



Annual
report
2021

Board of Directors' report

Following the global economic downturn in the wake of the COVID-19 pandemic in 2020, the world economy rebounded in 2021 with GDP growth of 5.5 per cent^[1] and strong growth in foreign direct investment. The upturn is expected to be of limited duration, however, and it will be many years before developing countries, particularly the poorest ones, again reach their income levels prior to the outbreak of the pandemic. The differences within and across countries are wide and have increased. Low-income groups have been disproportionately impacted, and the pandemic has inflicted extreme poverty on large groups, also in medium-income countries where extreme poverty was virtually eradicated prior to the outbreak of the pandemic. Investment is important for employment and economic growth, but in 2021 only 1.7 per cent^[2] of global direct investment found its way to the least developed countries (LDCs). Increased poverty and an inequitable distribution of global investment heightens the need for Norfund's activity. Norfund's exit from SN Power, which was announced in 2020, was completed in 2021 and released capital for new investments. This, coupled with annual allocation of capital from the Norwegian government, puts Norfund in a position to maintain a high level of investment in the years ahead. In 2021 the Fund increased its investment in developing countries by 10 per cent, to a record-high NOK 5.3 billion. Clean Energy was the largest investment area, with NOK 2.7 billion in new investments.

1. About Norfund

1.1 Norfund's mandate and strategy

Norfund was founded in 1997 as Norway's key instrument for promoting investment in developing countries. The Fund's mission is to share risk with commercial actors by investing in challenging markets. The Fund's mandate is to contribute to the development of sustainable business and industry in developing countries by providing equity and other risk capital and furnishing loans and guarantees. The aim is to establish viable, profitable activities that would not otherwise be initiated because of the high risk involved.

Norfund has four investment areas, the largest being *Clean Energy*. The next largest is *Financial Institutions*, which invests in banks, microfinance, insurance and other financial institutions. *Scalable Enterprises* covers investment in the agricultural value chain, manufacturing industry and funds. The area *Green Infrastructure* covers investment in water supply and waste management. Each of the four investment areas has ambitions that contribute directly and in a measurable way to the achievement of the UN Sustainable Development Goals.

Norfund prioritises investing in Least Developed Countries (LDCs) and Sub-Saharan Africa. Investment in LDCs accounted for 40 per cent of the portfolio at the end of 2021, while investment in Sub-Saharan Africa accounted for 65 per cent of the portfolio. The Fund is primarily an equity investor. Equity investment accounted for 75 per cent of the portfolio at the end of the year. Norfund's portfolio is thus well within the key indicators set by the Board, which stipulate that at least 33 per cent of the portfolio must be in LDCs and 50 per cent must be in Sub-Saharan Africa.

With effect from 2022, Norfund has been commissioned to manage the new Climate Investment Fund, which is to provide risk management capital for investment in renewable energy in developing countries, as decided by the Storting in its consideration of the budget for 2022. NOK 1 billion was appropriated over the central government budget for 2022. The fund is to be built up to NOK 10 billion over a five-year period, with Norfund financing half from its surplus and the government contributing the other half in the form of annual grants. Under this new mandate, Norfund will further increase its investment in renewable energy, largely in medium-income countries where there is a considerable potential for supplanting investment in coal power.

^[1] Source: World Bank, Global Economic Prospects, January 2022. Washington, DC

^[2] Source: UNCTAD, Global Investment Trends Monitor, No. 40

1.2 Financing

Norfund is financed through annual capital allocations from the Norwegian government and the surplus generated by its investment activities. In 2021, government allocations amounted to NOK 1,678.2 million. Norfund was allocated an additional NOK 32 million for its Business Support Programme. As of 31 December 2021, Norfund's committed portfolio amounted to NOK 26.9 billion. The return in the form of interest and return on investment, repayment of loans and realisation of earlier investments makes up a growing share of the Fund's available investment capital and enables Norfund to increase the volume of its investment and contribute to even stronger development effects going forward.

1.3 Additionality and development effects

Additionality is a key part of Norfund's mandate. The Fund invests in markets and activities characterised by high risk and lack of capital. The Fund is financially additional in that it supplies capital that businesses would otherwise have difficulty securing because of a shortage of capital and high risk. In terms of value, the Fund is additional in that it adds value over and above the value of the capital through active ownership, promoting environmental and social standards, and business improvements. The Fund must always be a minority investor and thereby also contribute to mobilising capital from other investors, both in Norway and worldwide. Norfund's additionality ambitions for the individual investments are registered and reported to the OECD Development Assistance Committee.

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

Norfund's investments contribute directly to the attainment of the UN Sustainable

Development Goals – particularly the goals of eradication of poverty, sustainable growth and job creation, equal opportunities, access to energy, industry, innovation and infrastructure, and climate action. The development effects of the investments in the form of jobs, increased access to energy, avoided greenhouse gas emissions, credits for companies and microfinance clients etc. are measured annually and the results presented in the 2021 Report on Operations. In 2021, Norfund also estimated the indirect effects of investments for the first time.

1.4 Developments in Norfund's markets

The global economy and Norfund's markets were severely impacted by the economic downturn caused by the COVID-19 pandemic in 2020. In 2021 GDP rose again in a number of economies, but at very different paces. Norfund invests mainly in three areas: Sub-Saharan Africa, Central America and South and South-East Asia.

Sub-Saharan Africa: The World Bank estimates that following a fall of 2.2 per cent in 2020, GDP growth in Sub-Saharan Africa was 3.5 per cent in 2021, and that the growth rate will increase somewhat going forward. GDP per capita increased by 0.8 per cent in 2021, but per capita incomes in some countries, including Angola, Nigeria and South Africa, have fallen in 2022 and are now at a lower level than they were ten years ago. Other countries have not been so hard hit and have maintained or increased their per capita income levels. In general, economic activity picked up somewhat more than expected in 2021, partly driven by increased export revenue as a consequence of higher commodity prices worldwide. The largest economy in the region, Nigeria, had a relatively weak growth rate of 2.4 per cent in 2021 as a consequence of falling petroleum production and low investment levels, while the next largest, South Africa, reported considerably stronger growth of 4.6 per cent, driven by stronger developments in the mining, manufacturing and service sectors.

Increasing social unrest in a number of countries contributed to weak economic growth, including in some West African countries and in Ethiopia, where developments have been particularly challenging. A number of countries in both West and East Africa, including Senegal, the Ivory Coast, Ghana, Kenya, Tanzania and Rwanda have seen growth rates well over the average for Sub-Saharan Africa. However, some sectors, such as tourism, are still hard hit by the pandemic. High commodity prices, a gradual upswing in tourism and higher vaccination figures are expected to lead to stronger growth in

Sub-Saharan Africa. The World Bank forecasts average growth rates of 3.6–3.8 per cent annually in 2022 and 2023. Social unrest and weak investment may constrain growth in a number of countries, however.

Central America: The countries in the region had average GDP growth of 7.1 per cent in 2021, after a somewhat larger decline the previous year. Of Norfund's investment countries, Panama, Honduras and Nicaragua were hard hit in 2020. Despite the upturn in 2021 and expected continued growth in 2022, several countries will still have a lower income level than before the pandemic. Others, such as the Dominican Republic, Guatemala and El Salvador had growth rates of 7.5–11 per cent in 2021, and expect continued growth. Higher vaccination rates, strong consumer demand and public investment are expected to contribute to relatively strong economic development in the region. The World Bank expects growth rates of from 3 to 5 per cent in 2022 and 2023 in the majority of Norfund's core countries in the region.

South and South-East Asia: There are large differences between Norfund's core countries in the region. Bangladesh got through the pandemic with a growth rate of 3.5 per cent in the crisis year of 2020 and 5 per cent in 2021, and with expectations that growth will continue to gather pace. Vietnam also reported strongly positive figures through the pandemic relative to other countries in the region. The pandemic did lead to lower growth rates for both countries than before the outbreak of the pandemic. Cambodia and Laos were hard hit, and with GDP growth of 2.2 per cent, their economic development in 2021 was also weak compared with other countries in the region. Myanmar's economy was severely impacted by the military takeover in February 2021. GDP fell by 18 per cent, and the situation going forward is very uncertain. The World Bank expects growth rates of from 5 to 8 per cent in 2022 and 2023 in Norfund's core countries in the region, with the exception of Myanmar.

2. Investments and results in 2021

2.2 Investments in 2021

Norfund's investment level in 2021 was historically high in terms of both the total committed amount of NOK 5.3 billion and the number of investments. Investments were broadly distributed within Norfund's investment areas, with Clean Energy accounting for the largest portion, at NOK 2.7 billion. Investment in Financial Institutions amounted

to NOK 1.2 billion and NOK 1 billion was invested in Scalable Enterprises through funds. Direct investment in Scalable Enterprises in manufacturing and the agricultural value chain amounted to NOK 342 million, and the Fund made its first investment of NOK 17 million in Green Infrastructure. In 2021, investment in the least developed countries (LDCs) accounted for 23 per cent of new investment agreements.

2.2 Review of the financial statements

The financial statements for 2021 show a record high after-tax result of NOK 5 815 billion. The main reason for the high result is that the gain on sale of SN Power was recorded in 2021, boosting the result by NOK 4.8 billion. In addition, Norfund received a dividend of NOK 799 million from the company. In 2020 Norfund entered into an agreement to sell SN Power to Scatec Solar. The purchase price for the shares was USD 966 million in cash and USD 200 million in seller credit. The agreement was signed in 2020, and the financial risk was transferred to Scatec with effect from 31.12.2020, but the settlement and transfer of shares took place in January 2021, and both are therefore recorded in 2021. The freed-up capital is being reinvested in new projects. Surplus liquidity is being invested temporarily as a combination of loans to banks in the Fund's markets, development bank bonds, financial institutions and companies focusing on sustainability, and deposits in banks in Norway and in banks with exposure to Norfund's markets.

In general, a number of companies in the portfolio have shown positive development through the year, and have rebounded after relatively large write-downs and negative developments in value as a consequence of COVID-19 in 2020. As a result of the coup in Myanmar and current situation in the country, the values of all investments in Myanmar have been written down by 50 per cent on average. In all, Norfund had net write-downs in 2021 of NOK 230 million, with NOK 167 million due to the write-downs in Myanmar.

In 2021, Norfund's portfolio delivered an estimated return, measured as IRR, of 1.5 per cent measured in the investment currency and 3.8 per cent measured in NOK. Since its inception, the portfolio has had an IRR of 4.9 per cent measured in investment currencies and 7.4 per cent measured in NOK. The profitability of the portfolio was in line with expectations. The after-effects of the COVID crisis and the commodity crisis are likely to have a negative impact on results in the years ahead.

Last year overall labour costs rose by 17 per cent, to NOK 158.1 million, after substantial

strengthening of both the administration and the investment departments. This also means increases in the other cost areas, but on balance within the expectations for 2021. A substantial part of Norfund's project development costs for hydropower projects were previously associated with the subsidiary SN Power. Following the exit from SN Power, these costs will have to be assumed directly by Norfund.

Norfund's overall balance at the end of 2021 was NOK 32.5 billion, an increase of NOK 7.5 billion on 31.12.2020. The allocation from Owner in 2021 was NOK 1.68 billion, and earnings added to earned equity amounted to NOK 5.82 billion. As of 31.12.2021 the net asset value, based on the estimated market value of Norfund's portfolio, was NOK 34.7 billion. A total reconciliation of the recorded investment portfolio as of 31.12.2021 detected historical errors totalling NOK 161 million on the balance sheet. The error was classified as an extraordinary write-down in 2021.

At the end of 2021, Norfund had outstanding, unpaid commitments totalling NOK 7 123 billion. Cash holdings at the same time were NOK 4.3 billion, in addition to current assets of NOK 6.1 million. The Board regards liquidity as sound and confirms that the going concern assumption applies. In the opinion of the Board of Directors, the financial statements for 2021 provide a true and fair view of Norfund's financial position.

3. Organisation, environment and corporate social responsibility

3.1 Corporate governance

The General Meeting is Norfund's supreme body. Corporate governance is exercised through decisions taken by the General Meeting, including the adoption of Articles of Association. In 2021 the General Meeting passed a resolution to change Norfund's Articles of Association in order to align Norfund with the rules regarding salaries for senior employees in the Public Limited Liability Companies Act. The Norwegian Ministry of Foreign Affairs receives quarterly reports, and regular meetings are held through the year. Norfund's Board of Directors is elected by the General Meeting, two members are elected by and from among the Fund's employees. The Board consists of nine members. In 2021, the Board held a total of nine Board meetings, of which one was an extraordinary meeting. In addition, because of the COVID-19 restrictions, the Board conducted a virtual tour to meet a selection of Norfund's investments and partners. New and updated rules of procedure for the Board and for the CEO were also adopted by the

Board in 2021. Norfund has subscribed to Directors and Officers Liability Insurance with AIG.

Norfund has a framework of governing documents ranging from acts and statutes, via guidelines for important areas, to procedures for the conduct and follow-up of investment activities. The structure is geared to Norfund's activities. It is constantly evolving, and makes measurement and verification possible. The Investment Committee considers investment proposals and contributes to quality assurance. The committee consists of eight persons, two of whom are external. As a consequence of increased investment activity, the Board decided in 2021 to establish a dedicated Credit Committee, and to increase the decision-making limits of both committees. The Credit Committee considers and approves loans to financial institutions and consists of five members, one of them an external member with relevant expertise. Both committees are authorised to approve individual investments of between USD 4 million and USD 20 million. Both committees must also submit their recommendations for investments of over USD 20 million, but it is the Board that approves them. Investments of less than USD 4 million are considered and approved by the administration.

3.2 Risk management and internal control

In recent years the Board and administration have launched several initiatives to strengthen risk management work in Norfund. The Fund has prioritised data security, but other areas of Norfund have also been strengthened in terms of risk management and internal control.

Norfund as an institution normally takes more risk than commercial investors. This is a necessity for being able to create jobs and reduce poverty in the world's least developed countries. Norfund's mandate nonetheless entails various risk aspects that it is important to understand how to identify, manage and report.

In recent years the Board, Risk and Audit Committee and administration of Norfund have been implementing a comprehensive framework for identifying and monitoring the company's relevant risk categories, and the results of semi-annual reviews of these activities are reported to the Board. In 2021, Norfund adopted a document that describes the Fund's appetite for risk. The document defines both the risks Norfund should and is willing to take, and the area in which efforts are made to minimise risk through risk-mitigating measures. The document is published on Norfund's website.

The risk spectrum Norfund has to manage includes country, exchange and market risk, but also risk associated with choosing the right countries and management teams. The environmental and social risk factors of the companies in which investment takes place must be managed. Risk is reduced by measures like local presence through Norfund's regional offices, market insight and holding a diversified portfolio.

In 2021 Norfund developed a country risk tool which assists the investment departments in identifying the risk factors in a particular country on the basis of external sources, and the tool also provides information about Norfund's exposure, broken down according to the risk classifications of the different countries.

As a consequence of the exit from SN Power, Norfund now has a more diversified portfolio than previously, as the Fund had relatively high exposure to the Philippines as a country, and to hydropower as a technology. At the end of 2021, Norfund's highest exposure was to Kenya, and accounted for 10.1 per cent of total committed capital, followed by Uganda with 8 per cent of the total portfolio. The Fund's exposure to these countries is distributed among a number of investments across all investment areas. At the end of 2021, the highest exposure to an individual company accounted for 10.5 per cent of the total portfolio, and the next highest 8.7 per cent. Both the companies in question, which are the platform companies Arise and Globeleq, are diversified into a number of different investments in several countries.

Norfund has zero tolerance for corruption, and seeks to minimise risk through sound, effective processes. Any suspicion of corruption demands an immediate response and reporting.

The Board's risk management work is supported by the Risk and Audit Committee and the Fund's external internal auditor, which is the assurance company EY. Annual internal audit plans are approved by the Board using a risk-based approach. In 2021 four audits were conducted in the following areas: overarching management principles, financial control, information security and business integrity. In 2022 data security will also be covered by external internal audit, and parts of the investment process will be reviewed by the internal auditor in light of the fact that Norfund's investment manual was reviewed and updated in 2021.

3.3 Personnel, organisation and gender equality

As both the annual investment level and the Fund's total portfolio are growing, it was necessary to strengthen several parts of the organisation also in 2021. Norfund has conducted targeted recruitment to boost the organisation's ability to deliver on the Fund's strategy, and there is ongoing work on building skills and on internal employee development programmes. The internal training platform Norfund Academy underwent further development through the year, and the Fund placed special emphasis on skills building in the area of environmental and social responsibility and a corporate review in connection with the implementation of a new environmental and social management system (ESMS). Norfund arranged a “business integrity” week for all employees in 2021 for the first time. It included sessions with external and internal specialists who shared their experiences in the course of the week.

In 2021 Norfund's staff consisted of 106 full-time equivalents. As of 31 December 2021 there were 119 employees, 52 of them with a background from countries other than Norway. Twenty-four different nationalities are represented. Norfund currently has five regional offices, in Accra, Cape Town and Nairobi in Africa, Bangkok in Asia and San José in Central America. In 2021, 36 of the employees were working at regional offices. Where possible, personnel for regional offices are recruited from the countries in which Norfund is investing.

Norfund has guidelines for recruitment, competencies and gender equality and procedures for employee follow-up and remuneration. Diversity and equal opportunities are important, both in the organisation itself and in the companies in which Norfund invests. Further information is provided in the Gender Position Paper and in the Annual Report on Operations, both available on Norfund's website. In an international operation like Norfund, diversity of gender, nationality, age, background and competencies is vital for ensuring that the company makes sound decisions.

All employees gather annually for the Norfund Week, for updating on strategy, status and plans, and for training and discussions on important and relevant topics. One of the main events in Norfund Week 2021 was a session on the freedom of expression climate, which is very important for increasing understanding of different personalities, cultures and problem-solving methods in an international enterprise such as Norfund.

In recent years Norfund has hired more young employees than previously, and the

average age in the company is falling. The share of women in the organisation remains steady at 52 per cent. On the Fund's investment side there is a smaller share of women than men, especially in senior positions. With a view to changing this situation over time, the Fund is seeking both to attract more women to these job categories, but also to retain and develop younger employees. In 2021, Norfund hired 24 new employees, 50 per cent of them women. Seventeen positions were announced through Norfund's internal systems, and 33 per cent of the applicants for these jobs were women. The internal network "Young Norfund" was launched in 2021 to work with relevant topics such as self-leadership, network building and professional development. The forum was also a sparring partner with the management in connection with the question of how Norfund should work after the COVID-19 pandemic.

In 2021 Norfund also continued the Norfund internship programme, which was established in 2019, and five students/newly qualified persons were engaged in different departments to enhance diversity, profile Norfund as an attractive workplace, and challenge managers and other company employees. Among other things, this involved a reverse mentor scheme, with the interns mentoring members of the management group. The interns also carried out a project to see how Norfund can be more sustainable internally.

At the 2021 annual wage settlement, Norfund placed special emphasis on levelling any differences in pay for comparable positions. An external review has previously been performed to classify the various positions in the investment departments into job categories, and in 2021 the same was done for staff functions. As a result, salary per job category can now be compared across the organisation. The review that was conducted did not reveal systematic differences between the genders, but some adjustments were made to level differences at the same position level.

Table 1 Gender balance in different job categories

Norfund	Women	Men
Board of Directors	56%	44%
Management team	43%	57%
Head of regional office	40%	60%
New employees	50%	50%

In 2021, working from home was again a requirement for much of the year, and despite difficult working conditions and travel restrictions the Fund delivered a record-high level of investment commitments for the second consecutive year, and the portfolio showed positive developments. The Board was impressed to see the employees' teamwork on digital platforms, and how the management, employees and Social Committee managed to create both digital meeting places and social arrangements to maintain the well-being and working morale of the employees during the pandemic.

Sickness absence in 2021 amounted to 3 per cent of total working hours. This is 0.7 percentage point higher than in 2020. The Board of Directors does not find it necessary to implement any special measures relating to the working environment or designed to promote the aims of the Norwegian Anti-Discrimination Act and Anti-Discrimination and Accessibility Act.

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

Temporary employees as a percentage of all employees [3]		Parental leave, average number of weeks		Part-time as a percentage of all employees [4]	
Men	Women	Men	Women	Men	Women
3%	3%	9.4	28.1	1%	2%

^[3] Five temporary employees, three men and two women, are participating in an internship programme. In addition some resources were hired as substitutes for personnel on leave or for temporary projects/periods involving an increased amount of work.

^[4] No non-voluntary part-time

3.4. Corporate social responsibility

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

Fundamental to Norfund's climate position, adopted in 2020, is that the Fund must contribute to avoiding greenhouse gas emissions, reducing climate risk in our portfolio and promoting climate resilience in our markets. In practice this means i) increasing investment in climate-friendly solutions, in particular renewable energy, ii) excluding direct investment in fossil energy except gas-fired power where this supports an energy transition aligned with the Paris agreement, iii) surveying and managing climate risk in all new investments and iv) continuing to prioritise the least developed countries and Sub-Saharan Africa, which are expected to be hardest hit by climate change. In its work on the position, the Fund has drawn on analyses of climate-related work by other development finance institutions and investment funds, relevant guidelines and legislation (such as the Report on Diverse and Value-creating Ownership, Task Force on

Climate-related Financial Disclosures (TCFD) and Principles for Responsible Investment (PRI) and discussions with professional communities and environmental organisations. In 2021 climate risk was incorporated into Norfund's general risk framework, and it is additionally assessed at investment level. In 2020, Norfund pledged to abide by the EDFI Statement on Climate and Energy Finance, with ambitions that the investment folio should have net zero greenhouse gas emissions by 2050 and that all new investments should be in line with the goals of the Paris agreement.

As a small, knowledge-based enterprise, Norfund has limited direct environmental impact, associated largely with air travel that is necessary for business operations. Norfund has been preparing the way over time for increased use of digital meetings rather than travel, where this serves the purpose. The amount of air travel in 2021 was very limited because of travel restrictions.

Norfund works systematically with ESG throughout the investment process, applying the environmental and social standards of the International Finance Corporation (IFC). The IFC standards are tailored to Norfund's activities and special nature. Their use contributes to meeting the expectations of responsible business conduct in Meld. St. 8 (2019–2020) (*The state's direct ownership of companies*) including expectations that due diligence be performed to avoid harm to humans, society or the environment described in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGP).

Good working conditions are a fundamental objective. Norfund monitors HSE in all its investments, with a particular focus on training and compliance with HSE procedures. The investment agreements contain a requirement that serious accidents and fatalities must be reported. In 2021 Norfund regrettably experienced ten deaths related to Norfund's direct investment. Four of the deaths were a result of traffic accidents. These incidents are reported to the Board, and in special cases also to the Ministry of Foreign Affairs. Norfund follows up all project-related fatalities associated with our investments to ensure that they are investigated, that safety procedures are modified if necessary, and that the next of kin receive the compensation to which they are entitled.

Norfund's ethical guidelines were reviewed in 2021 with a view to possible updating and improvement. Four cases of financial irregularities were reported in 2021 through Norfund's established systems for dealing with irregularities in its portfolio. One of these was reported further to the Ministry of Foreign Affairs.

Norfund has a clear policy on responsible tax. The guidelines were reviewed in 2021 with a view to updating and adjusting them where necessary. In connection with the review, an external investigation was conducted of Norfund's use of third party countries. The report was published and discussed with civil society representatives. The review, including the dialogue with civil society, revealed that the existing guidelines were satisfactory, but that certain operational adjustments would be appropriate with respect to investment through third countries, to increase awareness of the corporate structures used. Norfund's responsible tax guidelines describe seven principles, including a requirement of transparency, that companies in which Norfund invests must pay tax to the countries in which they have operations and in which their revenue is created, and that third countries should only be used when it is necessary for attaining the company's development goals. There was substantial investment in funds in 2021, and hence extensive use of third countries also in 2021.

Norfund decided in 2021 to take part in the international collaboration "2xChallenge", designed to promote investors' work for equal opportunities in their investment activities.

Norfund regularly engages in dialogue with different interest groups, including civil society organisations and other partners. In the course of 2021, this involved meetings on topics such as responsible tax and the use of third countries, Norfund's results and development effects.

Norfund has a special Business Support Programme funded by the Ministry of Foreign Affairs that is intended to be used to enhance the development effects of our investments, including intensifying work on the four cross-cutting issues: human rights, gender equality, anti-corruption, and health, safety and environment. For example, Norfund can provide assistance for project development, local community development, skills building and operational improvements. In 2021 seventeen projects received support from this scheme, and consisted overall of an active portfolio of 45 grant-financed projects.

The Storting has established a special project development and risk mitigation scheme which enables Norfund to make risk capital available in the most demanding markets when access to early stage risk capital is limited. The scheme has two aims: early stage project development in Norfund's priority investment areas, and risk mitigation for commercial investors who invest in Norfund-financed projects. The scheme is to be used

for projects with higher risk than the investments in Norfund's ordinary portfolio and is to be managed separately. In 2021, NOK 28.52 million was committed to two projects under this scheme.

4. Outlook for the future

The UN sustainable development goals and the climate ambitions set out in the Paris agreement provide important guidelines for development going forward. The funding gap hindering the attainment of the sustainable development goals was formidable in developing countries before the pandemic. The investment gap has now widened even more.

The economic outlook for developing countries features increased food and energy prices and uncertainty as to whether and how rapidly the countries will again reach the growth paths that were ruptured by the outbreak of the pandemic. These factors, along with uncertainty about vaccination rates, possible new virus outbreaks, fear of inflation and limited fiscal freedom of manoeuvre in many countries, imply risk for production and investment in developing countries.

An important event since balance sheet date which will also have consequences for Norfund's activities, is Russia's attack on Ukraine in February 2022. The war may create food shortages and lead to a scarcity of goods and higher prices for grain, energy, fertiliser and other important imported goods. This in turn may exacerbate balance of payments problems for many countries, with repercussions for exchange rates and companies' access to foreign exchange. The crisis may entail new challenges for companies in Norfund's portfolio, but at the same time increase the need for investing to improve the efficiency of agricultural value chains in many countries, not least Sub-Saharan Africa, a region which at the outset is a large net importer of food.

The market cannot resolve the business sector's challenges alone. Development finance institutions such as Norfund will be even more important going forward. Norfund is the Norwegian government's most important tool for private sector investment in developing countries, and therefore has a key part to play.

Norfund's strategy for 2019–2022 is ambitious, with plans for the Fund to grow – in terms of both invested capital and number of employees. Norfund has lived up to this in 2021, and aims to continue along the same path in 2022, when this strategy will be

revised for the period up to 2026. The Fund is in position to keep its level of investment high in the years ahead, but maintaining the investment level is contingent on continued annual injections of capital from the Norwegian government.

Given the new climate investment mandate in addition to its traditional development mandate, Norfund now has an even more important part to play in the work to attain the sustainable development goals. Norfund will utilise important synergies in the Fund's existing activities to fulfil its new mandate, including investment and market expertise, acquired by Norfund over time in renewable energy. The first investments under the new mandate will take place in 2022 already. The Fund must anticipate some costs in connection with the administration of the climate investment mandate. The new mandate will enable Norfund to strengthen its presence in investment in renewable energy in coal-intensive medium-income countries. At the same time it will maintain a high level of investment in LDCs, Sub-Saharan Africa and sectors where the development effects are especially high, including in the value chains associated with agriculture and fish farming.

The Board regards Norfund as well equipped to deliver on the goals that have been set, and thanks the management and employees for their work in a demanding year. Norfund will continue to make an important contribution to the success of an ambitious development policy and contribute to creating jobs and improved living conditions in the developing countries of the world.

Oslo, 29 March 2022

Olaug Johanne Svarva, Chair

Vibeke Hammer Madsen	Tove Stuhr Sjøblom
Brit Kristin Sæbø Rugland	Martin Skancke
Vidar Helgesen Finn Marum Jebsen	
Karoline Teien Blystad	Lasse David Nergaard

Income Statement

Income Statement			
Figures in 1000s of NOK	Note	2021	2020
Interest income loans	2	297 674	322 143
Realised gains	2	4 794 267	0
Dividends received	2	878 634	597 585
Other operating income	2	21 265	22 067
Total operating income		5 991 841	941 795
Operating expenses			
Payroll expenses	8	158 142	135 273
Depreciation fixed assets	8	2 767	2 331
Other operating expenses	5/6	111 086	80 095
Total operating expenses prior to exchange rate adjustment of loans and write-downs, investment projects			
Investment projects		271 994	217 699
Adjustment for gain/loss on FX, project loans	2	198 299	-243 243
Write-down investment projects (-) / reversals (+)	2	-390 365	-717 923
Profit/loss on operations		5 527 781	-237 070
Net financial items	7	295 171	115 298
Profit/loss before tax		5 822 952	-121 772
Taxes	10	-7 655	-6 389
Profit/loss for the year		5 815 297	-128 161
Allocations			
Transferred to / from surplus fund	12	5 815 297	-128 161
Total allocations		5 815 297	-128 161

Balance

Balance Sheet			
Figures in 1000s of NOK	Note	2021	2020
Assets			
Non-current assets			
Fixed assets			
Equipment and vehicles, fittings and fixtures etc.	8	8 132	7 976
Total fixed assets		8 132	7 976
Financial fixed assets			
Pension plan assets	5	24 242	21 620
Total financial fixed assets		24 242	21 620
Total non-current assets		32 374	29 596
Current assets			
Receivables			
Other receivables	9	3 527 783	227 576
Total receivables		3 527 783	227 576
Investments			
Capitalised project development costs		8 717	8 650
Loans to investment projects	2/3	4 803 865	4 546 618
Investments in equities and funds	2/3	11 906 383	16 423 502
Other current investments	11	7 996 748	884 675
Total investments		24 715 713	21 863 444
Bank deposits, cash and cash equivalents			
Bank deposits, cash and cash equivalents	11	4 237 965	2 897 203
Total bank deposits		4 237 965	2 897 203
Total current assets		32 481 462	24 988 224

Balance Sheet			
Figures in 1000s of NOK	Note	2021	2020
Total assets		32 513 835	25 017 820

Balance Sheet			
Figures in 1000s of NOK	Note	2021	2020
Equity and liabilities			
Equity			
Called and fully paid capital			
Primary capital	12	15 813 989	14 574 125
Reserve capital	12	5 464 214	5 025 926
Total called and fully paid capital		21 278 203	19 600 051
Retained earnings			
Surplus fund	12	10 861 015	5 060 694
Total retained earnings		10 861 015	5 060 694
Total equity		32 139 218	24 660 745
Liabilities			
Provision for obligations and charges			
Pension obligations	5	72 109	58 074
Total provision for liabilities		72 109	58 074
Current liabilities			
Accounts payable		11 753	5 520
Unpaid government charges and special taxes		11 538	9 963
Grants from the Ministry of Foreign Affairs	13	160 306	158 837
Other current liabilities	15	118 912	124 952
Total current liabilities		302 509	299 000
Total liabilities		374 617	357 074
Total equity and liabilities		32 513 835	25 017 820

Figures in 1000s of NOK.

Cashflow Statement

Figures in 1000s of NOK

Cash flows from operations	Note	2021	2020
Profit before tax		5 822 952	-121 772
Taxes paid		-7 655	-6 389
Ordinary depreciation	8	2 767	2 331
Gain/loss (-) on sales		-4 794 267	181 251
Reversal of write-down (-) / Write-down investment projects		390 365	496 105
Differences in pension costs and receipts/disbursements, pension plan		121	1 834
Effect of exchange rate changes		-220 016	157 828
Investments in tangible fixed assets	8	-2 456	-2 179
Change in other accruals	9	-3 299 321	197 604
Disbursements of grant capital	13	-29 393	-22 758
Net cash flow from operations		-2 136 904	883 856
Cash flows from investment activities			
Proceeds of sales/reflows from shares/holdings recorded at historical cost		12 160 721	122 032
Disbursements in connection with acquisition of shares/interests in other enterprises		-3 098 611	-1 957 019
Disbursements of investment loans		-1 389 654	-1 785 976
Receipts - repayment of principal, investment loans		1 207 133	941 407
Changes current investments	11	-7 112 074	-1 141
Net cash flow from investments		1 767 515	-2 680 697
Cash flows from financing activities			
Receipt of grant resources carried as current liabilities	13	32 000	50 000
Increase in/repayment of equity	12	1 678 152	1 820 000

Figures in 1000s of NOK

Cash flows from operations

	Note	2021	2020
Net cash flow from financing activities		1 710 152	1 870 000
Net change in cash and cash equivalents		1 340 762	73 159
Bank deposits, cash and cash equivalents at 01.01		2 897 203	2 824 044
Bank deposits, cash and cash equivalents at 31.12	11	4 237 965	2 897 203

Notes

Note 1 – Accounting principles

The financial statements for Norfund consist of the following:

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

The financial statements, which are prepared by the Board of Directors and the executive management of Norfund, must be read in conjunction with the Board of Directors' report and the auditor's report.

Basic principles – assessment and classification

The financial statements are presented in compliance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles in effect at 31 December 2021. The financial statements provide a true and fair view of assets and liabilities, financial standing and profit.

The financial statements have been prepared on the basis of fundamental principles governing historical cost accounting, comparability, the going concern assumption, congruence and prudence. Transactions are recorded at their value at the time of the transaction. Revenue is recognised when it accrues and expenses are matched with the related revenue. A more detailed account of the accounting policies is provided below. When actual figures are not available at the time the accounts are closed, generally accepted accounting principles require management to make the best possible estimate for use in the income statement and the balance sheet. Actual results could differ from these estimates.

Current assets/liabilities are recorded at the lower/higher of historical cost and fair value. The definition of fair value is estimated future sales price reduced by expected sales costs. Other assets are classified as non-current assets. Non-current assets are

carried in the accounts at historical cost, with deductions for depreciation. In a portfolio such as Norfund's, with a large share of both listed and unlisted equities in markets of variable liquidity, there will always be substantial uncertainty associated with valuation. Investments are valued on the basis of available information, in accordance with the IPEV guidelines. If the estimated market value of an investment is lower than the historical cost, the investment will be subject to write-down.

Some exceptions are made to the general valuation rules, and these are commented upon in relevant notes. When applying the accounting policies and disclosure of transactions and other items, the “substance over form” rule is applied. Contingent losses that are probable and quantifiable are expensed. The segmentation is based on Norfund's internal management and reporting requirements as well as on risk and earnings. Figures are presented for geographical markets, since the geographical distribution of activities is of material importance to the users of the financial statements.

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

Principles for revenue recognition

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

Gains on sales of shares/ownership interests in other companies are recognised in the year in which the sale takes place. Changes in the value of funds are calculated for the individual fund as they arise. Receipts are recorded either as dividend or as reflow of capital and deducted from the book value.

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

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

Financial income and expenses

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

Project development expenses

Development expenses are entered on the balance sheet when it is probable that they will lead to future investments and a positive return on the investment. Determining such probabilities entails using judgement based on experience and best estimate of future developments. In view of Norfund's investment strategy and geographical investment areas, there is uncertainty associated with expectations of future developments. In an early phase of project development, some costs will be expensed as they accrue.

Equity investments

Norfund treats its investments in other companies as current assets. In other words, the equity method is not used, even though Norfund's shareholdings provide it with considerable influence. This is because the aim of the institution's investments is for all or part of each investment to be exited, normally after 3–10 years. This is in accordance with Norfund's objects and with the provisions of the Norwegian Accounting Act and generally accepted accounting practice. According to generally accepted accounting practice, such investments are temporary by their very nature and should therefore be included under current assets.

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

Equity investments in companies are valued at the lower of historical cost or market value on the basis of a concrete evaluation of each investment. Individual investments are written down where this is seen to be required, according to the lowest value principle, to the lower of historical cost or assumed fair value. Norfund conducts individual valuations of all its investments. Because of the nature and volume of the investment portfolio, the management calculates estimates, makes discretionary assessments and makes assumptions that affect the book values of investments.

Estimates of fair value are calculated continuously and are based on historical experience, known information and other factors that are regarded as probable and relevant on balance sheet date.

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

When investments are exited wholly or in part, the gain/loss is calculated on the basis of the original cost in NOK. This means that realisations are a function of changes in exchange rates and the change in the value of the investment expressed in foreign currency.

By “committed investments” is meant an external future commitment for a specified amount.

Norfund often utilises various instruments – such as options, conversion options and so forth – in investment agreements in order to reduce risk. These are taken into account when valuing the individual investment.

Loans

Norfund manages two types of loans:

- loans relating to Norfund's investments and disbursed by Norfund (project loans)
- loans to enterprises in developing countries that have been taken over from NORAD (loan portfolio).

Project loans are treated as current assets.

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

In accordance with Norfund's strategy, the loan portfolio taken over from NORAD is classified as a current asset and carried in the accounts at historical cost, which is NOK 0. Receipts from the loan scheme are therefore treated on a cash basis and recorded as income.

When estimating write-down of loans, both the current and the anticipated future financial position of the client in question are considered. Key considerations when

assessing whether the client will be able to repay the loan are for example the general market situation, company-specific factors, the risk of bankruptcy and associated collateral.

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

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

Guarantees

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

Known losses

Losses as a result of insolvency, the winding-up of a company and the like, and losses on the sale of shares are recorded as known losses.

Currency items

Monetary items are carried at the exchange rate prevailing on 31 December. Unrealised foreign exchange gains/losses on loans are included in the operating result. Unrealised gains/losses on other monetary items are recorded as financial income/expenses respectively. The assessment of changes in the value of investments (see above) also includes assessing changes caused by exchange rate movements.

In 2021 Norfund hedged its bond portfolio against USD. The portfolio consists of securities denominated in both EUR and GDP as well as USD. Futures contracts are used as a hedging instrument, with daily settlements that are not recorded on the balance sheet, but entered on the income statement as they mature.

Bank deposits and other short-term investments

Liquid assets consist of bank deposits without any kind of binding.

Other current investments consist of instruments (time deposits, loans and bonds) with

a longer or shorter binding period intended for temporary investment of surplus liquidity waiting to be invested within Norfund's mandate. Interest income from these is recorded as other financial income.

Current receivables/Accounts receivable

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

Fixed assets

Tangible fixed assets are recorded at historical cost reduced by commercial depreciation based on the estimated economic life of the asset in question.

Leases

Rent paid under leases that are not recorded on the balance sheet is treated as an operating cost and allocated systematically over the whole term of the lease.

Equity

Norfund's capital is divided into primary, reserve and surplus capital. This breakdown is made on the basis of the framework conditions for Norfund's activities, which specify that the Ministry of Foreign Affairs must be notified if the institution's losses are so great that its primary capital is affected. Any net profit is added to surplus capital, while any net losses are deducted from the surplus capital or from reserve capital if the former fund is insufficient to cover the net loss.

Government grants

Norfund receives government grants that are treated in accordance with Norwegian Accounting Standard (NRS) 4. In Norfund's view, net recording of government grants received by the institution provides the best picture of the accounts.

Related parties

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

Norfund's related parties are mainly companies in which Norfund has invested, and

which it buys services from or sells services to. Norfund's investments are presented in a separate note in the accounts.

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

Deferred tax and tax expense

Norfund is exempt from tax pursuant to a separate section in the Taxation Act. In certain countries, Norfund is obliged to pay withholding tax on interest and dividends.

Cash flow statement

The cash flow statement is compiled using the indirect method.

Pension liabilities and costs

Norfund has pension plans known as defined benefit plans which entitle employees in Norway to defined future benefits. Pension liabilities are calculated on a straight-line earnings basis, taking into account assumptions regarding the number of years of employment, discount rate, future return on plan assets, future changes in pay, pensions and National Insurance benefits, and actuarial assumptions regarding mortality, voluntary retirement etc. The chosen principle is the IAS 19R option of NRS 6, with unamortised actuarial losses over equity.

Plan assets are stated at fair market value. Net pension liability comprises gross pension liability less the fair value of plan assets. Net pension liabilities from underfunded pension plans are included on the balance sheet as a provision, while net plan assets in overfunded schemes are included as long-term interest-free receivables if it is likely that the overfunding can be utilised. Employer's social security contribution is made on the basis of net plan assets.

The effect of changes in pension plans with retroactive effect not conditional on future earnings is defined as an actuarial gain or loss and charged directly to the company's equity.

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

In 2018 the company closed its defined benefit plan and introduced defined contribution plans for new employees. At the end of year, the company therefore had two different pension plans. In addition, the company has defined contribution plans for employees at regional offices outside Norway.

Estimates and uncertainties

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

Note 2 – Segment Information

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

	2021						
(Figures in 1000s of NOK)	Nofund total	Funds	Financial Institutions	Clean Energy	Green Infrastructure	Scalable Enterprises	Administration etc.
Operating income							
Interest – invested portfolio	297 674	1 125	196 332	57 949	329	41 939	0
Realised gains on shares	4 794 267	0	0	4 794 267	0	0	0
Dividends received	878 634	2 939	57 716	817 485	0	495	0
Other project revenues	21 265	9	8 810	8 757	176	1 241	2 273
Total operating income	5 991 841	4 074	262 857	5 678 458	505	43 675	2 273
Operating expenses							
Payroll expenses	-158 143	-10 424	-28 474	-29 877	-3 759	-3 759	-57 389

	2021						
	Nofund total	Funds	Financial Institutions	Clean Energy	Green Infrastructure	Scalable Enterprises	Administration etc.
Depreciation tangible fixed assets	-2 767	0	0	0	0	0	-2 767
Other operating expenses	-111 085	-2 837	-8 076	-36 419	-137	-12 561	-51 055
Allocation of shared expenses	0	-12 624	-27 962	-28 799	0	-39 438	108 824
Total operating expenses	-271 993	-25 885	-64 511	-95 095	-3 896	-80 218	-2 387
Gain/loss (-) on FX, project loans	198 299	546	110 246	69 548	18	17 941	0
Provision for (-)/reversal of (+) loss on projects	-390 365	-49 725	-293 923	-61 525	0	14 808	0
Profit/loss on operations	5 527 782	-70 990	14 668	5 591 386	-3 373	-3 794	-114
Net financial items**	295 171	-3	5 446	26 996	-1	-13	262 745
Profit/loss before tax	5 822 952	-70 993	20 114	5 618 382	-3 374	-3 808	262 631
Taxes	-7 655	0	-7 655	0	0	0	0
Profit/loss for the year	5 815 297	-70 993	12 459	5 618 382	-3 374	-3 808	262 631

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

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

Balance Sheet (Investments and Loans) Net Book Values

	Norfund Total	Funds	Financial Institutions	Clean Energy	Scalable Enterprises
Investments	18 336 139	2 315 915	8 124 190	5 795 357	2 100 677
Write-downs	-1 625 893	-586 193	-428 980	-284 586	-326 134
Total investments per segment	16 710 248	1 729 722	7 695 210	5 510 771	1 774 543

Balance Sheet	Africa	Asia	America	Europe/Asia	Global	Write-downs	Total
Loans to investments	2 067 739	1 162 300	1 691 095	28 599	0	-145 867	4 803 865
Equity investments	10 148 836	2 250 599	973 987	12 984	0	-1 480 026	11 906 381
Total balance sheet	12 216 575	3 412 899	2 665 082	41 583	0	-1 625 892	16 710 248
Interest income loans	115 662	77 881	102 568	1 563	0	0	297 674
Realised gain on shares	2 157 420	2 636 847	0	0	0	0	4 794 267
Dividends received	399 645	440 569	38 420	0	0	0	878 634
Other project revenues	9 541	5 445	5 090	136	1 053	0	21 265
Total operating income	2 682 268	3 160 743	146 078	1 699	1 053	0	5 991 841
Gain/loss on FX, project loans	71 810	69 060	57 695	296	-562	0	198 299

Note 3 – Loans and Investments

Loans to Companies				
(Figures in 1000s of NOK)	Committed investment	Historical cost	Accumulated loan loss provision	Book value
Financial Institutions	5 299 723	3 184 618	-18 227	3 166 391
Green Infrastructure	17 639	8 819	0	8 819
Clean Energy	2 087 955	1 024 433	-58 631	965 802
Scalable Enterprises	1 252 530	711 728	-64 750	646 978
Funds	35 463	20 135	-4 260	15 875
Total loans	8 693 311	4 949 732	-145 867	4 803 865

By 'committed investment' is meant that there is an external commitment for a specific amount. For conversions to NOK, the exchange rate on the disbursement date is used for the part of the amount that is disbursed. The exchange rate at 31.12.2021 is used for the part that has not been disbursed.

Norfund makes a semi-annual assessment of each of the loans in the loan portfolio, including provisions for losses.

Loan loss provision

A loan is regarded as non-performing when borrower has not made due payments within 60 days of the due date. On balance sheet date Norfund had 12 (14 in 2020) non-performing loans with total interest and repayments due of NOK 114.6 million (NOK 125 million in 2020) and a total outstanding amount of NOK 274.8 million (410 million in 2020). Examples of default or losses are significant financial problems on the part of debtor, restrictions on foreign exchange transfers in countries in which debtor operates, debt settlement proceedings or winding up of a business.

Days past due date	Amount due
0–60	5 984
61–120	6 212
121	102 409
Total	114 605

Loans are written down by up to 100% of the outstanding principal and accumulated interest, depending on the likelihood of the amount being repaid.

Repayment

Twelve loans (6 in 2020) were repaid in the course of the year, while no loans were converted to equity capital and one loan of NOK 42.2 million was recognised as lost.

Equity investments in funds				
(Figures in 1000s of NOK)	Committed Investment	Historical cost	Accumulated loan loss	Book value
Financial Institutions	1 029 169	695 753	-33 548	662 205
Clean Energy	719 793	1 206 763	-80 181	1 126 583
Scalable Enterprises	172 787	77 460	0	77 460
Funds	4 875 872	2 230 863	-556 141	1 674 722
Total invested in funds	6 797 621	4 210 839	-669 869	3 540 970

Equity Investments in Companies				
(Figures in 1000s NOK)	Committed investment	Historical cost	Accumulated loan loss provision	Book value
Financial Institutions	7 104 231	4 243 820	-377 205	3 866 614
Clean Energy	4 794 740	3 555 341	-145 775	3 409 567
Scalable Enterprises	1 322 432	1 311 490	-261 384	1 050 106
Funds	94 429	64 917	-25 792	39 125
Total invested in equity	13 315 832	9 175 568	-810 156	8 365 413

By 'committed investment' is meant that there is an external commitment for a specific amount. For conversions to NOK, the exchange rate on the disbursement date is used for the part of the amount that is disbursed. The exchange rate as of 31.12.2021 is used for the part that is not disbursed.

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

Note 4 – Exited Investments

In 2021, Norfund sold its largest individual investment, SN Power, which generated a recorded gain of NOK 4.8 billion and an IRR of 17.5%, calculated in NOK, during the ownership period. No other funds or equity investments were exited during the accounting year.

Note 5 – Payroll Expenses

Statement on the setting of salaries and other remuneration for senior employees

Norfund complies with the government guidelines laid down on 13 February 2015 with respect to the setting of salaries and other remuneration for senior employees. These are based on changes published in the white paper *A diverse and value-creating ownership*. “The State's guidelines for remuneration for senior executives in companies with state ownership” (St. meld. 27 (2013–2014)). The changes were adopted with effect from 30 April 2021, will be submitted to the General Meeting in 2022 and form the basis for the preparation of the Board of Directors’ statement for 2021.

Guidelines for Norfund on the setting of salaries and other remuneration in 2021

The following guidelines apply to the setting of salaries for senior Norfund employees until the ordinary General Meeting in 2022.

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

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

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

Setting of salaries

The Board sets the salary of the managing director. The managing director sets the

salaries and bonuses of the corporate heads of department who report to him, after executive salary conditions have been endorsed by the Board. This group consists of senior Fund employees. Norfund's pay conditions for senior employees consist of fixed salary, pension and insurance schemes and other benefits that cover newspapers, electronic communications etc. The fixed salary is subject to regulation in line with pay developments in the financial sector, represented by reference figures from Finance Norway, the results of the main settlement and for the companies Norfund has defined as its peers, and an assessment of the individual's performance and goal achievement. The managing director sets annual goals for the individual member of the executive group and the Board sets goals for the managing director.

Senior employees have three months notice of termination. The CEO has an agreement for pay after termination of employment equivalent to 6 months' salary. This arrangement is in line with the guidelines for salary and other remuneration.

Bonus scheme

Norfund has a bonus scheme that covers all company employees except the managing director. The bonus scheme is in line with the guidelines' requirement of variable pay.

Bonus candidates are proposed by an individual's line manager for an overall assessment by the management team. Bonuses awarded to both senior and other employees are fixed by the managing director. Bonuses are awarded once or twice a year, and individual bonuses vary from NOK 10 000 to NOK 100 000 per award, with NOK 100 000 as the maximum amount per year.

Pension and insurance conditions

In 2018 Norfund closed its defined benefit pension scheme to new employees, and now offers a defined contribution scheme to all company employees, including managers. The transition to the new scheme was voluntary for existing employees. This means that Norfund has both a defined benefit and a defined contribution scheme for agreements entered into before the closure of the former in 2018. The defined benefit scheme entitles the individual to defined future benefits and depends primarily on the number of qualifying years, pay level on reaching retirement age and size of National Insurance benefits. Agreements entered into prior to 2018 exceed the current guidelines for senior executives, as the previous scheme entailed a full qualifying period of 30 years and pension payments of 70% of salaries up to 12 G The pension scheme satisfies the

requirements of the Act on Mandatory Occupational Pensions. There are currently 47 employees covered by the defined contribution scheme and 30 by the defined benefit scheme. Norfund also has a scheme which entitles employees to pension rights for pay in excess of 12 G. This scheme was closed to new members in 2012. The scheme, which is funded from operations, consists of 66% of pay in excess of 12 G with a retirement age of 67 and a full qualification period of 30 years in the calculation base. If the service period is calculated as being less than 30 years, the pension is reduced proportionately. On termination of employment or on reaching retirement age, employees receive a settlement for the value of the amount saved. This scheme currently covers 4 employees. In the defined contribution scheme, 7% of salary is set aside from pay from 0–7 G, and 20% from salaries of 7.1–12 G. The costs of both schemes are included in the calculation of pension expenses.

Senior Norfund employees are covered by insurance schemes that apply to all Norfund employees.

Review of the financial statements 2021

Salary policy in the 2021 accounting year has adhered to the principles of the Management Salary Statement as adopted by the General Meeting on 24 June 2020 and 21 June 2021. Salary adjustment for the CEO and other members of management in 2021 was 3.5% on average. The total pay adjustment in 2021 for the management team, including the CEO, amounted to NOK 547 050.

Wages, salaries and other payroll expenses (In 1000s of NOK)	Norfund	
	2021	2020
Wages and salaries	106 928	91 451
Employer's social security	19 818	16 334
Pension expenses	18 330	14 694
Other benefits	13 065	12 795
Total wages, salaries and other payroll expenses	158 142	135 273

Pay for Senior Employees

	Title	Salary	Bonus	Insurance and other payment in kind	Pension	Total
Jan Tellef Thorleifsson	CEO	2 954 288	0	20 305	203 367	3 177 961
Ylva Lindberg	EVP Strategy & Analysis	1 708 654	50 000	19 880	198 484	1 977 018
Cathrine Kaasen Conradi	EVP CFRO until 30.11.	1 703 836	50 000	23 414	196 254	1 973 504
Fride Andrea Hærem	EVP CFRO from 01.12.	555 096	0	8 949	68 945	632 990
Thomas Fjeld Heltne	EVP Legal Department	1 705 421	50 000	20 038	197 925	1 973 384
Erik Sandersen	EVP Financial Institutions	1 926 602	50 000	19 795	366 865	2 363 262
Mark Davis	EVP Clean Energy	2 109 094	50 000	83 636	1 055 051	3 297 781
Ellen C. Rasmussen	EVP Scalable Enterprises	1 750 350	50 000	19 896	200 248	2 020 494
Olaug Svarva	Chair	285 000	0	0	0	285 000

Salaries for senior employees are reported for the whole year, including the period when they were not senior employees.

Remuneration to Norfund's Board of Directors

Norfund's Board of Directors consisted in 2021 of the Chair and 8 Board members. In 2021 the General Meeting set remuneration to the Chair at NOK 285 000, while remuneration to the Board members, with the exception of the two employee representatives, was set at NOK 142 500. In 2021 the General Meeting set remuneration for the chair of the Risk and Audit Committee at NOK 77 000 and for the members of the committee at NOK 67 000.

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

The highest total bonus allocation in 2021 was NOK 100 000. The bonus scheme accounted for 2.6% of Norfund's payroll expenses in 2021, a total of NOK 2 850 000. Bonuses are paid for extraordinary performance, and in 2021 the average payment to recipients of bonuses was NOK 23 554. The highest payment represented 7% of the individual's salary. A number of employees, including some senior employees, were awarded a bonus in 2021. The awarding of bonuses was based on a strong performance during a demanding period marked by Covid and difficult working conditions. A record-high commitment level was achieved through the year, and a number of portfolio companies saw positive developments.

Auditors Fee		
(Figures in 1000s of NOK)	2021	2020
Statutory audit	627	607
Accounting assistance	0	14
Other attestation services	0	0
Other services (including lawyer's services)	685	578
Total	1 312	1 199

Auditor's fee is inclusive of VAT.

In addition, business partners of Deloitte AS in other countries delivered other services expensed in the amount of NOK 1.6 million (4.6 million in 2020).

Number of permanent employees

The company had 111 (102) employees at the end of 2021. The number of full-time equivalents was 106 (100.5).

Pensions

In addition to the employee pension plans described in the Executive Pay Statement, local employees at Norfund's regional offices in South Africa, Ghana, Thailand, Kenya and Costa Rica have defined contribution pension plans. Norfund therefore has no obligations other than what has been paid through the year. In 2021, NOK 1 709 351 (1 943 140) was expensed in connection with these schemes.

Financial Assumptions		
	2021	2020
Discount rate	1.90%	1.70%
Expected return on plan assets	1.90%	1.70%
Salary adjustment	2.75%	2.25%
Pension adjustment	2.50%	2.00%
Adjustment of the basic amount (G) in the National Insurance System	2.50%	2.00%
Turnover	9.00%	9.00%
Employer's social security contribution	19.10%	19.10%

Financial Assumptions		
(Figures in 1000s of NOK)	2021	2020
Net present value of pension earned in the period	9 948	7 529
Capital cost of previously earned pensions	2 202	2 070
Expected return on plan assets	-1 421	-1 737
Administrative costs	1 133	1 133
Accrued employer's social security contribution*	2 438	1 366
Net pension liabilities for the year incl. employer's	13 928	11 433

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

Estimated Pension Liabilities

	Funded	Unfunded	2021
Estimated pension liabilities	130 234	22 669	152 903
Estimated plan assets*	92 358	0	92 358
Net pension liabilities 31.12	37 876	22 669	60 545
Accrued employer's social security contribution**	7 234	4 330	11 564
Net pension liabilities 31.12	45 110	26 999	72 108

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

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

Reconciliation Opening/Closing Balance

	2021	2020
Carrying amount net pension liabilities 01.01 incl. employer's social security contribution	58 074	25 632
Net pension expenses for the year incl. employer's social security contribution	13 928	10 215
Actuarial gain/loss charged directly to equity	14 975	32 469
Pensions paid, early retirement / unfunded, incl. employer's social security contribution	-1 916	-1 161
Investment in plan assets, etc., incl. employer's social security contribution	-12 953	-9 082
Carrying amount net pension liabilities 31.12 incl. employer's social security contribution	72 108	58 074

Nordea Life's Asset Mix*		
	30 September	30.09.2020
Property	14.40%	14.40%
Equities	12.2%	9.90%
Bonds at amortised cost	12.7%	3.50%
Short-term bonds/certificates	60.5%	61.30%
Other	0.0%	10.60%
Total financial assets	100.00%	100.00%

* Known values at calculation date

Norfund has paid into a separate fund intended to meet future commitments related to the unfunded scheme, the book value of which was NOK 24.2 million as of 31.12.

Note 6 – Other Operating Expenses

(Figures in 1000s NOK)	2021	2020
Seminars, conferences, upgrading of competencies	4 030	2 234
Travel expenses	4 135	3 591
External assistance, projects	51 095	23 445
External assistance, other	12 471	15 124
Rent, Oslo, including shared costs	8 199	8 505
Rent regional offices	3 083	2 763
Other expenses	28 073	24 433
Total operating expenses	111 086	80 095

	Lease Duration	Annual Rental Costs
Premises at Fridtjof Nansens Plass 4, Oslo	15.11.2016– 31.12.2026	5 282 469

In addition there are rental contracts for our regional offices.

Note 7 – Net financial income/expense

(Figures in 1000s of NOK)	2021	2020
Other interest income	128 438	32 527
Other financial income	647 719	213 484
Other financial expenses	-480 987	-130 713
Total financial income/expenses	295 171	115 298

Other interest income comes from the fixed income portfolio and investment of liquid assets in loans in addition to deposits in banks.

Note 8 – Fixed Assets

(Figures in 1000s of NOK)	Equipment and vehicles, fittings and fixtures etc.	Works of art	Total
Historical cost at 01.01	21 637	1 463	23 100
+ acquisitions during the period	2 456	0	2 456
Historical cost at end of period	24 093	1 463	25 556
Accumulated ordinary depreciation at 01.01	15 124	0	15 124
+ ordinary depreciation for the period	2 767	0	2 767
Acc.ordinary depreciation at 31 December	17 891	0	17 891
Book value for accounting purposes at end of period	6 202	1 463	7 665
Depreciation period	3-4 years	Non-depreciable	

A deposit of NOK 467 000 is additionally recorded under this item.

Note 9 – Other Receivables

(Figures in 1000s of NOK)	31.12.2021	31.12.2020
Accrued interest	118 322	74 789
Other receivables	3 409 461	152 787
Total receivables	3 527 783	227 576

‘Other receivables’ consist primarily of three positions: an interest-bearing seller credit (interest rate of 3% for 7 years, after which the interest rate increases to 30%) to Scatec in connection with the sale of SN Power of NOK 1 764 million (USD 200 million), a right in relation to Scatec to 49% of the assets in SN Power’s African operations equivalent to NOK 1 566 million (USD 183 million). The shares had not been transferred as of 31.12. In addition, an agreed settlement for sale of equities of NOK 62 million in the period which falls due in 2022. Settlement was considerably delayed because of the Covid situation and the payment schedule was renegotiated.

Note 10 – Tax

Tax expenses are attributable in their entirety to withholding tax on dividends and interest on foreign investments. Norfund is tax-exempt in Norway; see § 2-30 (1e) of the Norwegian Taxation Act.

Note 11 – Bank Deposits, Cash and Cash Equivalents

(Figures in 1000s of NOK)	2021	2020
Deposits in Norges Bank	3 256 120	2 345 227
Tax deductions	6 118	5 316
Unused resources, note 14	176 417	158 837
Ordinary bank deposits	799 308	387 822
Total bank deposits	4 237 965	2 897 203

Other current assets

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

Other short-term Investments	
(Figures in 1000s of NOK)	2021
Deposits with a fixed-interest period (1 to 6 months)	1 767 915
Lending to banks of excess liquidity in our markets	1 867 067
Bonds (average maturity 3.3 years)	4 361 787
Other short-term investments	7 996 769

As a consequence of the exit from SN Power, substantial liquidity was available and was placed in temporary investments: First, loans were extended to three banks with an average interest rate of 1.5% + LIBOR and a maturity of 5 years, with linear repayment after the first year. Second, USD deposits were placed in banks with fixed-interest periods of 1– 6 months.

Furthermore, Allianz has been commissioned to manage USD 500 million. The portfolio consists of highly liquid covered bonds and has a weighted credit rate of AA- and average maturity of 3.3 years. The portfolio is to be mainly invested in development banks, i.e. within the sector in which we operate ourselves. Up to 40% can be invested in other sectors, however, but the bonds must then meet the requirements of either being green and sustainable or having a social impact. Norges Bank's Investment Management's exclusion list is also applied. 38% of the portfolio is invested in euros and 7% in sterling but hedged against USD by means of 3-month rolling futures contracts. Hedging contracts have been made for EUR 164.1 million and GBP 25.6 million. The value of the portfolio has fallen in pace with expectations of higher key policy rates, and we expect further falls in the period ahead. However, Norfund intends to hold the portfolio until maturity, with the result that the average annual return is estimated at 0.88% for the life of the portfolio.

Bonds	Instrument currency	Fair value of instr. currency	Historical cost in USD	Fair value in USD	Change in value	Book value in NOK
Enterprises			163 964	161 828	-2 136	1 427 228
Financial institutions	EUR	75 579	86 814	85 949	-866	758 014
	USD	33 105	33 651	33 105	-546	291 964
Manufacturing	EUR	3 156	3 627	3 589	-38	31 656
	USD	17 707	18 054	17 707	-347	156 166
Supply	EUR	18 887	21 818	21 478	-339	189 427
Public authorities			303 971	299 585	-4 386	2 642 161
Agencies	EUR	14 682	16 876	16 697	-179	147 254
	USD	22 067	22 367	22 067	-300	194 616
Local authorities	EUR	2 035	2 324	2 314	-10	20 405
Independent organisations	USD	7 720	7 766	7 720	-46	68 085
Supranational authorities	EUR	48 750	55 954	55 439	-516	488 935
	GBP	25 293	34 813	34 258	-555	302 138

Bonds	Instrument currency	Fair value of instr. currency	Historical cost in USD	Fair value in USD	Change in value	Book value in NOK
	USD	161 091	163 870	161 091	-2 779	1 420 728
Government bonds			19 930	19 911	-19	175 600
US government bonds	USD	19 911	19 930	19 911	-19	175 600
Cash			11 480	13 243	1 763	116 798
	EUR	331	377	886	509	7 813
	GBP	221	300	315	16	2 779
	USD	10 804	10 804	12 042	1 238	106 206
Total			499 345	494 567	(4 777)	4 361 787

Note 12 – Capital Movements

Company				
(Figures in 1000s of NOK)	Primary capital	Reserve capital	Surplus fund	Total equity
Capital at 31.12. 2020	14 574 125	5 025 926	5 060 694	24 660 745
Capital supplied in 2021	1 239 864	438 288	0	1 678 152
Other changes			0	0
Actuarial gains/losses, pensions	0	0	-14 975	-14 975
Net surplus/deficit (-)	0	0	5 815 297	5 815 297
Capital at 31.12.2021	15 813 989	5 464 214	10 861 016	32 139 219

Reserve capital can only be used to cover losses that cannot be covered from other reserves apart from primary capital

Of the capital received in 2021, 75% was allocated to primary capital and 25% to reserve capital.

Note 13 – Unused Resources

In 2019 the Storting established a special scheme that enables Norfund to make risk capital available in the most demanding markets, particularly in vulnerable states and in the least developed countries (LDCs), where access to risk capital is limited. The scheme is to be used for projects with higher risk than investments in Norfund's ordinary portfolio and is to be administered as a separate scheme. The Storting granted NOK 100 million for the scheme in 2019, of which NOK 75 million was disbursed in 2019 and NOK 25 million in 2020. At the end of 2021, NOK 12.63 million remains to be allocated, while NOK 65.37 million of allocated capital has not yet been disbursed.

Norfund has additionally received NOK 32 million (NOK 25 million in 2020) of grants under the previously established Business Support scheme, which is to be used to increase the development effects of Norfund's investments by improving businesses and through local community development. Support may, for example, be provided for training and transfer of expertise and equal opportunity programmes, workers' rights, improvement of internal control, corporate governance and leadership development. The resources are treated as current liabilities, and undisbursed amounts are included in Norfund's liquid assets. When costs are met from the resources, the liability is reduced by an equivalent amount. At the end of 2021, NOK 11.28 million remains to be allocated to projects, while NOK 41.8 million of allocated capital has not yet been disbursed.

The grant fund earmarked for projects in the Balkans has primarily taken the form of loans to finance companies. At the end of 2021, unused resources relating to the Balkans consisted of three outstanding loans totaling NOK 15.9 million, and one equity investment of NOK 5.9 million.

(Figures in 1000s of NOK)	Unused Resources: Norfund		Unused Resources: Balkan	
	31.12.2021	12.12.2020	31.12.2021	31.12.2020
Receipts				
Carried over from previous year	141 588	106 898	17 247	11 639
Transferred from Ministry of Foreign Affairs	32 000	50 000	0	0
Corrections grant resources	0	7 448	0	0
Total receipts	173 588	164 346	17 247	11 639
Income	0	0	12	1 207
Disbursements				
General costs				
Fund management	0	0	0	0
General follow-up	0	0	-380	-345
Intervention				
Project development	-557	-2 408	0	0
Amplify and support project development effects	-5 705	-7 924	0	0
Promote social responsibility	-2 542	-1 163	0	0
NMI start-up support	0	0	0	0
Local investment funds				
Follow-up costs	0	0	-768	-134
Loans / investment projects	-20 589	-11 263	0	4 879
Total disbursements	-29 393	-22 758	-1 148	4 399
Non-disbursed resources	144 195	141 588	16 111	17 247
Total non-disbursed resources at 31.12.2021	160 306			

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

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

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

Norfund is exposed to several different types of risk, including liquidity risk, credit risk, currency risk, interest-rate risk and other market risk, including political risk. The financial risk management has been established to identify and analyse these risks, and to establish appropriate risk limits and risk controls. Norfund regularly reviews the established risk management guidelines and the system that has been established to ensure that changes in markets are reflected in the risk limits.

Responsibility for Norfund's risk management and control is shared between Board and management.

The Board has adopted Norfund's zero tolerance policy, which is based on the risk Norfund is willing to take in order to deliver on its mandate. This includes country risk and political risk, and in 2021 developing a system for managing country risk has been a

high priority task. Efforts to actively minimise risk are largely about how Norfund chooses its investment partners and how the investment process and other operational processes in the business are carried out. This concerns risk of corruption, for example, and if this is detected an immediate response is triggered. Minimising and managing risk associated with ESG and questions concerning the integrity of our business partners are based on best practice for development finance institutions (DFIs). Norfund's approach to risk is summarised in a Risk Appetite Statement adopted by the Board and published on Norfund's website.

Market risk

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

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

Credit risk

Norfund has a substantial number of loans, and a semi-annual review is made of the borrowers' financial situation and their ability to service the loan in accordance with the payment plan.

Loans are assessed individually, and if default appears highly likely, the value of the loan is written down.

Norfund does not carry any general loss provisions for the loan portfolio but makes a specific allocation for each loan; see also Note 3.

Liquidity risk

Liquidity risk is the risk of Norfund being unable to fulfil its commitments. This risk is regarded as low, as Norfund operates with substantial cash holdings, receives annual allocations from the Owner and has an investment portfolio that generates reflows in the form of interest, payments, dividends and through exits from enterprises. The cash

holdings are intended to cover future committed investments that have not yet been disbursed.

Currency risk

Norfund's investments are largely made in USD (more than 90%), but in some cases in other currencies, the next largest being EUR and ZAR. As Norfund's base currency is NOK, its future returns and gains/losses for accounting purposes are strongly influenced by the exchange rate between NOK and USD. The portfolio companies are subject to a greater or lesser extent to fluctuations in the exchange rate between USD and the local currency in the individual country, which in turn may affect the results and values of the portfolio companies on Norfund's balance sheet.

Three-month forward contracts are used to hedge the portion of the bond portfolio denominated in EUR and GBP against USD.

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

FX Rates Used in Conversion				
		31.12.2021	31.12.2020	Change during the year
US Dollar	USD	8.819	8.533	3.4%
South African rand	ZAR	0.553	0.581	-4.8%
Rwandan franc	RWF	0.008	0.009	-1.9%
Kenyan shilling	KES	0.077	0.078	-0.9%
Ugandan shilling	UGS	0.002	0.002	5.6%
Mozambican metical	MZN	0.137	0.113	20.6%
Bangladeshi taka	BDT	0.101	0.099	1.5%
Cambodian riel	KHR	0.002	0.002	1.9%
Swaziland lilangeni	SZL	0.552	0.584	-5.6%
Euros	EUR	10.470	9.864	6.1%

Operational risk

Operational risk is the risk of financial losses occurring as a consequence of faults in internal processes and systems, human error or as a consequence of external events. In principle, we expect this risk to be low, but risk in some areas has increased, such as cyber risk. Management of operational risk is monitored continuously at many organisational levels through clearly defined processes, procedures, guidelines and training. The risk and threat picture is mapped and coordinated by means of the Enterprise Risk Management System.

Norfund's risk exposure and management thereof is followed up by the company's external internal auditor, and reports are submitted regularly to the Board and the Risk and Audit Committee.

Note 15 – Current liabilities and guarantees

Other current liabilities

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

Guarantees

As part of its activities, Norfund has issued 9 guarantees totalling NOK 185.8 million. An annual assessment is made by the project manager of whether the guarantee is at risk of being invoked, and a proportional provision is made accordingly. As of 31.12.2021, a provision of NOK 6.8 million had therefore been made for guarantee obligations.

Note 16 – Events after balance-sheet date

The Russian invasion of Ukraine

On 24 February Russia launched a military invasion of Ukraine. This has led to very strong international reactions and heavy sanctions have been imposed on Russia. In consequence, business ties between Russia and Europe/the USA have been severely weakened. This has led to very high commodity prices, as Russia and Ukraine are important suppliers of commodities such as grain, oil and gas and ammonia (fertilizer). If the conflict persists, the global flow of goods will be considerably disrupted. In addition to the global economy being heavily impacted, global security is being threatened in a way we have not seen for many decades. Norfund's investments are not directly affected by the conflict, but Norfund invests in many countries that are particularly vulnerable to the effects of the war in Ukraine. This is due to factors such as substantially elevated food prices, risk of food shortages in countries with large import needs, increased prices for oil, gas and fertiliser and hence a danger of increased political turbulence. As a consequence of this situation, the risk premium for investing in emerging markets will also increase.

Auditors report



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To the General Meeting of Norfund

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Norfund (the Company), which comprise the balance sheet as at 31 December 2021, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion

- the financial statements comply with applicable statutory requirements, and
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion

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

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report otherwise appears to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable legal requirements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



side 2
Independent Auditor's Report -
Norfund

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

Oslo, 29 March 2022
Deloitte

Grete Elgåen
State Authorised Public Accountant

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