Norfund

NORWEGIAN INVESTMENT FUND
FOR DEVELOPING COUNTRIES

REPORT ON OPERATION **2012**

CREATES VALUES | COMBATS POVERTY

This is Norfund

Norfund – the Norwegian Investment Fund for Developing Countries – was established by the Norwegian Storting (parliament) in 1997. Norfund's objective is to contribute equity and other risk capital, extend loans and provide guarantees for the development of sustainable commercial activities in developing countries. Norfund contributes sustainable commercial activities in developing countries by establishing and developing viable, profitable enterprises that otherwise struggle to obtain financing due to high risk.

Norfund receives funding from the Norwegian development assistance budget, and is the most important instrument to combat poverty through private sector development. Norfund and its international sister organisations are known as development finance institutions (DFIs). The DFIs contribute to economic development and poverty reduction in poor countries by investing in profitable enterprises and transferring knowledge and technology. A well functioning private sector with access to risk capital is an important precondition for growth and sustainable development in poor countries.

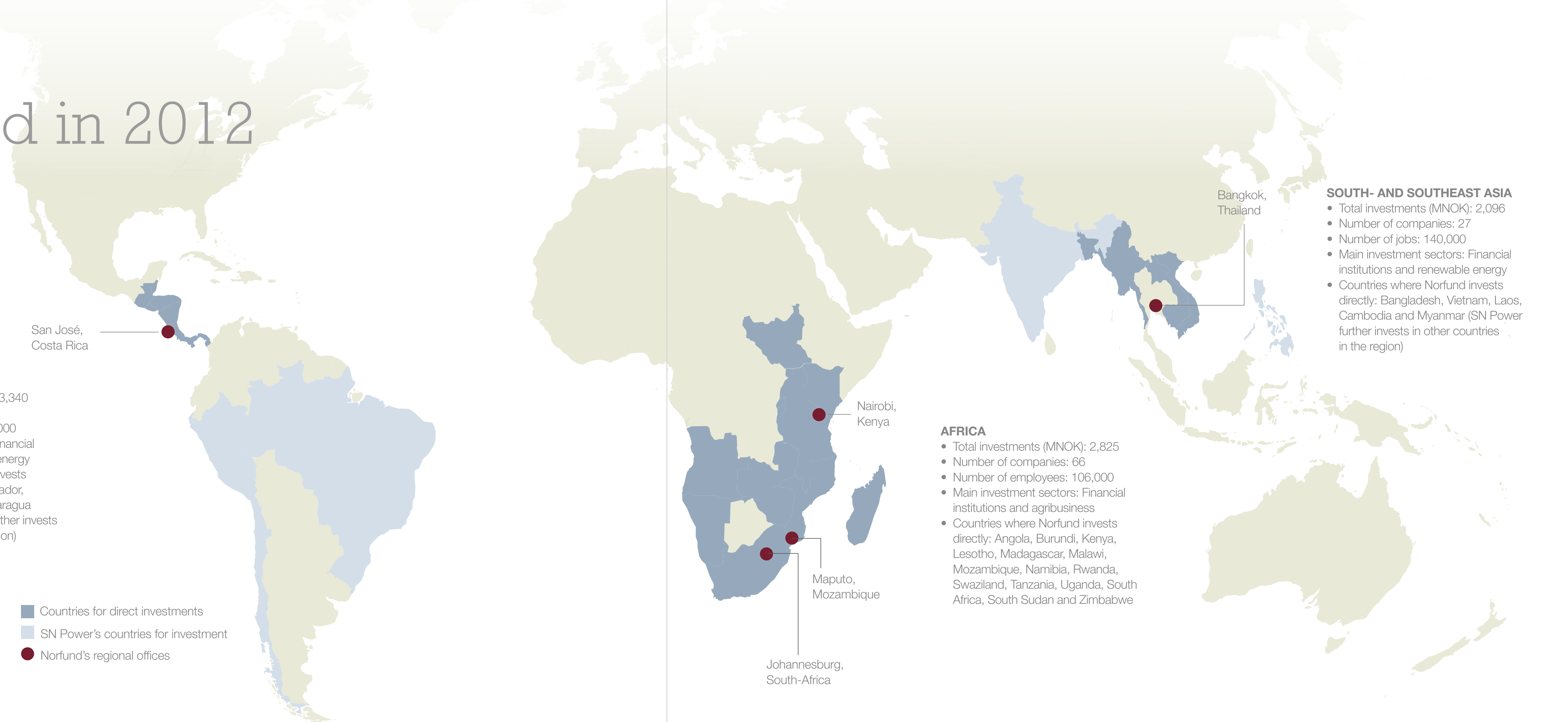
Geographically, Southern and East Africa are Norfund's main investment areas, and the Fund has offices in Nairobi, Johannesburg and Maputo. Norfund also invests in selected countries in South-East Asia and Central America and has regional offices in San José and in Bangkok.

Norfund always invests jointly with partners, Norwegian or non-Norwegian. By co-investing with others, Norfund leverages additional capital and further ensures the necessary industrial and local knowledge in each investment.

Norfund is a hybrid state-owned company with limited liability, established by a special act of the Norwegian Parliament. Norfund is owned on behalf of the Norwegian Government by the Ministry of Foreign Affairs, and the Minister of International Development has the constitutional responsibility. Norfund's activities are conducted in accordance with the core principles of Norwegian development cooperation policy. The Board of Directors is appointed by the King in Council.

CONTENTS

Norfund in 2012



LATIN AMERICA
- Total investments (MNOK): 3,340
- Number of companies: 27
- Number of employees: 36,000
- Main investment sectors: Financial institutions and renewable energy
- Countries where Norfund invests directly: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama (SN Power further invests in other countries in the region)

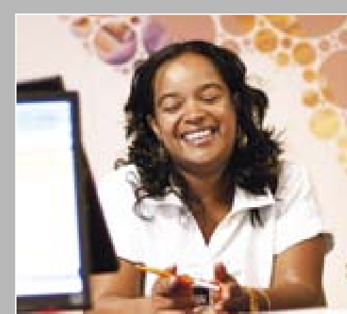
AFRICA
- Total investments (MNOK): 2,825
- Number of companies: 66
- Number of employees: 106,000
- Main investment sectors: Financial institutions and agribusiness
- Countries where Norfund invests directly: Angola, Burundi, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Namibia, Rwanda, Swaziland, Tanzania, Uganda, South Africa, South Sudan and Zimbabwe

SOUTH- AND SOUTHEAST ASIA
- Total investments (MNOK): 2,096
- Number of companies: 27
- Number of jobs: 140,000
- Main investment sectors: Financial institutions and renewable energy
- Countries where Norfund invests directly: Bangladesh, Vietnam, Laos, Cambodia and Myanmar (SN Power further invests in other countries in the region)

Countries for direct investments
SN Power's countries for investment
Norfund's regional offices

Together with Agua Imara, Norfund moved into new offices in San José. Mr Alfio Piva, Vice president of Costa Rica, attended the inauguration together with the Norwegian Ambassador, Mr Lars Vaagen. Norfund has four employees in Costa Rica, working with investments in financial institutions and renewable energy.

Through the SME-fund CASEIF II, Norfund has invested in the company Empacasa in San Pedro Sula, Honduras. The company produces various packaging products for the US market, including Burger King. In 2012, Norfund's Grant Facility supported HSE (health, social and environment) initiatives in CASEIF's portfolio.



The largest new commitment in 2012 was an investment in the South-African financial institution Real People. Real People provides loans to more than 450 000 customers, and has 2000 employees, 60 per cent of them women.

Agua Imara's Lusemfwa hydro power plant in central Zambia is making good progress, and production capacity was increased with 6 MW in 2012.

Norfund opened a new office in Maputo in 2012. Mr. Heikki Eidsvoll Holmås, Norwegian Minister for International Development, was present at the inauguration, together with Mozambique's Minister for Trade, Mr. Armando Inroga. The three staff members in Maputo will mainly be working with agribusiness investments.

Throughout 2012, Norfund has pursued an initiative to establish the first commercial micro finance institution in Myanmar. Norfund is engaged in dialogue with the Myanmar authorities and partners, aiming to commit the first investment in the country in 2013.

Message from the Managing Director

Major ambitions – solid investments

Investments in emerging markets have featured prominently in several international debates in 2012:

- The UN reports more than 200 million unemployed in the world. Investments are necessary in order to create urgently needed jobs and income.
- Greenhouse gas emissions are not declining and quota trading has failed – new solutions to increase investments in renewable energy in developing countries are needed.
- Actors in traditional development aid recognize the importance of the private sector as a partner in development.
- Most importantly: Leaders of developing countries are calling for capital for enterprises and infrastructure.

The world's greatest challenges are closely linked, and stakeholders are increasingly recognizing that the private sector must be part of the solution.

Norfund has continued to deliver in 2012 by making solid, profitable investments in what are perceived by many as high-risk countries and industries. Norfund committed NOK 1.23 billion in new investments during the year. This capital has contributed to the establishment of nine new enterprises, and supported the further development of 13 businesses already in the portfolio. Enterprises in our portfolio employ 294,000 people, and includes power companies delivering electricity to 11.9 million people.

In creating employment, the banana plantation Matanuska in northern Mozambique is exceptional. This enterprise would not have been established without Norfund's capital and expertise. More than 2,400 people are now employed. Over time, the company will become a cornerstone of the local community in one of the poorest regions in Mozambique. The investment in Scatec Solar's large-scale solar energy project in South Africa, is an important step broadening our renewable energy portfolio. In this project we have also succeeded in attracting an additional Norwegian investor. KLP, the largest life insurance company in Norway, has committed to a co-invest facility of NOK 1 billion with Norfund. This is the first time an institutional investor like KLP has joined this type of cooperation, and the Scatec project is the first investment under this facility.

In addition to delivering investments to markets we have come to know very well, Norfund continues to expand into countries and industries where investment capital is most scarce. In November 2012, a new office in Maputo, Mozambique, was inagurated to further strengthen our agricultural investments in Africa. Work on the hydropower project Fula Rapids in South Sudan is progressing, as is the establishment of Myanmar's first commercial actor in microfinance.

We do not know if we have succeeded until we exit the investments: If the enterprises continue to operate with profit, this means we have contributed to the development of sustainable local business and employment. With only 16 years under our belt, we are a young fund, and naturally we have fewer completed investments than active ones. However, the two sales closed in 2012 yielded a solid return – evidence to the new owners' confidence in the enterprises.

At present, Norfund has far more prospects of good projects in the pipeline than capital to invest. In recent years we have systematically strengthened the competence of our organisation, including expanding our regional offices to reinforce our knowledge of culture, framework conditions and partners. Our hope is that in the years to come, we will have the opportunity to contribute even more to creating jobs, reducing poverty, and increasing production of renewable energy. A long-term political ambition for Norfund's role is called for. We propose that Norfund, as an instrument of development policy, should be built up to a size equal to1 per cent of the Government Pension Fund Global. With Norfund leading the way, opening doors, and demonstrating the benefits of investing in poor countries, both the Pension Fund and private investors can more easily follow.

In August 2012, Norfund signed two important new agreements: KLP is the first Norwegian institutional investor committing to a co-investment agreement with Norfund, and Scatec Solar will develop large scale solar energy in Africa. From left in the picture: Alf Bjørseth, Director of the Board at Scatec Solar, Sverre Thornes, CEO in KLP, Kjell Roland, Managing Director in Norfund, and Heikki Eidsvoll Holmås, Minister for International Development.

Even though ambitious ideas are required, we must never forget the core of what we do: we are in the people business. Investments should create something for people – jobs, income, electricity, products and services. The good partnerships we have with investors and industrial players are based on the capacity and willingness of people to work hard and pull together. As employees of Norfund, it is our job to make this work in the best possible manner. In this annual report we wish to show how we contribute to the establishment of businesses and jobs that create belief in the future and development in poor countries, all by investing Norwegian development assistance funds in profitable projects.

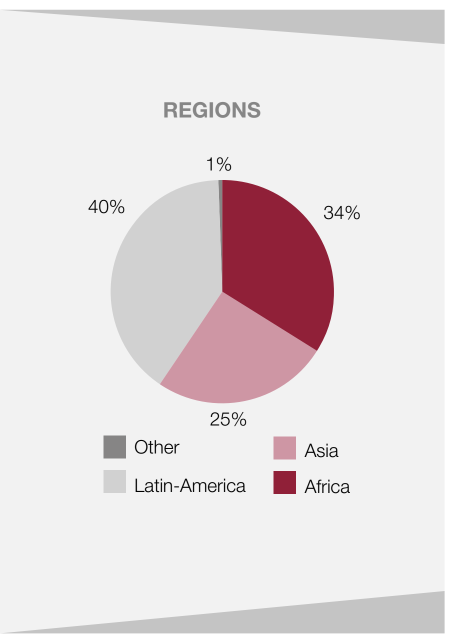
Enjoy reading!

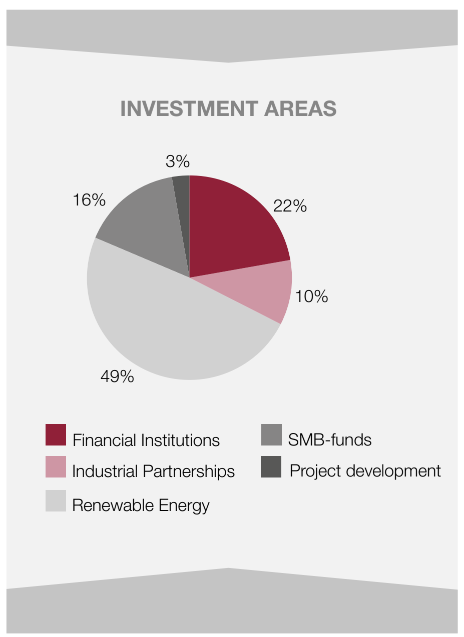
Kjell Roland

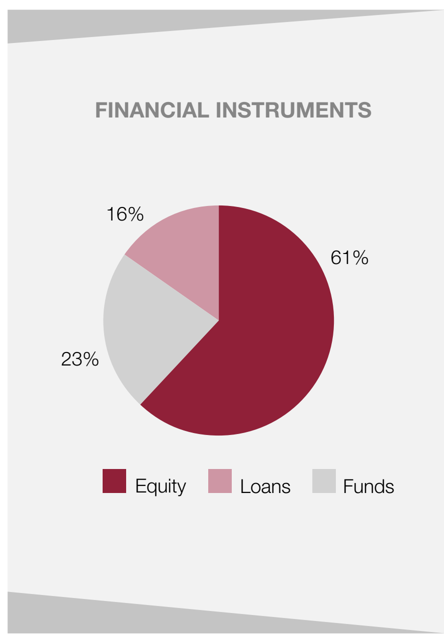
KEY FIGURES NORFUND 2008–2012

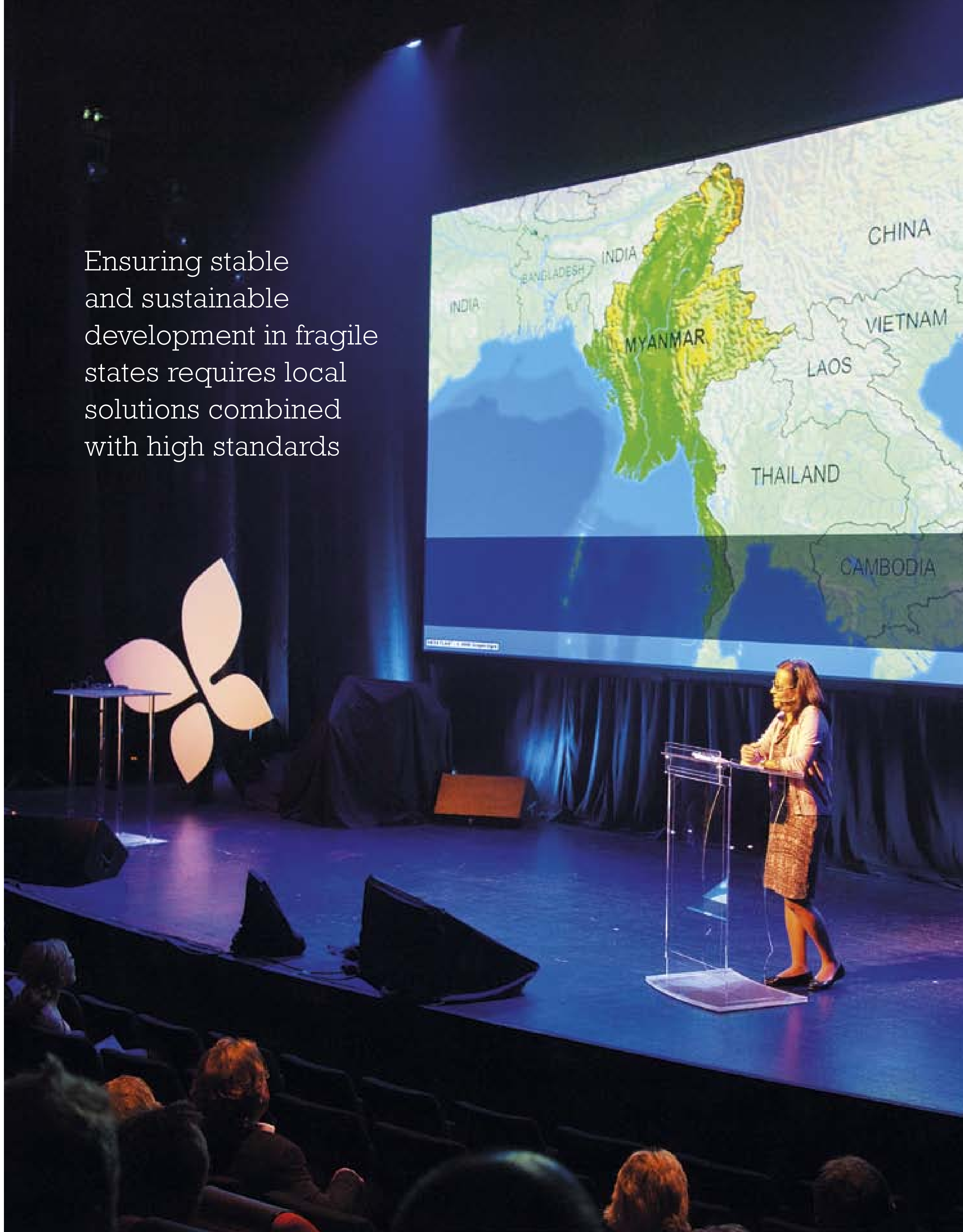
	2008	2009	2010	2011	2012
Committed investments (MNOK)	4798	5 264	5 844	7 581	8 295
Number of investments	69	81	85	99	107
New investments in 2012 (MNOK)	1376	944	844	2 198	1 234
Share of new investments in least developed countries	43 %	36 %	45 %	14 %	54 %
Return on invested capital	21 %	4 %	10 %	9 %	10 %
Profit in investment currency (MNOK)	238	262	153	0	203
Capital supplied by the owner (MNOK)	485	585	629	1 000	1 030
Total equity (MNOK)	5302	5 871	6 747	7 735	8 439
Number of employees in Norfund	40	41	45	49	50
Number of employees in Norfund investments	158 000	148 000	167 000	265 000	294 000

NORFUND'S PORTFOLIO









Ensuring stable and sustainable development in fragile states requires local solutions combined with high standards

New Norwegian Partners:

Scatec, Yara and Voxtra

> Norfund strives to be catalytic. We are very pleased that other Norwegian investors wish to co-invest with us

Kjell Roland, Managing Director Norfund

Whilst not tied to investing together with Norwegian companies, their capital and skills make Norwegian investors attractive partners to us. We welcome increased Norwegian appetite for investments in developing countries. In 2012, Norfund made headway in leveraging capital and competence through partnerships with Norwegian business, and we hope to continue this trend. Currently, 18 of 107 investments are made in cooperation with Norwegian partners.

SCATEC SOLAR

Scatec Solar develops large scale solar energy farms in a number of countries. In 2012, Norfund committed to invest NOK 80 million in the first sub-Saharan project, a 75 MW solar farm in South-Africa.

YARA

Yara is a leading global supplier of fertiliser. Yara is experiencing growing demands in Africa, yet infrastructure for distribution of fertilizer is insufficient. As part of the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) project, Yara is building a fertiliser terminal in Dar es Salaam. Norfund has contributed to the project with a loan of NOK 33 million.

VOXTRA

Norfund was one of the founders of Voxtra East African Agribusiness Fund in 2011. In 2012, the fund made its first investment, in Mtanga Farms Limited in Tanzania. The company produces cereals, beef, and seed potatoes which are distributed to local small scale farmers.

Mr Martin Kawonga at a machine for impregnating poles at Green Resource's forestry operations in Sao Hill, Tanzania.

Capitalising growth

> "Creating safe jobs for people who initially do not have paid employment is the most important contribution we can make to development and poverty reduction."

Infrastructure and profitable business can create jobs and income for the poor and generate tax revenues for the government. This is the backbone of development. It is how Norway was built, and it is how poor countries can escape poverty.

Lack of investment capital is a main barrier to development in many of the world's poorest countries. Poor countries need more capital than can be provided from their own savings to build up vital sectors of society.

Important lessons can be drawn from our own, relatively recent history: In the course of the 20th century, Norway transitioned from high levels of poverty to being one of the world's richest countries. Norwegian policymakers were able to mitigate the lack of private capital and invest in a massive development of industry, infrastructure, energy production, and distribution. Public lines of credit were extended to important sectors through the state banks: the Norwegian Bank for Industry, the Regional Development Fund, the Norwegian State Housing Bank, the National Fishery Bank of Norway, the State Bank for Agriculture, the Norwegian Municipal Bank and the State Educational Loan Fund. In this way, the government channelled capital to develop the country.

> The Busan Conference in 2011 marked a shift towards a greater understanding of the importance of the private sector in development.

The Norwegian credit market has since been liberalised and there is a good supply of capital. Today, many countries, particularly in Africa, are facing challenges similar to those that Norway once faced. Development finance institutions like Norfund can play a role similar to that of the state banks in Norway's development process. They channel more capital to infrastructure and industry than would have otherwise have been the case.

Fortunately, the new Africa is abundant with success stories and is making good progress: Many countries are recording high growth rates and a decline in poverty for the first time since the 1970s. The seven fastest growing economies in the world today are in Africa. The number of democracies in sub-Saharan Africa has grown from three in 1989 to 19 today. It is entirely possible to make profitable investments in Africa. Investors are facing less corruption, and it is arguably easier to do business in East Africa, for example, than in China, India, or Brazil.

Demographic development represents at once a threat and an opportunity for Africa. Today there are a total of 200 million Africans in the age 15–24, and in many countries children and young people account for half of the population. The number of young people will double by 2045, and no other parts of the world will have such a young population. Unprecedented numbers of youth move to the major cities hoping to find a job. Unemployment among young people threatens stability, but they also represent a great resource and opportunity. Governments in poor countries are aware of this double-edged sword, and the message from politicians in all of the countries where Norfund operates is crystal clear: Nothing is more important than investments in business and jobs!

The Busan Conference in 2011 marked a shift in the understanding of the importance of private sector development for development policy. The World Bank recently published its annual World Development Report for 2013 on Jobs. The OECD and the International Finance Corporation (IFC) have also highlighted the need to increase employment and jobs to drive development. The need to create jobs to solve the world's poverty problem is thoroughly documented, now action is required in development policy as well.

The message from all of the leading development organisations is clear: Creating safe jobs is the most important contribution we can make to development and poverty reduction. Jobs provide income for individuals and underpin their dignity and self-respect. More jobs will lift more people out of poverty, and lead to more equitable distribution, a key goal of Norwegian development assistance policy.

The next phase of Norwegian relations with Africa must be based on an employment pathway similar to that implemented in Norway and envisioned in tackling the European crisis. We must develop more comprehensive business cooperation, invest, and create jobs. The Norwegian policy of inclusive growth through employment can provide valuable lessons.

Norfund is Norway's policy instrument for the development of business and industry in poor countries. Norfund has invested in companies that currently employ 294,000 people. This is more than total employment in Norwegian industry. The power stations that have been supported through Norfund's investments deliver enough power to meet the needs of 11.9 million people. In 2012, Norfund invested NOK 1.2 billion. We currently have more good prospects with strong development effects available than we have capital to invest.

There is untapped potential to invest in poor countries by strengthening business cooperation. For Norwegian development assistance, the single most important contribution to inclusive growth in developing countries would be to scale up Norfund further. Expanding Norfund to a size equivalent to one per cent of the Government Pension Fund Global by 2020 would be a realistic ambition. With a capital base of this magnitude, Norfund could invest NOK 4 billion annually in poor countries, leveraging additional capital of 7 to 10 times Norfund's investments. Together with our partners, in a few years time we could annually supply capital to poor countries corresponding to an entire Norwegian development assistance budget. By providing capital to the private sector we can replicate the Norwegian experience: Jobs as the cornerstone of development.

Microfinance in Mozambique: Socremo

Socremo is a microfinance institution with 11,000 loan customers and 44,000 depositors. Norfund has invested NOK 25 million in equity (holding a 36 per cent ownership share) and has supported the company in the process of becoming the most efficient microfinance institution in the country.

MOZAMBIQUE

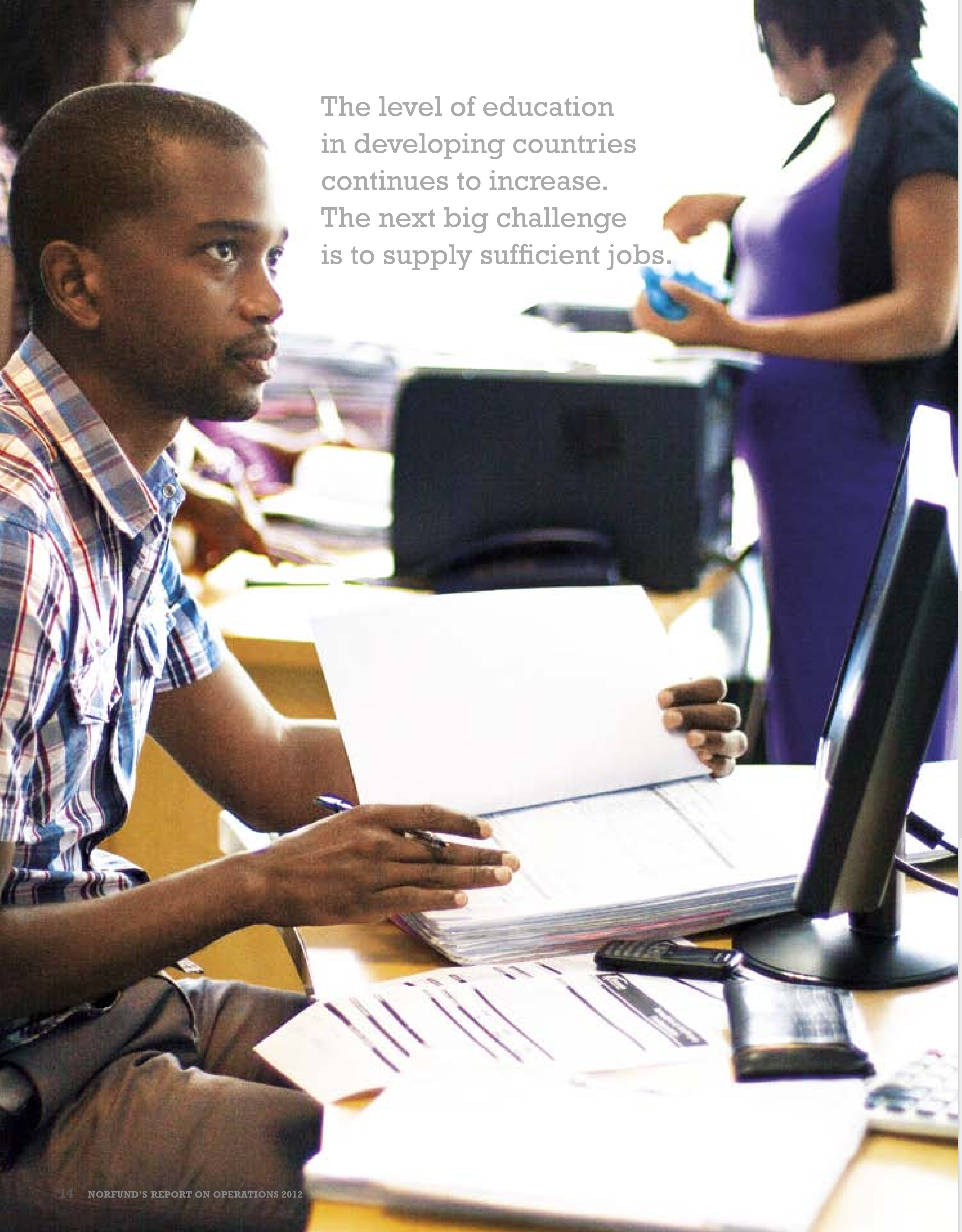
- Population of 25 million
- GDP/cap: USD 582
- Annual growth (2011): 7%
- Unemployment rate: 27%

> Norfund has been central to the implementation of good governance in the company

Ben Botha, CEO Socremo

Morning meeting at a branch office outside the centre of Maputo. There are about 330 employees in Socremo, most of them working in the 13 different branch offices. Half of the employees are women.

Sara Salvador (50) lives outside Maputo and has been a customer of Socremo for several years. With loans from Socremo, she runs a business breeding 7 000 chickens in two locations where she owns the land and buildings.



The level of education in developing countries continues to increase. The next big challenge is to supply sufficient jobs.

Norfund – A Development Finance Institution

- Strategy for Sustainable Development
- Investment Areas
- A Responsible Investor
- Organisation, Management and the Board of Directors

16 years of investment

3 important sectors

6 offices

Norfund – A Development Finance Institution

INVESTMENTS IN BUSINESS AND INFRASTRUCTURE CONTRIBUTE TO POVERTY ALLEVIATION

Investments in businesses and necessary infrastructure

↓

Increased economic activity: jobs, tax revenues, skills development

↓

Economic development: more and better public services, increased availability of goods and services

↓

Poverty reduction and increased standard of living

No country has ever escaped poverty without economic growth. Sustainable business is at the core of a well-functioning private sector, working in the nexus with public sector and civil society to enable development. Profitable enterprises provide jobs, generate tax revenues, increase competence and make necessary goods and services available. Norfund was established in 1997 to create new and to develop existing business in developing countries. To ensure that Norfund's capital contributes to poverty reduction, Norfund invests selectively in very poor regions, and in sectors that have especially strong development effects.

MANDATE

Norfund's mandate is defined by the Norwegian Parliament (Stortinget) in the Norfund Act: To create sustainable commercial activities in developing countries by establishing and developing viable, profitable enterprises that would not otherwise have been in business due to the high risk involved and the lack of capital. This means that Norfund should be additional by supplying capital and competence than would otherwise not have been available.

Our additionality has two dimensions:

1. To make more investments in the relevant countries and sectors because we are willing to assume more risk and costs than many other private investors.
2. To contribute to better investments, prioritising projects with strong development effects and enhancing these effects through active ownership and business development support.

In addition, Norfund acts as a catalyst by leveraging partners and additional private capital and expertise that would not otherwise have been available in poor countries.

> Norfund will continue to prioritize investments with high development effects.
>
> Kristin Clemet,
> Director of the Board

STRATEGY

Norfund's strategy is designed to fulfil the mandate in the Norfund Act effectively and efficiently, reflecting the overarching priorities of Norwegian development assistance policy.

Establishing profitable and sustainable enterprises in some of the world's poorest and least developed countries is difficult. It requires expertise and knowledge in a number of areas. Consequently, developing expertise in our own organisation is a cornerstone of our strategy.

As a financial investor, Norfund must above all possess expertise in investments and risk management. This includes understanding the business environment in the countries and sectors where we invest, the enterprises and their management, and the partners with whom we invest.

To ensure necessary knowledge of local business environment and policies, Norfund has concentrated its investments in a limited number of countries. Africa features prominently, as do countries classified as the least developed countries (LDCs). We also aim to include as many countries as possible that are important to Norwegian development cooperation. These are countries with a particularly pronounced shortage of capital and expertise (for a list of countries, see pages 2 and 3).

Finally, Norfund has opted to concentrate its investments in three sectors: renewable energy, financial services, and agribusiness. These are sectors in which well-run enterprises yield particularly strong development effects. The availability of electricity and an effective banking and financial system both represent crucial infrastructure for development. These are also sectors in which expertise of international quality can be mobilised among Norwegian partners. Agriculture is underdeveloped and can create many jobs for unskilled labour in very poor areas.

Strategy: Doing the right things

NORFUND'S STRATEGY

Countries
– Africa (>50 %)
– LDC (>33 %)

Main Industries
– Renewable Energy i (>50 %)
– Financial Institutions
– Agribusiness

Companies
– Start up of new businesses (>20 %)
– Small and Medium sized Enterprises (SMEs)

Ownership: Doing the things right

- Strict standards with regards to environment, social conditions and good governance
- Active ownership (often through board positions)
- Improves and develops the enterprises through follow up, advisory and assistance

Norfund's investments by sector

Norfund has chosen to focus on three sectors with a particular development rationale: renewable energy, financial institutions and agribusiness.

Renewable energy – basic infrastructure

Development rationale: Access to electricity matters to all parts of society – businesses, hospitals, schools, and households. Unreliable electricity supply is often cited as a key obstacle to economic growth, particularly among small and medium-sized enterprises. A power outage can cause substantial loss of income for businesses. Without reliable power, enterprises must turn to expensive private diesel or petrol generators.

Investment needs: Developing electricity supply is capital intensive. Economic development and increasing demand for electricity in poor countries strengthens the profit potential of energy projects, yet few local utilities in developing countries are capable of financing renewable projects with high upfront investments and a long term and uncertain revenue side. Coal power has traditionally been the cheapest solution, but in recent years the cost of hydro, solar and wind power has fallen considerably. In many developing countries, there is significant potential for making better use of these energy sources in electricity production.

Norfund's strategy: Renewable energy is Norfund's most important sector. Hydropower has dominated the portfolio to date, but substantial investments in wind and solar energy are now being made. Good technical partners are fundamental to robust energy projects. SN Power has demonstrated that with the right combination of capital and expertise, it is possible to turn the many risks associated with renewable energy investments into commercial sustainability and success.

Financial institutions – the key to business development

Development rationale: Private sector development is dependent on access to capital. The possibility to borrow and save money also reduces the vulnerability of individual households. A large number of enterprises and individuals do not currently have access to basic financial services including bank accounts, insurance, and credit. An effective financial sector underpins investments and growth, and local players are best suited to design and deliver these services.

Investment needs: Financial institutions need capital to develop products and increase market outreach. Banks are dependent on debt in order to extend loans to their customers. Capital investments are also necessary to ensure the quality of these services. As an example, good IT systems are costly, yet crucial for security, control and effectiveness of financial service providers.

Norfund's strategy: To Norfund, financial institutions constitute attractive investments with high financial returns and strong development effects. Through our investment portfolio in Financial Institutions, Norfund invests in banks, microfinance, and other financial institutions. It is particularly important for Norfund to facilitate access to financing for small and medium-sized enterprises (SMEs). The investments are mainly made in locally owned financial institutions with promising growth potential. Our investments are either direct, in the form of loans or equity, or indirect, through investment funds.

The strategic alliance with Ferd, DnB/Vital, Storebrand and KLP in the Norwegian Microfinance Initiative (NMI) is our most important tool for investing in microfinance. Norfund also invests directly in microfinance in our high priority regions where NMI is not active. Norfund has a higher risk investment profile than NMI in its direct investment in microfinance institutions.

Agribusiness – high value creation

Development rationale: Agriculture is the main economic sector in most developing countries, employing a majority of the population. Favorable natural conditions offer prospects for increased productivity in food and other agricultural products, subject to investments in technology and capacity. Agribusiness contributes to local development through employment of unskilled labor, creating business opportunities for small scale farmers, increasing access to food, and generating tax and export revenues.

Investment needs: Current farming practices are characterized by low productivity and high levels of subsistence farming. Investments in larger units increase productivity and revenues. With more stable income through paid employment, more farmers are able to pay for services including health and education. Investments in agribusiness are associated with high risks including external shocks (weather, disease etc.) and consequently a shortage of capital as well as of capacity in terms of skilled workers and experienced management.

Norfund's strategy: Norfund invests in agribusiness in Eastern and Southern Africa. The majority of the companies are of medium size and aim at efficient production targeting local and/or export markets. Norfund supports increased productivity and local value creation by investing in the enhanced processing of crops. Out-grower schemes are often established providing small scale farmers with market access for their produce. The issue of land rights remains an important topic related to investments in the sector and Norfund follows strict guidelines from IFC to ensure that rules and practices governing the use of land are observed.

Norfund's cross-sector investments

In addition to the three defined sectors, Norfund invests in small and medium sized enterprises across sectors.
To increase the number of potential investment projects, Norfund also works with early stage project development and development of new instruments.

SME Funds – strengthens small and medium-sized enterprises

Development rationale: Small and medium-sized enterprises (SMEs) are engines of a strong economy. SMEs contribute to local employment, diversification of the economy, and economic growth. Investing in the SME sector of Norfund's markets requires close supervision and follow-up. Local investors are better qualified to identify and support local businesses, and SME funds provide a link between local competency and international capital.

Investment needs: In many developing countries there are few if any SME funds supplying risk capital. Strengthening the private equity market for SMEs will enable more small businesses to access necessary financing to expand and grow. Investment in SME funds and fund managers helps boost the formal economy and strengthen the local capital market.

Norfund's strategy: Norfund invests in private equity funds, including venture capital funds targeting start-up SMEs in need of growth capital and expertise. We have accumulated expertise in selecting fund managers and setting up appropriate fund structures. Norfund cooperates with other investors to increase transparency in our investment funds, with respect to both legal agreements and fee structures. We prioritise innovative funds targeting the least developed countries and with strong market credentials and impact potential. In selecting funds, it is important to us that Norfund's capital and competencies can makes a difference; in establishing the fund, in the success of its investments, and in the ability to leverage additional capital as a consequence of our engagement.

Project development and new instruments – increasing future investments

Norfund's mandate to be an additional investor in the world's poorest countries is challenging across sectors: there is a limited number of local actors willing and able to start new business. To accelerate innovation and enable business development we spend significant resources on project development, often beyond the traditional investor role. This is the part of our work where our role as a development investor is most evident. Our contributions encompass four different approaches:

First, the Project Development Facility funds early-phase project development in renewable energy. Before Norfund can invest, comprehensive business plans and structures need to be in place. In renewable energy the project development phase is long and costly: Large scale, complex projects involve multiple stakeholders including construction, distribution, and local authorities. Renewable energy is our biggest area of investment and especially in the Least Developed Countries there is a shortage of potential investments.

Second, SME funds build and strengthen small and medium sized enterprises (SMEs). In the many poor countries and markets, there are no such funds, making it more difficult for Norfund to extend capital to SMEs. Consequently, we have on several occasions actively supported the establishment of private equity funds where they are most needed. Managing SME funds demands deep knowledge about local markets, fund investment, and active ownership. Norfund has established local SME funds in East Africa (Fanisi) and Angola (FIPA).

Norfund was also a driving force in the establishment of Aureos Capital, today the world's leading investor for SMEs in developing countries.

Third, early engagement in fragile states can strengthen the peace dividend by creating employment and growth. In countries emerging from conflict and struggling with weak governance, development assistance and humanitarian aid play an important role in building institutions and securing stability. In addition, private sector development is needed to ensure growth and employment. Fragile states are characterized by a particularly poor investment climate and high risk. As a development investor, we are actively supporting the establishment of business activities in the fragile states where we invest. South Sudan and Myanmar are examples of such engagement.

Fourth, loans to Norwegian SMEs can leverage investment by Norwegian business. Norfund is not limited to invest with Norwegian partners, yet Norwegian small and medium enterprises (SMEs) can benefit from Norfund's expertise when venturing into developing markets. Norfund manages a targeted loan facility tailored to smaller projects initiated by Norwegian companies. The Small Enterprise Loan Facility extends loans to small projects with Norwegian participation, preferably alongside local business. The Facility has a simplified procedure corresponding to the limited size of loans.

A responsible investor

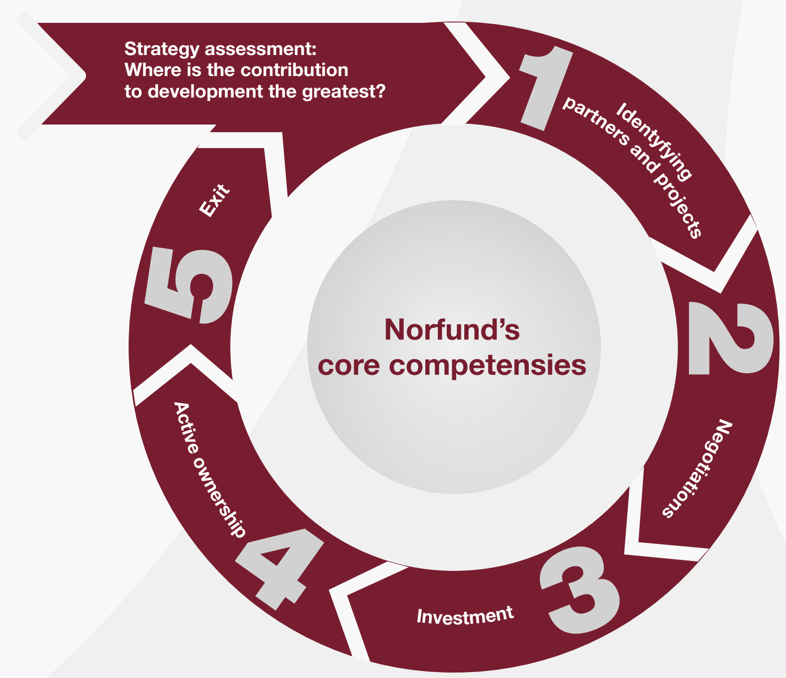
Norfund's mission is to contribute to development through financing profitable enterprises. Our strategy is to do the right thing – investing in sectors, countries and enterprises where the needs are great and the development effects are particularly high. As a development investor, however, it is just as important to do things right by being a responsible investor.

CLOSE FOLLOW-UP OF COMPANIES

The project cycle (see figure) describes how we work. We start with identifying potential investments and partners. Identification can be either by Norfund actively searching for investment opportunities in the market, or by enterprises and prospective co-investors approaching us. We are highly selective of our partners, and we invest in only a few of all the investment opportunities that we consider. Throughout the negotiation process, we ensure that requirements and considerations that are important to Norfund are made legally binding, such as compliance with standards for the environment and decent working conditions. Norfund does not expect "perfect enterprises" at the time of investment, but we do expect a willingness to improve over time. Plans for implementation of higher standards are generally included in the investment agreements.

Norfund's investment committee reviews all investment prospects and ensures the quality of our investment decisions. The committee is an advisory board for the management, and is chaired by an external person to ensure an independent assessment.

Sustainable development also requires that people and natural resources are properly safeguarded. After investment is made, in the ownership phase, Norfund actively follows up all enterprises. This is resource-intensive, yet important in the exercise of responsible ownership. Norfund works proactively with responsible corporate governance in our investments, to ensure, inter alia, that they:



- Operate in accordance with domestic laws and international standards
- Take environment and social concerns into account
- Ensure a satisfactory working environment: HSE standards, minimum wages, etc.
- Practice satisfactory corporate governance and robust internal control

As part of being a responsible investor, Norfund manages its own grant facility earmarked for our investments. This facility can support measures to strengthen the development effects of the investments through project development, operational improvement, training, local community development, and other professional and technical assistance.

The most important development effect is when companies where Norfund has invested prove sustainable on their own. Financially viable and well managed companies can remain in business and contribute to jobs and revenues over time. Subject to companies developing as expected, eventually our role becomes less important and other investors can replace us. Where Norfund has invested equity, this means that we will sell our equity shares after a few years. The capital released in an exit is reinvested in other enterprises.

DOCUMENTATION OF DEVELOPMENT EFFECTS

In light of our development mandate and strategy, we rigorously monitor and document the development effects of our investments. Our contributions to development are measured along several dimensions.

At a strategic level, all investment decisions consider the additionality and development rationale of the country of operation and business sector presented, in addition to the project's commercial and financial viability. We report on what proportion of our portfolio has been invested in various regions, sectors and types of enterprises, in addition to the portfolio's return.

At the project level, we monitor ripple effects of business activity. Examples of this include the number of employees, the proportion of women at the enterprises, amount of tax paid, electricity produced at power stations, and number of clients in microfinance institutions. Data on development effects at the project level is collected annually.

Other activities

Loan portfolio

In 2001, Norfund assumed a loan portfolio from Norad, consisting of 48 loans. Of these 14 were in Africa, 11 in South-East Asia including China, 18 in South Asia, 4 in Latin America, and 1 in Eastern Europe. 44 per cent of the loans were for less than NOK 5 million, and the interest rate terms for all of them were soft (below normal market rates).

The loan balance at the end of 2012 was NOK 5.6 million, and the estimated value was NOK 0. Norfund did not receive any interest payments in 2012.

Tender Guarantee Scheme

The Tender Guarantee Scheme is administered by GIEK on behalf of Norfund, and is intended to encourage Norwegian companies to invest in poor countries through international bidding processes. The least developed countries and Norway's partners have the highest priority. Priority is also given to participation by SMEs. In 2012, eight applications were processed, and NOK 0.5 million was paid in compensation. The Tender Guarantee Scheme charged NOK 1.7 million to Norfund's account in 2012.

Information Office

The Information Office for Private Sector Development in Developing Countries facilitates access for Norwegian companies to information and guidance about financial support schemes available to promote commercial activities in developing countries. The office administratively belongs to Norfund, and is physically located at Norad. The office had 212 inquiries in 2012, compared with 265 in 2011. More than 60 per cent of the country-specific requests concern countries in Africa with Kenya, Tanzania and Uganda being the most prevalent. For Asia, the number of inquiries regarding Vietnam, Bangladesh and Myanmar are increasing. There are relatively few inquiries about Latin American countries.

Leveraging expertise

FINANCE AND INDUSTRY EXPERTS

Norfund has the largest specialised team in Norway for investment in developing countries. Of a total of 50 employees, 32 work directly with the investments and follow the projects through all phases of the investment process. This requires broad competencies in finance and project management, and Norfund mainly recruits people with relevant industry experience. Several of the investment staff have board positions in investee companies, but we also utilise our external network to recruit to such positions.

To build and retain key expertise, Norfund is organised in three sector-based investment departments: Industrial Partnerships and SME funds, Financial Institutions, and Renewable Energy.

COUNTRY PRESENCE

Our 16 experienced staff members across five regional offices (Johannesburg, Nairobi, Maputo, San José, and Bangkok) ensure local proximity and knowledge with a total of 16 employees.

DEVELOPMENT EXPERTISE

Norfund has three dedicated expert positions to follow up our investments regarding environmental, social and governance aspects.

By virtue of its experience and expertise, Norfund also has a prominent part to play as disseminator of information and participant in the Norwegian discourse on investment and business development in developing countries. The Strategy and Analysis department ensures internal and external knowledge management and supplies relevant information to partners and other stakeholders.

THE BOARD OF DIRECTORS

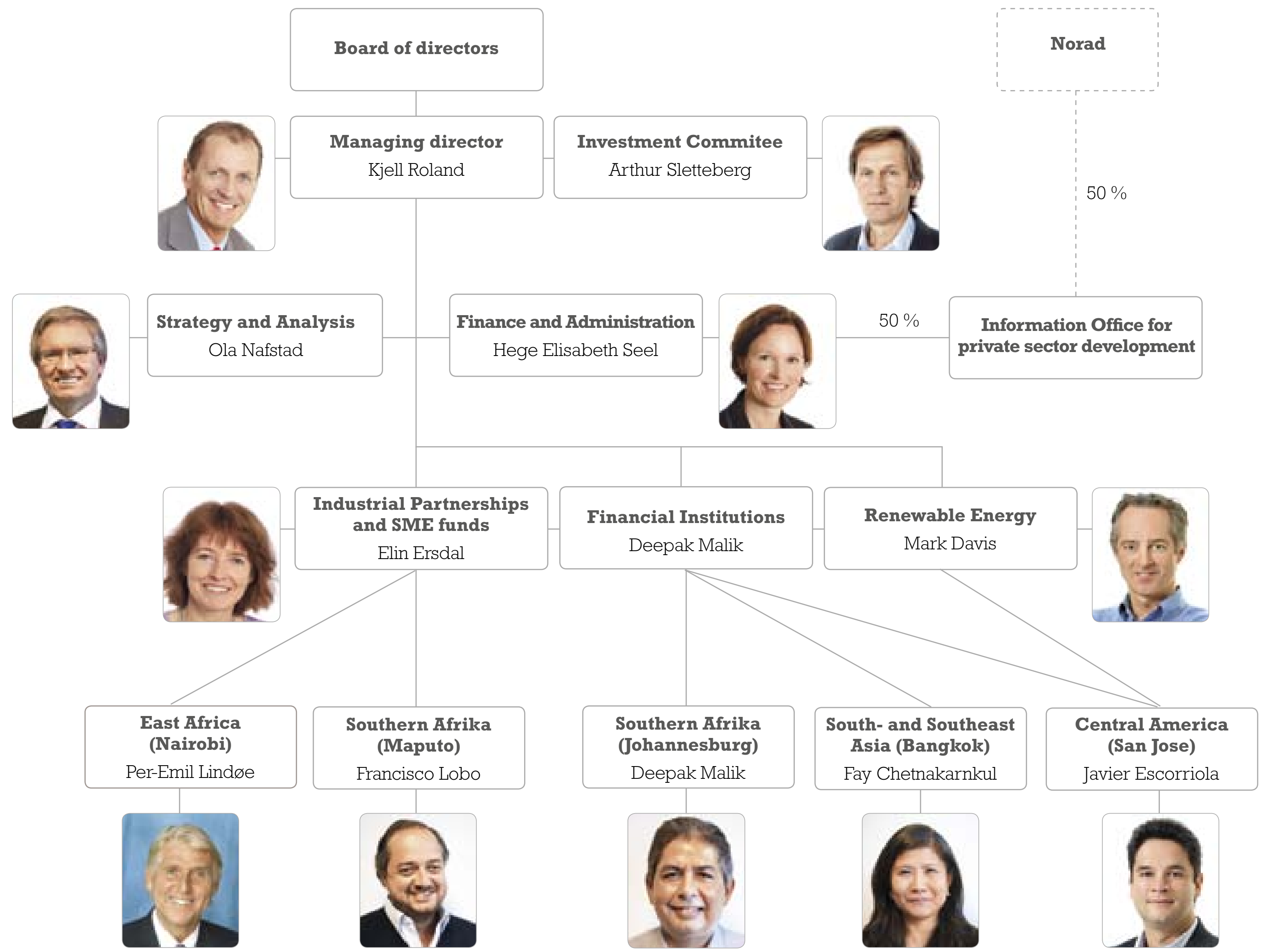
Norfund's Board of Directors ensures that the Fund is operated in accordance with the Norfund Act and owner instructions, and approves Norfund's strategy. The Board further approves individual investments that exceed certain amounts, and projects that are considered to be high-risk. The Board has delegated investment decisions for other projects to the management.

INVESTMENT COMMITTEE

Norfund's investment committee reviews all investment prospects and ensures the quality of investment decisions. The committee is an advisory board for the management, and is chaired by an external person to ensure an independent assessment.

The Investment Committee deals with all investments at least twice: First the project is approved in principle on an early stage, while final approval is based on a thorough assessment of risks and development effects.

Organisation



Norfund's Board of Directors 2012

Styreleder Kristin Clemet (Chair)

Born in 1957, Ms. Clemet holds a Master's degree in Business and Economics (siviløkonom) and is Managing Director of the think-tank Civita. Ms Clemet has extensive political experience and was Minister of Education and Research (2001 – 2005), deputy director of the Confederation of Norwegian Enterprise - NHO (1998-2001), Minister of Labour and Administration (1989 -1990), and member of Parliament (1989 – 1993). Ms Clemet has also held a number of other directorships.

Borghild Holen, director

Born in 1955, Ms. Holen holds a Master's degree in Business and Economics (siviløkonom). She currently manages the international section of the International Corporates and Institutions Division of DnB banking. Ms Holen has a background from the Norwegian credit finance institution Eksportfinans, was a member of the North-South/Development Assistance Commission (1993-1995) and is a former director of the Norwegian Guarantee Institute for Export Credits (GIEK).

Finn Jebsen, director

Born in 1950, Mr Jebsen holds a Master's degree in Business and Economics (siviløkonom). Jebsen is self employed. He has 25 years of experience from the Orkla Group where he was on the management team from 1984, and Group Head from 2001-2005. He has extensive board experience from among other Kavli Holding AS, KLP Insurance, The Kongsberg Group and Norsk Hydro ASA.

Stein Tønnesson, director

Born in 1953, Mr Tønnesson holds a PhD in history. He is Senior Researcher at the International Peace Research Institute in Oslo (PRIO) and director of the research programme East Asian Peace at Uppsala University. Dr Tønnesson has extensive research experience, with a particular focus on Asia. He is a former chair of the board of the programme "Development Paths in the Global South", under the auspices of the Research Council of Norway. His has been on the board of CARE Norway.

Svein Tveitdal, director

Born in 1947, Mr Tveitdal is a civil engineer by training. He is Director of Klima 2020 AS and ambassador for the environment of Arendal Municipality. Mr Tveitdal is a former director of GRID Arendal and Divisional Director of the UN Environmental Programme (UNEP), at its head office in Nairobi, Kenya. He is currently Chairman of the Board in the Asplan Foundation, Sørlandets Europakontor AS, and Frameworks AS and Purity AS and is a board member of the University of Agder, Earthprint Ltd, and the environmental foundation ZERO.

REPORTING:

Portfolio and Results

- Portfolio
- Development Effects
- Financial Results
- Accounting Results

1,2
billion NOK invested in 2012

294 000
jobs in investee companies

10%
return on investments

Norfund's investment portfolio

At the end of 2012, Norfund had invested a total of NOK 8.3 billion in 107 enterprises. Renewable energy constitutes the bulk of the investments, at close to 50 per cent of total portfolio. More than half of new commitments in 2012 were in Sub-Saharan Africa with a similar share in the world's least developed countries (LDCs).

Table 1 – KEY FIGURES ACTIVITIES 2012 AND PORTFOLIO AT YEAR END

Investment activity in 2012	
New investment agreements (MNOK)	1234
Share in least developed countries (LDCs)	45 %
Share in Africa excl. SN Power	82 %
Share of start-up enterprises	23 %
Share of equity	82 %
Share of loans	14 %
Share of funds	4 %
Disbursed to investments (MNOK)	982
Paid in from investments (MNOK)	678

Portfolio at 31.12.2012	
Investment agreements (MNOK)	8295
Share in LDCs (excl. SN Power)	37 %
Share in Africa (excl. SN Power)	60 %
Share in start-up enterprises	32 %
Share of equity	61 %
Share of loans	16 %
Share of private equity fund investments	23 %
Number of investments	107
Investment agreements renewable energy	4118
Disbursed to investments (MNOK)	6624
Employees in Norfund's investments	294 000
Norfund's weigthed share of jobs	7 500
Share of female employees	39 %
Payments to government*	4,3

*Payments to government include corporate tax, charges, licenses etc. for all Norfund's investments

CAPITAL BASE

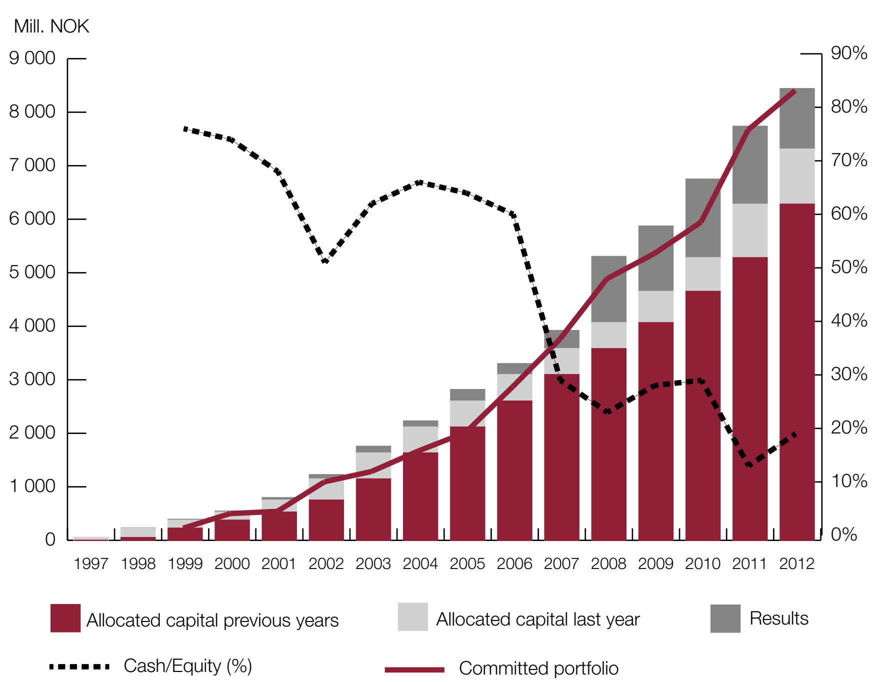
A total of NOK 7.3 billion has been allocated to Norfund from the Norwegian development assistance budget since Norfund's inception 16 years ago. In addition, Norfund has earned NOK 1.1 billion from the investments, resulting in total equity of NOK 8.4 billion at the end of 2012 (see figure 1). Strong financial performance over time has made it possible to invest more than the direct capital contribution from the Norwegian government. In 2012, new allocations to Norfund amounted to NOK 1 billion, while NOK 1.2 billion was invested.

There is a great need for private sector investments in poor countries. With strengthened professional capacity, Norfund has been able to commit a rising share of available funds. Should this trend continue, Norfund will soon be experiencing a shortage of capital compared to the level of viable investment opportunities available.

AFRICA

Norfund is working to increase the exposure in sub-Saharan Africa, in line with Norwegian development policy priorities. The target is to invest at least 50 per cent of the portfolio in the region. With a total investment portfolio of NOK 2.8 billion in 66 projects in Africa, the region represents 34 per cent of total portfolio (see figure 2). In 2012, more than half of new commitments, NOK 640 million, were made to businesses in Africa. Excluding investments in SN Power, the share of new investments in Africa was all of 82 per cent. Growth in Africa is the result of increased presence and focused efforts over time.

Figure 1 - DEVELOPMENT IN EQUITY AND COMMITTED PORTFOLIO



Of the total portfolio, 40 per cent has been invested in Latin America. Excluding investments through SN Power, this share is reduced to 20 per cent. SN Power's investments also contribute to an increased share of investments in Asia (25 per cent of the portfolio, compared with just 19 per cent without SN Power). An SN Power project was the only new investments in Asia in 2012.

LEAST DEVELOPED COUNTRIES (LDCs)

Investment needs and the role of development finance institutions like Norfund is generally greater the poorer the country is. Norfund aims to invest at least 33 per cent of our capital (excluding investments through SN Power) in countries classified as LDCs (least developed countries). Norfund's strengthened efforts in sub-Saharan Africa, where a high percentage of the countries are LDCs, have contributed to meeting this target. Excluding SN Power, 37 per cent of Norfund's portfolio is in LDCs. As illustrated in figure 3, SN Power contributes to increasing the LDC share for 2012. The LDC share of Norfund's total investments in 2012 was as high as 54 per cent. This is attributed to SN Power's investment in the Theun-Hinboun Power Company (THPC), a 210 MW run-of-the-river power plant in Laos.

While figure 3 shows an increase in LDC investments, major investments were also made in upper middle-income countries (33 per cent of new investments). This figure reflects two investments in South Africa: Increased equity capital and a mezzanine loan to the financial institution Real People, and equity capital to Scatec Solar. For more about these investments, see pp. 35 and 37.

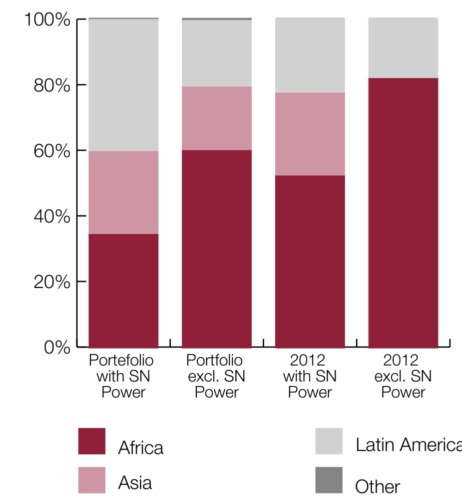
START-UP ENTERPRISES

New enterprises are necessary for private sector development. Start-ups are high risk, and despite high profit potentials they often experience difficulty in obtaining the necessary capital. The high risk and high impact nature of start-ups make them relevant investment objects for Norfund. Yet this type of project is demanding in terms of to follow-up of ownership and project development. Norfund aims to ensure that more than 20 per cent of investments are made in start-up enterprises, and considers this a realistic level given the structure and capacity of the organisation. In 2012, the share of new investments in start-up enterprises was 23 per cent, and at the end of the year the overall share of the portfolio was 32 per cent. This is on par with the previous year.

ADAPTED FINANCIAL INSTRUMENTS

In poor countries, risk capital is scarce. Equity investments have a higher risk than debt. In general, the added value of Norfund's investments is therefore higher when investing equity in enterprises than when providing loans. On top of this, Norfund aims to leverage additional capital from other investors. When Norfund has financed an enterprise with equity, it is easier for the company to obtain debt with collateral, for example from local banks. As a result, equity investments also have a greater catalytic effect.

Figure 2 - PORTFOLIO AND NEW INVESTMENTS PER REGION



Presentation of the geographical distribution of Norfund's portfolio excluding SN Power

Norfund's investment in SN Power accounts for slightly less than half of Norfund's total investments. SN Power invests in different geographical areas from Norfund. To provide a correct view of Norfund's own geographical focus, we therefore present the portfolio excluding SN Power's investments.

A Norfund goal is to increase its African energy investments. This was the primary motivation behind Norfund and SN Power's establishment of Agua Imara.

Figure 3 - PORTFOLIO AND NEW INVESTMENTS BY OECD/DAC CLASSIFICATION

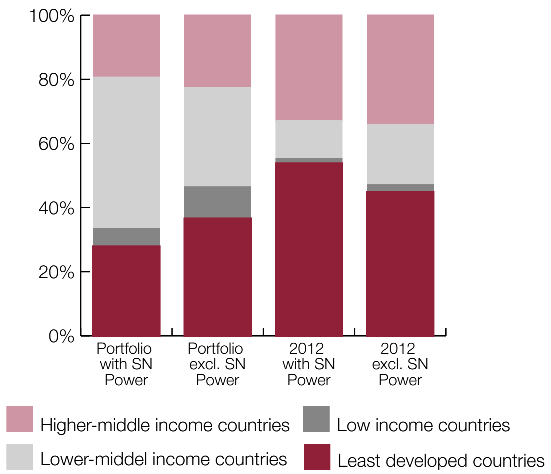
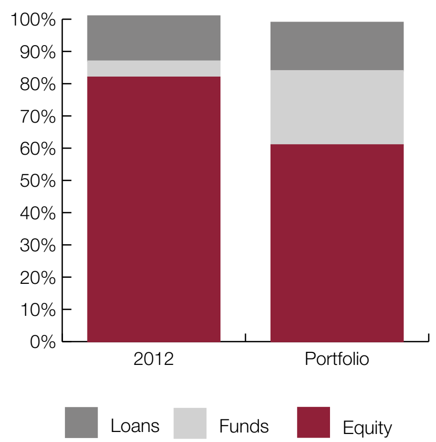


Figure 4 - PORTFOLIO BY INSTRUMENTS



Classification of countries

Least developed countries are defined by the UN as countries with very low gross domestic income (GDI), with underdeveloped use of human resources (based on the Human Assets Index), and which are considered to be economically unstable.

Low-income countries have an annual per capita GDI of less than USD 1,005.

Lower middle-income countries have an annual per capita GDI of between USD 1,006 and USD 3,975.

Upper middle-income countries have an annual per capita GDI of between USD 3,976 and USD 12,275.

Higher risk also means increased responsibility, and equity therefore requires more resources from an investor. Norfund's target is that more than 60 per cent of investments are in the form of equity capital. At the end of 2012, 61 per cent of investments in the portfolio were direct equity[1] investments, and the corresponding figure for new investments during the year was 82 per cent (see figure 4).

For small and medium-sized enterprises financed through Norfund's private equity fund investments, Norfund's capital has the same added value and catalytic effects as a direct equity investment. Of new investments in 2012, 4.5 per cent were made in such funds, and the share of these funds in Norfund's total portfolio is now 23 per cent.

PARTNERSHIPS

Norfund is not permitted to invest in a company as the sole investor, and cannot normally have an ownership interest of more than 35 per cent. While not required to invest together with Norwegian partners, we do partner with Norwegian firms on occasion and subject to sound industrial justification. At the end of 2012, there were Norwegian partners in 18 of 107 projects. Norfund often invests jointly with other Development Finance Institutions (DFIs), particularly when investing in SME funds and financial institutions. Other DFIs are good partners for us, as we have developed close relationships and cooperation over time, and share our focus on the development effects of investments. Norfund has invested jointly with other DFIs in 52 of our projects.

INVESTMENT RECEIPTS AND DISBURSEMENTS

Norfund disbursed NOK 982 million in 2012. The difference between the commitments made and the actual disbursements is attributed to the fact that certain disbursements are not made until investees need the capital for specific purposes. For example, in 2012 the disbursements to projects in renewable energy were under half the amount committed, as construction of some of the power stations have not yet reached their most capital-intensive phase.

Norfund received a total of NOK 678 million from its investments. Two successful exits and the repayment of loans from financial institutions constituted more than half of this (NOK 420 million) . For SME funds, receipts from and disbursements to investments were approximately the same (NOK 203 million and NOK 226 million, respectively). Few new fund investments have been made, while many of the funds in the portfolio have entered a phase in which they are selling off their interests in enterprises and are returning invested capital to investors.

At the end of 2012, Norfund had disbursed a total of NOK 6.6 billion to investments, while the total commitment was NOK 8.3 billion. The difference between commitments and disbursed amounts for SME funds relates to the time lag between establishing a fund and the fund making investments in the selected SMEs.

1 Equity includes mezzanine loans.

Results

The most important result of Norfund's operations is our contribution to the development of viable businesses in developing countries. Norfund contributes capital to over 600 enterprises – from small microenterprises to large industrial companies. Financial returns show the extent to which enterprises are viable. Development effects, including employment and tax revenues, indicate the enterprises' contributions to development at large. In 2012, Norfund's investments yielded a return of 10 per cent. The enterprises in Norfund's portfolio employed a total of 294,000 persons, and paid NOK 4.3 billion in taxes and fees.

EMPLOYMENT

At the end of 2012, Norfund's investment portfolio directly employed 294,000[1] full-time equivalents, compared with 265,000 at the end of 2011. This increase is attributed to a growing portfolio (from 99 to 107 projects), as well as improved reporting from companies.

A total of 170,000 people were employed in companies where Norfund has invested indirectly through funds. The figure illustrates the importance of the SME sector in generating jobs. The remaining 124,000 jobs were in enterprises in which Norfund has a direct investment. More than 50,000 of these jobs were in microfinance institutions.

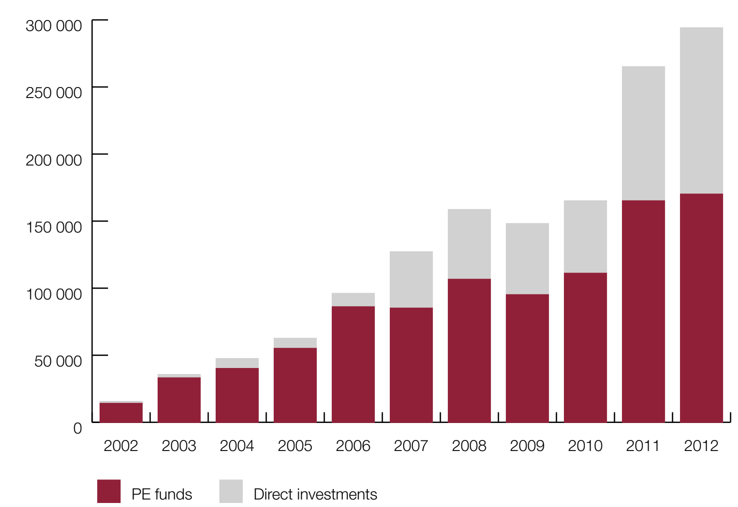
In 2012, 39 per cent of employees in Norfund's portfolio companies were women. The highest proportion was for investments in our Financial institutions portfolio and through funds. Financial institutions employ women directly but also finance enterprises with many female employees through microfinance and investments in SMEs. One of Norfund's most important contributions to increasing the employment of women is thus investing in funds and financial institutions, particularly microfinance.

Norfund has for the first time also surveyed the proportion of women in managerial positions[2] this year. Women represented 24 per cent of managers across the portfolio. In comparison, the share of women in managerial positions in Norwegian companies was 22 per cent.

TAX REVENUES

Governments are dependent on mobilising revenue to fund public goods, such as infrastructure, government institutions, health, and education. Income tax, value added tax, licences, and customs duties constitute important sources of revenue. In 2012, companies in Norfund's investment portfolio paid NOK 4.3 billion in taxes and duties to government[3]. By comparison, the total tax revenue contribution in 2011 was NOK 4.2 billion. As illustrated in Table 2, the level of tax revenue contribution varies between the investment areas. This is largely correlated

Figure 5 - JOBS IN NORFUND'S INVESTMENTS



1 The number of employees is measured in full man-years. A seasonal worker employed only for six months has been counted as half a man-year, for example.
2 Managerial positions are defined as those with personnel responsibility.
3 If we only consider corporate tax and companies in which Norfund has invested equity, the weighted tax revenue contribution proportionate to Norfund's ownership interest was NOK 107 million.

Norfund's reporting of results

Norfund's results are affected by fluctuations in the Norwegian krone exchange rate relative to relevant investment currencies. Because Norfund's goal is to develop profitable enterprises in the countries where we invest, and profit and gains are to be reinvested in the same group of countries, our result are linked to the return in the investment currency, not the Norwegian krone. As a result, and in accordance with our mandate, we measure the results of our activities in the investment currency and not in NOK.

Return calculations

Investment returns are calculated as the internal rate of return of the cash flows of the investment, including the assumed value of the investment at the end of the year. The calculations are made in the investment currency to exclude the effect of exchange rate fluctuations.

Norfund estimates the value of all of its investments on an annual basis. The valuations are our best estimate of the fair value of the investments at the end of the year, in accordance with the "International Private Equity and Venture Capital Valuations Guidelines".

The ultimate profitability of our investments will not be known until they are realised in the market. Our valuations often prove to be somewhat conservative, and therefore they are often below the value of the ultimate realisation of the investments.

with the phase of development that the enterprises are in. For example, all of the enterprises within project development, as well as many of the projects in renewable energy and industrial partnerships, are start-ups. The tax revenues from newly established enterprises are often quite modest, as earnings, and thus the tax basis, are low during the first few years. In addition, many countries grant tax exemptions or lower tax rates to foreign investors and start-up enterprises to stimulate the economy and attract investment. The largest taxpayers in Norfund's portfolio are large banks and financial institutions which are well-established, having received financing primarily to increase or expand existing activities.

POSITIVE RETURN ON THE PORTFOLIO

Positive return on our investments indicates that Norfund is succeeding in creating profitable enterprises. We estimate the return on the projects and on the total portfolio twice a year. However, we only know the actual return on an investment when we exit that investment, i.e. when we sell our equity interests, or when debt is repaid.

The return in 2012 was 10 per cent. Renewable energy made the greatest contribution to our positive result. There has been a stable return on investments in financial institutions over time, largely due to high repayment rates on loans and several successful exits. Fluctuations in the annual return for industrial partnerships are as expected, since a large portion of the investments are in start-up enterprises.

Due to significant annual variations in the returns, it is useful to look at the returns over an extended period to assess the long-term contribution of Norfund's investments to the development of profitable businesses. Since Norfund was established, the average annual return has been 10 per cent. Renewable energy contributes the most here as well, confirming the success of SN Power.

While Norwegian investors mostly measure results in Norwegian kroner, returns in local currency constitute a more relevant parameter in light of our objective to create local value. Our mandate dictates that we should assume currency risk. Consequently, impact of fluctuation of the Norwegian krone exchange rate is excluded from our return calculations.

Table 2 - TAX CONTRIBUTIONS FROM NORFUND'S INVESTMENT PORTFOLIO

Numbers in thousands (NOK)	Financial Institutions	SME Funds	Renewable Energy	Industrial Partner-ships	Project Development and New Instruments	Total	Weighted based on equity share*
Total Taxes / Government Contribution (corporate tax, fees, lisences, etc.)	1 800 000	1 300 000	520 000	660 000	12 000	4 292 000	292 000
Corporate Tax	1 410 000	470 000	175 000	420 000	3 000	2 478 000	106 800

* Norfund's share of tax contribution weighted by Norfunds equity positions.

Table 3 - RETURN (IRR) PER INVESTMENT ARE OVER TIME (IN INVESTMENT CURRENCY)

	2006	2007	2008	2009	2010	2011	2012	2006-2012	Siden oppstart 1997–2012
SME-Funds	1 %	32 %	4 %	5 %	10 %	3 %	9 %	4 %	7 %
Financial Institutions	9 %	27 %	9 %	6 %	9 %	6 %	9 %	8 %	8 %
Renewable Energy	44 %	14 %	25 %	3 %	11 %	10 %	12 %	12 %	12 %
Industrial Partnerships	-19 %	16 %	10 %	12 %	7 %	2,4 %	-10 %	-1 %	-2 %
Total	**24 %**	**17 %**	**21 %**	**4 %**	**10 %**	**8 %**	**10 %**	**11 %**	**10 %**

As demonstrated in table 3, returns have varied significantly from year to year. With Norfund's risk profile, returns will also vary greatly in the future. Norfund assumes a high country risk compared with traditional investors by investing in some of the poorest countries in the world. For example, there is particularly high risk associated with projects in fragile states such as South Sudan and Myanmar. In countries with poorly developed legal and institutional framework for investments and business, unforeseen project costs, including delays, are likely to occur, and political and economic instability could even result in the loss of investment assets.

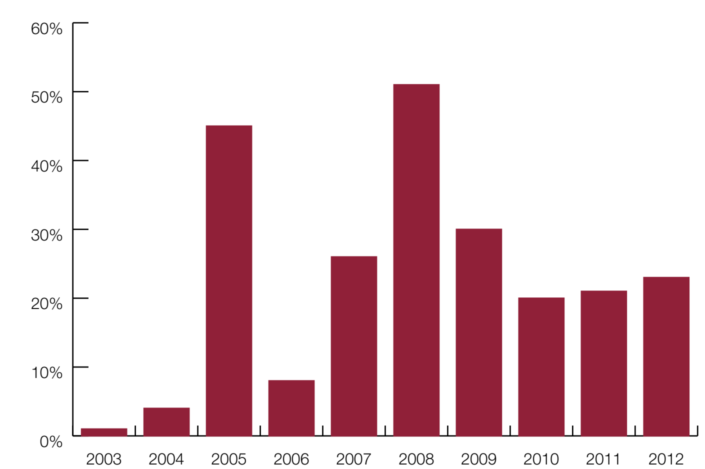
Norfund does not operate with a set target return for the portfolio. Such a target may have prevented high-risk investments. A return requirement would have given us an incentive to shift our portfolio away from the most difficult countries, and from projects with high risk, towards lower risk and higher overall profitability. In this, Norfund differs from many other investors, whose business model is to manage an investment portfolio that maximizes profitability. Our portfolio is compiled to maximise development effects.

EXITS

Only when Norfund exits an investment can we determine whether the project has been successful. When we have invested equity, this will mean that we sell our equity interest (realisation), and for loans, the project ends when the entire loan has been repaid. Since Norfund is still a fund under development, we enter into far more agreements annually than we exit. In 2012, we exited a total of three investments, all with a positive financial return.

- Family Bank (Kenya): Norfund invested NOK 18 million in equity in the bank in 2010 (5.6 per cent stake). We wished to support efforts to reach out to small-scale enterprises and poor private customers over a longer time period, but due to disagreements on governance of the bank, we had to exit in 2012. Due to high growth in the bank and interest from new investors, the exit yielded an annual return of 30 per cent.
- Micro Africa (Kenya and Uganda): Norfund has supported the microfinance enterprise with equity and loans since 2006. In 2012, the local actor Letshego Holdings wanted to buy our equity interest, and we sold this at an annual return of 27 per cent.
- SEAF Trans Balkan Fund (Balkan): After the Balkan conflict at the end of the 1990s, Norfund invested in a regional fund to support economic development in the region. The fund exited the last of the projects in 2012, and Norfund's annual return was 6 per cent.

Figure 6 - SHARE OF NEW INVESTMENTS IN START-UP BUSINESSES



Norfund's accounting results for 2012

Norfund achieved an accounting result in investment currency of NOK 203 million in 2012, compared with NOK 0 in 2011. This is attributed primarily to higher operating revenues from Norfund's 40 per cent equity share in SN Power.

Norfund's business is investment. Income from operations therefore primarily consists of interest, dividends and gains from the sale of assets. Total operating income in 2012 was NOK 427 million, compared with NOK 144 million in 2011. This increase is attributed primarily to the share of the profit from SN Power. Norfund's share of the profit in 2011 included a share of an accounting loss in connection with SN Power's foreign currency hedging of an acquisition in Brazil. Accrued interest income has increased by 51 per cent, to NOK 101 million, as a result of growth in the loan portfolio. The realised gain on shares is from the sale of shares in Family Bank and Micro Africa. Dividends of NOK 83 million received are primarily from old vintage funds.

As a knowledge-based enterprise, the majority of operating costs are naturally related to personnel. Other costs include office rent, fees for hired services (accounting, IT, legal assistance, etc.) and travel. Total operating expenses were NOK 106 million in 2012, NOK 7 million lower than in 2011. The decline in operating expenses is attributed primarily to less use of external assistance in connection with investment projects than in the previous year. Personnel costs are approximately on par with 2011, since the number of employees has been stable throughout 2012.

Norfund invests in projects with high risk, which may entail a write-down of the book value for businesses that do not perform as desired. Based on valuations made, there have been individual write-downs totalling NOK 123 million in the portfolio in 2012. This applies primarily to individual investments in Africa. Interest income specifies the return on Norfund's bank deposits. Bank deposits amounted to NOK 1.6 billion at the end of 2012. Since Norfund does not have the opportunity to finance its acquisitions with loans, it is necessary to have a certain level of bank deposits available in order to meet existing obligations. The interest income of NOK 26 million is lower than in 2011, as a result of lower bank deposits on average throughout 2012. Other financial items include foreign exchange losses that are not related to the investment portfolio, including bank deposits in currencies other than the Norwegian krone.

Since Norfund aims to contribute to the value creation in the investment country, result calculations are made in the investment currency. However, accounts are settled in Norway using NOK-values. A negative foreign exchange effect of NOK 160 million was due to the strong Norwegian krone exchange rate. This is attributed primarily to the fact that a large portion of Norfund's investments are in US dollars. The dollar weakened by 7.1 per cent in 2012, from NOK 5.99 to NOK 5.57.

Norfund's result after foreign exchange effects on the portfolio was NOK 42 million, compared with NOK 27 million in 2011.

Table 4 – RESULTS 2012

Results (NOK m)	2012	2011
Interest (investment portfolio)	101	66
Realised gains	15	1
Dividends received	83	28
Other project income	3	4
Share of profit SN Power (40%)	224	45
Total operating income	**427**	**144**
Payroll expenses	-63	-63
Other operating expenses	-43	-51
Total operating expenses	**-106**	**-114**
Write-downs on investments	-123	-71
Operating profit in investment currency	**198**	**-41**
Interest income liquid assets	26	39
Other financial items	-20	3
Net financial items	**6**	**41**
Tax	0	-1
Net profit in investment currency	203	0
Exchange rate effects portfolio	-160	27
Profit	**42**	**27**

REPORTING:

Activities of the Investment Areas in 2012

- Renewable Energy
- Financial Institutions
- Industrial Partnerships
- SME Funds
- Product Development and New Instruments

32

providers of financial services

529

million NOK invested in renewable energy

500

SMEs

Renewable energy

Breakthrough for large-scale solar energy in South Africa

Renewable energy is the single most important sector for Norfund. At the end of 2012, Norfund had invested a total of NOK 4.1 billion in 9 different renewable energy projects. The two most important milestones in 2012 were our first investment in a large-scale solar energy project, and the fist co-investment agreement with a large and important Norwegian institutional investor (KLP). In addition, we hope that the financing of project development for four power plants will strengthen access to future investments.

Table 5 – KEY FIGURES RENEWABLE ENERGY

Committed investments (MNOK)	4 079
Net disbursed investments (MNOK)	3 550
New investment commitments in 2012 (MNOK)	529
Number of investments	9
Share in least developed countries	20 %
Share of start-up enterprises	38 %
Share of equity investments	95 %
Jobs in investee companies	6 000
Norfund's weighted share of jobs	400
Share of women	21 %
Payments to local authorities (MNOK)	520
Energy production capacity (GWh)	5 814
Equivalent to power consumption (million people)	11,9
CO_2 reduction	2,6

In 2012, Norfund committed a total of NOK 529 million in renewable energy projects. This is in accordance with instructions from the Ministry of Foreign Affairs, requiring that 50 per cent of Norfund's investments are made in renewables. Norfund is actively working to strengthen the portfolio in wind and solar energy in addition to hydropower, and to increase activity in Africa and Central America.

SN Power is still our most important investment in renewable energy, and in 2012, Norfund increased its commitment in the company by NOK 449 million (to a total of NOK 3.6 billion). The new funds will be used for projects in Latin America and Southeast Asia. After 10 years in the market, SN Power has invested in the development of 39 power stations in nine countries, which will have a total installed production capacity of 2,398 MW when in production. Major events for SN Power in 2012 included the Allain Duhangan power station in India reaching full capacity (192 MW), and the opening of wind farms in Bahia and Barra dos Conquieros in Brazil (120 MW).

In August 2012, Norfund signed an agreement to contribute NOK 80 million in equity to Scatec Solar and their Kalkbult project in South Africa. When the project is completed in the autumn of 2013 it will be one of Africa's largest solar power stations with a capacity of 75 MW. (See separate box for more information)

Other important events in 2012:

- Construction of SN Power's river power station Cheves in Peru is proceeding according to plan, and production is expected to start towards the end of 2014. The production capacity of the power plant will be 168 MW
- The Agua Imara project Bajo Frio in Panama is proceeding according to plan, and production is expected to start in 2014. In Zambia, Agua Imara has contributed to increasing the capacity of the power station Lunsemfwa by 6 MW in 2012
- In Laos, the construction of the 9 MW Nam Sim hydropower project has commenced. Norfund invested in Nam Sim in 2011
- In Guatemala, Norfund has unfortunately been forced to cease work on the run-off-the-river power station Hidro Santa Cruz. Due to disputes in the local community, Norfund has decided to freeze loan disbursements until the situation has been clarified

For information on support for early-stage project development, see the discussion of the Project Development Facility in the report on project development and new instruments, page 42.

KLP has a long-standing strategy for responsible investments. Investments in sustainable development are a new and exciting chapter in this story. These markets have good prerequisites for a satisfactory return, while contributing to sustainable development in the countries where the investments are made.

Norfund is a natural partner with broad experience and proven good results. We also share the same views on the importance of good corporate governance.

Sverre Thornes, CEO of KLP

Scatec Solar – Kalkbult

Scatec Solar is one of the world's leading developers of industrial scale solar energy projects. Norfund has invested NOK 80 million in equity in Scatec Solar's first project in South Africa (Kalkbult), a 75 MW solar farm. Scatec Solar acquired the project through the South African energy programme, which seeks to increase exploitation of the country's sizeable renewable energy resources (Renewable Energy Independent Power Producer Procurement Program). Cooperation between a number of investors has been important for the realisation of this project. In addition to Norfund, the local companies Simacel, Old Mutual and Standard Bank have invested equity, and Standard has also granted a substantial loan to Kalkbult.

The Kalkbult solar power station will cover 105 hectares, corresponding to about 140 football fields and generate enough power to meet the electricity needs of 35,000 South African households. Electricity from the power station will be fed into the local grid, and this will correspond to a reduction in CO_2 emissions of approximately 125,000 tonnes per year, compared with power produced from fossil sources on land.

Scatec Solar combines Norwegian and international experience from the development and financing of major energy projects with advanced technological and industrial expertise in PV solar energy (based on photovoltaic cells), as well as knowledge of local regulatory conditions in select markets. The operations cover all key aspects of carrying out solar energy projects: from contact with the authorities and permits, to design and engineering; legal, commercial and financial structuring; procurement and development; as well as business management, operations and maintenance over the life of a project. Thus Scatec Solar can ensure that attractive and sustainable projects are carried out with the lowest possible risk, and contribute to the growth of solar energy as an increasingly preferred source of energy in parts of the world with abundant sun.

KLP – first Norwegian partner for co-investments

I In August 2012, Norfund and KLP signed a co-investment agreement for a total of NOK 1 billion for projects in developing countries that contribute to sustainable development. This is the first cooperation agreement of its kind for an institutional investor like KLP with Norfund.

Norfund and KLP have agreed to invest NOK 500 million each over a five-year period in renewable energy projects (solar, wind and hydropower) and finance, with a focus on eastern and southern Africa. These investments will be based on commercial risk and return assessments. There will also be strict environmental and social requirements.

The agreement between KLP and Norfund is a specific example of how government capital can leverage private investors to in renewable energy.

Figure 7 - INVESTMENTS WITH NORWEGIAN PARTNERS, RENEWABLE ENERGY

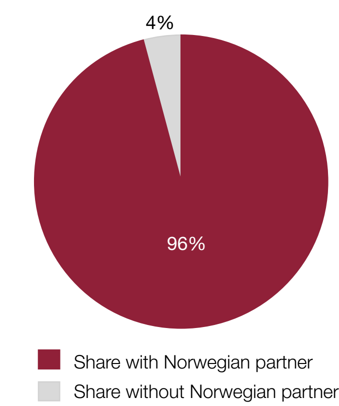
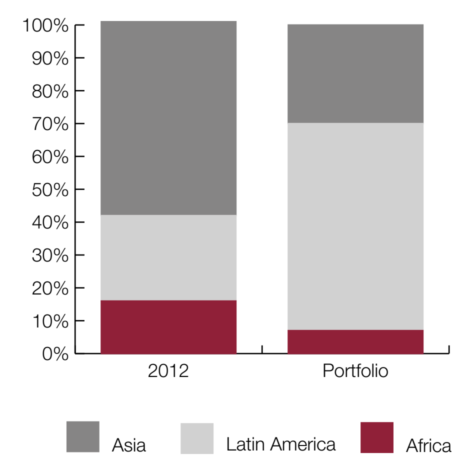


Figure 8 - INVESTMENTS PER REGION, RENEWABLE ENERGY



Financial institutions

Very strong portfolio performance

Financial institutions constitute Norfund's second largest investment sector. At the end of 2012, NOK 1.8 billion was invested in 32 different providers of financial services. The strong performance of the portfolio in 2012 is the result of solid investments over many years. During 2012, a number of new commitments were made, loans were repaid on schedule, and Norfund successfully exited from one equity position.

Table 6 – KEY FIGURES FINANCIAL INSTITUTIONS

Committed investments (MNOK)	1 846
Net disbursed investments (MNOK)	1538
New investment commitments in 2012 (MNOK)	393
Number of investments	32
Share in least developed countries	28 %
Share of start-up enterprises	24 %
Share of equity investments	37 %
Jobs in investee companies	116 000
Of which indirect through FI-funds	30 400
Norfund's weighted share of jobs	1 000
Share of women	39 %
Payments to local authorities (MNOK)	1 800
Number of loan customers (mill active loans)	40,7
Of which indirect through FI-funds (mill active loans)	32,9
Share of women lenders	71%

In 2012, Norfund committed a total of NOK 393 million to six different financial institutions, four of which were new to Norfund's portfolio. These four were:

- Ficohsa in Honduras, a bank with 20 years of experience in delivering financial services to the private market and to small and medium-sized enterprises. Banco Ficohsa is now expanding to several countries in the region. To strengthen the bank's financing of small enterprises and to develop the local financial services sector, Norfund has provided a loan of NOK 70 million.
- Norsad, a collaborative effort with Finnfund, IFU and Swedfund, aims to provide long-term financing to SMEs in southern Africa. Norfund has invested NOK 52 million in equity in Norsad, which was established in 1990 and now has a total capital base of NOK 600 million.
- Alios Finance in Tanzania. In 2012, Norfund committed a loan agreement for NOK 28 million with Alios, which offers a number of financial services to small and medium-sized enterprises, as well as to the private market. The finance company is now expanding its operations to East Africa, based on many years of operation in West Africa, and this work is supported through the debt from Norfund.
- ODEF in Honduras is a microfinance institution that focuses in particular on poor women. Norfund has provided a loan of NOK 18 million to the company so that they can expand their operations. ODEF works primarily in rural areas and suburban areas near major cities, and offers training and technical assistance in connection with microloans.

An employee at an ODEF branch office in San Pedro Sula, Honduras. 56 per cent of the customers of the financial institution are women.

The two financial institutions in which Norfund increased existing engagement in 2012 were the financial institution Real People in South Africa, and the bank Banco Terra in Mozambique. Real People is the largest independent provider of financial services in South Africa, and focuses on customers without previous access to banking services. Real People provides unsecured loans for home improvement and education in slum areas, among other things. The loan to Real People was Norfund's largest individual investment in financial institutions in 2012 (NOK 191 million), and combined with previously invested equity and debt, this is now Norfund's second largest investment (a total of NOK 311 million invested). Norfund has sponsored the establishment of Banco Terra in Mozambique, and in 2012, Norfund's equity in the company was increased by NOK 35 million.

Norfund sold its equity interest (5.6 per cent) in the Kenyan bank Family Bank with a total annual return of 30 per cent. In addition, seven loans were repaid from the institutions Micro Africa (Kenya and Uganda), Amret (Cambodia), Solidus (Latin America), Socremo (Mozambique), and Sathapana (Vietnam). Norfund still has other commitments in all of these companies.

No new commitments were made in Southeast Asia in 2012, but substantial efforts were made in Myanmar to prepare one of the first investments in microfinance in the country after the extensive reforms which have taken place.

Ficosha

Ficosha is one of the largest banks in Honduras with a focus on small and medium-sized enterprises, as well as the consumer market. Based on experience and knowledge from its home market, the bank has now expanded its operations into Panama and Guatemala. The bank is known for its innovative use of financial services, and key to the bank's vision is the use of the best available technology.

HKL

Hattha Kaksekar Limited (HKL) is the fourth largest microfinance organisation in Cambodia. Its core market is microentrepreneurs in urban and semi-urban areas, and more than half of their clients are women entrepreneurs. HKL was established in 1994 as an Oxfam food project, and it was later formally registered as an NGO in 1996. In 2011, the company was granted a microfinance licence that permits HKL to accept deposits. Norfund invested in HKL in 2007, and has an equity interest of 18 per cent.

Figure 9 - INVESTMENT INSTRUMENTS, FINANCIAL INSTITUTIONS

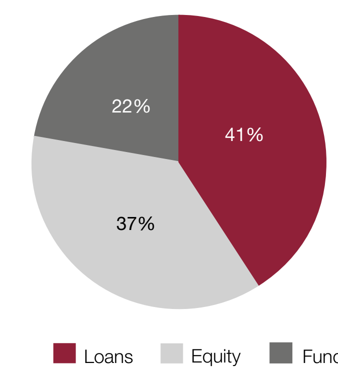
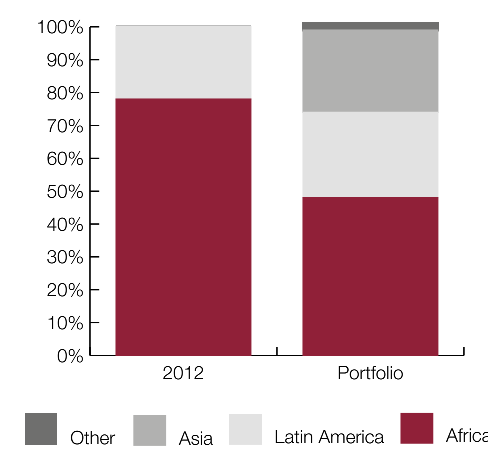


Figure 10 - INVESTMENTS PER REGION



Industrial partnerships

Investing in agriculture in Africa

Five investments were made within Industrial Partnerships in 2012. Two of these were in new companies to Norfund's portfolio, both in agribusiness in sub-Saharan Africa – a result of the increased focus on agriculture since 2011. The largest investment was NOK 57 million in equity in Chayton Atlas Investments, which produces wheat, corn and soy on seven farms in Zambia. Our investment in a fertilizer terminal in Dar es Salam will be an important contribution to the development of infrastructure supporting agriculture in the region.

Table 7 - KEY FIGURES INDUSTRIAL PARTNERSHIPS

Committed investments (MNOK)	833
Net disbursed investments (MNOK)	554
New investment commitments in 2012 (MNOK)	233
Number of investments	18
Share in least developed countries	73 %
Share of start-up enterprises	39 %
Share of equity investments	65 %
Jobs in investee companies	32 000
Norfund's weighted share of jobs	1 700
Share of women	23 %
Payments to local authorities (MNOK)	660
Outgrowers	6 400

Commitments totalling NOK 233 million were made in 2012 within industrial partnerships, and at the end of the year the portfolio included investments in 18 companies totalling NOK 833 million. Almost all of the investments are in start-up enterprises with high risk, and Norfund's competence and role as an active owner are often as important as the financing. In 2012, the department was strengthened by the addition of a new position, and the recently opened office in Maputo will work primarily with agricultural investments in the region.

The investment in Chayton Atlas Investments constituted an important addition to Norfund's agricultural portfolio. Chayton has seven farms in Zambia that produce corn, wheat, and soy. These farms will be the starting point for linking several farms, processing plants, and distribution channels in a network that will increase production, efficiency, and value creation in agriculture in the region. The company has set ambitious targets for its work on socially and environmentally responsible initiatives. Chayton's strong sustainability approach is an additional asset. Norfund will contribute to the development of Chayton through an investment of NOK 57 million. Norfund's investment will be used for the expansion of operations through the purchase of farms or companies that provide corn drying, storage, processing, or distribution services for existing or potential future Chayton farms in the region. Norfund is supporting the rehabilitation of a public school in cooperation with Chayton, to ensure that the children of employees receive an education.

Yara began the construction of a fertiliser terminal in Dar es Salaam in 2011. The terminal is the first investment in the country's SAGCOT project (Southern Agricultural Corridor of Tanzania), a collaborative effort between the authorities in Tanzania, the national and international private sectors, farmers, and donor organisations. Agriculture constitutes the livelihood for 80 per cent of Tanzania's population, and the country has great opportunities for increased production, efficiency and agriculturally-driven growth. Consequently, the authorities prioritise the development of agriculture. Norfund provided a loan of NOK 33 million to the fertiliser terminal in 2012.

To support further development, Norfund made follow-up investments in the following companies in 2012:

- A mezzanine loan with a maximum limit of NOK 84 million to the forestry company Green Resources to finance scaling up forestry operations until the company has a positive cash flow. Green Resources has accomplished a great deal in Tanzania and Uganda, but the company is facing a substantial task of forest planting in Mozambique. Even if eucalyptus and local pine grow rapidly compared to Norwegian trees, it takes many years from tree planting to harvesting.
- Mezzanine loans and increased equity for a combined total of NOK 57 million for the banana plantation Matanuska in Mozambique. The company is growing and the banana exports are increasing, and in 2012 Matanuska produced almost 50,000 tonnes of bananas on approximately 1,300 hectares. The enterprise has 2,400 employees.
- Increased equity in the safari company Basecamp Explorer Kenya of NOK 1 million. The company has used the money to build up an entirely new camp called Eagle's View, with 16 beds in the Maasai's private game reserve, Naboisho.

> The new SAGCOT strategy will properly anchor and underscore the involvement and the critical importance of the private sector to participate actively in agricultural production, provision of agricultural inputs, crop marketing and the agricultural value addition chain
>
> President Jakaya Kikwete, Tanzania

Agriculture is the single most important private sector activity in a number of developing countries, particularly in sub-Saharan Africa. However, there are a number of complex challenges associated with agricultural projects, such as land rights, the participation of women, and the role of small farmers. Norfund seeks an active dialogue with other stakeholders working on these issues, and invited to several dialogue meetings on this topic in 2012. In addition, Norfund co-financed a seminar with researchers on the large-scale acquisition of land in cooperation with the Norwegian University of Life Sciences at Ås and the Norwegian Mapping Authority.

From the avocado plantation Africado in Tanzania. The company employs 190 people (42 per cent women), as well as cooperating with 1 740 contract farmers.

Figure 11 - INVESTMENT INSTRUMENTS, INDUSTRIAL PARTNERSHIPS

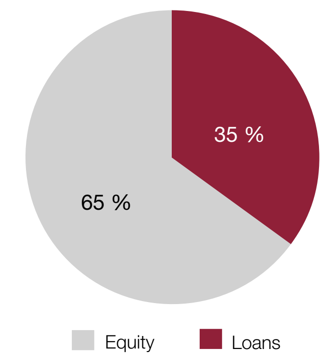
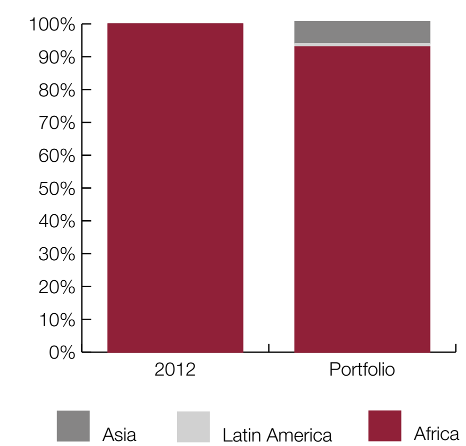


Figure 12 - INVESTMENTS PER REGION, INDUSTRIAL PARTNERSHIPS



SME Funds

Contributing to the development of 379 small and medium-sized enterprises

In 2012, 75 new enterprises received financing through Norfund's SME funds. Norfund is currently supporting the development of 379 small and medium-sized enterprises through our fund investments, thereby contributing to approximately 140,000 jobs. Investments have been made through 30 different funds with a total investment amount of NOK 1.3 billion.

Tabell 8 – SMB-FOND

Committed investments (MNOK)	1309
Net disbursed investments (MNOK)	881
Number of investments	30
New investment commitments in 2012 (MNOK)	56
Number of portfolio companies	379
Antall nye porteføljebedrifter i 2012	75
Investments in new portfolio companies in 2012 (MNOK)	115
Share in least developed countries	17%
Employees in the funds' investments	140 000
Norfund's weighted share of jobs	4 400
Share of women	41%
Payments to local authorities (MNOK)	1 300

The 30 funds where Norfund has invested are distributed among the regions in accordance with Norfund's strategy:

- Sub-Saharan Africa has the highest priority with 13 funds and a total of NOK 669 million invested
- In Asia, Norfund has invested in 10 funds with a total amount of NOK 351 million
- In Central America, NOK 289 million have been invested in seven funds

The funds' core activity consist of identifying and investing in sound businesses that need financing in order to grow, employ people, and develop the local business community. A total of 75 new enterprises received financing through the funds that Norfund works with. A key element of the fund strategy is to reach out to small and medium-sized enterprises (SMEs) across sectors. The SMEs play an important role in economic growth and job creation. At the same time, the SMEs experience the greatest difficulties in obtaining financing, and thus constitute an area where Norfund can make a difference. Through its fund investments, Norfund engages in a number of sectors, including manufacturing, financial services, and other trading activities. Examples of investments that various funds have made in 2012 are:

- Butterfly Marketing, a company that manufactures and sells appliances and electronics in Bangladesh (Investment made by the Frontier Fund).
- AFPOC Ltd, a renewable energy company developing a greenfield wind energy project in South Africa (Investment made by Evolution One).
- First Finance, a financial institution in Cambodia providing mortgages to first-time buyers of small houses and apartments (Investment made by Cambodia Laos Development Fund).

Agri-Vie

Agri-Vie is a fund that invests in agriculture-related industry in sub-Saharan Africa. The fund has invested a total of approximately NOK 240 million in seven companies, including a lettuce producer and a dairy producer in South Africa, abalone farms in South Africa and Mozambique, and a juice producer in Ethiopia. Altogether, these enterprises provide jobs for nearly 6,000 people. The fund manager seeks to contribute to business development along the entire value chain, and look for companies that can offer opportunities for small local farmers as contract growers. The management of the fund also plays an active role in cross-fertilization of experiences across the companies in areas that are typically demanding for small start-up enterprises in rural areas, including:

- Recruiting the right expertise for key functions in the enterprise (such as finance and accounting)
- Implementing national requirements (such as the affirmative action rules in South Africa)
- Evaluation of the enterprise's social and environmental standards (such as GIIRS)

The Higher Education Fund (HEFF) funds industry relevant education in Central America. The picture is from Instituto Técnico de Electricadad y Electronica (I.T.E.E) in San Pedro Sula, Honduras.

The funds will generally be invested for 4 to 7 years, and will then sell off their shares as the companies have completed their planned start-up and growth phases. Several successful sales contributed to the fund department's return of 9 per cent for 2012. One of the most successful sales was PT Yupi Indo Jelly in the Aureos South East Asia Fund. This investment was made in 2007 and in 2012 returned eight times the invested capital. Several of the funds where Norfund has invested will be in the sell-out phase in the years to come. In 2013, we expect that the total amount to be repaid from the funds will be greater than total new investments. The funds' ability to exit companies will be important to illustrate how SME investments create value for investors.

In 2012, Norfund invested in one new SME fund, CoreCo in Central America. Norfund's investment of NOK 56 million will be used to build up small enterprises in the service sector in the region, including IT, telecommunications, and logistics. The poorest countries in the region – Nicaragua, Honduras, Guatemala and El Salvador – are all important to the fund.

The size of Norfund's fund portfolio, measured both in the number of funds and in the amount invested, makes follow-up of existing investments of key importance. In order to further professionalise the organisation, in 2012 Norfund reorganised the fund department and introduced a new portfolio management system. Specialisation internally within Norfund is expected to contribute to greater expertise and increased efficiency, and the new IT system for portfolio data will facilitate access to information on all enterprises receiving financing through the funds. In 2013, it is expected that one to three new fund investments will be made, for a total maximum amount of NOK 200 million.

New fund investments will be made within Norfund's strategic priority areas. They will focus on Africa, the least developed countries, early stage investments, and they will continue to focus on the SME sector.

A challenge related to SME funds in poor countries is the fact that it is often necessary to use third party countries to close the investments. Many poor countries lack the necessary legal framework required by various investors, and the set-up of the funds locally is therefore often not an alternative. Countries that enable the necessary international co-investments also play a role in illicit capital flow between countries. Norfund is confident that the structures in our funds are not used for tax-optimising transfer pricing or for the illegal flight of capital, and we strictly observe the guidelines issued by the Ministry of Foreign Affairs for the use of third party countries. Norfund is positive to the international processes aimed at strengthened transparency in the international flow of capital.

Figure 13 - NUMBER OF PORTFOLIO COMPANIES PER REGION, SME FUNDS

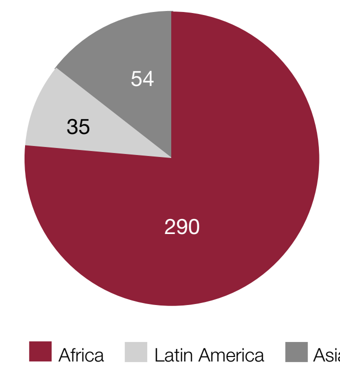
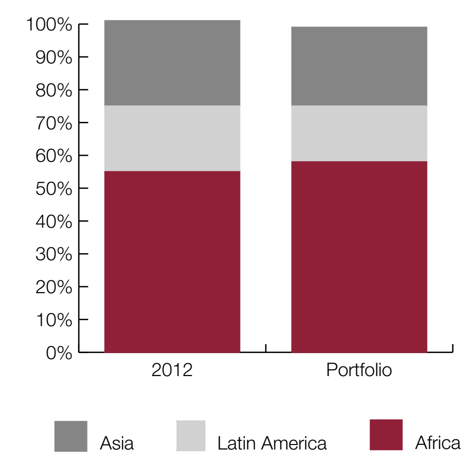


Figure 14 - INVESTMENTS PER REGION, SME FUNDS



**Investeringer er vektet i henhold til Norfund's eierandel i fondene, og indikerer investert, faktisk utbetalt beløp til porteføljebedriftene*

Project development and new instruments

Several energy projects under development and progress in fragile states

In 2012, Norfund's participation has been crucial to the development of several new projects bringing renewable energy to Sub Saharan Africa. We have seen good progress in our engagements in fragile states (South Sudan and Myanmar), as well as in equity funds where we have contributed to their establishment. These initiatives are time- and resource intensive, and our patience and flexibility have been decisive factors in achieving results on the ground.

In 2012, Norfund committed NOK 23 million to this high risk investment area. The total project development and new instruments portfolio is NOK 227 million, spread among 17 companies. With the exception of work to explore smallscale hydropower potential in Myanmar, all projects are in Africa.

RENEWABLE ENERGY

The Project Development Facility (PDF) for renewable energy was established in 2011. In 2012, NOK 13 million was committed to four projects in Sub-Saharan African in wind, hydro, and biogas. In total, Norfund has invested NOK 35 million in six projects through this Facility. If project development is successful, the intention is for invested capital to be converted from debt to equity, and for the projects to be included in Norfund's renewable energy portfolio.

ESTABLISHMENT SME FUNDS

Since 2001, Norfund has actively engaged in the establishment of SME funds where such sources of venture capital were not already accessible. Aureos Capital was the first such fund initiated by Norfund, and today it is the largest of its kind globally. Norfund has sold its share in the investment company, yet remains invested in a number of the funds managed by Aureos.

Norfund's portfolio currently includes three funds where we have had a central role in the establishment and development of the fund management company: Fundo de Investimento Privado Angola (FIPA) in Angola, Fanisi in Kenya, and Voxtra East Africa Agribusiness Fund targeting East Africa. While FIPA and Fanisi were established in 2009, reaching the desired level of investments in SMEs in both Angola and East Africa has proven more difficult than anticipated. It is only in the last year that development of the funds' portfolio has been satisfactory, and Fanisi has now invested in three companies that together employ 211 people. Norwegian-based Voxtra was established in 2011, and made its first investment in 2012.

Activities across the three funds in 2012 include:

- Fanisi has invested in Sophar, a distributor of pharmaceuticals in Rwanda. The company imports pharmaceutical products and distributes to pharmacies. With upgraded storage capacity and advanced distribution models, Sophar seeks to increase availability of pharmaceuticals in Rwanda.
- FIPA has made two investments: Special Edition Lda and Big Media. Both companies provide media services, including market research, print, and commercials. FIPA also has a number of prospects in the pipeline that it expects to close in 2013.

The team working with the hydro power project in Fula Rapids, South Sudan, gathered in may 2012

- Voxtra East Africa Business Fund has invested in Mtanga Farms, an agricultural company in Tanzania with production encompassing meat, seed potatoes, and soy beans.

Both FIPA and Fanisi have benefitted from external expertise provided by Norfund to professionalize investment procedures.

EARLY ENGAGEMENT IN FRAGILE STATES

In 2012, Norfund was active in two fragile states: South Sudan and Myanmar. Both countries have considerable political challenges and a difficult investment climate. Still, positive developments indicate that early engagement will prove profitable over the long term. To succeed in fragile states we are dependent on a flexible toolbox and on close collaboration and alignment with our embassies and with overall development assistance efforts.

In 2011, Norfund financed its first two projects in South Sudan with Grant Facility funds. These were Kinyeti Capital, an investment company for SMEs, and development of the the Fula Rapids hydropower station. In 2012, the Grant Facility financed a pre-feasibility study of potential for small scale hydropower in Myanmar.

- Investment capital of NOK 4.3 million was committed to Kinyeti Capital, alongside grant funding for running operations. Kinyeti has committed investments to three small companies, and funds were disbursed to two of these in 2012.
- The Ministry of Foreign Affairs and the Norwegian embassy in Juba have supported our work in the Fula Rapids with approximately NOK 10 million, in addition to the NOK 2.4 million grant funding from Norfund. Despite demanding conditions and challenges, progress in Fula Rapids has been good in 2012.
- In Myanmar, Norfund's additionality is particularly clear. In 2011, we initiated scoping work with the view of identifying potential partners, and this work made good progress in 2012. Grant Facility funding is used for a local consultant to assist on the ground, and we expect to make our first investment in 2013. The Ministry of Foreign Affairs is supporting the work with funding of NOK 3.5 million.
- The study on smallscale hydropower in Myanmar could represent relevant input to future decision making and potential investments in the future.

SMALL ENTERPRISE LOAN FACILITY

The Small Enterprise Loan Facility was established to support Norwegian SMEs seeking business opportunities in developing countries. Since its establishment, relatively few projects have been financed, yet demand has steadily increased, demonstrating continued interest and need in Norwegian business community for this type of debt facility. Two new loans were approved in 2012:

- Great Lakes Agriculture Development (GLAD) owns two maize farms in the productive yet undeveloped farmland of Uganda. The loan amounts to NOK 3.4 million
- Nica Forestal established teak plantations in Nicaragua while seeking to be certified for issuing carbon credits. The loan amount is NOK 1.8 million.

The total portfolio is NOK 12 million. The high risk threshold for the Facility enables Norfund to contribute to small companies in their international ventures. Yet high risk profile also exposes our capital. Going forward it will be important to continue to fine-tune the balance between risk and financial viability.

Overview of all Norfund's investments

* Norfund has granted loans through the EFP co-financing scheme to 11 enterprices (domicile in brackets):Olkaria III (Caymen Island), Cement du Sahel(Senegal), Care Works (Mauritius), Precision Air (Tanzania), Equity Bank (Kenya), Maputo Hospital (Mosabique), Milicom, Rabai Power (Kenya), Zambeef (Zambia), African Foundries Limited (Nigeria) og PTA Bank (Kenya). EFP is subject to the jursidiction of Luxemburg.

Table 9 - NORFUND'S INVESTMENTS AS OF 31.12.2012*

Investment	Country/region	Vintage	Investment area	Sector	Investment instrument	Investment currency	Norfund owner share	Domicile	Committed amount MNOK
ACAF	Latin America	2002	SME Funds	Industry	Fund	USD	27.5 %	Mauritius	28.2
Africa Health Fund (Aureos)	Africa	2011	SME Funds	Health	Fund	USD	9.5 %	South Africa	56.6
Africado Ltd.	Tanzania	2009	Industrial Partnerships	Agriculture	Equity and loan	EUR	40.0 %	Mauritius	20.7
African Banking Corporation Zambia	Zambia	2011	Financial Institutions	Banking	Loan	USD		Zambia	23.6
AfriCap Microfinance Investment C	Africa	2007	Financial Institutions	Micro-credit	Fund	USD	7.1 %	Mauritius	16.3
Afrinord Hotel Investments	Africa	2005	Industrial Partnerships	Tourism	Equity and Mezzanine	EUR	20.0 %	Denmark	45.2
Agrica	Tanzania	2010	Industrial Partnerships	Agriculture	Equity	USD	23.8 %	Guernsey	60.8
Agri-Vie	Africa	2010	SME Funds	Agriculture	Fund	ZAR	9.4 %	South Africa	56.9
Agua Imara	Africa and Latin Amerika	2008	Renewable Energy	Energy	Equity and guarantee	USD	19.0 %	Norway	176.2
Alios Finance Tanzania Ltd	Tanzania	2012	Financial Institutions	Financial services	Loan	USD		Tanzania	27.8
AMSCO	Africa	2001	Industrial Partnerships	Financial services	Equity	EUR	4.8 %	Netherlands	1.8
Angola Capital Partners LLC	Africa	2009	SME Funds	Investment Funds	Fund	USD	50.0 %	Delaware	1.4
APIDC Biotech Fund	Asia	2005	SME Funds	Biotech	Fund	USD	7.7 %	Mauritius	16.4
Aureos Africa Fund	Africa	2008	SME Funds	Industry	Fund	USD	10.5 %	Mauritius	227.1
Aureos CA Growth Fund (EMERGE)	Latin America	2006	SME Funds	Industry	Fund	USD	14.3 %	Mauritius	17.9
Aureos East Africa Fund	Africa	2003	SME Funds	Industry	Fund	USD	20.0 %	Mauritius	19.7
Aureos Latin America Fund (ALAF)	Latin America	2007	SME Funds	Industry	Fund	USD	13.6 %	Canada, Onatario	149.7
Aureos South Asia Fund (Holdings)	Asia	2006	SME Funds	Industry	Fund	USD	23.5 %	Mauritius	101.7
Aureos South Asia Fund 1	Asia	2004	SME Funds	Industry	Fund	USD	50.0 %	Mauritius	14.6
Aureos South-East Asia Fund	Asia	2004	SME Funds	Industry	Fund	USD	28.6 %	Mauritius	41.6
Aureos South-East Asia Fund II	Asia	2010	SME Funds	Industry	Fund	USD	4.0 %	Canada, Onatario	25.5
Aureos Southern Africa Fund	Africa	2003	SME Funds	Industry	Fund	USD	25.1 %	Mauritius	36.6
Aureos West Africa Fund	Africa	2003	SME Funds	Industry	Fund	USD	26.0 %	Mauritius	33.5
Banco Terra	Mozambique	2006	Financial Institutions	Banking	Equity	MZN	32.7 %	Mozambique	96.6
Basecamp Explorer Kenya Ltd	Kenya	2010	Industrial Partnerships	Tourism	Equity and loan	NOK	40.0 %	Kenya	10.0
Bio2Watt	South Africa	2012	Renewable Energy	Energy	Loan	ZAR		South Africa	2.2
BRAC	Bangladesh	2007	Financial Institutions	Micro-credit	Loan	BDT		Bangladesh	14.3
Brac Africa Microfinance Ltd	Africa	2008	Financial Institutions	Micro-credit	Loan	USD		Cayman Islands	13.2
Brac Bank	Bangladesh	2010	Financial Institutions	Banking	Mezzanine	BDT		Bangladesh	43.1
Bugoye HPP	Uganda	2008	Renewable Energy	Energy	Equity, loan and guarantee	USD	27.5 %	Uganda	45.7
Business Partners Madagascar SME Fund	Africa	2006	SME Funds	Industry	Fund	EUR	14.1 %	Mauritius	9.5
CAIF	Latin America	1999	SME Funds	Industry	Fund	USD	4.0 %	British Virgin Islands	5.9
Cambodia-Laos Development Fund	Asia	2009	SME Funds	Industry	Fund	USD	20.3 %	Luxembourg	22.7
Capitec Bank	South Africa	2009	Financial Institutions	Banking	Loan	ZAR		South Africa	52.9
CASEIF	Latin America	2000	SME Funds	Industry	Fund	USD	31.8 %	Panama	9.1
CASEIF II	Latin America	2007	SME Funds	Industry	Fund	USD	13.8 %	Panama	21.7
Casquip Starch	Swaziland	2008	Industrial Partnerships	Agriculture	Equity and loan	SZL	24.7 %	Swaziland	43.2
Chayton Atlas Investments	Zambia	2012	Industrial Partnerships	Agriculture	Equity	USD	21.8 %	Mauritius	57.5
China Environment Fund 2004	Asia	2005	SME Funds	Environmental Technology	Fund	USD	10.0 %	Cayman Islands	9.4
CIFI	Latin America	2004	Financial Institutions	Financial services	Equity and loan	USD	9.3 %	Panama	167.5
CORECO	Latin America	2012	SME Funds	Financial services	Fund	USD	18.9 %	Delaware	56.1
Desyfin	Costa Rica	2011	Financial Institutions	Financial services	Mezzanine	USD		Costa Rica	11.5
DFCU Limited	Uganda	2004	Financial Institutions	Banking	Equity, mezzanine and loan	UGS and USD	10.0 %	Uganda	72.2
E+Co	Latin America	2009	Renewable Energy	Energy	Loan	USD		Delaware	38.0
ECP Africa Fund (Afr Infr Fnd)	Africa	1999	SME Funds	Industry	Fund	USD	1.2 %	Mauritius	0.4
Euro TechBridge	Kenya	2008	Industrial Partnerships	Information Technology	Loan	NOK		Norway	2.3
European Financing Partners SA	Africa	2006	Industrial Partnerships	Investment Funds	Equity and loan	EUR	7.6 %	Various	155.7
Evolution One Fund	Africa	2009	SME Funds	Energy	Fund	ZAR	7.2 %	South Africa	35.8

Investment	Country/region	Vintage	Investment area		Sector	Investment instrument	Investment currency	Norfund owner share	Domicile	Committed amount MNOK
EXIM Bank (Tanzania) Ltd.	Tanzania	2007	Financial Institutions		Banking	Loan	USD		Tanzania	36.1
Fanisi Venture Capital Fund	Africa	2009	SME Funds		Industry	Fund	USD	30.0 %	Luxembourg	80.4
Fanisi Venture Management Company	Africa	2009	SME Funds		Investment Funds	Equity	USD	50.0 %	Luxembourg	1.5
Ficohsa	Honduras	2012	Financial Institutions		Banking	Loan	USD		Honduras	69.6
Frontier Fund	Asia	2010	SME Funds		Industry	Fund	USD	11.3 %	Cayman Islands	79.3
Fundo de Investimento Privado-Angol	Africa	2009	SME Funds		Industry	Fund	USD	29.4 %	Luxembourg	69.6
GLAD Ltd	Uganda	2012	Industrial Partnerships		Agriculture	Loan	USD		Uganda	3.4
Green Resources	Tanzania	2009	Industrial Partnerships		Forestry	Loan and mezzanine	USD		Norway	123.5
GroFin Africa Fund	Africa	2008	SME Funds		Industry	Fund	USD	9.4 %	Mauritius	80.9
Hattha Kaksekar Ltd	Cambodia	2008	Financial Institutions		Micro-credit	Equity	USD	17.6 %	Cambodia	11.4
HEFF	Latin America	2011	Financial Institutions		Micro-credit	Fund	USD	33.0 %	Delaware	28.1
Hidro Santa Cruz	Guatemala	2011	Renewable Energy		Energy	Loan and mezzanine	USD		Guatemala	30.2
Horizon Equity Partners Fund III	Africa	2007	SME Funds		Industry	Fund	ZAR	9.0 %	South Africa	18.8
Hydel Hydropower	Kenya	2011	Renewable Energy		Energy	Loan	USD		Kenya	8.4
I&P Capital II	Africa	2007	SME Funds		Industry	Fund	EUR	13.4 %	Mauritius	25.5
Interact Climate Change Facility	Regional Asia	2010	Renewable Energy		Energy	Equity and loan	EUR	7.7 %	Luxembourg	42.9
Kabul Serena Hotel	Afghanistan	2005	Industrial Partnerships		Tourism	Equity	USD	17.1 %	Afghanistan	33.8
Kikagati HPP	Uganda	2012	Renewable Energy		Energy	Loan	USD		Uganda	0.2
Kinangop Wind Park	Kenya	2012	Renewable Energy		Energy	Loan	USD		Kenya	7.9
Kinyeti Capital Ltd	Sudan	2012	Industrial Partnerships		Financial services	Equity	USD	49.0 %	Sudan	4.3
Lafise Investment Management	Latin America	1999	SME Funds		Investment Funds	Fund	USD	20.0 %	Bahamas	0.0
Lake Turkana Wind Project	Kenya	2011	Renewable Energy		Energy	Loan	EUR		Kenya	13.6
LOCFUND	Latin America	2007	Financial Institutions		Micro-credit	Fund and loan	USD	10.0 %	Delaware	17.7
LAAD	Latin America	2004	Financial Institutions		Financial services	Loan	USD		Panama	52.8
Matanuska Africa	Mozambique	2008	Industrial Partnerships		Agriculture	Equity, mezzanine, guarantee	USD	33.0 %	Mauritius	111.7
Micro Africa Ltd	Kenya and Uganda	2011	Financial Institutions		Micro-credit	Loan	KES and UGX		Kenya	14.5
Nam Sim	Laos	2011	Renewable Energy		Energy	Loan	USD		Laos	21.4
Nica Forestal	Nicaragua	2012	Industrial Partnerships		Forestry	Loan	NOK		Norway	1.8
Nicafish	Nicaragua	2005	Industrial Partnerships		Fishing & Aquaculture	Loan	USD		Nicaragua	4.3
NMI Frontier Fund	Regional Africa	2008	Financial Institutions		Micro-credit	Fund	NOK	45.0 %	Norway	108.0
NMI Global Fund	Global	2008	Financial Institutions		Micro-credit	Fund	NOK	45.0 %	Norway	162.0
NMI Portfolio Manager AS	Global	2008	Financial Institutions		Micro-credit	Equity	NOK	50.0 %	Norway	30.0
Norsad	Africa	2011	Financial Institutions		Financial services	Equity	USD	11.0 %	Botswana	51.8
Nsongezi Hydropower Project	Uganda	2010	Renewable Energy		Energy	Loan	USD		Uganda	2.8
ODEF	Honduras	2012	Financial Institutions		Micro-credit	Loan	USD		Honduras	16.9
Pride Architects	Uganda	2010	Industrial Partnerships		Other Services	Loan	NOK		Norway	2.0
Prospero	Latin America	2011	Financial Institutions		Micro-credit	Fund	USD	21.7 %	Cayman Islands	27.9
Real People Investment PTY	South Africa	2009	Financial Institutions		Micro-credit	Equity and Mezzanine	ZAR	18.0 %	South Africa	311.1
Sacombank	Vietnam	2011	Financial Institutions		Banking	Loan	USD		Vietnam	139.0
Sacombank Leasing Limited	Vietnam	2011	Financial Institutions		Leasing	Loan	USD		Vietnam	27.5
Safa Marine Industries Ltd	India	2003	Industrial Partnerships		Other Manufacturing	Loan	EUR		India	0.5
Sathapana	Cambodia	2011	Financial Institutions		Micro-credit	Loan	USD		Cambodia	27.6
Scanwater AS	Uganda	2009	Industrial Partnerships		Construction	Loan	NOK		Norway	2.5
Scatec Solar SA	South Africa	2012	Renewable Energy		Energy	Equity	ZAR	35.0 %	South Africa	80.4
SEAF Blue Waters Growth Fund	Asia	2008	SME Funds		Industry	Fund	USD	20.0 %	Cayman Islands	28.8
SEAF Sichuan Small Investment Fund	Asia	2000	SME Funds		Industry	Fund	USD	13.3 %	Delaware	11.2
SNPI	Nepal,Inida, Sri Lanka, Phillipines, Chile, Peru, Brazil	2002	Renewable Energy		Energy	Equity	USD	40.0 %	Norway	3.613.1
Socremo	Mozambique	2009	Financial Institutions		Micro-credit	Equity	MZN	35.6 %	Mozambique	24.5
Solidus Investment Fund S.A.	Latin America	2005	Financial Institutions		Micro-credit	Fund	USD	6.3 %	Panama	9.0
Techcombank	Vietnam	2011	Financial Institutions		Banking	Loan	USD		Vietnam	87.1
The Currency Exchange (TCX)	Global	2007	Financial Institutions		Financial Services	Fund	USD	2.4 %	Netherlands	55.0
TMP (Telecom Management Partner)	Namibia	2008	Industrial Partnerships		Communications	Equity	USD	43.4 %	Mauritius	26.3
ToughStuff	Africa	2011	Renewable Energy		Energy	Equity	USD	24.0 %	Jersey	31.4
TPS Dar es Salaam	Tanzania	2011	Industrial Partnerships		Tourism	Equity and loan	USD	28.5 %	Kenya	55.6
TPS Pakistan	Pakistan	2007	Industrial Partnerships		Tourism	Equity	USD	4.7 %	Pakistan	21.2
TPS Rwanda	Rwanda	2010	Industrial Partnerships		Tourism	Equity and loan	RWF and USD	11.4 %	Rwnda	27.5
Vantage Mezzanine Fund II	Africa	2011	SME Funds		Industry	Fund	ZAR	5.4 %	South Africa	68.0
Voxtra East Africa Agribusiness Ini	Africa	2011	SME Funds		Agriculture	Fund	NOK	35.0 %	Norway	22.7
Yara fertiliser terminal Dar	Tanzania	2012	Industrial Partnerships		Manufacture of chemicals and chemical products	Loan	USD		Tanzania	33.4

Norfund on the web

For more information about Norfund and the investments, see www.norfund.no

Norfund

Norfunds head office, Oslo, Norway

Postal adress:
P.O. Box 1280 Vika
NO-0111 Oslo,
Visiting adress:
Støperigata 2
Oslo, Norge
Phone: +47 22 01 93 93
Fax: +47 22 01 93 94
E-mail: post@norfund.no

Norfunds office in San José, Costa Rica

Postal adress:
P.O. Box 5848-1000
San José, Costa Rica
Visiting adress:
Escazu Corporate Center
Costado Sur, Multiplaza Escazu
San José, Costa Rica
Phone: +506 2201 9292
Fax: +506 2201 5028

Norfunds office in Johannesburg, South-Africa

Postal adress:
Postnet Suite 411, Private Bag X153,
Bryanston 2021, Johannesburg,
South Africa
Visiting adress:
1016 Oakhill, Fourways Golf Park,
Roos Street,Fourways 2055,
Johannesburg, South Africa
Phone: +27 11 467 4070
Fax: +27 11 467 4079

Norfunds office in Nairobi, Kenya

Postal adress:
P. O. Box: 66162-00800,
Nairobi, Kenya
Visiting adress:
4th Floor Arlington Block,
14 Riverside Drive, Nairobi, Kenya
Phone: +254 (724) 256 947

Norfunds office in Maputo, Mozambique

Adresse:
Rua Joseph Ki-Zerbo
n.° 253 Maputo
Mosambik
Phone: +258 214 949 62/5

Norfunds office in Bangkok, Thailand

Postal adress:
Level 33 Interchange 21
Suite 3358
399 Sukhumvit Road
North Klongtoey, Wattana
Bangkok 10110,
Thailand
Phone: +662 660 3840-1
Fax: +662 660 3881

www.norfund.no