Norfund

Norwegian Investment Fund for Developing Countries

2017

ANNUAL REPORT

ANNUAL REPORT AND ACCOUNTS 2017

Norfund – The Norwegian Investment Fund for Developing Countries – was established by the Storting (Norwegian parliament) in 1997 as an instrument in Norwegian development cooperation policy. Norfund is organised as a state-owned company with limited liability, established by a special act of the Storting and owned by the Norwegian Government. The company contributes to economic development and sustainable jobs in poor countries by investing in and developing profitable enterprises, primarily in the fields of clean energy, the financial sector and agribusiness, and through transfer of knowledge and technology. At the end of 2017, the total investment portfolio amounted to NOK 20.4 billion.

This report covers both Norfund and the Norfund group. The subsidiary SN Power AS, in which Norfund has a 100 per cent holding, is a consolidated subsidiary of the Norfund group. 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 2017

A weak upswing in the global economy in 2017 contributed to a somewhat brighter economic outlook for the countries in which Norfund has invested. Economic developments in Central America improved as a result of the stronger US economy. South-East Asian countries had GDP growth of six to seven per cent.. Sub-Saharan Africa had growth of 2.7 per cent, but with substantial regional variations. Developments were weak in South Africa, with growth of less than one per cent, but more positive in eastern Africa. Preliminary figures indicate growth rates of from five to seven per cent in countries like Kenya and Ethiopia. There are large variations in West Africa, partly reflecting the fact that the largest economy in the region, Nigeria, had growth of less than 1 per cent. Growth in Ghana was positive, at about 7 per cent.

Most countries in which Norfund operates are classified as non-investment grade, which limits their attractiveness to Western investors. Thus, Norfund and other development finance institutions (DFIs) have an important part to play in supplying the business sector with capital. Investing in these countries is very challenging. As a result, great demands are made of Norfund's expertise and ability to manage multiple risks of many kinds.

In 2017, Norfund entered into investment commitments totalling NOK 3.6 billion. Approximately NOK 2.1 billion of the investment was in renewable energy. Investment agreements for NOK 939 million were made in the financial institutions sector, and for NOK 169 million in agribusiness. NOK 378 million was invested in funds for small and medium-sized enterprises (SME funds).

The most important single event in 2017 was the entry into an agreement with Statkraft, whereby Norfund sold its stakes in Statkraft International Hydro Investments AS (SKIHI) and at the same time took over Statkraft's holding in SN Power AS. Through the transaction, Norfund became the sole owner of SN Power AS. The company now operates as a subsidiary, and is followed up by Norfund in the same way as the other companies in the portfolio.

About 55 per cent of committed capital in the investment portfolio as at 31 December 2017 was in clean energy, of which 50 per cent in renewable energy and 5 per cent in investments in gas power in East and West Africa. Some 27 per cent of the portfolio is in financial institutions, including microfinance, and 7.5 per cent is in agribusiness. The remainder of the portfolio (10 per cent) is mainly in private equity funds, which invest in small and medium-sized companies.

Thirty-five per cent of new investment agreements in 2017 were made in sub-Saharan Africa, and 34 per cent of them in least developed countries (LDCs). In 2017, investment in renewable energy accounted for 133 per cent of the capital supplied by Norfund's Owner that same year. The high figure is largely due to the Statkraft transaction.

In 2017, the Fund launched a number of measures as follow-up of the company's strategy. The Fund has stepped up its work to ensure compliance with rules and regulations, financial risk management and documentation of development effects for the entire portfolio. The geographical scope has been extended to encompass Ethiopia and Somaliland, and the Fund has also begun to invest in West Africa. The new regional office established in Accra, Ghana, brings the number of Norfund's regional offices up to five: Accra, Maputo and Nairobi in Africa, Bangkok in Asia and San José in Central America. Norfund's policy is to recruit personnel for the regional offices from the countries in which we invest.

Norfund receives annual capital contributions from the Norwegian government, amounting in 2017 to a total of NOK 1.5 billion. In 2017 the Norwegian Ministry of Foreign Affairs also granted NOK 15 million to Norfund's grant facility, the purpose of which is to strengthen the development effects of the company's investments. Norfund's statutes were revised at an extraordinary general meeting in December 2017.

2. NORFUND'S BUSINESS

2.1. Investments

Norfund's objective is to promote development by investing in viable, profitable enterprises in poor countries. In so doing, Norfund helps to create jobs and income for employees and owners and tax revenue for the authorities, and to promote purchasing from local business. The investment is intended to be additional, in that it provides access to capital and expertise, thereby enabling activities that would not otherwise have been initiated because of the high risk involved. In addition, Norfund is intended to act as a catalyst by mobilising capital from other investors, both in Norway and abroad.

Norfund always invests jointly with others, 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 and sectors, investment skills, the ability to identify and choose the right partner(s), and the ability to actively follow-up investments.

SN Power AS accounted for a large share of Norfund's portfolio as at 31.12.2017, and has been incorporated into Norfund's consolidated accounts. The transaction lays the foundation for more targeted investment in poor countries. It has freed up capital previously tied up in hydropower investments, particularly in South America and India, for increased investment in Africa and South-East Asia. The transaction also revealed that substantial value has been added to the investments.

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

Clean energy: Investment in clean energy is intended to strengthen 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. Most of the energy projects have an interface with the public sector, where the power produced is marketed through long-term agreements with public-sector players. This entails considerable political, regulatory and economic risk.

Norfund entered into agreements for investment in clean energy, in all cases renewable, for a total value of NOK 2.1 billion in 2017.

Through KLP Norfund Investments AS, an investment agreement for NOK 215 million was entered into in connection with Scatec Solar's projects in Egypt. A commitment was also made for a loan of NOK 104.9 million to M-Kopa, which delivers pay-as-you-go solar energy stems to homes in Uganda and Kenya, and an equity investment of NOK 11.9 million to Sunshine, which delivers roof-top solar energy systems to enterprises in Central America. NOK 80.3 million was also committed to responsAbility Renewable Energy Holding (rAREH), which develops and implements small-scale renewable energy projects in Africa. The settlement in connection with the acquisition of Statkraft's stake in SN Power AS amounted to NOK 1.7 billion.

SN Power AS also reported positive developments in 2017, and a net profit of USD 85.1 million. For further information about SN Power AS, please see the company's financial statements and report for 2017.

Financial institutions: Norfund invests in or provides loans to microfinance and other financial institutions and banks. The main aim is to extend the range of financial services to small and medium-sized enterprises (SMEs) and to individuals who do not have access to such services. In 2017, Norfund entered into investment agreements for a total of NOK 939 million in the financial institutions sector.

The bank investment company Arise BV, established through a collaboration with Rabobank, the Dutch DFI, FMO, and the pension company KLP and other Norwegian partners in »

NorFinance AS, became operational on 1 January 2017. Arise BV contributes to strengthening and developing banks in Africa, with the focus on financial inclusion.

In 2017 Norfund made commitments for five new investments in financial institutions, all of them in the form of loans: Access Bank (Nigeria) NOK 125.4 million, An Binh Commercial Joint Stock Bank (Vietnam), NOK 164.1 million, Banco BDF (Nicaragua) NOK 105 million, City Bank (Bangladesh) NOK 82.9 million and the microfinance institution Diaconia (Liberia) NOK 16.7 million. In addition, follow-up investments were made in five financial institutions.

SME funds: SME funds are useful instruments for reaching small and medium-sized enterprises. The latter 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 plays an important part 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.

In 2017, Norfund entered into investment agreements with three new SME funds, committing to a total of NOK 378 million . NOK 147.2 million was invested in Fanisi II, a follow-up of the SME fund Fanisi, in East Africa. NOK 41.7 million was also invested in the Oasis Africa Fund, which focuses on small and medium-sized enterprises in Ghana and the Côte d'Ivoire. Norfund also invested NOK 63.1 million in Spear Africa Holding II, a Norwegian fund that targets small and medium-sized enterprises in southern Africa.

Agribusiness: Norfund's investments in agribusiness mainly target growth enterprises with strong development effects in Africa. In this kind of investment, Norfund's expertise and the part it plays in actively exercising its ownership rights are as important as the actual funding. The strategy has been adjusted from investing largely in primary agriculture to a stronger focus on companies further out in the value chain. Norfund committed to investment agreements for a total of NOK 169 million in this sector in 2017.

NOK 62.2 million was invested in Verde Beef Processing, and NOK 23.4 million in Nyama World Malawi Ltd. These are the first direct investments Norfund has made in Ethiopia and Malawi, respectively. NOK 39.2 million was also invested in papaya producer Neofresh, which operates in Mozambique and South Africa. In addition, follow-up investments were made to four existing investments.

The grant facility

The grant facility offers professional and technical assistance to Norfund projects for project development, local community development, operational improvements and improvement of environmental, health, safety, social and governance matters (ESG). In 2017 Norfund managed NOK 15 million through this grant facility.

Norfund approved grants for a total of NOK 10 million in 2017. These were distributed among 21 projects. Thirty per cent of the resources went to project development, 22 per cent to operational improvements in environmental, health, safety and social matters, and 48 per cent to community development projects. 86 per cent of the resources were spent on projects in sub-Saharan Africa, with 79 per cent going to projects in least developed countries (LDCs). In addition to the 21 new projects, a further 21 projects from previous years continued in 2017.

Norfund also administers resources from the Ministry of Foreign Affairs (MFA) and the embassies earmarked for risk-reducing measures in connection with investments in Somalia, South Sudan and Myanmar, and a fund earmarked for projects in the Balkan countries. Moreover, Norfund administers a grant from the Ministry of Climate and the Environment to Nordic Microfinance Initiative (NMI).

Information Office

The Information Office for Private Sector Development in Developing Countries was closed in February 2017. The Information Office's responsibilities will continue to be discharged by Norad and Norfund in their respective areas.

2.2. Exits

In 2017 Norfund exited from the following equity investments: Casquip Starch in Swaziland, Nsongezi Power Company Ltd in Uganda, Kikagati Power Company Ltd in Uganda, Statkraft International Hydro Invest AS and the SEAF Bluewater fund. Nine loans were also repaid.

2.3. Financial risk

In accordance with Norfund's development policy objectives, the company invests in countries where the operating parameters, markets and companies are characterised by high risk. However, there is great uncertainty associated with future developments. There is also substantial counterparty and credit risk associated with many of Norfund's investments. Norfund has procedures for assessing risk prior to making investment decisions and for managing risk during the investment period. The risk profile of our portfolio is in accordance with Norfund's mandate. The Fund's mandate is to take risk associated with

major development effects, where the risk is not fully reflected in the expected financial return.

Direct and indirect equity investments account for 85 per cent of Norfund's committed portfolio and loans for 15 per cent. A total of 50 per cent is invested in sub-Saharan Africa and the share in the LDCs is 36 per cent.

Norfund's investments are made in foreign currency: mainly US dollars, but also euros, South African rand and other local currencies. Results are reported in NOK. There is also currency risk associated with some investments, between Norfund's investment currency and the enterprises' cash flows in local currencies. Our mandate dictates that Norfund must not spend resources on hedging the value of the portfolio in NOK, since the resources are to be reinvested outside Norway. Disbursements from our reserves in NOK 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.

Norfund is additionally exposed to risk associated with macroeconomic factors, political and regulatory risk, energy and commodity prices and operational risk. The company works systematically to reduce the ensuing vulnerability.

2.4. Social responsibility and human right

Norfund's mandate and operations place great demands on our enterprises to operate in a responsible manner. Norfund follows up the ambitions expressed in Storting Report no. 27 (2013-2014) A diverse and value-creating ownership. It is important for Norfund to discharge its 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 demands consideration for human rights, gender equality and local communities, and 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 many of the countries in which Norfund operates, laws and rules to protect employees and the rights of vulnerable groups are weakly implemented. Norfund's investment agreements therefore contain requirements about follow-up which exceed local practice in this sphere. The requirements commit the enterprises to comply with the environmental and social standards of the 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 and provided for by the IFC standards. Norfund has established reporting routines designed to pick up suspicions of financial irregularities and corruption. A new procedure has been established for reporting to the Norwegian Ministry of Foreign Affairs, whereby the Board, and not the administration, reports on financial irregularities that are of such a nature that the Ministry should be aware of them.

Norfund's work to promote human rights and anti-corruption in its investments contributes to making the Fund an attractive investment partner. The number of whistleblower cases and incidents related to corruption and/or business ethics is small. Three cases of suspected financial irregularities were reported in 2017.

Norad is now conducting an evaluation of business and human rights that also includes Norfund itself. The evaluation is looking in particular at how the UN guiding principles on human rights are being observed in business-related assistance.

Norfund has adopted corporate governance principles, and is operated in accordance with current rules and regulations for public sector financial management. An integral part of its mandate and operations involves preventing 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, 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's gender equality work focuses 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). The Fund has also boosted the personnel function, to facilitate the work of recruiting female candidates for external boardroom positions. »

One of Norfund's fundamental goals is for employees to have good working conditions. Ensuring that the portfolio companies focus on health, safety and the environment (HSE) is a considerable challenge, particularly in the case of major construction projects. Experience to date shows that the greatest risk of accidents and injuries in connection with work is associated with road transport. Norfund spends considerable amounts on following up on HSE requirements in all our investments, with a particular focus on training, use of safety equipment and compliance with procedures.

Our investment agreements contain a requirement that serious incidents, accidents and deaths be reported. Regrettably, 23 project-related deaths were reported by enterprises in Norfund's portfolio in 2017. Fourteen of these were due to traffic accidents, and nine were other work-related deaths. Fatal accidents in Norfund's direct investment enterprises are reported immediately to the 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 work to reduce work-related accidents and deaths.

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, the administration and enforcement of laws and rules is often neither effective nor predictable. In countries like these, 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 often implies a substantial risk. It is therefore often necessary to call on a third-party country in connection with investments in weakly developed countries. When these offshore financial centres (OFCs) are used, Norfund has a special responsibility 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 flows of capital. 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 observes OECD guidelines on tax-related matters, and avoids using countries 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. On Norfund's initiative, the European industry organisation EDFI developed common guidelines on taxation which were adopted in the spring of 2018. These form the basis for the development of the Fund's own responsible tax policy.

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 considerations be integrated into operations, and that an ecological management system be developed. 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 2017, travel by Norfund's Norway-based employees entailed the emission of some 344 tonnes of CO2. 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.

2.5. Development effects

Norfund's remit is to contribute to the establishment and development of profitable and viable 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), some of the figures used to describe development effects may fluctuate sharply from year to year. In order to highlight actual developments in our portfolio enterprises, we are also reporting changes from year-end 2016 to year-end 2017 for those enterprises that were included in the portfolio and submitted reports at both these year-ends.

At the end of 2017, a total of 292 000 people were employed in enterprises in which Norfund had invested, directly, or indirectly. Women accounted for 39 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 13 per cent in 2017, equivalent to 28 000 new jobs. An increase in jobs was reported by 43 per cent of activities in 2017. Job growth was highest among enterprises in Asia (25 per cent), followed by Africa (5 per cent) and Latin America (2 per cent). Enterprises in the least developed countries created 9 000 new jobs in 2017, an increase on 14 per cent in 2016.

The enterprises also contributed indirectly to growth and job creation by purchasing goods and services from local businesses for a total of NOK 16.8 billion in 2017.

Norfund also contributes to job creation by investing in sectors that reduce obstacles to economic activity. According to the World Bank, lack of access to stable electricity is one of the greatest obstacles to private-sector development. Seventy-nine per cent of enterprises in sub-Saharan Africa experience regular power outages and 40 per cent report that an inadequate electricity supply is a substantial obstacle to their operations. In 2017, the energy companies in Norfund's portfolio produced a total of 14.7 TWh of electricity, 34 per cent of it in LDSs. Power

plants in sub-Saharan Africa (excluding South Africa) produced 8 TWh, which corresponds to 40 per cent of manufacturing consumption in the seven countries in which Norfund has energy investments. Renewable energy sources generated 48 per cent of overall electricity production, and companies in Norfund's renewable energy portfolio contributed to a reduction of about 4.7 million tons of CO2 emissions in 2017.

At the end of 2017, financial institutions in which Norfund has invested had granted 12.4 million loans to their customers. This included 9.4 million loans to microfinance customers, 2.3 million loans to retail customers and 400 000 loans to small and medium-sized enterprises. The enterprises reporting for each of the last two years increased their combined lending volume by 14 per cent and the total number of loans to customers by 7 per cent. In addition to this, NMI invested in 11 microfinance funds with a combined portfolio of 260 microfinance institutions.

Growth and job-creation in the agricultural sector are important for combating poverty in sub-Saharan Africa. Norfund's agribusiness investments were employing 7 000 persons at the end of 2017. About 11 000 small farmers were additionally associated with the enterprises through outgrower or similar schemes.

In 2017, the enterprises in Norfund's portfolio paid some NOK 9.3 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 4 per cent higher taxes for 2017 than for 2016.

The private sector contribution is crucial for attaining the UN goal of eradicating poverty by the year 2030. Norfund's investments make a particular contribution to sustainability goal number eight, on promoting decent work and economic growth. Our investment in energy contributes to sustainability goal number seven, on clean energy for all. The financial institutions in the portfolio facilitate access to financial services, which is one of the subsidiary goals under sustainability goal number nine on innovation and infrastructure. Our investment in food and agriculture contributes to sustainability goal number two: end hunger, achieve food security and improved nutrition, and promote sustainable agriculture.

3. NORFUND'S ORGANISATION

3.1. Corporate governance

The General Meeting is Norfund's supreme body, and elect's the Board of Directors. At the end of the year, the Board consisted of Kristin Clemet (chair), Per Kristian Sbertoli, Tove Stuhl Sjøblom, Finn Jebsen, Martin Skancke, Britt K.S. Rugland, Nina Elisabeth Hansen and Felix Barwinek. 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 taken by the General Meeting.

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 2017, the Norfund group had 717 full-time equivalents, while Norfund had 66. At 31 December there were 71 employees in Norfund, 30 of them with a background in a country other than Norway. Twenty-one of the employees worked at regional offices. Women accounted for 50 per cent of the permanent Board members. One of the six members of Norfund's management team was a women, two of five heads of regional offices were women, and the proportion of women among the employees overall was 42 per cent. Three of the 10 persons who were engaged in 2017 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.

Sickness absence in Norfund amounted to 1.8 per cent of total working hours in 2017, equivalent to 311 days. This is 0.2 per cent lower than in 2016. There were no personal injuries or damage to Norfund property. 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 the Anti-Discrimination and Accessibility Act.

4. EXPLANATION OF THE FINANCIAL STATEMENTS

Norfund is an investment company, so its operating income consists of interest, dividends and gain 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 had a surplus of NOK 1 941 million in 2017, compared with a deficit of NOK 6 million in 2016. A large portion of the surplus in 2017 was attributable to realised gain and dividend in connection with the sale of Statkraft International Hydro Investments AS (SKIHI). The group's income came to NOK 2 119 million in 2017, an increase on NOK 567 in 2016. Operating costs amounted to NOK 262 million in 2017. There was a negative exchange-rate effect on the group's lending of NOK 80 million and reversal of earlier write-downs of NOK 197 million in 2017. The group's operating result for the year was NOK 1 975 million. Net financial costs were NOK 13 million, and tax expenses NOK 21 million.

Norfund's own accounts show a surplus of NOK 1 879 million in 2016 compared with NOK 64 million in 2016. Income came to NOK 2 049 million in 2017, an increase on NOK 428 in 2016. At NOK 123 million, interest income was NOK 14 million less than in 2016. Realised gains on shares amounted to NOK 318 million in 2017, an increase on NOK 201 million in 2016. Dividends from funds and equity investments amounted to NOK 945 million, an increase of NOK 705 million compared with 2016. The increase is mainly due to one large dividend from SKIHI. Other operating income was reduced by NOK 10 million, to NOK 13 million in 2017. The profit of NOK 650 million from associated company includes the profit from Norfund's share in SN Power AS (50 per cent up to and including the third quarter of 2017 and 100 per cent in the fourth quarter), KLP Norfund Investments AS (51 per cent), Norfinance AS (49.8 per cent), Arise BV (33.1 per cent), and Norfininvest AS (75 per cent). Norfininvest was transferred to Arise BV in 2017, and the profit share relates to the period when the company was owned directly by Norfund.

Norfund's operating costs prior to exchange rate adjustment of loans and write-downs were NOK 173 million, an increase from NOK 153 million in 2016. The cost increase in 2017 is due to an increased number of employees and higher costs for external assistance in connection with the company's investments. A strengthening of the Norwegian krone relative to the investment currencies resulted in a negative currency adjustment on our loans of NOK 80 million in 2017, compared with a loss of NOK 11 million in 2016. The net result is a write-up on investments of NOK 90 million in 2017 which is due to reversals of earlier write-downs and exchange rate effects.

Other interest income amounted to NOK 15 million, an increase of NOK 5 million. Other financial income of NOK 79 million is largely due to gain on exchange on debt in connection with the Arise transaction. Other financial expenses of NOK 81 million include interest on short-term debt and realised loss on exchange on some investments. Norfund's surplus of NOK 1 879 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 2017 was NOK 22 785 million, an increase of NOK 4 680 million. The balance sheet change is largely attributable to an increase in financial fixed assets due to the increased ownership share in SN Power AS, in addition to an increase in the value of other jointly controlled enterprises. The balance sheet values of the equity investments have decreased as a result of exits during the year. The sale of shares in SKIHI and transfer of interests to Arise BV accounts for about NOK 4.9 billion. Norfund's equity amounted to NOK 22 375 million (against NOK 16 410 million in 2016). Short-term debt was reduced in 2017 as a result of the transfer of interests to Arise BV.

Norfund has no special research or development activities that have a bearing on 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 2017 provide a true and fair view of the company's financial position. The Board regards liquidity as satisfactory, and 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 challenging 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 valuation principles following from recommendations from Invest Europe (International Private Equity and Venture Capital Valuation Guidelines). 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 or relevant market multiples. 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 2017 was NOK 23 828 million, compared with NOK 20 665 million at the end of 2016. Norfund's objective 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. Consequently, we measure the return on investments in both the investment currency and in NOK. The investment currency will be most relevant for co-investors for whom the investment currency is the functional currency. For our Norwegian co-investors, the return in NOK will be more relevant. Around 86 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 capital-weighted annual return on the investment portfolio, expressed in the investment currencies, is calculated to be 6 per cent from start-up. Similarly, the annual return calculated in NOK, is 9 per cent from start-up. In 2017, the return in investment currency was 14 per cent, and in Norwegian kroner 10 per cent.

6. OUTLOOK FOR THE FUTURE

The 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. The realisation of these goals is contingent on countries taking action to mobilise private-sector capital and activity on a large scale. DFIs like Norfund represent innovative financing mechanisms which use aid resources to mobilise private capital and commercial actors to make financially, socially and environmentally sustainable investments in poor countries. As a result, many countries are now upgrading their DFIs, and some countries that have not previously had this type of instrument are establishing DFIs.

Norfund's activities underpin several important sustainability goals, including the goals of eliminating poverty, combating hunger, achieving sustainable economic growth, gender equality, access to energy, industrial innovation and infrastructure, and the climate target. Several of the underlying subsidiary goals are directly reflected in 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 sustainability, and for generating capital that can be reinvested. In order to interest commercial investors in investing in poor countries, it is 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.

Today Norfund is an attractive employer and an attractive investment partner for Norwegian and international investors. Norfund will continue to have zero tolerance for corruption, and to work systematically to identify and limit risk related to failure to comply with rules and procedures, and to maintain full integrity against corruption.

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

Norfund has a key role in efforts to live up to the sustainability goals, help to solve poverty problems and limit climate change. Substantial investment and transfer of technology from the business sector of developed, wealthy countries is necessary to build up commerce and industry in poor countries.

It is cause for concern that Western banks and investors, including Norwegian investors, are withdrawing from poor developing countries. Our regions in sub-Saharan Africa are being hit particularly hard. Many investors perceive the risk of investing in developing countries as too high. A common reason for investors refraining from engagement in poor countries is fear of damage to their reputation if something goes wrong. Norfund has taken this paradox up in the public debate in Norway, and hopes thereby to contribute to a more nuanced picture and changes in attitude. Norfund plays a vital part by going at the forefront and showing that it is possible to make profitable investments and at the same time be a responsible investor.

Norfund will continue to prioritise investments with high additionality and substantial development effects. Norfund therefore gives priority to investment in energy production, agribusiness, and financial institutions 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. Efforts target poor countries where access to investment capital is an obstacle to the evolution of the business sector.

Norfund will maintain a high level of ambition with regard to environmental and social standards, along with sound corporate governance. We require in all our investments that the IFC Performance Standards be adhered to. Norfund will assist companies in the work of satisfying these requirements. Our grant facilities enable us to assist in strengthening internal control systems and in improving HSE procedures. In 2018, Norfund will revise the guidelines for responsible handling of tax issues in connection with our investments. »

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 start-ups, on ensuring additionality and on mobilising private capital. Norfund has already completed several investment projects in fragile states such as Liberia, Myanmar and South Sudan, and will continue its efforts to develop instruments and working methods appropriate to the conditions in fragile countries.

Up to the present, Norfund has demonstrated sound results, and the investment level is high. Through report no. 24 to the Storting (2017-2018) *Shared responsibility for a common future – the sustainability goals and Norwegian development policy*, the Owner signalled a continued increase in the supply of capital to Norfund. We therefore envisage a continued high investment level going forward.

Norfund will continue the focused strategy that has characterised investments for the past decade by building further on our investment platforms, our expertise and our role as an active, strategic minority investor. The level of investment in clean energy will continue to be high. SN Power AS will be further developed as the Fund's strategic tool for hydropower investment. Equity investments in banks in Africa will normally be made through Arise BV. At the same time, a loan portfolio for SME-focused banks will be built up. The focus in agribusiness will be on the value chain, and the Fund will make its first investments from its base in the new regional office in Ghana, and gradually expand its geographical catchment area to other English-speaking countries in West Africa.

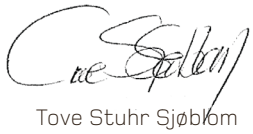
Oslo, 20 March 2018

Kristin Clemet
Chair

Per Kristian Sbertoli

Brit K. S. Rugland

Finn Marum Jebsen



Tove Stuhr Sjøblom

Martin Skancke

Felix Barwinek

Kjell Roland
Chief Executive Officer

Kristin Sandtorv

PROFIT AND LOSS ACCOUNT

		Norfund		Norfund Group	
(Figures in 1000s of NOK)	**Note**	**2017**	**2016**	**2017**	**2016**
Interest income loans - invested portfolio	1	122 905	137 265	122 905	137 265
Realised gain on shares	1	317 868	200 780	317 868	200 780
Dividends received	1	945 283	239 894	1 011 499	253 420
Interest and other project revenues, Norad loan portfolio	1,7			0	0
Other operating income	1	12 845	23 419	152 653	23 471
Share of profit/loss associated company	5	650 293	-172 906	513 881	-47 825
Total operating income		**2 049 193**	**428 452**	**2 118 806**	**567 111**
OPERATING EXPENSES					
Cost of materials				11 477	
Payroll expenses	2	94 300	90 659	122 633	90 659
Depreciation tangible fixed assets	4	2 234	1 706	14 956	1 706
Other operating expenses	2,3	76 064	60 831	112 659	61 020
Total operating expenses prior to exchange rate adjustment of loans and write-downs, investment projects		**172 598**	**153 196**	**261 725**	**153 385**
Adjustment for gain/loss (-) on FX, project loans	1	-79 792	-11 179	-79 792	-11 179
Write-down investment projects (-) / reversals (+)	1	89 579	-163 216	197 449	-372 543
Profit/loss (-) on operations		**1 886 382**	**100 861**	**1 974 738**	**30 004**
Other interest income		14 749	9 694	14 858	9 700
Other financial income		79 195	50 421	88 246	52 326
Other financial expenses		80 767	91 974	115 714	92 604
Net financial items		**13 176**	**-31 859**	**-12 610**	**-30 578**
Profit/loss before tax		**1 899 558**	**69 002**	**1 962 128**	**-574**
Tax	**11**	**-20 420**	**-5 221**	**-21 307**	**-5 221**
PROFIT/LOSS FOR THE YEAR		**1 879 138**	**63 781**	**1 940 821**	**-5 795**
ALLOCATIONS					
Transferred to surplus fund	13	1 879 138	63 781		
TOTAL ALLOCATIONS		**1 879 138**	**63 781**		

BALANCE SHEET

		Norfund		Norfund Group	
(Figures in 1000s of NOK)	Note	2017	2016	2017	2016
ASSETS					
FIXED ASSETS					
Tangible fixed assets					
Intangible assets					
Operating equipment, fittings and fixtures, tools etc.	4			3 858 517	
Total tangible fixed assets and intangible assets	**4**	**6 765**	**7 768**	**2 951 408**	**7 768**
Financial fixed assets					
Investments in associated company and subsidiary	5	13 842 689	6 190 899	7 175 027	5 229 154
Long-term receivables				67 864	
Total financial fixed assets		**13 842 689**	**6 190 899**	**7 242 890**	**5 229 154**
TOTAL FIXED ASSETS		**13 849 454**	**6 198 667**	**14 052 816**	**5 236 922**
CURRENT ASSETS					
Total inventories				**1 428**	
Receivables					
Other receivables	6	130 164	141 016	380 457	141 016
Loan portfolio	7			0	
Total receivables		**130 164**	**141 016**	**380 457**	**141 016**
Investments					
Capitalised project development costs	7	21 249	17 412	21 249	17 412
Loans to investment projects	1,8	1 932 534	1 994 851	1 932 534	1 994 851
Equity investments	1,9	4 188 701	7 368 327	4 188 701	8 679 311
Other market-based financial instruments	14			0	
Total investments		**6 142 484**	**9 380 590**	**6 142 484**	**10 691 574**
Bank deposits, cash and cash equivalents					
Bank deposits	12	2 662 888	2 384 994	5 090 009	2 385 068
Total bank deposits, cash and cash equivalents		**2 662 888**	**2 384 994**	**5 090 009**	**2 385 068**
TOTAL CURRENT ASSETS		**8 935 536**	**11 906 600**	**11 614 378**	**13 217 658**
TOTAL ASSETS		**22 784 990**	**18 105 268**	**25 667 195**	**18 454 580**

BALANCE SHEET

		Norfund		Norfund Group	
(Figures in 1000s of NOK)	Note	2017	2016	2017	2016
EQUITY AND LIABILITIES					
EQUITY					
Called and fully paid capital					
Primary capital	13	10 514 750	9 389 750	10 514 750	9 389 750
Reserve capital	13	3 680 250	3 305 250	3 680 250	3 305 250
Total called and fully paid capital		**14 195 000**	**12 695 000**	**14 195 000**	**12 695 000**
Retained earnings					
Surplus fund	13	8 179 767	3 714 835	8 179 767	3 899 527
Total retained earnings		**8 179 767**	**3 714 835**	**8 179 767**	**3 899 527**
Minority interest				**951 870**	**164 526**
Total equity		**22 374 767**	**16 409 835**	**23 326 637**	**16 759 053**
LIABILITIES					
Provision for liabilities and charges					
Pension commitments	2	25 588	26 767	38 305	26 767
Deferred tax liabilities				317 410	
Other long-term commitments				26 839	
Total provision for liabilities		**25 588**	**26 767**	**382 554**	**26 767**
Other long-term liabilities	10			**1 054 687**	
Current liabilities					
Accounts payable		16 184	0	16 184	10
Unpaid government charges and special taxes		5 150	5 687	5 150	5 687
Taxes				30 047	
Unused resources	14	23 772	3 588	23 772	3 588
Other current liabilities	5	339 530	1 659 390	828 163	1 659 475
Total current liabilities		**384 636**	**1 668 666**	**903 316**	**1 668 760**
Total liabilities		**410 224**	**1 695 433**	**2 340 558**	**1 695 528**
TOTAL EQUITY AND LIABILITIES		**22 784 990**	**18 105 268**	**25 667 195**	**18 454 580**

CASH FLOW STATEMENT

		Norfund		Norfund Group	
(Figures in 1000s of NOK)	Note	2017	2016	2017	2016
CASH FLOWS FROM OPERATIONS					
Profit before tax		1 879 138	63 781	1 962 128	-5 795
Taxes paid				10 540	
Ordinary depreciation	4	2 234	1 706	14 956	1 706
Write-down fixed assets				0	0
Reversal of write-down (-) / Write-down investment projects		-104 268	-30 347	-104 268	178 980
Differences in pension costs and receipts/disbursements, pension plan		–240	–524	1 165	–524
Share of profit associated company	5	-650 293	172 906	-513 881	47 825
Effect of exchange rate changes		67 045	44 396	50 007	44 396
Poster klassifisert som investerings- eller finansaktiviteter Endring i andre tidsavgrensningsposter				751 759	
Change in other accruals		-1 296 948	1 596 367	-1 558 791	1 596 326
Net cash flow from operations		**–103 331**	**1 848 286**	**613 616**	**1 862 915**
CASH FLOWS FROM INVESTMENT ACTIVITIES					
Investments in tangible fixed assets		-1 231	-5 881	-17 558	-5 881
Proceeds of sales/repayment of shares/holdings recorded at cost price		1 724 057	598 666	1 724 057	598 666
Disbursements in connection with purchase of shares/ interests in other enterprises		-2 884 832	-2 645 782	-2 893 318	-2 645 782
Disbursements of investment loans		-617 242	-530 205	-617 242	-530 205
Repayment of principal, investment loans		664 346	505 374	664 346	505 374
Repayment other investments		0	0	1 958	0
Net cash flow from investment activities		**–1 114 901**	**–2 077 828**	**–1 137 757**	**–2 077 828**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from new short-term debt	14	15 000	0	15 000	0
Disbursements - repayment of long-term debt		0	0	-69 674	0
Disbursements - repayment of short-term debt	14	-18 873	-6 665	-18 873	-6 665
Increase in/repayment of equity	13	1 500 000	1 478 000	1 500 000	1 460 788
Net cash flow from financing activities		**1 496 127**	**1 471 335**	**1 426 453**	**1 454 123**
Net change in cash and cash equivalents				**–11 546**	
Net changes in cash and cash equivalents		277 895	1 241 793	890 766	1 239 211
Adjusted cash and cash equivalents from affiliates				1 814 175	
Bank deposits, cash and cash equivalents at 1 January		**2 384 994**	**1 143 201**	**2 385 068**	**1 145 857**
Bank deposits, cash and cash equivalents at 31 December	**12**	**2 662 888**	**2 384 994**	**5 090 009**	**2 385 068**

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.

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.

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, 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 NORFUND

NOTE 1 – 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.

	2017								
(Figures in 1000s of NOK)	NORFUND total	SME Funds	Financial	Clean energy	Agri-business	Shared functions	Other activity	Loan portfolio*	
OPERATING INCOME									
Interest - invested portfolio	122 905	4	79 198	17 415	26 288	0	0	0	
Realised gains	317 868	0	-61 569	379 437	0	0	0	0	
Dividends received	945 283	62 612	5 043	874 361	3 268	0	0	0	
Other project revenues	12 845	58	5 537	6 438	584	227	0	0	
Share of profit associated company	650 293	0	271 861	378 432	0	0	0	0	
Total operating income	**2 049 193**	**62 674**	**300 069**	**1 656 083**	**30 140**	**227**	**0**	**0**	
OPERATING EXPENSES									
Payroll expenses	-94 300	-6 012	-16 587	-19 006	-20 567	-31 566	–514	–48	
Depreciation tangible fixed assets	-2 234	0	0	–37	–67	-2 130	0	0	
Loss on sale of operating assets	0	0	0	0	0	0	0	0	
Other operating expenses	-76 064	-1 490	-4 985	-26 283	-9 285	-33 588	–432	0	
Allocation of shared expenses	0	-6 959	-22 298	-15 092	-20 890	67 284	-1 986	–59	
Total operating expenses	**–172 598**	**–14 461**	**–43 870**	**–60 418**	**–50 809**	**0**	**–2 933**	**–107**	
Gain/loss (-) on FX, project loans	-79 792	–42	-56 777	–140	-22 833	0	0	0	
Provision for (-)/reversal of (+) loss on projects	89 579	-71 757	189 208	-17 473	-10 399	0	0	0	
Profit/loss (-) on operations	1 886 382	-23 585	388 630	1 578 051	-53 902	227	-2 933	–107	
Net financial items**	13 176	69	39 404	–180	1 594	-27 710	0	0	
Profit/loss before tax	1 899 558	-23 517	428 034	1 577 871	-52 308	-27 483	-2 933	–107	
Tax	-20 420	0	-2 725	-17 608	–86	0	0	0	
Profit/loss for the year* **	**1 879 138**	**–23 517**	**425 309**	**1 560 263**	**–52 394**	**–27 483**	**–2 933**	**–107**	
Group account effects	0	0	0	0	0	0	0	0	
Total Norfund group	**1 879 138**	**–23 517**	**425 309**	**1 560 263**	**–52 394**	**–27 483**	**–2 933**	**–107**	

**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*

	2016							
	NORFUND total	SME Funds	Financial institutions	Clean energy	Agri-business	Shared functions	Other activity	Loan portfolio*
	137 265	0	113 165	13 812	10 288	0	0	0
	200 780	0	193 671	0	7 109	0	0	0
	239 894	125 143	74 373	38 532	1 846	0	0	0
	23 419	192	5 903	15 838	1 222	264	0	0
	-172 906	0	-164 868	-8 038	0	0	0	0
	428 452	**125 334**	**222 245**	**60 144**	**20 466**	**264**	**0**	**0**
	-90 659	-5 874	-17 912	-15 205	-20 057	-30 541	-1 026	–45
	-1 706	0	0	–63	–67	-1 577	0	0
	0	0	0	0	0	0	0	0
	-60 831	-1 607	-5 928	-8 340	-6 980	-37 346	–632	0
	0	-7 184	-23 020	-15 581	-21 567	69 463	-2 050	–61
	–153 196	**–14 665**	**–46 859**	**–39 189**	**–48 670**	**0**	**–3 708**	**–105**
	-11 179	0	-9 256	7 351	-9 275	0	0	0
	-163 216	-37 451	-51 959	825	-74 631	0	0	0
	100 861	73 219	114 170	29 131	-112 110	264	-3 708	–105
	-31 859	2 439	-51 370	-8 652	1 895	23 829	0	0
	69 002	75 658	62 800	20 479	-110 215	24 093	-3 708	–105
	-5 221	0	-5 221	0	0	0	0	0
	63 781	**75 658**	**57 579**	**20 479**	**–110 215**	**24 093**	**–3 708**	**–105**
	0	0	0	0	0	0	0	0
	63 781	**75 658**	**57 579**	**20 479**	**–110 215**	**24 093**	**–3 708**	**–105**

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

SEGMENT INFORMATION BY GEOGRAPHICAL REGION:

2017							
	Africa	Asia & Pacific	America	Europe/ central Asia	Global	Write-downs	Total
BALANCE SHEET							
Investments in associated company and subsidiary	3 038 985	10 121 364	682 339				13 842 689
Equity investments	3 661 608	352 064	496 176	0	188 114	-509 261	4 188 701
Loans to investments	962 012	267 608	719 265	0	78 180	-94 531	1 932 534
Total balance sheet	**7 662 605**	**10 741 036**	**1 897 780**	**0**	**266 294**	**-603 792**	**19 963 924**
Interest income loans	52 108	23 643	43 094	0	4 059		122 905
Realised gain on shares	-70 449	10 738	377 579	0	0		317 868
Dividends received	95 443	8 135	841 705	0	0		945 283
Directors' fees received	148	0	230	0	0		377
Fees	6 130	2 288	3 517	0	533		12 468
Repayments of principal, loan portfolio	0	0	0	0	0		0
Interest paid on loan portfolio	0	0	0	0	0		0
Share of profit associated company	301 416	324 250	24 627	0	0		650 293
Total operating income	**384 796**	**369 054**	**1 290 752**	**0**	**4 592**	**0**	**2 049 193**
Gain/loss (-) on FX, project loans	-26 004	-17 953	-34 456	0	-1 379		-79 792

NOTE 2 – PAYROLL EXPENSES

WAGES, SALARIES AND OTHER PAYROLL EXPENSES

(Figures in 1000s of NOK)	2017	2016
Wages and salaries	64 289	64 146
Directors' fees	789	759
Employer's social insurance contribution	9 763	8 593
Personnel insurance	1 816	1 418
Pension expenses	11 545	9 617
Other benefits	6 208	6 233
Payroll expenses reimbursed	–110	–106
Total wages, salaries and other payroll expenses	**94 300**	**90 659**

REMUNERATION OF SENIOR PERSONNEL

NOK	Managing director	Chair	Directors
Wages and salaries/fees	2 508 742	212 750	576 000
Pension contributions	1 004 708		
Other remuneration	101 863		
Total	**3 615 312**	**212 750**	**576 000**

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 212 500 (NOK 205 000) for boardroom work for Norfund in 2017. The board members each received remuneration of NOK 115 200 (NOK 110 700).

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 1.8 per cent of Norfund's payroll expenses. Bonuses are paid for extraordinary performance, and the average payment in 2017 was NOK 43 895. The highest bonus payment represented 8 per cent of salary and is thus far lower than the requirement in Report no. 27 (2013–2014) to the Storting on Diverse and Value-creating Ownership (Eierskapsmeldingen) that bonuses be a maximum of 50 per cent of the employee's salary.

Fees in the amount of NOK 1 895 181 (NOK 2 123 644) were recorded for the auditor, of which NOK 685 063 (NOK 532 442) is related to auditing that is required by law, NOK 12188 (NOK 88 125) for other attestation services and NOK 1 191 931 (NOK 1 502 967) for services other than auditing. All figures include VAT.

NUMBER OF EMPLOYEES

The company had 71 employees at the end of 2017. The number of person-years was 66.

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 of age of 67 in the calculation base. On termination of employment or on reaching retirement age, employees receive a settlement for the value of the amount saved. The cost of this scheme is included in the calculation of pension expenses.

Local employees at Norfund's regional offices in Ghana, Thailand, Kenya, Mozambique and Costa Rica have defined-contribution pension plans and Norfund has no obligations beyond the annual contributions. In 2017, NOK 828 704 (NOK 777 203) was expensed in connection with this scheme.

The managing director has a retirement age of 65.

FINANCIAL ASSUMPTIONS

	2017	2016
Discount rate	2,4 %	2,1 %
Expected return on pension capital	4,1 %	3,0 %
Salary adjustment	2,5 %	2,25 %
Pension adjustment	2,25 %	2,0 %
Adjustment of the basic amount (G) in the National Insurance System	2,25 %	2,0 %
Turnover	9,0 %	9,0 %
Employer's social insurance contribution	19,1 %	19,1 %

	2017	2016
Net present value of pension earnings in the period	8 899	8 549
Capital cost of previously earned pensions	1 822	1 888
Expected return on pension capital	-1 973	-1 853
Administrative costs	945	917
Recorded actuarial gain/loss (-)		-1 225
Accrued employer's social insurance contribution*	1 852	1 340
Net pension liabilities for the year incl. payroll tax	**11 545**	**9 617**

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

Calculated pension liabilities	Insured	Uninsured	2017
Estimated pension liabilities	70 646	20 730	91 376
Estimated plan assets	69 892		69 892
Net pension liabilities 31 December	754	20 730	21 484
Unrecorded actuarial gain/loss(-)	144	3 959	4 103
Accrued employer's social insurance contribution*			0
Net pension liabilities 31 December	**898**	**24 689**	**25 588**

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

Reconciliation opening/closing balance	2017	2016
Capitalised net pension liabilities 1 January incl. payroll tax	26 767	24 422
Net pension expenses for the year incl. payroll tax	11 545	9 617
Actuarial gain/loss charged directly to equity	–240	3 642
Pensions paid, early retirement / unfunded, incl. payroll tax	–402	–385
Investment in pension assets, etc., incl. payroll tax	-12 083	-10 528
Capitalised net pension liabilities 31 December incl. payroll tax	**25 588**	**26 767**

Nordea Livs Asset Mix*	30.09.17	30.09.16
Property	10,0 %	12,1 %
Shares	10,1 %	8,4 %
Bonds at amortised cost	58,4 %	47,5 %
Short-term bonds/certificates	21,0 %	28,8 %
Other	0,5 %	3,2 %
Total financial assets	**100,0 %**	**100,0 %**

** Known values at calculation date*

NOTE 3 – OTHER OPERATING EXPENSES

	Norfund	
(Figures in 1000s of NOK)	2017	2016
Seminars, conferences, upgrading of competencies	4 034	3 218
Travel expenses	9 925	9 420
External assistance, projects	39 884	26 043
Costs, tender guarantee scheme	383	427
Rent, including shared costs	7 655	7 220
Advertising/printing	908	1 101
Other expenses	13 276	13 402
Total operating expenses	**76 064**	**60 831**

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	13 604	0	971	1 278	15 853
+ acquisitions during the period	1 045			185	1 231
- disposals during the period				0	0
Cost price at 31 December	14 649	0	971	1 463	17 084
Accumulated ordinary depreciation at 1 January	7 451	0	633	0	8 085
+ ordinary depreciation for the period	2 040		194		2 234
- acc. ord. depreciation, operating assets disposed of	0			0	0
Accumulated ordinary depreciation at 31 December	9 491	0	828	0	10 319
Write-down of operating assets at 1 January	0	0	0	0	0
+ write-downs for the period		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
Book value for accounting purposes at 31 December	**5 158**	**0**	**143**	**1 463**	**6 765**

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

(Figures in 1000s of NOK)	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	
Ownership interest	33,1 %	100 %	51 %	49,8 %	75 %	
Voting share	33,1 %	100 %	50 %	49,8 %	75 %	
	(Associated company)	(Subsidiary/ group)	(Associated company)	(Associated company)	(Associated company)	
Information relating to the date of acquisition:						
Acquisition cost						
INFORMATION RELATING TO THE FIGURES FOR THE YEAR:						
Opening balance 01.01.2017	1 819 158	2 928 755	231 644	249 596	961 745	6 190 897
Additions during the year	88 498	5 339 309	81 178			5 508 985
Disposals during the year					-1 113 599	-1 113 599
Other adjustments				20 557		
Share of annual profit / (loss (+/-)*	-26 615	410 443	-32 011	146 622	151 854	650 293
Write-downs						
Share of adjustments for the year charged directly to equity	-108 257	2 693 813		0		2 585 556
Closing balance, 31.12.2017	**1 772 783**	**11 372 319**	**280 811**	**416 775**	**0**	**13 842 689**

** Share of results for the year is based on final figures from the 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. While waiting for government approval, the shares in Banco Terra remain legally owned by Norfund AS as at 31.12.2017. 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 has therefore been recorded in the accounts. A shareholder agreement has been established in the company entailing a binding period for the shareholders.

In September 2017, Norfund acquired Norfund Statkraft's 50 per cent interest in SN Power and as at the end of 2017 owns 100 per cent of SN Power. The transaction took place by Norfund assigning its shares in SKIHI as part settlement in addition to a cash settlement. Through the transaction, Norfund gained control of SN Power, and previously owned shares were measured at fair value at the time of purchase in accordance with NRS 17 on business combinations taking place in stages. The value added on acquisition date is recorded directly to equity in Norfund.

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 for an amount of up to NOK 1.7 billion with a view to promoting sustainable development for a period of over five years.

In 2013, Norfund established the company Norfinance AS jointly with KLP, Perestroika, 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. Perestroika and Skagen KonTiki have assigned their shares to KLP.

Norfininvest AS was dissolved in 2017 as a result of the sale of the company's assets and the closing balance as at 31.12.2017 was NOK 0. The company appears as a share of profit/loss for associated company in Norfund's accounts.

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), where the loan portfolio was transferred 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	Repayments received	Interest received	Depreciation during	Gain/loss (–) on exchange during	Closing loan balance
TOTAL	5 616		0	0	0	5 616
Depreciation	5 616					-5 616
Book value	0					0

Norfund has valued the loan portfolio as at 31.12.2017 at NOK 0.

OTHER RECEIVABLES

	Nordfund Other receivables	
(Figures in 1000s of NOK)	31.12.17	31.12.16
Receivable/Right *	28	28
Accrued interest	66 811	73 934
Other receivables	63 325	67 054
Total receivables	**130 164**	**141 016**

** 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 31.12.2017.*

Other receivables: All receivables fall due within one year. Of other receivables, NOK 40 489 (32 547) concerns the Norfund group or associated company, and is mainly related to project costs.

NOTE 7 – CAPITALISED PROJECT DEVELOPMENT COSTS

Project (Figures in 1000s of NOK)	2017	2016
Capitalised project development costs	34 179	38 866
Provision for bad debts at 31.12	-12 930	-21 454
Book value capitalised project development costs	21 249	17 412

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)		Recorded value* (in FX)	Recorded value* (in NOK)
LAAD	USD	5 833	47 863
CIFI	USD	25 000	205 125
European Financing Partners EUR**	EUR	882	8 675
European Financing Partners USD**	USD	9 147	75 050
Green Resources	USD	21 905	179 730
Sathapana Ltd.	USD	10 000	82 072
Africado	EUR	1 270	12 497
E+CO	USD	989	8 112
DFCU Limited	UGS	1 757 143	3 954
TPS (Dar) Ltd.	USD	1 691	13 874
Great Lakes Agricultural Development Ltd	USD	150	1 231
Interact Climate Change Facility	USD	6 546	53 713
Amret Co Ltd	USD	3 600	29 538
Alios Finance Tanzania ltd	USD	500	4 103
Banco Ficosha	USD	2 211	18 143
Agrica Limited	USD	3 948	32 393
Afrinord Hotels Investment USD	USD	1 842	15 117
Yara Tanzania Ltd	USD	1 800	14 769
Prasac	USD	1 667	13 675
First Finance Plc	USD	3 000	24 615
Fondo de Desarrollo Local FDL	USD	4 188	34 358
UAP Properies Limited	USD	3 667	30 085
NMBZ Holdings Limited	USD	1 400	11 487
Alios Finance Zambia Ltd.	USD	1 500	12 308
Trustco	ZAR	50 000	33 230
Interact Climate Change Facility	EUR	1 940	19 095
Housing Finance Company of Kenya Ltd	KES	875 000	68 985
Ficohsa Guatemala	USD	900	7 385
Focus Financial Services	ZMW	25 000	20 384
ACLEDA Bank Lao Ltd	USD	3 090	25 352
African Century Infrastructure Services Ltd	USD	1 800	14 769
Sunripe (1976) Limited	USD	3 700	30 359
AMC/Confianza	USD	2 500	20 513
Cape Dairy Biogas Plant (Pty) Ltd	ZAR	8 084	5 373
Banco Terra S.A.	EUR	490	4 826
Banco Lafise Bancetro S.A.	USD	8 000	65 640
Across Forest AS	NOK	2 437	2 437
Banco Industrial El Salvador	USD	6 667	54 700
Nam Sim Power Company	USD	4 060	33 312

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

(Figures in 1000s)		Recorded value* (in FX)	Recorded value* (in NOK)
BRAC Bank Limited	USD	2 500	20 513
Comercial Administradora S.A. Arrend	USD	2 500	20 513
Scatec Rumuruti PDF	USD	52	418
Banco Promerica	USD	8 000	65 640
African Century Food Ltd	USD	4 048	33 212
Rwimi EP Company Ltd	USD	2 663	21 846
Associated Foods Zimbabwe (Private) Limited	USD	1 300	10 667
Banco Promerica S.A.	USD	10 000	82 050
Federacion De Cajas De Credito Y De Bancos De Los Trabajadores	USD	10 000	82 050
AfricanSpirit Group Limited	USD	2 300	18 872
Kinyeti Venture Capital Limited	USD	1 000	8 205
Fanisi GP II (Shareholder Loan)	USD	768	6 297
M-Kopa Solar Kenya	KES	525 053	41 395
Fredight In Time Limited	USD	1 700	13 949
Nyama World Project	USD	2 159	17 715
Sunshine Solar	USD	500	4 103
M-Kopa Solar Kenya UGX	UGS	975 491	2 195
Real People Inv. Hold. PTY Ltd. - seniro usecured debt	ZAR	72 013	47 860
Mezzanine loans			
Afrinor Hotel Investments A/S	EUR	2 487	24 474
BRAC Bank Limitied	BDT	418 950	41 271
Financiera Desyfin S.A.	USD	1 400	11 487
Bio2Watt	USD	36 046	23 956
Gigawatt Global Rwanda Mezzanine	USD	2 995	24 572
Renewable Energy Holdings	ZAR	53 746	35 720
Verde Beef UK Ltd.	USD	4 900	40 205
Accrual start-up fee loans			**-10 958**
Total loans to projects*			**2 027 065**
Provision for bad debts at 31.12.2017			-94 531
BOOK VALUE LOANS			**1 932 534**

In addition to the loans specified above, Norfund made four 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, 5 guarantees were issued for a total amount of NOK 131 million. Two of these had a likelihood of <10 per cent of being called. An allocation of approx. NOK 14 (13) million as a liability has been made for one of the guarantees as at 31.12.2017.

** Figures at 31.12.2017 and before any write-downs.*
*** Loans syndicated by members of European Financing Partners are co-invested. Norfund's holding varies from 1–7.5 per cent. Loans have been granted to Olkaria III, CareWorks, Precision Air, Rabai Power Ltd., PTA Bank, Jamaica Public Services, Co-operative Bank, Indorama Eleme Fertilizer, ETG, AFC, NMB Tanzania, Fidelity Bank, Chase Bank, Stanbic Bank, Helios Towers, Eaton Towers, Mobisol, GHL and Olkaria 4*

NOTE 9 – EQUITY INVESTMENTS

(Figures in 1000s)		Ownership interest	Committed investment (in FX)	Historical cost price* (in FX)	Committed investment (in NOK)	Historical cost price* (in NOK)
SEAF Sichuan SME Investment Fund	USD	13,3 %	679	675	4 162	4 125
Aureos East Africa Fund	USD	20,0 %	710	638	4 442	3 851
Aureos West Africa Fund	USD	26,0 %	1 863	699	14 046	4 495
Aureos Southern Africa Fund	USD	25,1 %	2 950	1 634	20 015	9 217
Aureos South East Asia Fund	USD	28,6 %	1 946	327	15 142	1 858
APIDC Biotech Fund	USD	7,7 %	2 643	2 643	15 994	15 996
China Environment Fund	USD	10,0 %	758	650	4 331	3 448
Aureos South Asia Fund (Holdings)	USD	23,5 %	13 283	10 154	84 651	58 978
Aureos Central America Growth Fund (EMERG)	USD	14,3 %	1 549	1 376	9 916	8 497
CASEIF II	USD	13,8 %	1 628	1 206	10 473	7 011
Adenia Capital II (I&P Capital)	EUR	13,4 %	1 158	892	10 063	7 445
Horizon Equity Partners Fund III	ZAR	9,0 %	16 520	15 287	10 667	9 848
Africap Microfinance Investment Company	USD	7,4 %	3 000	1 967	19 313	10 837
Aureos Latin America Fund (ALAF)	USD	13,6 %	9 398	9 377	55 223	55 051
Seaf Blue Water Growth Fund	USD	20,0 %	2 907	1 527	20 286	8 963
NMI Global Fund	NOK	45,0 %	80 535	76 375	80 535	76 375
NMI Frontier Fund	NOK	45,0 %	108 000	71 900	108 000	71 900
GroFin Africa Fund	USD	9,4 %	9 426	7 665	60 265	45 816
Aureos Africa Fund L.L.C	USD	10,5 %	19 520	14 672	128 497	88 719
Fundo de Investimento Priv.Angola	USD	25,6 %	9 214	8 064	60 386	50 950
Fanisi Venture Capital Fund SCA	USD	34,5 %	14 250	13 193	96 416	87 743
Cambodia- Laos Development Fund	USD	20,4 %	3 999	3 814	25 943	24 425
Evolution One Fund	ZAR	6,7 %	12 400	1 721	8 134	1 037
AgriVie Fund	ZAR	9,4 %	64 263	63 023	44 592	43 768
Frontier Fund	USD	11,3 %	10 053	9 755	63 766	61 321
Prospero Microfinanzas Fund B.L.P.	USD	21,7 %	4 599	4 316	29 312	26 990
Aureos South East Asia Fund II	USD	2,2 %	4 727	3 110	36 689	23 422
Vantage Mezzanine Fund II(Partnersh)	ZAR	5,4 %	92 413	81 126	55 765	48 263
Voxtra East Africa Agribusiness Ini	NOK	30,0 %	31 656	29 373	31 656	29 373
Africa Health Fund SA En Commandite	USD	9,5 %	7 315	5 031	51 881	33 141
Higher Education Financing Fund	USD	33,0 %	5 000	5 000	38 827	38 827
Coreco Central America Fund I LP	USD	22,0 %	9 999	8 604	74 417	62 971
NMI Fund III	NOK	26,3 %	183 971	82 005	183 971	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	4 889	82 851	40 915
Novastar Ventures East Africa Fund	USD	12,5 %	9 427	4 997	76 241	39 893
Caseif III	USD	24,0 %	9 629	4 605	79 881	38 659
Grofin SGB Fund Ltd Partnership	USD	19,0 %	15 000	15 000	125 553	125 553
Cambodia-Laos-Myanmar Development Fund II	USD	15,5 %	9 915	3 290	81 809	27 451
BPI East Africa LLC	USD	16,8 %	6 000	3 548	49 799	29 681
Frontier Fund II	USD	7,7 %	6 513	1 211	53 213	9 710

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» CONTINUES **EQUITY INVESTMENTS**

(Figures in 1000s)		Ownership interest	Committed investment (in FX)	Historical cost price* (in FX)	Committed investment (in NOK)	Historical cost price* (in NOK)
Agri-Vie Fund II (Pty) Ltd	USD	14,9 %	14 925	2 575	122 244	20 912
FIPA II	USD	40,0 %	18 000	2 880	148 556	24 496
Fanisi Capital Fund II	USD	35,0 %	15 000	371	123 132	3 101
Total invested in funds*					**2 474 889**	**1 520 872**

"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 31.12.2017 is used for the part that has not been disbursed.

** Figures at 31.12.2017 and before any write-downs.*

*** 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)		Ownership interest	Committed investment (in FX)	Historical cost price* (in FX)	Committed investment (in NOK)	Historical cost price* (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 mgm	EUR	7,6 %	25	25	194	195
Angola Capital Partners LLC	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	USD	50,0 %	275	124	2 154	913
Norwegian Microfinance Initiative AS	NOK	50,0 %	30 000	30 000	30 000	30 000
Fanisi GP II	USD	25,0 %	75	15	615	122
Aureos Capital						
Total invested in management companies					**62 814**	**56 905**

** Figures at 31.12.2017 and before any write-downs.*

*** 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 er et forvaltningsselskap, som ble opprettet på initiativ fra Norfund i fellesskap med operativ ledelse. Etableringen har bidratt til å videreutvikle kapitalmarkedet i Øst-Afrika og bistå små og mellomstore bedrifter med risikokapital og kompetanse. Selskapet forvalter en av de første venture-orienterte fondene i Øst-Afrika, og fondet ville ikke latt seg etablere uten Norfunds deltakelse. Oppfølgerfondet Fanisi Capital Fund II ble etablert i 2017, også dette med Norfund som toneangivende investor.

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, the Danish DFI, IFU, 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)		Ownership interest	Committed investment (in FX)	Historical cost price* (in FX)	Committed investment (in NOK)	Historical cost price* (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	2 000	38 129	13 514
Afrinord Hotels Africa	EUR	20,0 %	50	50	392	392
Banco Terra	MZN	6,5 %	456 700	456 700	96 568	96 568
Tourism Promotion Services TPS	RWF	11,1 %	1 287 434	1 287 434	12 510	12 510
Basecamp Explorer Kenya Ltd	NOK	38,9 %	9 000	0	18 000	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	USD	49,0 %	3 750	0	52 890	22 121
Scatec Solar SA 165 PTY Ltd	ZAR	35,0 %	69 649	69 649	43 414	43 414
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
Kinangop Wind Park	USD	18,8 %	13 240	13 240	94 306	94 306
Gigawatt Global Rwanda Ltd	USD	16,0 %	797	648	5 634	4 409
Financiera Desyfin S.A.	USD	23,2 %	6 000	6 000	36 772	36 772
African Century Food Ltd	USD	35,0 %	9 601	9 601	66 059	66 056
African Century Infrastructure Services Ltd.	USD	20,0 %	2 250	2 550	13 798	16 260
Arrend Central America	USD	22,0 %	4 000	4 000	29 904	29 904
Globelq Generation Ltd	USD	30,0 %	240 000	230 821	1 985 391	1 910 075
African Century Real Estate Limited	USD	14,3 %	3 000	3 070	26 115	26 692
Advans MFI Myanmar Company Limited	MMK	40,0 %	1 560 000	130 000	10 246	9 648
Myanmar Finance International Ltd	USD	25,0 %	1 681	1 681	14 515	14 513
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	USD	38,9 %	850	140	7 016	1 191
BRAC Bank Limited	BDT	0,2 %	71 050	71 050	7 611	7 611
Basecamp Explorer Kenya Ltd	USD			650	266	5 598
Fondo de Desarrollo Local FDL	USD	10,7 %	2 500	2 449	20 977	20 558
African Century Nampula Limited	USD	34,0 %	363	237	3 006	1 973
Real People Inv. Hold. PTY Ltd.	ZAR		151 987	151 987	84 296	93 259
Neofresh	USD	34,0 %	5 000	0	55 831	14 806
responsAbility Renewable Energy Holding	USD	14,0 %	10 000	0	82 050	0
Nsongiezi Hydro Power	ZAR	30,0 %	72	0	591	0
Total invested in companies					**3 544 376**	**3 120 185**
Total invested in companies *						**4 697 962**
Provision for bad debts at 31.12.2016						-509 261
Book value investments						**4 188 701**

** Figures at 31.12.2017 and before any write-downs.*

*** 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 start-up 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 38.85 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, with limited access to capital from other investors. Advans MFI Myanmar Company Ltd is a joint start-up with Advans SA. Advans is the initiative-taker and major shareholder, with a 50 per cent stake

NOTE 10 – EXITED INVESTMENTS

The note shows estimated gain/loss and annual IRR during the period of Norfund's ownership for investments exited in 2017. Total reflow 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.

(Figures in 1000s of NOK)	Casquip	Statkraft International Hydro Invest	Seaf Blue Water	Norfininvest AS*	NMBZ*	Real People*
Cost price, paid-in capital	18 593	3 648 479	21 078	1 177 975	28 800	178 289
Total reflow from investment	7 969	6 478 590	15 765	1 232 047	30 954	53 925
Gain/(loss) on investments exited	-10 624	2 830 111	-5 313	54 072	2 154	-124 364
Realized gain/loss	-9 036	1 188 441	-8 889	54 072	0	-111 426
Realized FX gain/loss	-1 589	1 641 670	3 576	0	2 154	-12 938
Year of first disbursement	2 008	2 002	2 008	2 014	2 013	2 010
Investment currency	SZL	USD	USD	NOK	USD	ZAR

Nine (9) loans were repaid during the year, including the loan for Casquip.

NOTE 11 – TAX

NORDFUND

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

NORDFUND GROUP

Group companies may be separate tax subjects and will calculate tax in the ordinary manner in accordance with applicable laws.

NOTE 12 – BANK DEPOSITS, CASH AND CASH EQUIVALENTS

NORDFUND

Bank deposits of NOK 2 662 888 270 (2 384 994 079) include NOK 3 007 537 (3 133 083) in a blocked tax withholding account. In addition, NOK 23 772 042 (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 2 368 043 332 (1 525 179 669) of the company's total bank deposits are in Norges Bank.

NORDFUND 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)	Primary capital	Capital in reserves	Surplus fund	Total equity
Capital at 01.01.2017	9 389 750	3 305 250	3 714 835	16 409 835
Capital supplied in 2017	1 125 000	375 000		1 500 000
Equity adjustment associated company charged directly to equity (see note 5)			2 585 556	2 585 556
Actuarial gains/losses pensions			239	239
Net surplus			1 879 138	1 879 138
Capital at 31.12.2017	10 514 750	3 680 250	8 179 767	22 374 767

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 2017, 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 increased holding in SN Power AS, holding in SN Power AS and Arise BV due to 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.

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

In Report no. 23 S to the Storting for 2017, resources are granted to Nordic Horn of Africa Opportunities Fund. The resources are to be used to enable the establishment of an investment fund for small and medium-sized enterprises in Somalia. This type of investment is highly risky, and the grant resources are used as buffer capital to protect other investors against losses. The buffer capital is a crucial instrument for attracting investors. The fund is the first of its kind in Somalia, and is expected to have significant development effects.

Norfund received NOK 15.0 million in grant resources in 2017. 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. A total of NOK 13.0 million was drawn from the resources in 2017. In line with practice in previous years, the balance of NOK 2.0 million was carried over to 2018.

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

» CONTINUES NOTE 14 – UNUSED RESOURCES (NORFUND'S GRANT FACILITY)

	Unused resources Norfund		Unused resources Nordic Horn of Africa Opportunities		Unused resources Balkans	
	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16
RECEIPTS						
Carried over from previous year	0	4 633	0	0	3 588	5 621
Received during the year	15 000	0	24 057		0	0
Repaid grant resources			0	0	0	0
Total receipts	**15 000**	**4 632**	**24 057**	**0**	**3 588**	**5 621**
Revenues			**0**	**0**	**24**	**299**
DISBURSEMENTS						
General costs						
Fund management	0	0	0	0	0	0
General follow-up					–517	–453
Intervention						
Project development:	–196	-2 327	0	0	0	0
Boost and support project development effects	-10 374	-4 683	0	0	0	0
Boost social responsibility	-4 870	-2 301	0	0	0	0
NMI start-up support	0	0	0	0	0	0
Local investment funds						
Follow-up costs	0	0	0	0	–61	464
Loans to projects	0	0	0	0	-2 880	-2 368
Total disbursements	**–15 440**	**–9 312**	**0**	**0**	**–3 458**	**–2 358**
Allocated interest income						
Overspending covered by Norfund		**4 679**	**0**	**0**		**27**
Non-disbursed resources	**–440**	**0**	**24 057**	**0**	**155**	**3 588**
Total non-disbursed resources at 31.12.2017		23 772				

At the end of 2017, unused resources relating to the Balkans consisted of two outstanding loans of EUR 1.6 million each, one loan of EUR 0.5 million and one equity investment of EUR 0.1 million.

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 strongly 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		31.12.17	31.12.16	Change during the year
US Dollars	USD	8,205	8,620	-4,8 %
South African Rand	ZAR	0,665	0,629	5,7 %
Rwanda Franc	RWF	0,010	0,010	-6,4 %
Kenyan Shilling	KES	0,079	0,083	-4,5 %
Uganda Shilling	UGS	0,002	0,002	-5,1 %
Mozambique Metical	MZN	0,138	0,120	14,7 %
Bangladesh Taka	BDT	0,099	0,107	-8,1 %
Cambodien Riel	KHR	0,002	0,002	-3,3 %
Swaziland Lilangeni	SZL	0,663	0,630	5,2 %
Euros	EUR	9,840	9,086	8,3 %

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 render Norfund's liquidity risk visible 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	5 371 960

In 2004 Norfund decided to establish a tender guarantee scheme to encourage greater financial cooperation and investment in developing countries. The scheme is administered by the Norwegian Guarantee Institute for Export Credits (GIEK). In 2017 this scheme charged NOK 383 000 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 1 879 138 000 in the financial statements of the parent company and profit of NOK 1 940 821 000 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 2017, and the income statement and statement of changes in equity 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 2017, and the income statement and statement of changes in equity 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 2017, 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 2017, 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.

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

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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 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 and 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 and the Group'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 and the Group 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.

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- 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 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 and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 20 March 2018
Deloitte AS

Grete Elgåen
State Authorised Public Accountant

Translation has been made for information purposes only

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