,0 %	4 000	4 000	29 904	29 904
Globeleq Ltd	USD	30,0 %	240 000	230 821	1 989 201	1 910 075
African Century Real Estate Limited	USD	14,3 %	3 000	3 000	26 130	26 130
Advans MFI Myanmar Company Limited <sup>2</sup>	MMK	40,0 %	1 560 000	130 000	10 246	865
Myanmar Finance International Ltd	USD	25,0 %	1 431	1 431	12 428	12 426
Freight in Time Ltd	USD	24,0 %	6 000	6 000	53 115	53 115
First Finance	USD	15,1 %	1 000	1 000	8 479	8 479
Basecamp Explorer Kenya Limited <sup>2</sup>	USD	40,0 %	850	790	7 366	6 788
BRAC Bank Limited	BDT	0,1 %	24 500	24 500	2 675	2 675
Fondo de Desarrollo Local FDL	USD	10,7 %	2 500	2 449	20 998	20 558
Nsongiezi Hydro Power	USD	30,0 %	72	0	621	0
<b>Total invested in companies</b>					<b>3 587 679</b>	<b>6 485 661</b>
<b>Total invested in companies<sup>1)</sup></b>						<b>7 938 562</b>
Provision for bad debts at 31 December 2016						-570 235
<b>Book value investments</b>						<b>7 368 327</b>

## NOTES

<sup>1</sup> Figures at 31.12.2016 and before any write-downs

<sup>2</sup> Equity investments with more than 35 per cent ownership share

Norfund's investment in Africado Ltd constitutes a 40 per cent ownership share. Africado Ltd is a startup agribusiness project, and the partners had a limited supply of capital. Norfund considers investment in Africado to be a special case where, owing to the shortage of capital, it was necessary to invest over 35 per cent in order for the project to be realised at all.

Norfund has a 40 per cent holding in Basecamp Explorer Kenya Ltd. The high share was necessary to provide sufficient equity to assure a solid base for this company's further growth.

Kinyeti Venture Capital Ltd is the first investment company established in South Sudan. Norfund's holding is now 49 per cent. Norfund has assumed an active role in Kinyeti in order to be able to offer small enterprises risk capital in an extremely difficult area. The aim is to attract further capital from other partners, with a view to reducing Norfund's holding over time.

Myanmar is a high priority country for Norfund, and in view of the limited access to capital from other investors, Norfund wanted to acquire 40 per cent of Advans MFI Myanmar Company Ltd jointly with another operator who would own 60 per cent.

### Norfund Group

(Figures in 1000s of NOK)	Currency	Share-holding	Comitted investment (in FX)	Historical cost price <sup>1</sup> (in FX)	Committed investment (in NOK)	Historical cost price <sup>1</sup> (in NOK)
Total invested in companies Norfund						7 938 562
Equity Bank Holdings Ltd	KES	12,20 %				1 544 252
<b>Total invested in companies</b>						<b>9 482 814</b>
Provision for bad debts at 31.12.2016 group						-803 503
<b>Book value investments 31.12.16</b>						<b>8 679 311</b>

### NOTE 10 – EXITED INVESTMENTS

The note shows estimated gain/loss and annual IRR during the period of Norfund's ownership for investments exited in 2016. Total amounts repaid from investments include 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.

Norfund exited the following investments during the period:

(Figures in 1000s of NOK)	Hattha Kaksekar Ltd (HKL)	Matanuska Africa	TPS Pakistan
Cost price, paid-in capital	41 889	110 901	21 161
Total repaid from investment	251 432	0	42 787
<b>Gain/loss (-) on investments exited</b>	<b>209 544</b>	<b>-110 901</b>	<b>21 626</b>
Realised gain / loss (-)	160 710	-110 901	6 774
Realised FX gain	48 834	0	14 852
Year of first disbursement	2008	2008	2008
Investment currency	USD	USD	USD
Calculated IRR in investment currency (annual)	36 %	-100 %	3 %

Nine loans were repaid during the year, including the loan for Matanuska Africa.



**NOTE 11 – TAX****Norfund**

Tax costs 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.

**Norfund group**

Group companies may be separate tax subjects and will calculate tax in the ordinary manner in accordance with applicable laws. No taxes were calculated for group companies for 2016.

**NOTE 12 – BANK DEPOSITS, CASH AND CASH EQUIVALENTS****Norfund**

Bank deposits of NOK 2 384 994 079 include NOK 3 133 083 in a blocked tax withholding account. In addition, NOK 4 723 218 of the company's liquid assets are tied up in unused resources. These resources can only be used in accordance with the guidelines established for the application of unused resources (see note 14).

NOK 1 525 179 669 of the company's total bank deposits are in Norges Bank.

**Norfund group**

There are no tied up assets in group companies other than those indicated in the information on the parent company.

**NOTE 13 – CAPITAL MOVEMENTS****Norfund**

(Figures in 1000s of NOK)	Primary capital	Capital in reserves	Surplus fund	Total equity
Capital at 01.01.2016	8 281 250	2 935 750	3 789 230	15 006 230
Capital supplied in 2016	1 108 500	369 500		1 478 000
Equity adjustment associated company recorded directly against equity (see note 5)			-134 535	-134 535
Actuarial gains/losses pensions			-3 642	-3 642
Net surplus			63 781	63 781
<b>Capital at 31.12.2016</b>	<b>9 389 750</b>	<b>3 305 250</b>	<b>3 714 835</b>	<b>16 409 835</b>

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 2016, 75 per cent was allocated to primary capital and 25 per cent to legal reserves in accordance with Article 9 of the regulations governing Norfund.

The equity adjustment is a result of the exchange rate adjustment of Norfund's shares in SN Power AS and Arise BV due to changes in hedging instruments, changes in the USD/NOK exchange rate and other adjustments. SN Power AS and Arise BV present their financial statements in USD.

## NOTES

### Norfund group

(Figures in 1000s of NOK)	Primary capital	Capital in reserves	Surplus fund	Minority interest	Total equity
Capital at 01.01.2016	8 281 250	2 935 750	4 034 121	191 115	15 442 236
Capital supplied in 2016	1 108 500	369 500			1 478 000
Equity adjustment associated company recorded directly against equity (see note 5)			-134 535		-134 535
Actuarial gains/losses pensions			-3 642		-3 642
Net surplus			12 154	-17 949	-5 795
Dividend minority			-8 571	-8 641	-17 212
<b>Capital at 31 December 2016</b>	<b>9 389 750</b>	<b>3 305 250</b>	<b>3 899 527</b>	<b>164 526</b>	<b>16 759 053</b>

**NOTE 14 – UNUSED RESOURCES (NORFUND'S GRANT SCHEME)**

Proposition no. 1 to the Storting (2014–2015) provided for the allocation of resources to a grant scheme to strengthen the development effects of Norfund's investment activities. The resources are intended to be used primarily during the budget year, but unused resources can be carried over. As specified in NRS 4, loans made are recorded net in the accounts.

The resources are used to increase the development effect of Norfund's investments through operational improvements and local community development, and by developing 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. Because of cuts in the development aid budget, new resources were not allocated in 2016, but unused resources disbursed to Norfund in 2015 were carried over to 2016. The whole balance of NOK 4.6 million was used in the course of the year.

In the period 2011–2015, Norfund managed funding from the embassy in Juba for preparing the Fula Rapids hydropower project in South Sudan until the project was ready for investment. In 2015 it was decided to end the project, and NOK 4.2 million of unused grant resources were repaid in December 2015.

Norfund has also received grant resources earmarked for projects in the Balkans, most of which have been granted as loans to finance companies.

(Figures in 1000s of NOK)	Unused resources Norfund		Unused resources Fula Rapids		Unused resources Balkan	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
<b>RECEIPTS</b>						
Carried over from previous year	4 633	5 524	0	4 083	5 621	6 831
Received during the year	0	21 000	0	0	0	0
Repaid grant resources	0	0	0	-4 216	0	0
<b>Total receipts</b>	<b>4 632</b>	<b>26 523</b>	<b>0</b>	<b>-133</b>	<b>5 621</b>	<b>6 831</b>
<b>Revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>299</b>	<b>222</b>
<b>DISBURSEMENTS</b>						
<b>General costs</b>						
Fund management	0	0	0	-254	0	0
General follow-up	0	-44	0	0	-453	-330
<b>Intervention</b>						
Project development:	-2 327	-1 190	0	387	0	0
Boost and support project development effects	-4 683	-17 159	0	0	0	0
Boost social responsibility	-2 301	-3 498	0	0	0	0
NMI start-up support	0	0	0	0	0	0
<b>Local investment funds</b>						
Follow-up costs	0	0	0	0	464	187
Loans to projects	0	0	0	0	-2 368	-1 351
<b>Total disbursements</b>	<b>-9 312</b>	<b>-21 891</b>	<b>0</b>	<b>133</b>	<b>-2 358</b>	<b>-1 494</b>
Allocated interest income	0	0	0	0	27	60
Overspending covered by Norfund	4 679	0	0	0	0	0
<b>Non-disbursed resources</b>	<b>0</b>	<b>4 633</b>	<b>0</b>	<b>0</b>	<b>3 588</b>	<b>5 621</b>
<b>Total non-disbursed resources at 31.12.2016</b>	<b>0</b>	<b>3 588</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

At the end of 2016, unused resources relating to the Balkans consisted of two outstanding loans of EUR 1.6 million each, one loan of EUR 0.2 million and one equity investment of EUR 0.1 million.

## NOTES

### NOTE 15 – INFORMATION ON FINANCIAL MARKET RISK AND THE USE OF FINANCIAL INSTRUMENTS

#### Market and currency risk

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

Norfund's investments are largely made in USD, but in some cases in other currencies. Since Norfund'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 objects in which Norfund invests may also be subject to fluctuations between local currencies and USD.

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

FX rates used in conversion		31.12.16	31.12.15	Change during the year
US dollar	USD	8,620	8,809	-2,1%
South African rand	ZAR	0,629	0,565	11,2%
Rwandan franc	RWF	0,010	0,012	-11,3%
Kenyan shilling	KES	0,083	0,084	-1,7%
Ugandan shilling	UGS	0,002	0,003	-7,1%
Mozambican metical	MZN	0,120	0,185	-35,2%
Bangladeshi taka	BDT	0,107	0,109	-1,9%
Cambodian riel	KHR	0,002	0,002	-1,4%
Swaziland lilangeni	SZL	0,630	0,567	11,1%
Euro	EUR	9,086	9,619	-5,5%

#### Interest rate risk

Norfund's interest-rate risk is primarily affected through liquid assets placed in Norwegian banks. Interest rates on loans to projects may also be affected by interest-rate risk, depending on the rate of interest charged on the various loans. Loans to projects are usually based on the 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 relatively high, and to be considered more as equity risk than traditional loan risk.

#### Liquidity risk

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

### NOTE 16 – CONTRACTUAL OBLIGATIONS

	Lease duration	Annual rental costs
Premises at Fridtjof Nansens Plass 4, Oslo	15.11.16 - 31.12.2026	5 236 094

In 2004 Norfund decided to establish a tender guarantee scheme to encourage increased financial cooperation and investment in developing countries. The scheme is administered by the Norwegian Guarantee Institute for Export Credits (GIEK). In 2016 this scheme has charged NOK 426 702 to Norfund's accounts. The tender guarantee scheme was initially a three-year trial that ran to the end of 2007. The scheme has been extended.



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Translation from the original Norwegian version

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 profit of NOK 63 781 000 in the financial statements of the parent company and loss of NOK 5 795 000 in the financial statements of the group. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance 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 and the Group 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 the Board of Directors' report, but does not include 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.

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Organisasjonsnummer: 980 211 282



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 fair presentation 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 and the Group'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.

#### *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 International Standards on Auditing (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 or the Group'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 fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

##### *Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that 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, 28 March 2017  
Deloitte AS

#### **Grete Elgåen**

State Authorised Public Accountant

Translation has been made for information purposes only



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Under establishment