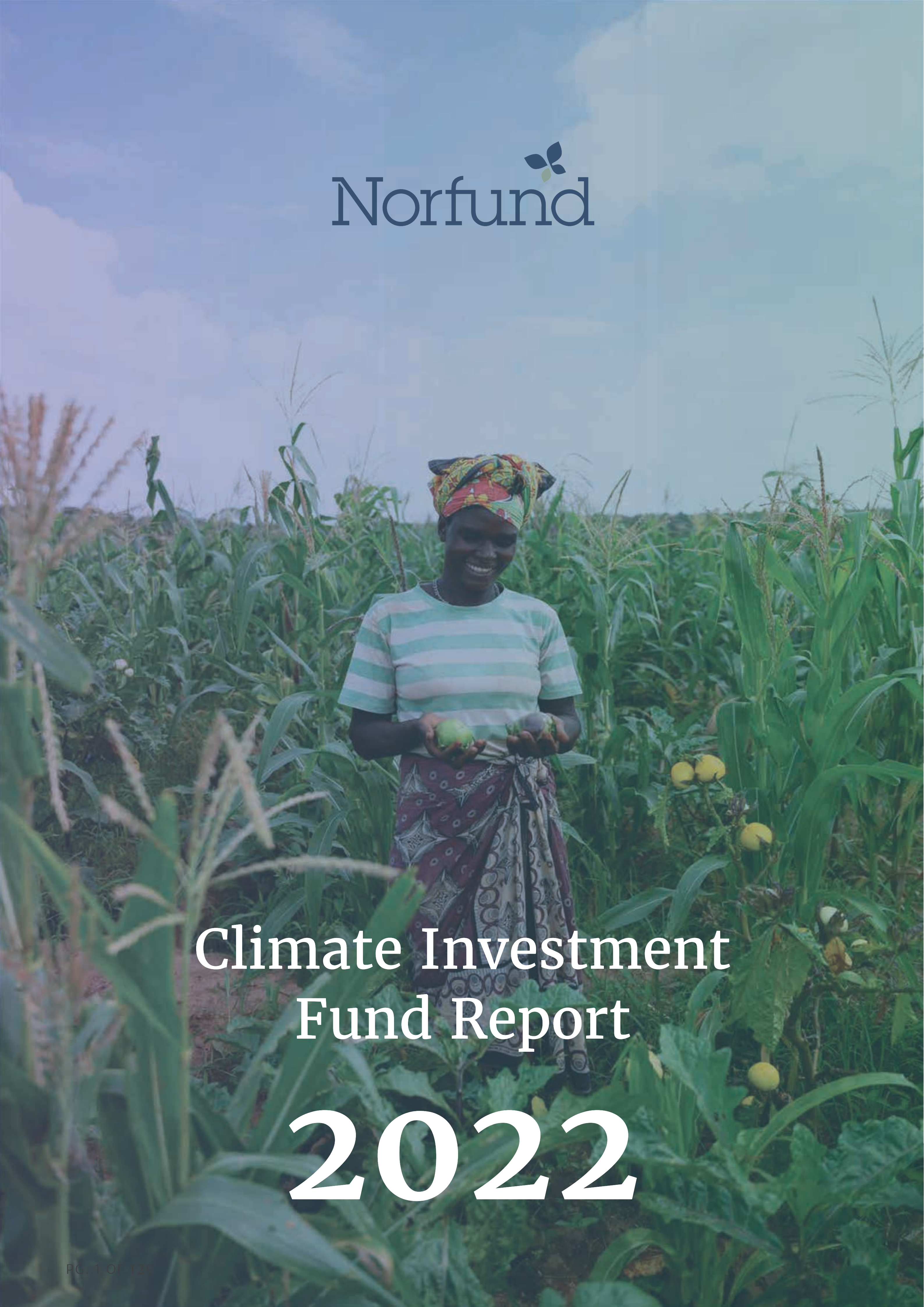
Norfund



Climate Investment Fund Report

2022

Letter from the CEO


Tellef visiting Norfund investee Hela

At the onset of 2022, none of us could have imagined the year that was to come. The war that is ravaging not only Ukraine, but the world economy, is far from over. Foreign direct investment flows are retracting from emerging markets, as the reverberations of war and the lasting impact of COVID-19 are being felt in the markets we operate in.

Despite heightened political and macro instability, Norfund is making record investments in these markets. In 2022 Norfund increased its investment in developing countries by 22.5 per cent, to another record-high 6.5 billion NOK. With this capital, we dare to invest in a resilient future.

The climate crisis is one of the most daunting challenges in all of our markets, but combating climate change also opens new investment opportunities that can build a green economy able to both reduce emissions and lift the disenfranchised out of poverty. Norfund's Climate Investment Fund, will invest in renewable energy in developing countries with the aim of contributing to reduced greenhouse gas emissions. The new Climate Mandate became operational in 2022, and at the end of 2022 the total committed portfolio was NOK 2.14 billion. Each year, during a five-year period, one billion NOK from Norfund's capital and one billion NOK from the state budget will go toward investments in developing markets where the climate effect will be greatest, to meet the energy demand of growing economies, sustainably.

This is not going to detract from our existing mission to create jobs and improve lives. In 2022, Norfund committed 4.5 billion NOK and made 34 new and 18 follow-on investments under what we now call our Development Mandate. Investments were broadly distributed within Norfund's investment areas. By delivering on both our development and climate mandates, as well as understanding the interlinkages between the two, we have a strong foundation for continued growth.

We experience broad support for Norfund's mandates and mission from not only our owners, but our partners, stakeholders, and the Norwegian public. To use the funding we are entrusted with even more effectively, we plan to recycle more capital and continue to contribute directly to the attainment of the UN Sustainable Development goals.

2022 marked the end of our strategy period, and we started 2023 with an updated strategy. The new strategy builds on our previous direction, but clearly articulates the drivers and markets where we can create significant impact. Notably, we have launched a Fragile States strategy, with a focus on the Sahel region.

Global challenges such as climate change, ongoing wars, financial volatility, and increasing inequality, make Norfund's mandates even more pressing. To meet increased expectations and needs, Norfund is growing in terms of resources and staff, the depth of our reach, responsibility, and relationships with stakeholders, the public and investees. Working together across cultures, borders, and time zones is challenging, but also exciting, as we endeavour to learn from each other, as well as from our own successes and failures, and continuously improve how we deliver on our mandates.

Norfund's ambitions are high, and our job is without a doubt complicated. We are facing daunting challenges. However, it's a privilege to be helming a highly competent and multi-cultural Norfund team. I am confident that we are well positioned to meet our ambitions and to make an even bigger difference in the years to come.

Tellef Thorleifsson

Chief Executive Officer
March 10, 2023

Climate investment fund operational

The new climate investment fund became operational in May 2022, less than a year after the plans were first announced by the Norwegian government. New commitments of 2.14 billion NOK were announced during a year where the need for the fund became even greater.

"We have no time to lose in the fight against climate change. Having operationalized the new climate investment fund in record time, the money can now be put towards crucial investments in renewable energy in developing countries."

Minister of Development Anne Beathe Tvinnereim at the launch of the fund

The Climate Investment Fund will play a central role in fulfilling the Government's ambition to double Norway's annual global climate financing, and in getting the maximum climate effect out of every NOK the Government allocates.

The goal is to contribute to avoiding greenhouse gas emissions, by investing in renewable energy in developing countries with large emissions from coal power and other fossil power production. Based on financed capacity and expected production, the investments made in 2022 alone are estimated to contribute to avoided emissions of 6.2mill tCO_2e per year.

Norfund's experience and network in the relevant countries has made it possible to quickly get started with the fund, which is to be capitalized with 2 billion NOK each year for the next five years.

In managing the new climate mandate, Norfund builds on 25 years of experience from having renewable energy as a core focus area for the fund.

→ **Read more about investments in renewable energy under the development mandate here.**

Mandate to maximize climate impact

In December 2021, a unanimous Parliament approved the decision to set aside the first billion NOK. Amendments to the Norfund Act were proposed to the Parliament in April 2022, and the statutes of Norfund were amended at a General Assembly in May 2022, to include the management of the new fund, along with a new directive regulating the fund from the Ministry of Foreign Affairs.

Climate Fund Instructions

→ (in Norwegian)

Under the new climate mandate, investments will be targeted at maximizing the climate impact. The instructions for the mandate state that "The purpose of the Climate Investment Fund is to contribute to reducing or avoiding greenhouse gas emissions by investing in renewable energy in developing countries with large emissions from coal and other fossil fuel production".

As with all Norfund's operations, the goal is to help activate investments "that would otherwise not be made".

Norfund's board has adopted a strategy for the fund that sets out priories and strategic choices. Based on the selection criteria of Climate Impact, Additionality and Feasibility, it has chosen eight core countries: India, Vietnam, Philippines, Cambodia, Indonesia, Sri Lanka, Bangladesh and South Africa.

→ **Read more about the strategy for the climate investment fund here.**

During the first year of operations, Norfund made six commitments for new investments, three in India and three in South Africa. The deals include both large scale solar, wind power plants and bio waste to energy.

→ **Read more about the investments made in 2022 here.**

→ Read about the measuring of impact for the fund here.

Increasing need of investment in renewable energy in emerging markets

"We are in the fight of our lives, and we are losing", was the sobering statement of United Nations secretary general Antonio Guterres at the opening of COP27 in November.

Meeting the enormous needs of emerging markets of investment in renewables to power their growth out of poverty is one of the most crucial battles in this fight.

As a recent study from Standard Chartered Bank underlines, "while developed markets emit the most and have the biggest job to do to transition their economies away from carbon by 2050 ... if developed markets fail to channel net-zero investment into emerging markets while working on their own transition, there will be devastating implications for the planet".

While developed-world emissions would plateau without any efforts to further the transition, emerging market emissions would continue to rise, because of both economic and population growth.

Emerging markets need around 94.8 trillion USD worth of additional investment to help them transition to a net-zero economy by 2060 while continuing to grow their economies, according to Standard Chartered Bank. That is greater than global GDP.

In renewable energy alone, annual capital spending in developing economies needs to expand by more than seven times, to above USD 1 trillion, by the end of the 2020s, in order to put the world on track to reach net-zero emissions by 2050, according to the IEA.

The cases of India and South Africa

India and South Africa, the two countries where Norfund made investments under the climate mandate during its first year, face some of the greatest challenges.

To meet growth in electricity demand over the next twenty years, India will need to add a power system the size of the EU, making it the country with the world's greatest need for growth in the energy sector, according to the IEA. According to BloombergNEF the country needs 233 billion USD in investment, just to meet its goals for development of wind and solar energy by 2030.

In 2022, India's power output grew at the fastest pace in 33 years, and coal-fired power output grew by a staggering 12.4%. That also meant that emissions from power generation rose by nearly a sixth, to 1.15 billion tons, according to a Reuters analysis.

In South Africa, which accounts for around 16% of Africa's energy consumption, coal meets around 70% of installed power generation capacity (IEA). While the country has been experiencing power outages for several years, the situation has significantly deteriorated the last year.

In November, Cyril Ramaphosa, the South Africa president, said the country needs USD 84 billion over the next five years for its plans to cut carbon emissions and speed up the energy transition.

Capital moving the wrong way

The past year has seen rapidly raised interest rates to contain persistently high inflation across the globe. In combination with global insecurity and a world moving towards more regionalisation at the expense of globalisation, this means capital seems to be moving away from emerging markets.

Within the renewables space, this tendency is further aggravated by new subsidies offered through the Inflation Reduction Act (IRA) in the United States, and existing and expected new subsidies to counter those in the EU. In emerging markets, this may make it especially hard to convince energy developers to prioritise capital to their projects, rather than projects developed in the West.

These developments all point in the direction for important role for the climate investment fund in being countercyclical and offering capital at terms that can make it possible for emerging economies to cover increasing energy needs with renewables.

Investing in a volatile world

The Russian war on Ukraine has had far-reaching consequences, including a shock to global trade that disrupted global food and energy markets. In many developing countries, soaring prices have created a cost of living crisis that threaten to undo years of progress in poverty eradication.

The invasion of Ukraine by Russia on February 24th, 2022 has had implications beyond Europe, impacting businesses in Norfund's markets as they navigate a new geopolitical landscape and its effects on supply chains and resource availability. This has resulted in soaring food and energy prices, that have remained high in many low- and middle-income countries, even as food commodity prices saw moderations toward the end of 2022.

The market price of some commodities such as wheat, corn, and sunflower, have proven to be particularly volatile as Russia and Ukraine combined accounted for a significant share of global exports. Additionally, Russia and Belarus are major producers of urea, phosphate, and potash, which are key nutrients in fertilizers. The fertilizer trade was already hit by supply chain disruptions stemming from COVID-19. Soaring energy prices, international sanctions, and disruptions to Black Sea trade routes further amplified uncertainties and sent prices to record levels.

The increase in food prices has particularly impacted poor and middle-income households in developing countries, where a significant portion of income is spent on food. According to UN statistics, compared to pre-pandemic projections, there are now an estimated 75 million more people living in extreme poverty. The World Bank estimates that, given current trends, nearly 7% of the world's population— will still be living on less than $2.15 a day in 2030. In Africa, more than a quarter of the population live in countries that saw more than 20% increase in food prices in 2022.

Even though food commodity prices eased somewhat towards the end of 2022, the negative spiral of inflation and increasing cost of living will take longer to overcome. Rising inflation has exacerbated the reversal of global poverty which happened during the COVID-19 pandemic. At the same time interest rates are increasing globally, which will put additional stress on governments in low-income countries, where according to the IMF, 53% of countries are in debt distress, or at high risk of debt distress, a doubling since 2015. Rising debt-service payments will further limit these countries ability to tackle increasing poverty rates.

Need for countercyclical investors

Developing countries are often more susceptible to global market shocks due to limited diversification and financial resilience. A combination of a difficult business environment and increased interest rates have led to investments in developing countries stalling again, despite an initial hope for recovery post-pandemic. According to UNCTAD growth prospects remain gloomy for most developing countries.

Norfund and other Development Finance Institutions (DFIs) can play a critical role in being countercyclical and deploying capital in the most challenging markets. In 2022, Norfund demonstrated this through increasing the fund's investments by over 20% to a record high 6.5 billion NOK, almost 2.5 times the total amount transferred from the Norwegian state development budget.

Ghana, a core country for Norfund, is one example of a country heavily impacted by the cost of living crisis, with inflation reaching unprecedented levels in 2022, ending the year at an official inflation rate of 54.1%, the country's highest since 2001, after starting the year at an inflation rate of 13.9%. The Real Consumer Price Index (CPI) for most households was observed to be +100%, with food prices being the most affected. This has led to significant increases in the cost of living and overall costs for individuals, businesses, and households, making planning and budgeting challenging. The depreciation of the Ghanaian cedi (GHS) of 39% over the year, with a peak depreciation of 58%, has further compounded the increased costs of living and uncertainties.

In neighboring Nigeria, Norfund portfolio company Sundry Foods has had to adapt to disruptions in their supply chain due to the war in Ukraine. Sundry Foods, a Quick Service Restaurant, Bakery, and Catering Service operating in over 100 branches across Nigeria, has been impacted by the availability of inputs such as wheat, of which Ukraine was a key supplier, and proteins. The company has had to seek alternative sources for these inputs, which has negatively affected its margins, as it does not want to transfer the higher costs to its customers. The company is now sourcing more locally and regionally, which brings about new opportunities, but also challenges.

Photo: Samanu

With crisis comes opportunity

Increased prices on imports also create new opportunities to develop local production and processing at competitive cost levels, creating local jobs and increased income for farmers. Norfund's investment in Samanu, committed at the end of 2022, is a good example. Through increased local production of edible oil, the goal is to create jobs, increase food security, and provide income for up to 200,000 smallholder farmers.

Policymakers in many of Norfund's focus countries are now re-evaluating their countries' resilience due to overdependence on critical imports from a small number of exporters. The volatility of food commodity prices has drawn increased attention to local and regional production, sourcing, and value creation.

The African Free Trade agreement is an example of initiatives that will strengthen regional integration and build more resilient food systems. This will create new opportunities for investment in agricultural value chains with a focus on local sourcing and regional markets, reducing reliance on imported foods that are vulnerable to inflation and exchange rate fluctuations and freeing up hard currency for other areas.

Governments in the most affected countries are also working to implement policies that aim to control inflation, increase agricultural productivity, and provide social safety nets to support vulnerable populations. To succeed, they need to attract commercial investments that allow them to diversify their economy, create jobs, and invest in modern technology that boosts domestic agricultural output and processing. The need for investors like Norfund has thus never been greater.

Key figures

For the first time this year, Norfund reports on both the Development Mandate and the new Climate Mandate, as the Climate Investment Fund became operational starting in 2022. For some key figures such as commitments and investments we present both here, while on others such as certain development effects we report only on the Development Mandate due to the current relatively small size of the Climate Mandate.

→ Read more about the Development Mandate

→ Read more about the Climate Mandate

For more detailed reporting on each mandate refer to their individual sections in the content menu above.

New commitments

4.54 **Development Mandate**
billion NOK in 2022*

**Excluding Business Support and PDRMF*

2.1 **Climate Mandate**
billion NOK in 2022

Total commitments

29.5 **Development Mandate**
billion NOK in portfolio

2.14	**Climate Mandate** billion NOK in portfolio

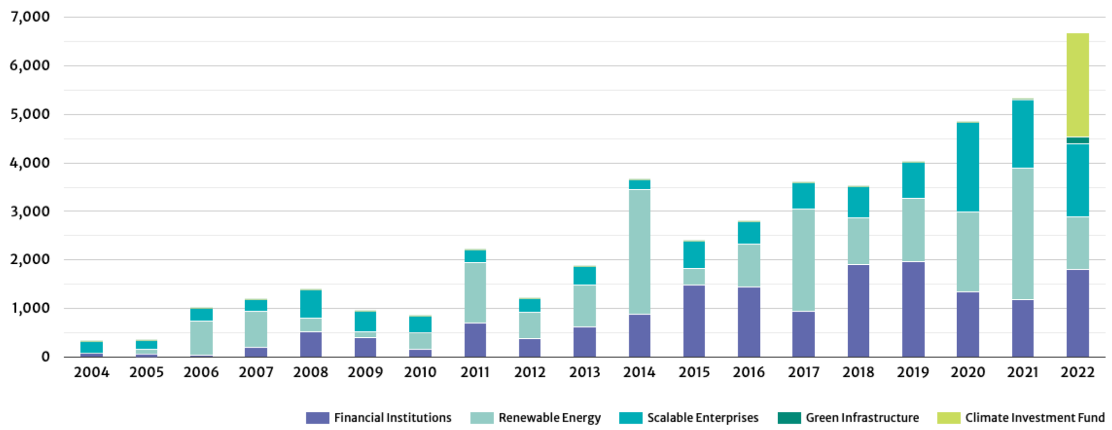
Investments

34/18	**Development Mandate** New/follow-on investments in 2022
7	**Climate Mandate** New investments in 2022

Companies

219/970	**Development Mandate** total direct/indirect investees in the portfolio
7	**Climate Mandate** total direct investees in the portfolio

Committed investments per year (MNOK)



514,000	**Jobs** in Norfund portfolio companies under Development Mandate
24,500	**Jobs created** new jobs created (net) in portfolio companies under Development Mandate
37%	**Female employees** in Norfund portfolio companies under Development Mandate, a 10% net increase

→ Read more about job creation and the Development Mandate here

New electricity capacity

1,415 MW	**Development Mandate** financed in 2022

2,433 MW **Climate Mandate**
financed in 2022

Development Mandate

15.9 TWh

electricity produced

Almost equivalent to the combined annual electricity consumption of Kenya, Tanzania, and Uganda

CO2

10/6.3 million tonnes **Development Mandate**
Avoided annually from new renewable capacity since inception/2022 portfolio

6.176 million tonnes **Climate Mandate**
Expected avoided emissions*

*Based on financed capacity and expected production, the expected avoided emissions are calculated to be 6.2mill tCO2e per year.

→ Read more about energy and the Development Mandate

→ Read more about increased renewable energy and the Climate Mandate

8.9 million	**New clients** offered financial services in 2022 under the Development Mandate
32.1 million	**Total clients** offered financial services in 2022 under the Development Mandate
89 BNOK	**Increased lending** increase in total lending volume under the Development Mandate

→ Read more about access to finance

5.1%	**IRR in 2022** in investment currency 14.8% in NOK
5.1%	**IRR since inception** in investment currency 8.1% in NOK

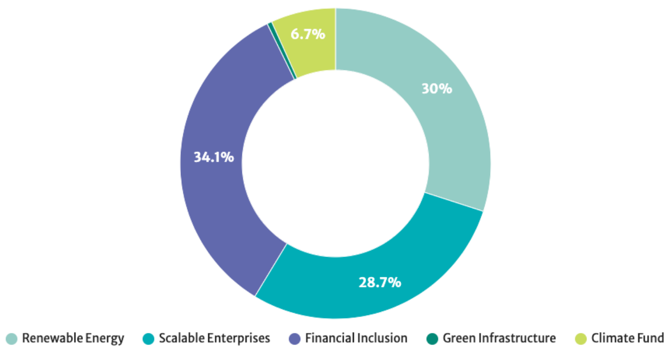
The IRR in 2022 is only calculated with Development Mandate investments included.

(The IRR for 2022 and since inception are both 5.1%, and is not a typo.)

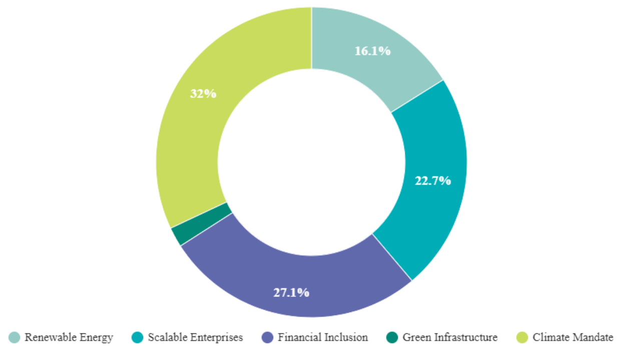
→ Read more about IRR and financial results

Commitments per investment area

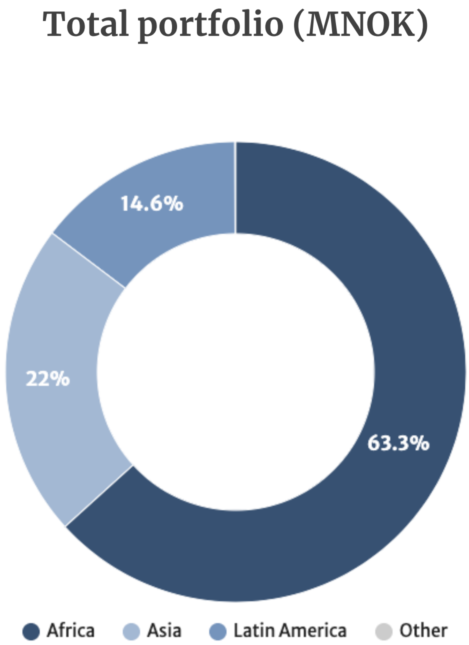
Total portfolio (MNOK)

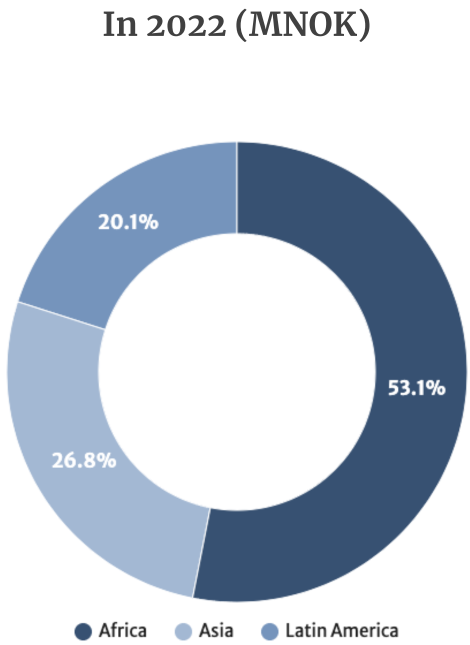


In 2022 (MNOK)

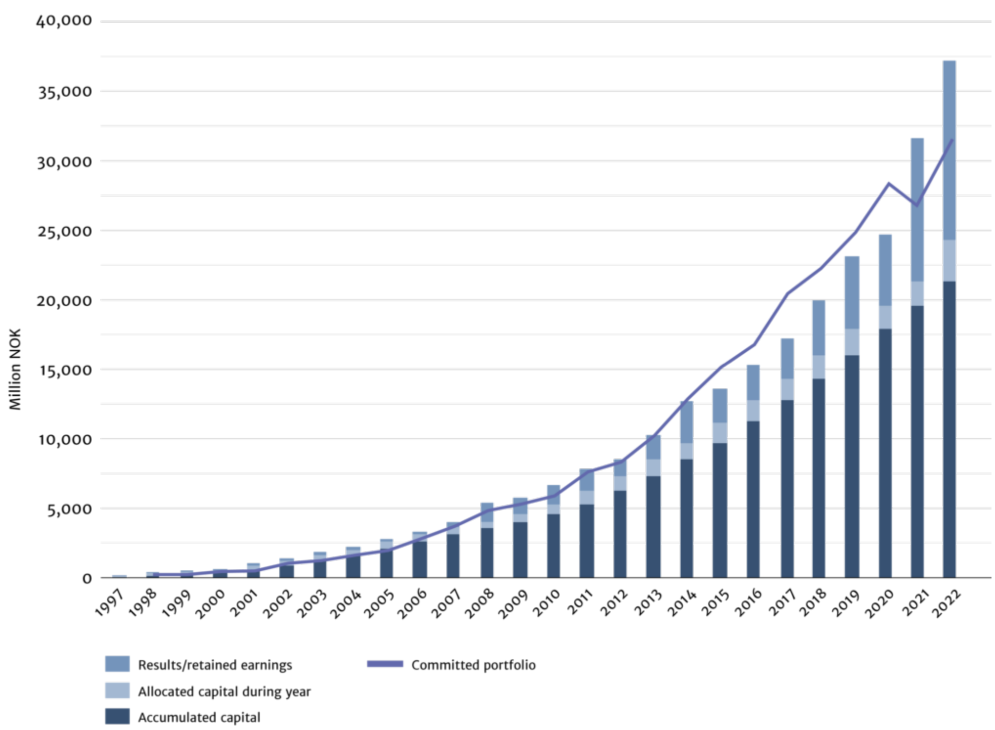


Commitments per region



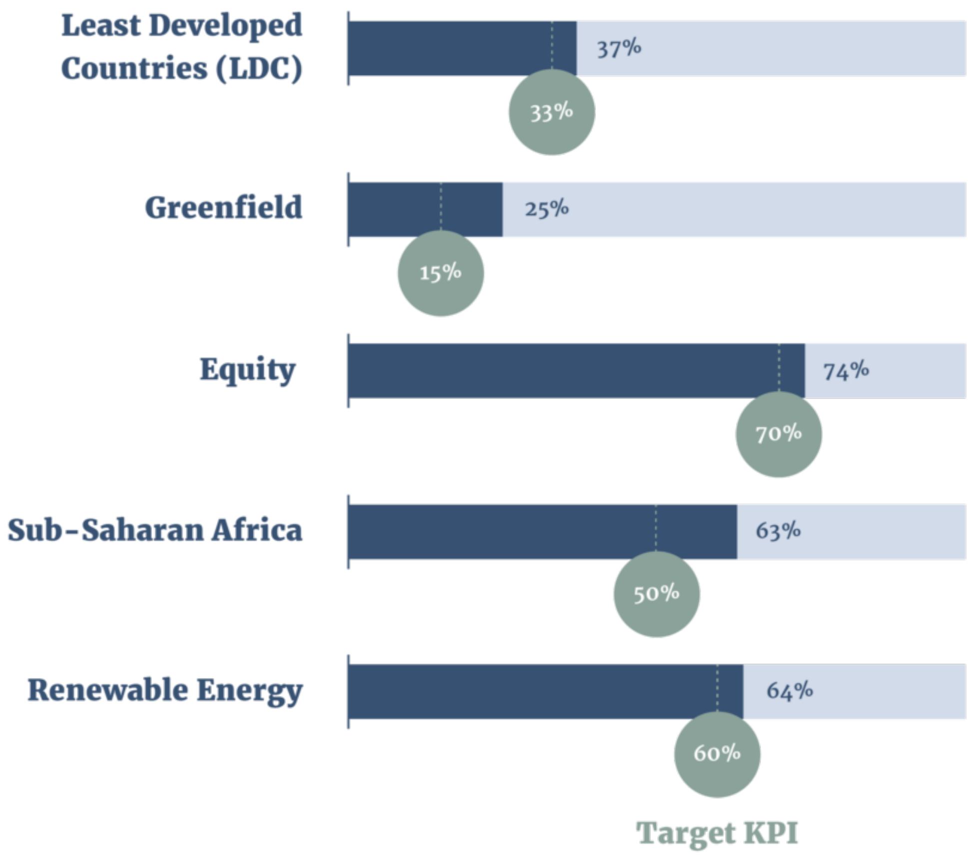


Portfolio since inception

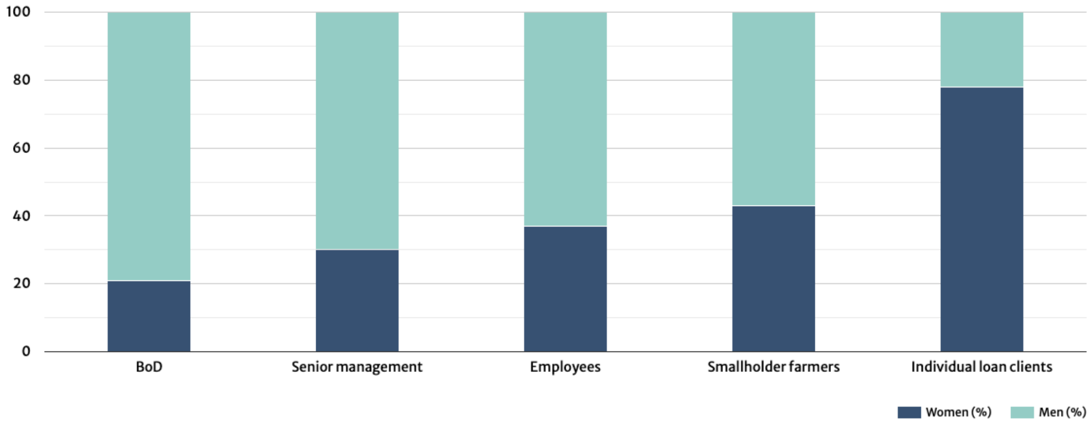


Norfund Key Performance Indicators (Development Mandate)

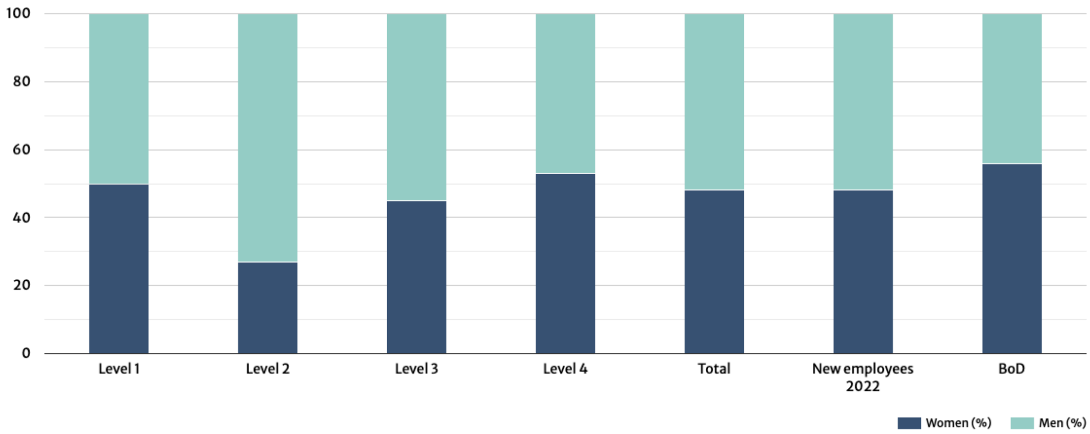
Five key performance indicators (KPIs) are developed as a tool to secure that the portfolio develops according to Norfund's mandate. The KPIs are all measured at the portfolio level, though also monitored year by year (see table below).



Gender equality in Norfund's investees 2022



Gender equality in Norfund 2022



→ Read more about gender

Key figures per year

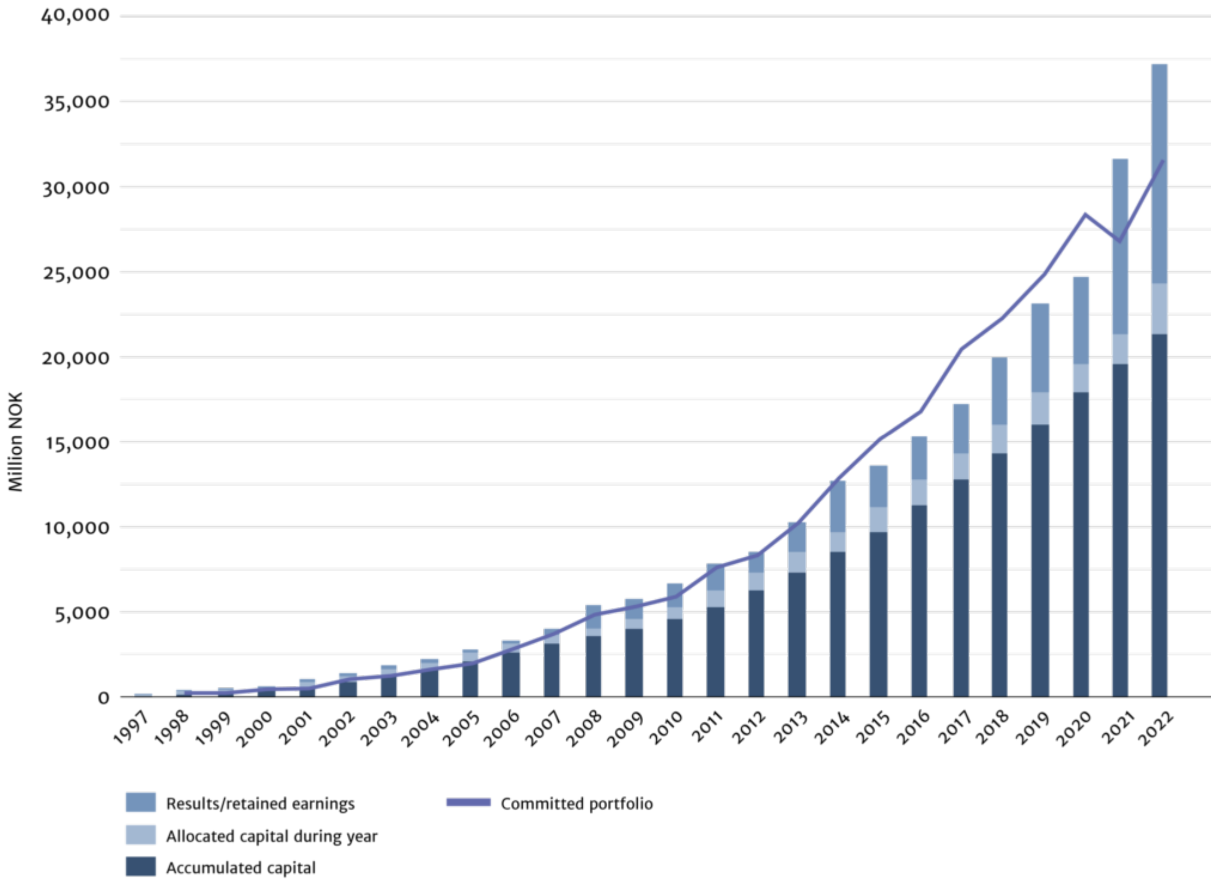
Key figures	2016	2017	2018	2019	2020	2021	2022
Climate and Development Mandates							
Committed portfolio (MNOK)	16 762	20 439	22 253	24 944	28 352	26 924	31 650
New investments (MNOK)	2 784	3 600	3 511	4 015	4 839	5 320	6 513
Number of direct investments in portfolio	124	136	149	163	170	195	226
Capital allocated by the owner (MNOK)	1 478	1 500	1 690	1 905	1 820	1 680	2680
Number of employees in Norfund	69	71	75	82	96	111	113
Development Mandate							
Committed portfolio (MNOK)	16 762	20 439	22 253	24 944	28 352	26 924	29 516
New investments (MNOK)	2 784	3 600	3 511	4 015	4 839	5 320	4 540
Return on invested capital (IRR) (inv. currency)	2.9%	14%	4.6%	6.3%	-0.1%	5.2%	5.1%
Number of direct investments in portfolio	124	136	149	163	170	195	219
KPI: Share of investments in least developed countries	33%	36%	41%	40%	39%	40%	37%
KPI: Share of investments in Sub Saharan Africa	52%	50%	55%	53%	53%	65%	63%
KPI: Share of greenfield investments	20%	27%	32%	31%	25%	22%	25%
KPI: Share of equity and indirect equity	85%	85%	81%	79%	79%	75%	74%
KPI: Renewable energy share of allocated capital >50% (ended 2021)	62%	145%	60%	55%	54%	40%	-
KPI: Renewable energy share of allocated capital >60%							64%

Key figures	2016	2017	2018	2019	2020	2021	2022
Number of jobs in portfolio companies	276 000	292 000	304 000	380 000	377 000	452 000	514 000
Taxes paid by portfolio companies (BNOK)	10.9	9.3	13.9	14.1	16.9	16.9	23.2
Climate Mandate							
Committed portfolio (MNOK)	–	–	–	–	–	–	2 135
New investments (MNOK)	–	–	–	–	–	–	2135
Number of direct investments in portfolio	–	–	–	–	–	–	7

Portfolio overview

By year end 2022, Norfund had committed investments totaling 31.65 billion NOK in 226 projects. The Development Mandate accounted for 29.5 billion NOK in 219 projects, and the new Climate Mandate accounted for 2.14 billion NOK in seven projects.

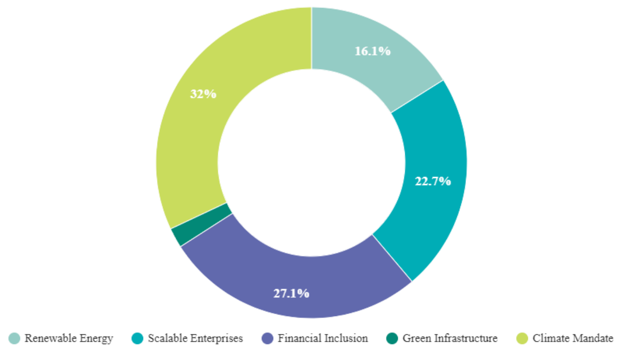
Portfolio since inception



Priority investment areas

Norfund invests in four areas under the Development Mandate. These are areas where the potential for development impact is substantial and that are aligned with the SDGs: Renewable Energy, Financial Inclusion, Scalable Enterprises and Green Infrastructure. In addition we now invest through the new Climate Mandate with the Climate Investment Fund, in order to accelerate the global energy transition by investing in renewable energy in developing countries with large emissions from coal and other fossil power production.

Portfolio per investment area (MNOK)



Key Performance Indicators (KPIs) for Norfund's Development Mandate portfolio

Four Key Performance Indicators are defined for Norfund's Development Mandate portfolio.

Least Developed Countries >33%

The scarcity of capital available in Least Developed Countries (LDC) means the needs for our investments are high. 37% of Norfund's portfolio is in these markets.

37 % Total portfolio in LDCs

Sub-Saharan Africa >50%

In line with Norfund's strategic target, 61% of all new commitments in 2022 were in Sub-Saharan Africa, and 63% of the portfolio is now allocated in the region.

63 % Investments in Sub-Saharan Africa

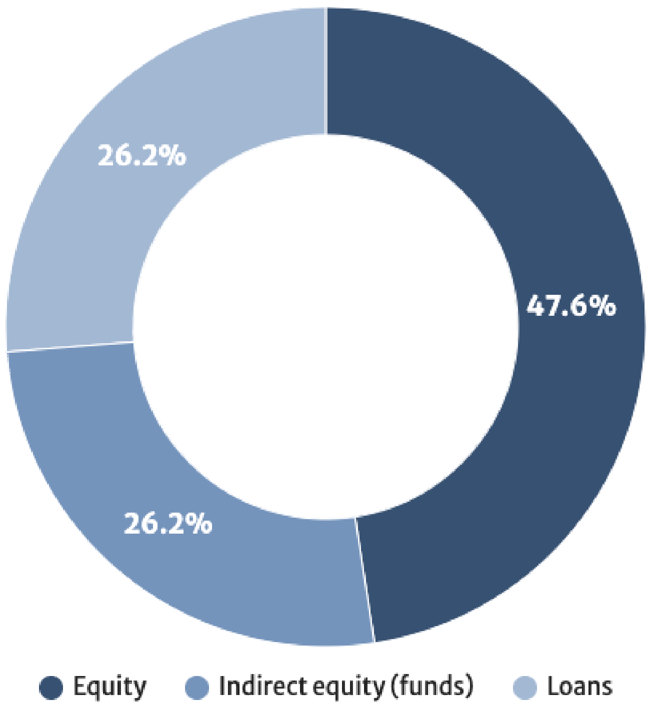
Greenfield >15% of three years' moving average

Investments in new power plants, startups and first-generation funds are classified as greenfield investments. Greenfield investments often carry high risk but may be particularly important to development. The greenfield KPI is different to the other KPIs. This is a floating average of commitments over the past three years and not a portfolio level measure. This KPI ended in 2022.

25 % Total portfolio in greenfield

Equity and indirect equity >70%

Norfund provides capital in the form of equity, debt and fund investments. Preference is given to equity investments – both direct investments and through funds – because in most developing countries equity is the scarcest type of capital available to enterprises.



Note: This diagram only includes the Development Mandate

→ Key figures for 2022

Norfund investment portfolio overview

(as of 31.12.2022)

Renewable Energy portfolio 2022

Financial Inclusion portfolio 2022

Scalable enterprises – Funds portfolio 2022

Scalable Enterprises – Direct portfolio 2022

[Green Infrastructure Portfolio 2022]

How we make a difference

Norfund invests to create jobs, improve lives and support the transition to net zero.

To fulfil our mandates effectively, we focus on countries and investment areas in which capital is scarce and our development impact is likely to be strong. Capital is scarce where other investors are reluctant to invest because of high levels of real or perceived risk. The extent to which an investment contributes to an outcome that would not have happened otherwise is often referred to as ‘additionality’. These two criteria – additionality and impact – constitute the backbone of our strategy.

→ [More about additionality]

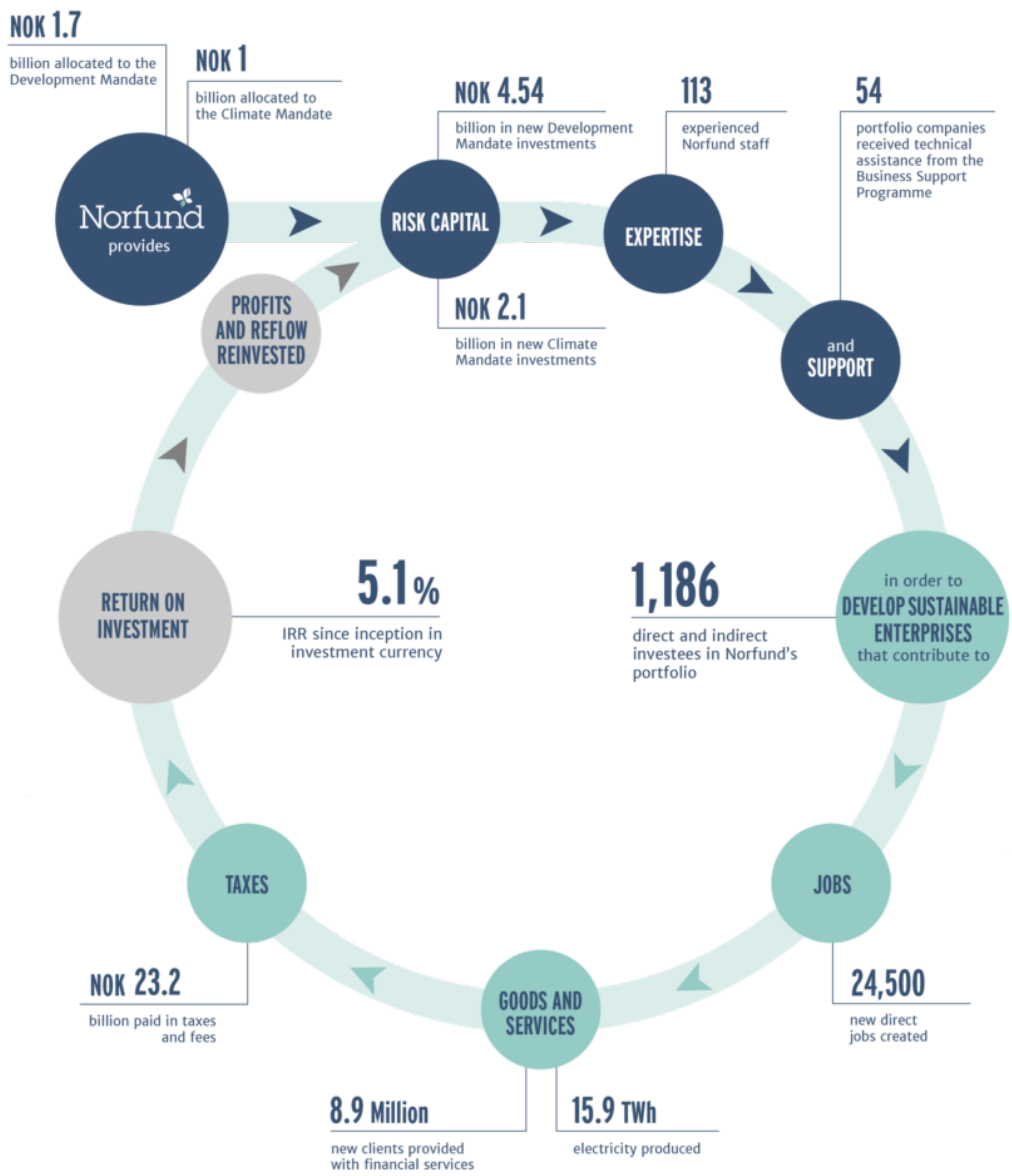
Read about Norfund's Development Mandate and Climate Mandate

Investing in the transition to net zero

Creating jobs, improving lives

The illustration below shows how Norfund works and how investments in 2022 contributed to creating jobs, increasing energy access and supply and strengthening financial inclusion. When Norfund is no longer considered additional, the investments are exited. The proceeds are then reinvested in new enterprises with greater need for risk capital.

→ Discover Norfund's impact here



A responsible and active investor

Norfund is a responsible owner of our portfolio companies, contributing expertise and sound corporate governance – helping our investees to improve their environmental and social performance.

→ **Norfund's Environmental and Social Risk Management**

If environmental and social risks are not addressed appropriately, harm can be caused both to people and to the environment. The management of environmental and social risks is therefore an integral part of Norfund's investment process. Norfund uses the Environmental and Social Sustainability Performance Standards of the World Bank's International Finance Corporation (IFC). This framework covers eight standards that form the basis for our assessments and follow-up interventions.

Norfund requires high standards of business integrity from employees and business partners and communicates its no-tolerance approach to all stakeholders.

More about Norfund's business integrity policy and other governing documents at norfund.no

Principles for Responsible Investments (PRI)

Since 2017, Norfund has been a signatory to the Principles for Responsible Investment (PRI) initiative. The PRI outlines six principles for responsible investment that Norfund has committed to and report on annually. The six principles reflect the increasing relevance of environmental, social and corporate governance issues to investment practices.

Operating Principles for Impact Management

The "Operating Principles for Impact Management" is a new investment tool that has established a market consensus for the management of investments for impact. The principles were developed by the International Finance Corporation (IFC), in consultation with a core group of stakeholders and draw on emerging best practices. They provide a reference point against which the impact management systems of funds and institutions may be assessed.

Norfund was among the first founding signatories. Since 2020, Norfund has annually published a Disclosure Statement describing how Norfund is working to align its investments and operations with the Impact Principles. In 2022, the statement and Norfund's impact management approach was verified by BlueMark.

Norfund Disclosure Statement Operating Principles for Impact Management

A minority investor

Norfund invests jointly with other partners, and always as a minority investor. By being a significant minority investor, Norfund has influence, while supporting local ownership and encouraging other investors to invest in developing countries. Equity is our preferred instrument, and we often take up Board positions in our portfolio companies.

Strategic partners and co-investors

Norfund's ownership will normally not exceed 35 percent of a company. This means we always depend on competent and trusted partners. Norfund has clear guidelines for how to analyse and evaluate potential partners. The partner's areas of expertise and knowledge, previous and existing positions and relationships, other roles in the society and reputation are among the factors that are carefully considered.

Being a minority investor is a principle that is defined in Norfund's mandate. This can enable other international investors to invest in developing countries and supports local ownership.

Co-investing this way enables Norfund to leverage additional capital and to provide the industrial and local knowledge needed for each investment.

Overview of Norfund partners at norfund.no

Responsible Tax Policy

Norfund's Responsible Tax Policy, adopted by the Board of Directors in 2019, sets out the principles that guide our approach to tax-related issues and what we expect from our portfolio companies and co-investors. The guidelines are based on internationally agreed principles and were drawn up with input from civil society. It consists of seven fundamental principles. They include requirements regarding transparency, that Norfund's investees shall pay taxes to the countries in which they operate and where the income occurs, and that third countries must only be used when necessary to meet the fund's development priority of investing in high-risk markets and to protect the fund's capital.

Business Support

Norfund's Business Support facility aims to enhance the sustainability and development effects of our investments.

By leveraging Business Support, we can exercise responsible ownership and create value additionality for our investments in high-risk sectors and segments.

Following the Norfund Development Mandate strategy, Business Support projects actively target human rights, anti-corruption, climate and environment, and gender equality.

→ More about Norfund Business Support projects in 2022

Frontier Facility

The Frontier Facility (formerly known as the Project Development and Risk Mitigation Facility) is funded by the Norwegian Ministry of Foreign Affairs.

The facility serves two purposes:

- **Enabling early phase project development within Norfund's investment areas**
- **Risk mitigation for commercial investors that wish to invest in Norfund funded projects, throughout the project cycle**

The Frontier Facility is primarily used for projects that have a risk level which is higher than other investments in Norfund's core portfolio and to be used in our most demanding markets - in particular fragile states and Least Developed Countries (LDCs). These projects are therefore managed as a separate facility and are not included in Norfund's overall portfolio valuation.

→ Read more about the Frontier Facility

Norfund and the SDGs

Norfund is committed to contributing to implementing and supporting the UN Sustainable Development Goals.

Norfund invests to create jobs, improve lives and support the transition to net zero.

Norfund's work under the Development Mandate is the Norwegian government's main instrument for strengthening the private sector in developing countries to contribute to poverty reduction.

Norfund's work under the Climate Mandate is the Norwegian government's main instrument for accelerating the global energy transition by investing in renewable energy in developing countries with large emissions from coal and other fossil power production.

Both our Development Mandate mission and strategy for 2023-2026 and our Climate Mandate mission and strategy for 2022-2026 are based on the UN Sustainable Development Goals.

Norfund's mission under the development mandate is to create jobs and improve lives by investing in businesses that drive sustainable development (SDG 8: Decent Work and Economic Growth).

As defined in the development mandate strategy, the investments are concentrated in four investment areas that each also contribute directly to SDG targets:

- Renewable Energy investments contribute to SDG 7-1 (universal access to energy services) and SDG 7-2 (increase share of renewables in the global energy mix)
- Financial Inclusion investments contribute to SDG 8-10 (universal access to financial services) and SDG 9-3 (increased access to financial services for small and medium sized enterprises (SMEs))
- Scalable Enterprises investments contribute to SDG 8-5 (productive employment and decent work for all) and SDG 9-2 (promote inclusive and sustainable industrialization)
- Green Infrastructure investments contribute to SDG 11-6 (clean cities), SDG 12-5 (reduce waste generation), and SDG 6-1 (safe drinking water)

→ More about Norfund's strategy for the development mandate 2023-2026

Norfund's mission under the development mandate is to invest in the transition to net zero in emerging markets (SDG 13: Climate Action). As defined in the strategy for the climate mandate, investments are made in renewable energy directly contributing to SDG 7-1 (universal access to energy services) and SDG 7-2 (increase share of renewables in the global energy mix).

→ More about Norfund's strategy for the climate mandate 2022-2026

In addition, Norfund's work to mobilise capital from other investors contributes to reducing inequalities between countries (SDG 10) and to increasing investments in developing countries (SDG 17).

Cross-cutting issues

The cross-cutting issues in Norway's development policy – human rights (SDG 8), anti-corruption (SDG 16), gender equality (SDG 5), climate and environment (SDG 13) – are assessed in all our investments.

Human rights

The responsibility to respect human rights is a global standard of expected conduct for businesses and their responsibility as employers worldwide (SDG 8.7). As Norfund's role is to contribute to building sustainable businesses, we require our investees to respect human rights by adhering to the IFC Performance Standards. These standards cover relevant parts of the Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights – such as the core conventions of the International Labour Organisation (ILO) and indigenous peoples' rights. You can read more about this under E&S.

8 DECENT WORK AND ECONOMIC GROWTH

Zero tolerance for corruption

Norfund has zero tolerance for corruption in all its investments and activities. We make clear to our portfolio companies that we do not accept any form of corruption and require them to implement anti-corruption programmes. All Norfund employees and representatives (including external board members appointed to portfolio companies) are required to sign and abide by Norfund's Code of Conduct, which prohibits all forms of corruption. If financial irregularities or corruption are suspected, Norfund has a formal channel to support whistle-blowers. Read more about this under Governance and Business Integrity.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Gender Equality

Norfund is committed to addressing gender equality in our own organisation as well as in our investments. We use active ownership to promote equal opportunities for men and women across all levels in our investee companies.

Read more about Norfund's work with gender here.

5 GENDER EQUALITY

Climate

The climate crisis disproportionally affects poor people in developing countries and is a major threat to the goal of eradicating poverty.

Read more about Norfund's work with climate and environment here.

13 CLIMATE ACTION

Organisation and team

Norfund has a large specialist team investing in developing countries. To ensure local presence and expertise, Norfund has five regional offices with locally recruited staff in Africa, Latin-America and Asia. Norfund's headquarter is in Oslo.

Investment expertise

In 2022, 85 out of 127 employees were working directly on investments, following the projects through all the phases of the investment process. This includes eight dedicated employees dealing with Environmental and Social issues (E&S).

Norfund has four sector-based investment areas: Renewable Energy, Financial Inclusion, Scalable Enterprises and Green Infrastructure.

Country presence

Thirty-eight Norfund staff members are employed across five regional offices (Nairobi, Cape Town, Accra, San José and Bangkok) to ensure local proximity and knowledge. The regional offices generate investments, monitor existing commitments and provide all the sector-based departments with support.

→ More about Norfund regional offices at Norfund.no

→ Information about our work with gender equality in Norfund can be found here

Impact expertise, financial analysis, organisational development and legal support

The Strategy and Communication department leads strategy development and implementation, analyses development effects and additionality. The department also works with gender, media, and climate. Finally, they manage stakeholder relations and communication, as well as dialogue with Norfund's owner, the Norwegian Ministry of Foreign Affairs.

The Finance, IT, Risk and HR department is responsible for Norfund's accounts, financial analysis and portfolio reporting, as well as for recruitment, skills and staff development. This department is also responsible for Enterprise Risk Management, IT, the Business Support scheme and the Project Development and Risk Mitigation Facility.

The Legal department is responsible for legal and compliance issues.

The Norfund Way

As a responsible investor, Norfund is committed to act in accordance with applicable laws and with the highest ethical standards, every day. We call it the Norfund Way.

The Norfund Way includes five values and forms the basis for our corporate culture as well as our Code of Conduct. The aim is to establish a corporate culture that is specific and concrete, and that describes what type of attitudes and actions we believe promote Norfund's mandate the best.

Norfund Academy

Competence development, knowledge sharing and strengthening of teams are identified as key building blocks to improving the way we work. The Norfund Academy is one of Norfund's means to strengthening and structuring organisational learning.

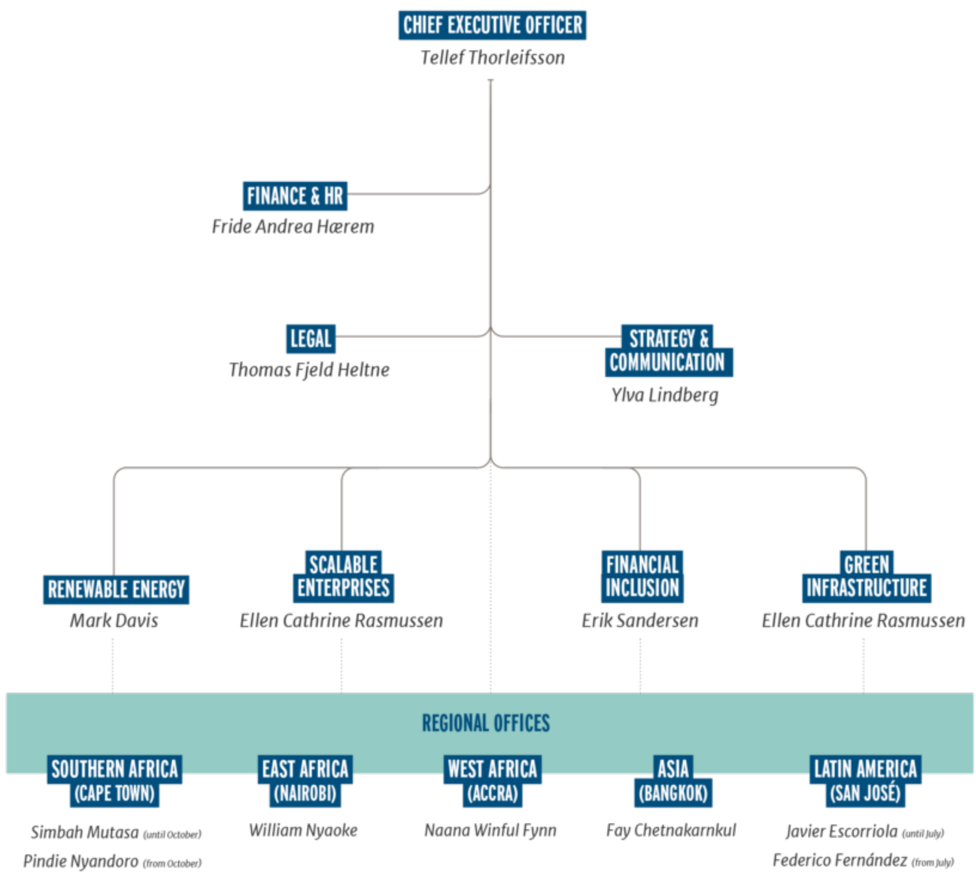
Topics such as IFC performance standards, Business Integrity, the Investment Manual and other core investment competencies among the focus areas selected for competence development going forward. The current course catalogue contains courses like New Joiner, Cyber Security, E&S training, Project Management, Investment Manual training, Travel security videos, sessions for IT-systems in Norfund as well as courses arranged by European Development Finance Institutions (EDFI).

Investment committee

Norfund's Investment Committee (IC) is important, both for quality assurance and for strengthening decision-making. While the CEO/Management Team decide on investments up to USD 4 million, the IC is mandated to decide on investments between USD 4-15 million. The IC also reviews investment proposals exceeding USD 15 million; these proposals are given final approval by the Board of Directors.

The IC is chaired by the CEO, Tellef Thorleifsson and has seven additional members:

- Two external members: Per Aage Jacobsen and Kathryn Baker,
- Four management team members; Mark Davis, Erik Sandersen, Ellen Cathrine Rasmussen and Thomas Fjeld Heltne
- One E&S advisor; Karin Bianca Gullman.



Management

Tellef Thorleifsson
Chief Executive Officer

Fride Andrea Hærem
Chief Financial Risk Officer & HR

Thomas Fjeld Heltne
Executive Vice President, General Counsel

Mark Davis
Executive Vice President

Ylva Lindberg
Executive Vice President, Strategy & Communication

Erik Sandersen
Executive Vice President, Financial Institutions

Ellen Cathrine Rasmussen
Executive Vice President, Scalable Enterprises

Foto: Hanne Marie Lenth Solbø / Norfund

Tellef Thorleifsson

Chief Executive Officer

Tellef Thorleifsson has been CEO of Norfund since Autumn 2018. Prior to Norfund, he was a co-founder and managing partner of Northzone. Thorleifsson was instrumental in building Northzone to become a leading international venture fund. Since inception in 1996 it has raised more than EUR 1.5 billion through nine funds and invested in more than 130 companies. Thorleifsson is also a co-founder of the Voxtra Foundation which has been making targeted investments and grants within agribusiness in East Africa. Thorleifsson has held several directorships.

Fride Andrea Hærem

Chief Financial Risk Officer & Head of HR

Fride Andrea Hærem took the position as CFRO and Head of HR in Norfund in 2021. Before joining Norfund, she was EVP for HR, Marketing and Communication, IT and Strategy at Norconsult. She has more than 10 years of experience in HR directorship roles and has held several finance manager positions, including at Posten and Cermaq. She holds a Master of Management with a specialisation in international business leadership from BI Norwegian Business School.

Thomas Fjeld Heltne

Executive Vice President, General Counsel

Thomas Fjeld Heltne took the position as General Counsel in Norfund in 2019. Before joining Norfund, he was Director M&A at Norsk Hydro. Heltne has throughout his career worked with transactions, financing and international projects, both from the legal and commercial side. He holds a degree in law from Norway as well as a Master of Laws from LSE and Corporate Finance from the Norwegian School of Management. Heltne has been member of and observer to boards of Norwegian industrial companies and served on the Trade Policy Panel for the Confederation of Norwegian Enterprise (NHO).

Ylva Lindberg

Executive Vice President, Strategy & Communication

Prior to joining Norfund, Ylva was founding partner of SIGLA, a boutique consultancy on sustainability and business, for 13 years. She has worked with sustainable and impact investments for almost 20 years and has experience with asset management and consumer goods. Ylva is a senior associate of the University of Cambridge Institute for Sustainability Leadership, board member of Lærdal Medical and member of the Responsible Investment Advisory Council of BMO Global Asset Management.

Erik Sandersen

Executive Vice President, Financial Institutions

Erik joined Norfund in 2014 and has represented Norfund on several boards of banks and microfinance institutions. He is currently a board member of the South Africa-based bank investment firm Arise and of the Nordic Microfinance Initiative. Prior to joining Norfund, Erik worked for 10 years as a co-founder and partner in a venture capital firm in the Nordic region. He has also worked as an executive in the IT sector and for the Boston Consulting Group in London and Oslo. He holds a master's degree in engineering from the Norwegian University of Science and Technology (NTNU) and an MBA from Stanford University.

Mark Davis

Executive Vice President, Clean Energy

Mark has worked extensively with renewable energy investments, regulation and policy in developing countries, with a focus on Africa. Prior to joining Norfund he was a partner at ECON Analysis, and previously was Postgraduate Director at the Energy & Development Research Centre, University of Cape Town. He holds a PhD in energy economics from the University of Sussex, and earlier degrees in mathematics and applied science from the University of Cape Town.

Ellen Cathrine Rasmussen

Executive Vice President, Green Infrastructure and Scalable Enterprises

Ellen Cathrine Rasmussen joined Norfund as EVP for Scalable Enterprises in March 2020. In 2021 she also took on the role of EVP for Green Infrastructure. Prior to Norfund, Ellen held several senior positions at Yara, the world's leading fertilizer company. Her last position in Yara was as VP of Sustainability Programs and Global Projects. Prior to that, she was country manager for the Ivory Coast. Earlier in her career Ellen spent four years as EVP for Agrinos, an international agriculture input provider, responsible for Europe, Middle East, Africa and Asia. Ellen has also had various management positions at Norsk Hydro and served as a board member for SINTEF. She studied economics in Norway and France.

Board of Directors

Norfund's Board of Directors is appointed by the General Assembly. The General Assembly is constituted by the Norwegian Minister of International Development who governs the state's ownership in Norfund.

Norfund's Board of Directors ensures that the Fund operates in accordance with the Norfund Act of 1997 and the fund's statutes. The Board defines Norfund's strategy and approves individual investments exceeding specified thresholds. Other investment decisions are delegated to the CEO and Investment Committee.

In 2022, the Board held a total of 8 board meetings and made a trip to England where they participated in the University of Cambridge's Institute for Sustainability Leadership (CISL) Board Program. They also met with the Norwegian Ambassador to the U.K., several portfolio companies, such as Globeleq, AgDevCo, Helios, and with British International Investment (BII).

Three of the Board members - Tove Stuhr Sjøblom, Martin Skancke and Brit Rugland – are also members of the Risk and Audit committee. The role of this committee is to strengthen Norfund's risk management.

Olaug Svarva
Chair

Brit Rugland
Director

Martin Skancke
Director

Finn Jebsen
Director

Lasse David Nergaard
Director (Employee Elected)

Tove Stuhr Sjøblom
Director

Vibeke Hammer Madsen (until June)
Director

Åslaug Haga (appointed from August)
Director

Vidar Helgesen
Director

Karoline Teien Blystad
Director (Employee Elected)

Additionality

Norfund is committed to making a difference by investing where capital is scarce and through active ownership.

The Norfund Act states that Norfund shall contribute to establishing viable, profitable undertakings that would not otherwise be initiated because of the high risk involved.

The extent to which an action contributes to an outcome that would not have happened otherwise is often referred to as 'additionality'. Proving the additionality of our investments is challenging because it requires insights into what could have happened had we not invested.

What does it mean that an investment is additional?

Financially additional

According to the OECD, an investment is financially additional if it supports capital-constrained markets in which private sector partners are unable to obtain commercial financing with similar terms or quantities, or if it mobilises investment from the private sector that would not otherwise have invested.

Value additional

An investment is value additional if it provides non-financial value that the private sector is not offering through active ownership, promoting environmental and social standards or supporting enterprise improvement. Through our value additionality, we contribute to improving both the profitability and the development impact of the businesses in which we invest.

Development additionality

Development additionality is described as the development impact that arise as a result of investment that otherwise would not have occurred.

Ten ambitions on additionality

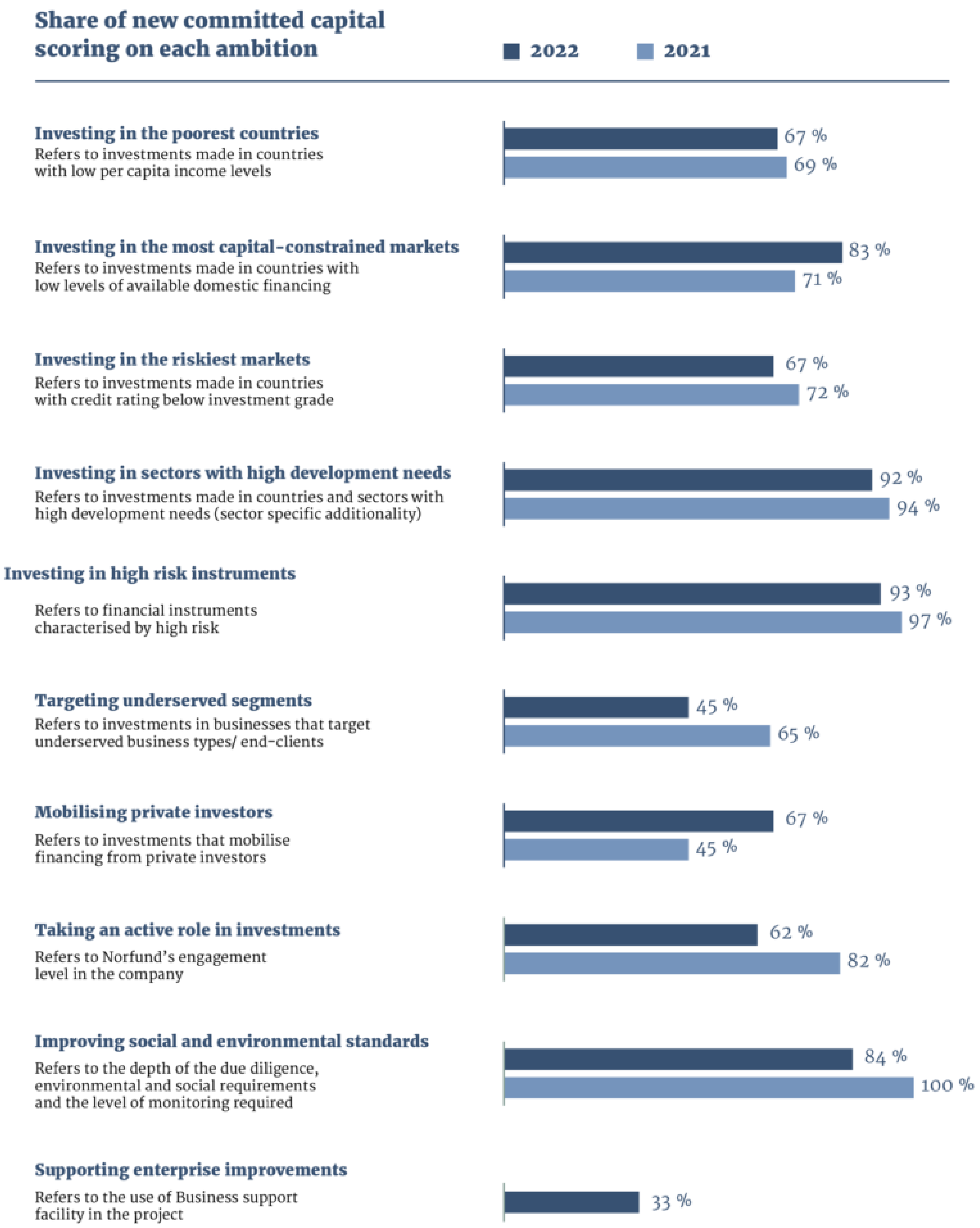
Norfund has a defined additionality framework that helps assess the additionality of our investments and ensure alignment with the OECD definition. This framework consists of ten additionality ambitions (see table below) reflecting both the financial and value additionality of our investments. For each ambition, we have identified relevant indicators to assess the extent to which we meet these ambitions. Investments under the new Climate Investment Mandate are subject to the same additionality assessment. Development additionality is assessed for each new investment by setting baseline and target values for key impact/ climate ambitions, describing what the investment aims to achieve.

Based on our experience with the use of the framework since 2018, the framework has been revised twice to better reflect the markets we operate in.

Additionality informs our investment decisions

The framework informs our investment decisions and the way we report on additionality. Each new potential investment is assessed against the ten ambitions, explained in the graph below, and is accompanied by a narrative description of additionality. In 2022, Norfund invested in 34 new companies and funds that were all assessed using the additionality framework. More information on which ambitions each investment is particularly additional on, is listed on the individual investment webpages on the Norfund website.

Percentage of committed capital to new projects in 2022 scoring materially on each additionality ambition (follow-on investments are not included):



Compared with last year's results, new investments in 2022 scored slightly lower on several of the ambitions, but significantly higher on mobilising private investors. However, more of our committed capital was invested in economies with low access to capital (domestic credit to private sector) than in 2021. “Supporting enterprise improvements” through the use of our Business Support facility is a new indicator as of 2022.

A responsible investor

[Environmental and social risk management]

[Governance and business integrity]

[Climate and environment]

[Business Support]

[Gender]

Environmental and social risk management

Appropriate Environmental & Social (E&S) measures reduce risk to workers, the environment and local communities and provide business benefits which increase our impact. The management of environmental and social risks is therefore an integral part of Norfund's investment process.

Our sustainability commitments

Norfund's Environmental, Social and Governance Policy (ESG Policy) is approved by the

Board of Directors. The policy sets direction for Norfund's E&S work and presents our sustainability commitments and the main standards we use in our work. The policy also describes how we work to identify, assess and manage the environmental and social risks associated with the operations of our clients, and provides an overview of the cross-cutting issues that guide our work.

IFC PERFORMANCE STANDARDS

The IFC Performance Standards for Environmental and Social Sustainability and the World Bank Group Environmental, Health and Safety Guidelines are the main standards for operationalising Norfund's sustainability commitments. These standards are globally recognised benchmarks for environmental and social risk management in the private sector. The standards are used by development finance institutions, commercial banks and other similar institutions.

The eight Performance Standards define clients' responsibilities for managing their environmental and social risks. The following aspects are included:

1: Assessment and Management of Environmental and Social Risks and Impacts

2: Labour and Working Conditions

3: Resource Efficiency and Pollution Prevention

4: Community Health, Safety and Security

5: Land Acquisition and Involuntary Resettlement

6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

7: Indigenous Peoples

8: Cultural Heritage

Clear roles and responsibilities

Our Environmental and Social Management System (ESMS) describes roles and responsibilities relating to E&S risk management, including governance, oversight, and E&S day-to-day working practices. Investment staff take part in a training programme which includes modules on our ESMS, the IFC PS and how to identify environmental, health and safety issues on site-visits.

Integrated part of investment process

E&S risk management is an integrated part of our investment process and specific actions are required for each step of the project cycle: initial screening, due diligence, legal agreements and monitoring.

Understanding the risk profile of our portfolio companies

In the initial screening phase, Norfund evaluates the project against the EDFI Exclusion lists and performs a high-level assessment of key E&S risks. An inherent risk category is assigned which will determine the depth of due diligence and the degree of E&S expert involvement. Our approach is aligned with EDFI's E&S Standards and was revised in 2022 to include new tools and training modules.

Assessing E&S risks and impacts

If the project is approved by our investment committee, the E&S due diligence commences. This includes a comprehensive assessment of E&S risks and performance based on document reviews, site visits and interviews with key stakeholders. Gauging the potential client's capacity and commitment to E&S risk management is an important aspect of this process. Shortcomings and value add opportunities identified in due diligence are described in an Environmental and Social Action Plan (ESAP) which forms part of the investment agreement.

E&S requirements included in legal agreements

Our portfolio companies are required to comply with applicable national laws and regulations as well as international standards such as IFC Performance Standards and World Bank Group Environmental Health and Safety Guidelines. This includes a requirement to develop an Environmental and Social Management System (ESMS) containing an ESG policy, procedures for identifying, managing and monitoring risks, sufficient organisational capacity, emergency preparedness measures and stakeholder engagement.

Monitoring compliance and supporting capacity building

Norfund is a responsible owner and monitors portfolio companies' compliance with our E&S requirements. Investees are required to report at least annually to Norfund on their E&S risk management performance. In 2022, we revised our approach for assessing the E&S performance of the projects in our portfolio and created a new E&S monitoring system. This helps us better understand the E&S risk and performance of the portfolio and analyse changes over time. Our business support facility is an important tool for building E&S capacity and is often used to strengthen portfolio companies' ESMS and provide training.

Governance and business integrity

High Business Integrity standards are prerequisites for succeeding in delivering on Norfund's mandate.

Corruption, money-laundering and other economic crime have wide-ranging negative effects on societies and are detrimental to reach the United Nation's Sustainable Development Goals (SDGs). Norfund has a zero-tolerance approach to corruption and other forms of economic crime, and we are committed to promoting integrity, transparency and accountability in all our investments.

The framework that governs our work

Overall framework

Norfund has adopted a governance framework consisting of overarching policies adopted by our Board of Directors, relevant underlying guidelines and requirements approved by the management and detailed procedures and templates to help ensure compliance and consistency throughout the organization. The governance framework underwent a major overhaul in 2020 and implementation efforts continued throughout 2022. The governance framework is regularly reviewed to make sure it is up to date and relevant. In 2022, we introduced an HR Policy, updated both our Code of Conduct and our Compliance System and made numerous updates and additions to our underlying steering documents.

Business Integrity framework

The management of Business Integrity risks is an integral part of Norfund's investment process. We require the companies we invest in, our business partners and our employees to promote and adhere to high standards, including:

- Norfund Code of Conduct
- Norfund Supplier Code of Conduct
- Norfund Compliance System
- Norfund Business Integrity Policy
- Norfund Responsible Tax Policy
- Gift and Hospitality Guidelines
- Whistleblowing and reporting procedures

Risk-based approach

The Business Integrity framework describes how we work to identify, assess and manage the Business Integrity risks associated with the operations of our investments, and provides an overview of the cross-cutting principles that guide our work. To further enhance this framework, a risk assessment of our investment portfolio was conducted in 2022. In addition to outlining the Business Integrity risks that Norfund is exposed to, the assessment includes a review of existing mitigating measures and suggested additional measures. The assessment has provided a valuable external benchmarking and will help strengthen Norfund's Business Integrity processes and procedures going forward.

Dedicated resources

To further raise awareness and secure harmonized practices between all offices, one Business Integrity Ambassador has been appointed for each of Norfund's regional offices. The Ambassadors work closely together with the Compliance & Legal Counsel and participate in a joint Business Integrity Ambassador network.

Business Integrity Week

Norfund held its second, annual Business Integrity Week in November 2022. The topic of the event was anti-corruption, which is one of Norfund's four cross-cutting issues. The purpose of the event is to spread awareness and provide training in important Business Integrity practices to the whole organization and continue to build a strong Compliance culture in Norfund.

Whistleblowing and reports

Norfund encourages the reporting of any suspected breach of its governance framework or applicable laws or regulations in connection with or related to its investments or activities. Norfund staff can report suspected violations to internal functions, and such reporting is also encouraged via Norfund's external whistleblowing channel. The whistleblowing channel caters for anonymous reporting of illegal, unethical or other unacceptable circumstances within Norfund and our investments. The whistleblowing channel is also open to Norfund representatives, business partners and other stakeholders, and reviewing and following up on Business Integrity incidents has a high priority in Norfund.

Climate and environment

Climate change is one of the most pressing challenges of our time, with severe consequences for both people, nature and economies. The impact disproportionally affects developing countries and is a major threat to the goal of eradicating poverty. Norfund is committed to supporting a just transition towards net zero in developing countries, in line with the Paris agreement.

Our work on biodiversity and nature is core to our work on environmental and social risks, integrated in the investment process.

Norfund's climate position outlines the way in which Norfund intends to invest in a clean and climate resilient future in developing countries. It is built on three pillars: resilience, reduction, and risk.

Resilience

By resilience, we mean the capacity of individuals, economies and societies to cope with the effects – physical and economic – of climate change. Job creation and economic development enables such resilience.

Norfund's contribution:

-Building climate resilience by prioritizing investments and job creation in the Least Developed Countries (LDCs) and Sub-Saharan Africa

-Increasing resilience in Norfund's existing investments by implementing risk reducing measures

-Exploring opportunities to enhance adaptation and build resilience in the countries where we operate by investing in adaptation and resilience solutions

Reduction

By reduction, we mean reducing or avoiding emissions to enable the transition to an energy system aligned with the Paris Agreement.

Norfund's contribution:

-Managing the Climate Investment Fund on behalf of the Norwegian Government, with the primary goal of avoiding and reducing greenhouse gas emissions

-Investing in climate solutions such as large-scale renewable energy (where the Climate Investment Fund is the most important vehicle), transmission, waste management and water solutions to help avoid emissions and facilitate the transition to a low-carbon economy.

-Aligning all new investments with the objectives of the Paris Agreement, in line with the EDFI Statement on Climate and Energy Finance)

-Charting a path to achieve net zero portfolio emissions by 2050, in line with the EDFI Statement on Climate and Energy Finance. This path must balance the need for rapid decarbonization at the global level with the needs for development and growth in emerging economies. Further, it will be a stepwise process, reflecting uncertainties, lack of data and our investees´ capacity for implementation.

-Avoiding fossil fuel investments in line with our fossil fuel exclusion list (with exemptions for Paris-aligned gas-fired power until 2030)

Risk

By risk, we mean the physical risks, such as flooding, drought and cyclones, and transition risks, such as policy, technology and reputational risk, that impact companies. These risks can also be turned into opportunities.

Norfund’s contribution:

-Assessing material climate risks (physical and transition) for sectors, geographies, and investees

-Using our role as owner to build capacity and support our investees to manage climate impacts, reduce financial risk and seize climate-related business opportunities where relevant

-Disclosing information in line with the Task force on Climate related Financial Disclosures (TCFD) recommendations

-Integrating climate risk in our Enterprise Risk Framework

Norfund's 2022 key climate contributions

1415 MW	**New electricity capacity** New capacity financed in 2022, 100% renewable
3208 MNOK	**Climate finance** Committed climate finance in 2022*
6.3 million tonnes CO2e	**Avoided emissions** estimated avoided emissions in 2022**

**Norfund uses the OECD DAC Rio Markers for Climate to define climate finance. By evaluating projects against the Rio Markers, Norfund identifies activities targeting the Rio convention objectives for climate change on adaptation and mitigation.*

***Avoided emissions are estimated using the harmonized IFI approach "GHG Accounting for Grid Connected Renewable Energy Projects" (see more about the calculation of the emissions factors in the document: 'Methodological Approach for the Common Default Grid Emission Factor Dataset' (2022)). The estimation includes all operational renewable power producers where Norfund has an ownership share or has extended a loan, that are providing electricity to the grid (such as large-scale solar power plants), or substituting power from the grid (such as "captive power" solutions that provide power directly to a consumer, for instance rooftop solar). It does not include companies providing pure off-grid solutions such as Solar Home Systems. The figures are not attributed to Norfund's share.*

Norfund's portfolio companies have, since the fund was established in 1997, installed around 8,900 MW new renewable energy capacity (incl. capacity under construction) under the development mandate. These portfolio companies contribute to avoiding an estimated 10 million tonnes of CO_2 emissions annually. This is equivalent to twice the capacity of the Norwegian government's CCS project Langskip, which will be able to store 5 mill tonnes CO2e (once fully operational).

TCFD (Task force on Climate related Financial Disclosures) report summary

Norfund's 2022 report, in line with the TCFD recommendations, can be found at the link below. We recognize that managing climate-related risks and opportunities is an ongoing process and we remain committed to enhancing our practices and processes.

→ TCFD 2022 at norfund.no

Norfund’s climate footprint

Norfund aims to report on absolute emissions scope 1, 2, and 3 in line with PCAF and the GHG protocol. Norfund’s climate footprint consists of emissions from Norfund’s own operations, but most importantly, financed emissions – emissions from the companies in Norfund’s investment portfolio. The latter is by far the largest and also the most challenging to measure.

Financing a just transition to net zero in developing countries will require us to not only invest in already low-emitting sectors, but also sectors that are key to economic development with high initial emissions and contribute to their decarbonization path. These investments will add to our portfolio carbon footprint in the short to medium term.

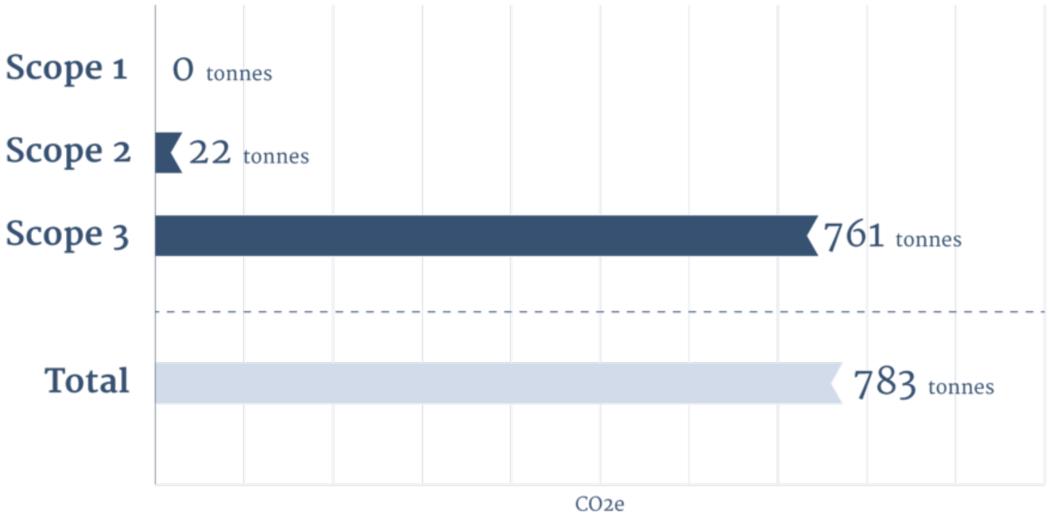
What is scope 1, 2 and 3?

Scope 1 emissions refer to the direct greenhouse gas emissions that result from an organization's activities or are within its control (e.g. emissions associated with fuel combustion in boilers, furnaces, or vehicles). Scope 2 emissions refer to the indirect emissions resulting from an organization's consumption of energy (e.g., purchase of electricity, steam, heat, or cooling). Scope 3 emissions refer to all other indirect emissions that occur throughout an organization's value chain, such as those resulting from business travel, the purchase or sale of goods and services, the disposal of waste, or a company's investment portfolio.

GHG emissions from Norfund’s own operations

As an investor, the activities in our investment portfolio constitute the majority of Norfund’s emissions, while emissions from own operations are primarily office related. Nonetheless, Norfund requires companies to have strong environmental management, and we believe it is important to start with ourselves by working to minimise our own footprint and continuously improve our operations.

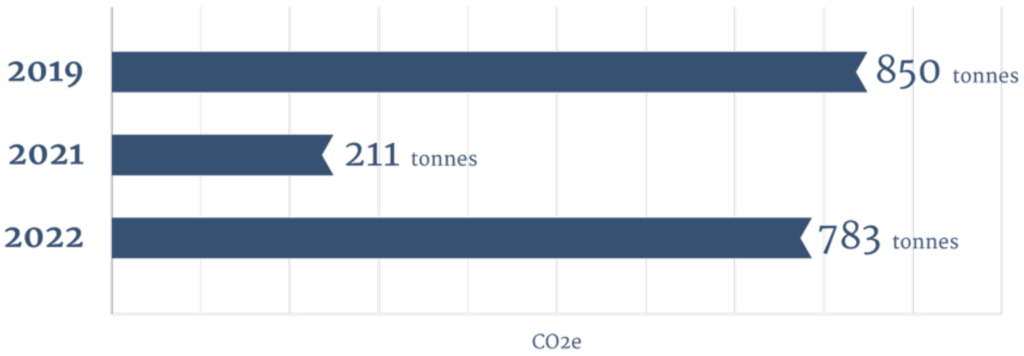
Norfund's 2022 emissions in tonnes Co2e per scope



Norfund has no scope 1 emissions. Emissions in scope 2 indirect upstream activities are from electricity and heating for the Oslo office, but for now excluding the regional offices. Within scope 3 indirect upstream activities, emissions are from business travels and waste. Emissions from business travels via air travel are from all Norfund offices, whereas emissions from waste are only from the Oslo office.

Norfund’s Oslo office was certified as an Eco-Lighthouse (Miljøfyrtårn) in 2022 and uses this framework to improve our internal environmental performance. As part of the framework, Norfund reports GHG emissions from its own operations annually.

Norfund's emissions in tonnes Co2e per year



Covid-19 affected the activity and thereby GHG emissions for Norfund in 2021, and there is reason to believe that Covid-19 has affected the result for 2022 in the same way, especially affecting travel activity in Q1 and Q2. For 2022, we reported emissions from air travel for all Norfund offices, while for 2019 and 2021 the report covers the Oslo office only. As Norfund obtained the Eco-Lighthouse certification in 2022, we calculated emissions for 2019 in addition to 2021, in order to have a baseline with pre-covid data, hence no report for 2020.

Air travel accounts for more than 95% of Norfund's emissions from own operations, and this is an indication of where Norfund should focus efforts to reduce emissions. According to Norfund's business travel guidelines, we always assess the need for physical meetings, and if digital meetings could be a suitable option. In 2023, we aim to report GHG emissions for more activities and define goals per scope 1,2, and 3.

We work continuously to create more environmentally friendly operations and better working environments, and we have identified approximately 25 measures to be implemented and followed up within the organisation in 2023, covering travel, energy, waste management, procurement, working environment and canteen.

Eco-Lighthouse certification

Eco-lighthouse is Norway's most widely used certification scheme for enterprises seeking to document environmental efforts and demonstrate social responsibility. The certification has been approved by the European Commission and is valid in the EU. As an integral part of the certification, an annual climate and environmental report is submitted. The GHG emission calculations in the Eco-Lighthouse portal correspond to the GHG protocol. The portal also includes a holistic environmental management system with a valuable tool to monitor progress or regression in our work to create more environmentally friendly operations and safer work environments. As an Eco-Lighthouse, Norfund works towards satisfying requirements and implementing environmental measures on a systematic and ongoing basis.

Norfund's financed emissions

Financed emissions are emissions from the activities of companies and projects in which Norfund is invested. This is where Norfund's largest share of emissions are, and estimating these is a priority for us.

During 2022, we have made significant progress on collecting and mapping the availability and quality of data as well as the tools available for estimating emissions. But data availability and quality are a challenge in ours markets: only around 10% of portfolio companies were able to report some GHG emission data, most of it unverified by an external party. We have been testing the Joint Impact Model (JIM) to estimate GHG emissions from our portfolio companies (scope 1, 2 and 3) and attribute them to Norfund, but it turned out to be more difficult than we thought. We were therefore not able to estimate our financed emissions from our investment portfolio as we aspired to do this year. We do report on scope 1, 2 and 3 for own operations. Going forward we will continue to work on our methodologies and data capturing to be able to report on financed emissions.

Use of the Joint Impact Model (JIM) to estimate GHG emissions

Since 2020, Norfund uses the Joint Impact Model (JIM) to estimate the indirect job effects of our portfolio companies. In 2022, we have assessed how this can also be used to estimate greenhouse gas emissions from the companies in Norfund's portfolio. The JIM is a publicly accessible tool developed as a result of a collaboration between several development finance institutions (DFIs) and multilateral development banks (MDBs). The JIM and its methodology for attribution is fully aligned with the Partnership for Carbon Accounting Financials (PCAF) Global Standard for the Financial Industry.

However, as with any model, the JIM has its limitations. Estimates of indirect impact are based on industry averages, which may differ from individual company characteristics - and so company specific (rather than industry wide) GHG emissions reductions will not be captured. It relies on data that may be incomplete or inaccurate, and it does not account for indirect emissions from changes in land use. Despite these limitations, we believe the JIM will provide valuable insights into where the emissions in the portfolio are, including scope 1, 2 and 3 and will seek to apply the model for 2023.

Gender

Norfund is committed to promoting gender equality in our own organization and in our investees.

Norfund's Gender position was updated in 2021, building on the ambitions already set out in 2016 when Norfund was one of the first development finance institutions (DFIs) to develop a gender position. Norfund reports annually on the Gender Position and the related action plan to the Board of Directors and in the report on operations.

Norfund's position on gender equality and women's economic empowerment has three objectives:

1. To ensure equal opportunities and promote gender balance across all levels in Norfund
2. To promote equal opportunities for men and women across all levels in investee companies and through access to finance
3. To engage with relevant stakeholders to learn and where possible influence others to promote gender equality

→ More about Norfund's Gender Position and our work to promote gender equality

→ Information about our work with gender equality in our own organization can be found here

Gender balance in Norfund's portfolio companies

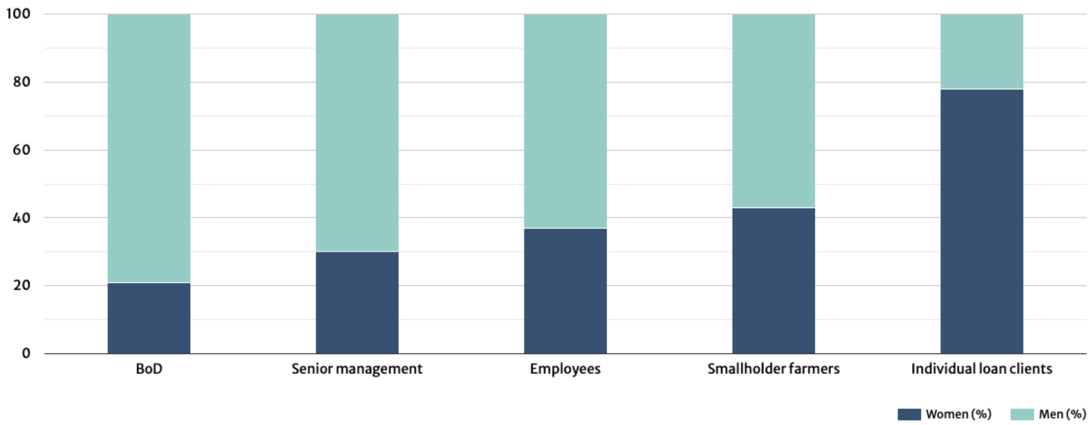
Each year, we collect gender disaggregated data from all investees. This enables us to carry out gender analyses at investee and portfolio level, and helps us to create awareness, both internally and externally.

In 2022, the number of direct jobs held by females increased by 11 200 jobs, or 10 per cent, within Norfund's portfolio companies (with two consecutive years of reporting)*. This compares to an increase of 3 300 jobs, or 3 per cent, in 2021.

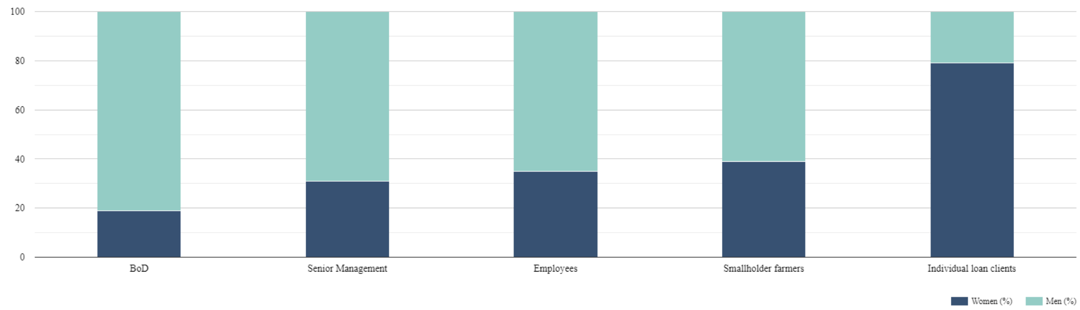
** Includes investees directly in Norfund portfolio as well as investees through platforms and funds*

Note: The figures below are not directly comparable across years due to changes in Norfund's portfolio.

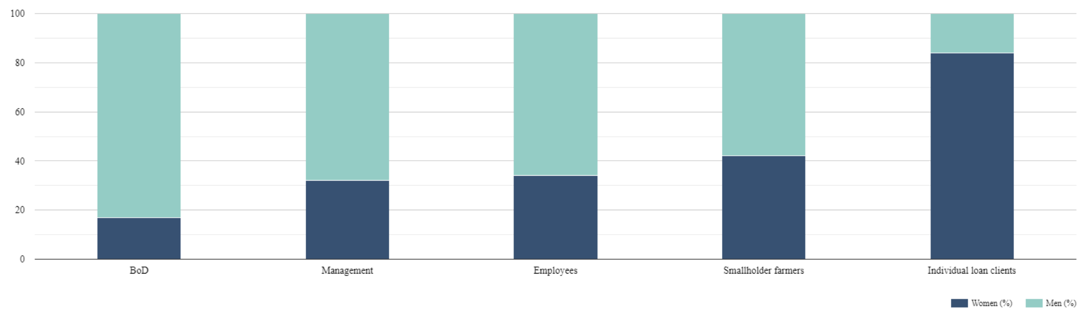
Status 2022



Status 2021



Status 2020



Jobs indirectly supported through Norfund's portfolio

companies

Literature suggests that direct employment is only a fraction of the indirect employment that is supported by an investment. Norfund applies the Joint Impact Model (JIM) to estimate such indirect employment impacts supported through our portfolio companies, also disaggregated by gender.

The indirect employment impacts are divided in backward effects, from local purchases and spending of wages, and enabled effects, from power produced and loans provided by banks and other financial institutions.

The model is applied on a subset of Norfund's active portfolio by end of 2022, directly or through funds, for which sufficient data are available. The results are calculated using economic modelling and do not represent actual figures, rather, they are estimates and should be interpreted as such. The estimates are reported without attribution, i.e. not taking account of Norfund's investment share in the companies.

Jobs indirectly supported

590000 %	held by women supported in supply chains
370000 %	held by women supported through spending of wages
2760000 %	finance-enabled jobs held by women through loans from banks and other financial institutions

→ More about job creation in Norfund

Engagement with our investees

Norfund promotes entrepreneurship and self-employment through access to finance as well as equal opportunities for men and women in our investees. Norfund requests information and data on gender balance already as part of the due diligence process to explore areas for improvement and the companies' intentionality towards gender equality. We also look for gender diversity when taking up board positions with our investees.

The Business Support facility is an important tool in Norfund's work to support our investees, e.g., through external support on gender gap assessment, gender/diversity strategy development or training.

An example of this support towards intentionality is Norfund's investment in Finsocial in Colombia. The company already performs well at most levels, but as part of our due diligence we found an eagerness to intentionally improve their work with gender equality. Through the Business Support facility, Norfund supports Finsocial with the development of a gender strategy and action plan for the financial institution to further strengthen their work.

→ Investment in Colombian Finsocial to reduce economic vulnerability

Another example is support for leadership training for women in Norfund's investees. Norfund has since 2016 closely collaborated with NHO (The Confederation of Norwegian Enterprises) and we support talented women from our investees in attending the Female Future Program in Ghana, Tanzania, Uganda and Kenya.

"My my participation in the Female Future Program in Kenya provided me a lot of insight and practical advice for my day-to-day responsibilities. In addition, the session on board competence made me realize the challenges and liabilities of being a board member and increased my awareness about the dynamics between the management and board "

HR Manager Serengeti Energy

Engagement with the wider society

To deliver on our gender position, we are also committed to enhancing existing and exploring new ways of collaboration addressing gender equality & diversity. As a minority investor, collaboration with other partners is essential.

Norfund is a member of the 2X Global and has supported the organisation since its inception. The 2X Global is an international membership and field-building organization and a result of an ambition of G7 countries to increase investments in women in developing countries.

Norfund's membership is important as it allows us to have a voice in these meetings, learn and share experiences, and we participate in specific working groups, e.g., on diversity, equity and inclusion and gender-based violence and harassment.

→ 2X Global

During 2022, we strengthened our collaboration with the Nordic DFIs, IFU (Denmark), Swedfund (Sweden) and Finnfund (Finland), on gender equality by creating a forum for sharing and learning as well as exploring collaboration towards investees in which we have co-invested.

We also rely on other partners with subject matter expertise to learn and discuss our approach and challenges. In collaboration with CARE, we also hosted a breakfast seminar ‘Investing in Women is simply good business’ in March 2022.

Greater equality leads to better outcomes for small holder farmers

In early 2022, Norfund invested 20m USD of equity in AgDevCo, a specialist investor focusing on developing African agribusiness.

AgDevCo was established in 2009 with initial endowment funding from the UK government. The organization has already created more than 15,000 jobs and increased the income of 750,000 small holder farmers.

Norfund joined AgDevCo, together with the British BII and American DFC as an active co-owner. And in December 2022, all Development Finance Institutions signed an MoU with AgDevCo which established AgDevCo as a 2X Flagship Fund. This MoU sets out specific objectives in the area of gender equality and diversity, such as promoting and maintaining a gender balance at facility manager level.

→ **Norfund invests 20 million USD in African agriculture and food production**

Investing in the transition to net zero

Climate Mandate

About the Climate Investment Fund

In 2022 the Climate Investment Fund managed by Norfund became operational. The fund is Norway's most important tool in accelerating the global energy transition by investing in renewable energy in developing countries with large emissions from coal and other fossil power production.

To help developing countries build their economy on the backbone of renewable energy, the Climate Investment Fund (CIM) will allocate 10 billion NOK from 2022-2027 to invest in renewable energy and low carbon technologies.

Norfund will manage the fund on behalf of the Ministry of Foreign Affairs. The investments under the Climate Investment Fund will be made under Norfund's own name, but the fund's investments and portfolio will be managed separately from Norfund's other activities.

Climate Fund Instructions

→ (in Norwegian)

The strategy for the climate investment fund

The Climate Investment Fund shall contribute to reduce or avoid GHG emissions from coal fired power and other fossil energy production and ensure that economic growth is built on low carbon technologies through investments in renewable energy and enabling technologies in emerging markets where GHG emissions are or are expected to become large.

Within our mandate, we need to prioritize. Our strategic choices with respect to prioritization have been assessed against three criteria: climate impact, additionality and feasibility. Our strategy builds on strategic choices along nine dimensions that will allow us to effectively invest the funds in line with the given mandate.

Geography

The Climate Investment Fund will prioritize existing Norfund strategy countries in order to maintain focus and build on existing capabilities. Among existing strategy countries, we will prioritize 8 core countries: India, Vietnam, Philippines, Cambodia, Indonesia, Sri Lanka, Bangladesh and South Africa. We will allow exposure limits of up to 25% for large, core countries such as India and South Africa.

Investment countries under the Climate Investment Mandate

Sectors

We will invest in both large scale renewables such as wind farms and smaller C&I opportunities such as rooftop solar. We may also invest in enabling technologies with high climate impact (e.g., storage, transmission), focusing on verticals where Norfund has strong competences, can be additional and where there are investable opportunities in our markets.

Photo: Globeleq

Risk profile

The CIM will adopt the risk appetite statement of Norfund, but with the opportunity to take somewhat higher technology commercialization risk. In this way, Norfund can help accelerate the implementation of clean energy technologies in our markets through investments that private sector players hesitate to take on.

Partners and platforms

The climate mandate will, in line with Norfund's overarching strategy, aim to establish new as well as strengthen existing platforms and partnerships.

This strategy of sharing risk can enable industrial investors to realize more projects or enter into new markets, thereby multiplying the impact of Norfund's capital, and leading to sustainable business ventures.

Exits

Under the CIM we have an ambition to actively seek exit of mature or de-risked investments to circulate capital and multiply the climate impact we can have per dollar committed to the fund. To achieve this, we will build on the improving practices regarding exits already emerging for the past years, including assessing exit opportunities at investment and structure investments with exit in mind

Ambitions

The climate fund have the following ambitions to measure how successful we have been in delivering on the mandate:

- **9 GW** new renewable energy capacity financed
- **14 million** tons CO2 avoided per year[2] – equivalent to 30% of Norway's annual GHG emissions
- **1bn invested** into "next wave" technologies
- **10X multiplier effect** per $ invested by Norfund

Investments 2022

Climate Mandate

The Climate Investment Fund became formally operative in May 2022. Since then, several significant investments have been made, putting over 2 billion NOK to work.

SAEL Industries, India

SAEL Group was founded in 1999 and prior to Norfund investment was 100% owned by the Singh Awla family. The Group was initially focused on agricultural solutions including agri-processing (rice milling) and agricultural warehouses. More recently, the group has expanded into energy solutions, building on their agricultural base to establish a number of power plants utilizing agricultural wastes, primarily paddy straw, as feedstock. SAEL Industries now has committed 166 MW of waste-to-energy plant and 382 MWp of solar power capacity. The waste-to-energy business procures feedstock from farmers in the Punjab region, reducing farmers burning of stubble and so helping address the concern with air pollution linked to this practice. The business provides an additional income stream to farmers as well as contributing baseload renewable power to the grid. SAEL also owns and operates a solar module assembly plant in India which provides modules to their own solar installations.

Norfund committed ca NOK 600 million in equity to the business to support growth. The expectation is that the business will be able to grow to over 3 GW of installed capacity across both the biomass and solar technologies, which would result in ca 7 million tons of CO2 avoided annually.

Enel Green Power, India

Enel Green Power, founded in 2008 within the Enel Group to develop and manage renewable power projects globally, operates over 59 GW of installed renewable capacity in Europe, Asia, Africa and the Americas. In July 2020 Norfund and Enel Green Power entered into a joint investment agreement for renewable energy projects in India.

The first project financed under this partnership was the 420 MWp Thar solar plant in Rajasthan. Enel was awarded the rights to this project under a government run auction, and the plant sells power to the state-owned Solar Energy Corporation of India (SECI) under a 25 year power purchase agreement. Norfund and KLP via the investment partnership KNI India together invested ca NOK 350 million and own 49% of the plant which had a capital expenditure of USD 180 million. The plant is expected to produce ca 800 GWh per year and avoid ca 656,000 tons CO2 per year. Norfund and KLP have also provided loan guarantees so that Norfund’s total commitment level is NOK 282 million.

The second project financed with Enel Green Power is a 168 MW wind project (“Coral”) in Gujarat state. As with Thar, Enel was awarded the rights to sell power to SECI under a government run auction and has entered into a 25 year power purchase agreement. KLP has also invested in this project with Norfund and jointly we have committed ca NOK 317 million in equity capital towards the construction of the project, in addition to loan guarantees of up to NOK 530 million. Once operational, the plant is expected to produce ca 700 GWh per year and avoid ca 573,000 tons CO2 per year.

H1 Group, South Africa

H1 Capital is a South African owned company, qualified as a Black Economic Empowerment ("BEE") entity, which is active in the renewables industry. They have partnered with international power companies including Enel Green Power, EdF, Scatec and Mainstream, and own minority stakes in a number of large power plants including wind, solar and hydropower plants as well as a small waste heat recovery plant.

Norfund has provided NOK 212 million equity to H1 Capital in the form of preference shares, as well as providing mezzanine debt to subsidiaries to support financing of underlying projects. The projects Norfund's climate fund has supported with mezzanine debt include:

- **Kenhardt**: This is Scatec's solar battery project that provides dispatchable power to the grid. The project was awarded under the "Risk Mitigation" auction where the Government tendered for dispatchable power. Scatec's project was the only pure renewables solution awarded. The installation comprises 540 MWp of solar capacity and 225 MW/1,140 MWh of battery storage under a 20 year power purchase agreement where 150 MW of power should be available 16.5 hours per day. With a total capex of ca USD 1 billion, this project is one of the largest solar and storage projects in the world. Norfund has provided a local currency loan of NOK 407 million to a subsidiary of H1 Capital to part finance H1's 49% stake in the project. The project is expected to deliver ca 900 GWh per annum and will avoid ca 766,000 tons CO2 per annum.

- **EdF wind portfolio**: H1 has partnered with EdF for 3 x 140 MW wind projects which were awarded contracts in the 5th round of the South African renewable energy auctions. The EdF projects were the first of this auction round to reach financial close. The projects are expected to deliver 1,400 GWh per year and avoid 1,800,000 tons CO2 per year. H1 has a 29% stake in the projects, and Norfund has provided a local currency loan of ca NOK 181 million to an H1 subsidiary to part finance the equity requirement.

Koppal Narendra, India

ReNew is one of the largest renewable energy independent power producers in India. In 2019-20 ReNew contributed nearly 1% of the total electricity generated in India. The company develops, builds, owns, and operates utility-scale wind energy, solar energy, and hydro projects.

To meet growth in electricity demand over the next twenty years, according to the IEA, India will need to add a power system the size of the EU. Scaling up solar and wind energy requires significant investments in transmission lines to stabilize the grid and transport energy from the areas most suitable for solar and wind.

The Koppal Narendra investment, made together with ReNew and KLP, is a 137 km high voltage transmission line and substation in Karnataka, India under a build-own-operate concession. ReNew is one of India's largest renewable generation companies with close to 8 GW of capacity in operation. The Koppal Narendra project is ReNew and Norfund's first investment in an independent transmission asset and will allow up to 2.5 GW of renewable power to be dispatched to the national grid. The line is currently under construction and should be operational end 2023.

Norfund is investing alongside KLP, and together we will invest around 900 million INR (109 million NOK) for 49% ownership stake in the transmission project, with ambitions for further joint investments.

Investment	Country	Investment year	Instrument	Ownership share	Domicile	Committed (MNOK)
Enel Thar Solar	India	2022	Equity and guarantees	25%	India	285.2
ENEL Coral	India	2022	Equity and guarantees	25%	India	410.4
H1 Capital	South Africa	2022	Equity	N/A	South Africa	212.7
H1 Kenhardt	South Africa	2022	Loans	N/A	South Africa	406.3
H1 EDF	South Africa	2022	Loans	N/A	South Africa	180.4
Koppal Narendra	India	2022	Equity	25%	India	55.3
SAEL	India	2022	Equity	N/A	India	636.4

Impact – Climate Mandate

Emissions avoided

Increased renewable energy supply

Jobs and taxes

Emissions avoided

Climate Mandate

Norfund plays a vital role in unlocking investments in renewable energy that would not otherwise be realized, thereby avoiding emissions and mitigating climate change. Investing in renewable energy in developing countries is crucial for building sustainable and resilient energy systems while reducing emissions.

6.2 million tonnes CO2e

estimated ex-ante CO2e emissions avoided from projects financed in 2022

→ Investing in the transition to net zero

Results 2022

Expected avoided emissions (ex-ante)

Norfund's investments in renewable energy are contributing to the replacement of electricity that would otherwise have been produced from fossil fuels, thereby preventing the emission of greenhouse gases. In 2022, Norfund financed 5 investment projects that, when operational, are estimated to avoid 6.2 million tonnes of CO2e emissions annually.

Additionally, Norfund financed a transmission line in India that will enable 2.5 GW of wind power to feed onto the grid, resulting in an estimated 7.2 million CO2e avoided annually.

Avoided emissions in 2022 (ex-post)

As of 31.12.2022, too few investments under the Climate mandate were operational to be included in the reporting.

Methodology for calculating avoided emissions:

Norfund uses the harmonized IFI approach 'Methodological Approach for the Common Default Grid Emission Factor Dataset' (2022) to estimate avoided emissions from our energy investments. For ex-ante estimated avoided emissions, we use the “Combined margin[1]”, while for estimating avoided emissions ex-post, we use the emission factor for the reporting year, in line with PCAF reporting standard.

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[1] Combined margin: combines “Operating Margin” - existing power plants whose operation will be most affected by the project, and “Build Margin” - average emission intensities for new electricity generation projected over the next 8 years according to the most recent World Energy Outlook (IEA).

Increased renewable energy supply

Climate Mandate

> **Renewable energy is vital for economic growth, job opportunities, and improved living standards in developing countries. It provides affordable and sustainable electricity, creates jobs, and reduces greenhouse gas emissions. Supporting the transition to renewable energy systems in developing countries is crucial for sustainable development and addressing the climate crisis.**

2443 MW	**Results 2022** 100% renewable new capacity financed
9 GW	**Target 2022-2026** new renewable capacity financed

In 2022, Norfund financed 2,443 MW of new renewable electricity generation capacity over the Climate Mandate.

Jobs and taxes

Climate Mandate

Job creation

Jobs are vital to reducing poverty. Jobs generate income, are a basis for taxation, provide security, and can enable knowledge and skills development.

In the power sector, jobs are created both in the companies during construction and in the operations phase. Most importantly, a more stable power supply can enable businesses to increase their business output and thereby indirect job creation.

Norfund's investments contribute both directly and indirectly to achieving SDG Target 8.5

Results in 2022

Norfund collects data on jobs in the portfolio companies and use the Joint Impact Model to estimate power enabled jobs. However, due to limited number of investments in the Climate Investment Fund by end of 2022, aggregate data on jobs are not publicly disclosed for the Climate Mandate.

→ Read more about jobs in the Development Mandate

Tax revenues

Norfund portfolio companies contribute to sustainable development by paying taxes and fees to the countries in which they operate.

Domestic resource mobilisation is one of the most important ways to facilitate sustainable development. A tax base provides governments with essential resources to spend on infrastructure and public services, such as health, education and social protection.

Norfund's investments contribute both directly and indirectly to achieving SDG Target 17.1

Results in 2022

Norfund collects data on tax revenues from the portfolio companies. However, as the Climate Investment Fund became operational in 2022 and due to a limited number of investments, aggregate data on tax revenues are not publicly disclosed for the Climate Mandate.

→ Read more about tax revenues in the Development Mandate

Financial statements

Income Statement		
(Figures in 1000s of NOK)	**Note**	**2022**
Dividends received	2	0
Total operating income		**0**
Operating expenses		
Payroll expenses		0
Management costs	3	4 714
Other operating expenses		0
Operating expenses		**4 714**
Profit/loss (-) on operations		**-4 714**
Net financial items		0
Profit/loss for the year		-4 714
Allocations		
Transferred to / from surplus fund	5	-4 714
Total allocations		**-4 714**

Balance Sheet

(Figures in 1000s of NOK)

Assets		
Investments in equities and funds	4	0
Total investments		**0**
Bank deposits, cash and cash equivalents		**1 567 180**
Total current assets		**1 567 180**
Total assets		**1 567 180**
Equity		
Called and fully paid capital		
Primary capital	5	0
Reserve capital	5	0
Total called and fully paid capital		**0**
Retained earnings		
Surplus fund	5	-4 714
Total retained earnings		**-4 714**
Total equity		
Liabilities		**0**
Total equity and liabilities		**-4 714**

Note 1

These accounts for the Climate Investment Fund (CIF) follow the same principles as Norfund's annual accounts.

Note 2

Dividend received from our first investment of NOK 601 thousand in H1 Capital, South

Africa.

Note 3

Management fees are calculated on the basis of the CIF’s share of Norfund's total portfolio and total expenses. The portfolio share is based on the historical cost of the investments. In 2022 the CIF accounted for 1.84% of Norfund's total investments.

We also refer to the above in the board's report under the section "Organisation and operational efficiency".

Note 4

The CIF made the following investments in 2022. Additional information can be found in the Climate Investment Fund's report under "Climate Mandate - Investments 2022":

	Committed amount	Current cost
KNI INDIA AS	738 000	215 235
H1 Capital*	805 000	212 745
SAEL Industries	593 000	0
Total	**2 136 000**	**427 981**

*One of the investments with H1 Capital (213 MNOK) was committed under the Development Mandate in December 2021 and transferred to the Climate Investment Fund in 2022.

Note 5

Equity				
	Primary capital	**Reserve capital**	**Surplus fund**	**Equity**
Transferred from Ministry of Foreign Affairs	750 000	250 000	0	
Earmarking of Norfund's surplus fund			1 000 000	
Profit/loss for the year			−4 714	
Capital at 31.12.2022	**750 000**	**250 000**	**995 286**	**1 995 286**

Board of Directors' report

The president of Ghana stated in an address in May of 2022 that, “Though the bombs are falling far away, they are hitting us here in Africa”, a pertinent observation of the fact that as with COVID-19, the impacts of the war in the Ukraine and macroeconomic instability are hitting hard in the poorest countries.

Following an economic rebound in 2021, the world economy was hit by inflation, rising interest rates and a slowdown in economic growth in 2022. The Russian invasion of Ukraine drove up the prices of energy, food and fertilizers in particular. According to the World Bank, inflation reached almost 10 per cent in emerging and developing economies (EMDEs), its highest level since 2008, and in advanced economies it reached just over 9 per cent, the highest since 1982.

Monetary tightening, rising interest rates and risk aversion led to depreciation of many currencies and capital outflows from many EMDEs. While food prices eased somewhat toward the end of 2022, food price inflation remained very high in some EMDEs. For Low Income Countries (LICs) the number of people living in food insecurity increased from around 92 to 104 million people between 2021 and 2022. This is further exacerbated by a significant increase in the number of extreme weather-related events in LICs.

Increased poverty and an inequitable distribution of global investments heightens the need for Norfund’s activity. The International Energy Agency has reported that clean energy investments grew by 8 per cent in 2022, but half of this increase is linked to rising costs. However, the growth is concentrated in advanced economies with EMDEs stuck at 2015 levels. This illustrates the importance of the establishment of the Climate Investment Fund.

In 2022 Norfund increased its investment in developing countries by 22.5 per cent, to another record-high 6.5 billion NOK. This was possible through a combination of available funds from the sale of SN Power (completed in 2021), recycling of funds through selling assets and stable, annual capital injections from the Norwegian government.

With continued capital injections from the Norwegian government, Norfund is in a position to maintain a high level of investment in the years ahead.

About Norfund

Norfund's mandates and strategy

Norfund was founded in 1997 as Norway's key instrument for promoting investment in developing countries. 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 businesses that would not otherwise be initiated because of the high risk involved.

In addition to Norfund's original development mandate given in the Norfund Act, Norfund was in 2022 assigned the management of the Climate Investment Fund on behalf of the Norwegian state. The aim of the fund is to accelerate global energy transition by investing in renewable energy in developing countries with large emissions from coal and other fossil power production. The new mandate builds on Norfund's long track record of investing in renewable energy and there are considerable synergies between the two mandates. The fund is managed according to a separate instruction issued by the Ministry of Foreign Affairs, anchored in a revision of the Norfund Act. This means that Norfund now has two mandates – a development mandate and a climate mandate.

The mission of the ***development mandate*** is to create jobs and improve lives by investing in companies that contribute to sustainable development. Here, Norfund has four investment areas, the largest being Financial Inclusion, which invests in banks, microfinance, as well as insurance and fintech. The second largest is Renewable Energy, which invests in solar, wind and hydropower plants as well as distributed energy solutions. Scalable Enterprises covers investment in the agricultural value chain, manufacturing industry and funds. Green Infrastructure covers investment in water supply and waste management. Each investment area has ambitions that contribute directly and in a measurable way to the achievement of the UN Sustainable Development Goals. Under the ***development mandate***, Norfund prioritises investing in countries where capital is scarce, such as Least Developed Countries (LDCs) and Sub-Saharan Africa and is primarily an equity investor. Further, the Ministry of Foreign Affairs has decided that approximately 60 per cent of capital injections from the state budget should over time be invested in renewable energy (starting as of 2022).

For the ***climate mandate*** the mission is to contribute to the transition to net zero in emerging markets. Here, Norfund invests primarily in large-scale renewable power plants as well as commercial and industrial energy solutions. Also for this mandate, Norfund prioritises equity. For the climate mandate, the geography is primarily middle-income countries where the potential to avoid large-scale greenhouse gas emissions is significant.

Under ***both mandates***, Norfund strives to be a responsible owner, tailoring our engagement to the industry, instrument and risk level of our investment. For some investments (such as equity investments with a substantial stake), we will take an active role, for others (such as loans to banks), we will be less active, but still ensure that we are a responsible owner with high ethical standards. We will always seek to exit when our role as investor is no longer needed so that capital can be recycled and put to work in new investments.

For all of Norfund's investments we collaborate with and rely on strong, local partners. These partners are the companies in which we invest, their owners, management teams and employees as well as our co-investors, both locally and internationally. This is core to our model and to how we can invest responsibly and with healthy returns in our markets.

Financing

Norfund is financed through annual capital allocations from the Norwegian government and the surplus generated by its investment activities. In 2022, government allocations amounted to 1.7 billion NOK to the development mandate and 1 billion NOK to the climate mandate. In addition to the capital allocations, Norfund received a grant of 15 million NOK for the Business Support programme. As of 31 December 2022, Norfund's committed portfolio amounted to 31.65 billion NOK. 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 and climate effects going forward.

Additionality

Most countries in which Norfund invests hold limited attraction for international investors because the risk associated with them is considered too high. Norfund's expertise, willingness and ability to manage risk are therefore important for bringing capital to and succeeding in these countries. Additionality is therefore key to how Norfund invests. 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. Norfund is value additional in that it contributes beyond the financial capital through active ownership, promoting environmental and social standards, and business improvements. Norfund is a minority investor and thereby also contributes 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 and reported on Norfund's website.

Investments and results in 2022

Investments and results in 2022 – Development mandate portfolio

In 2022, the development mandate delivered an estimated return, measured as IRR,[1] of 5.1 per cent measured in the investment currency and 14.8 per cent measured in NOK. Since its inception, the portfolio has had an IRR of 5.1 per cent measured in investment currencies and 8.1 per cent measured in NOK. The profitability of the portfolio was in line with expectations. As of end 2022, committed portfolio was 29.5 billion NOK, an increase of 2.6 billion NOK. The rise reflects this year's commitments and FX effects due to the weakening of the NOK, with the transfer for one project to the climate mandate and a significant exit tempering the increase.

For the development mandate, Norfund committed 4.5 billion NOK and made 34 new and 18 follow-on investments. Investments were broadly distributed within Norfund's investment areas, with 1.8 billion NOK in Financial Inclusion and 1.1 billion NOK in Renewable Energy. Direct investment in Scalable Enterprises (agricultural value chain and manufacturing) amounted to 839 million NOK, and 680 million NOK was invested in Scalable Enterprises through funds. The newest investment area Green Infrastructure remains small, with 139 million NOK invested in 2022.

Investment in LDCs accounted for 37 per cent of the portfolio at the end of 2022, while investment in Sub-Saharan Africa accounted for 63 per cent of the portfolio. Equity investment accounted for 74 per cent of the portfolio at the end of the year. The new Renewable Energy KPI ended at 64 Per cent at the end of 2022. Norfund's portfolio is thus well within the key performance indicators set by the Board, which stipulate that at least 33 per cent of the portfolio must be in LDCs, 50 per cent must be in Sub-Saharan Africa, 70 per cent in equity, as well as approximately 60 per cent of capital allocations to Norfund over time should be invested in renewable energy.

Norfund's investments contribute directly to the attainment of the UN Sustainable Development Goals. For the development mandate, these are SDG 1 (No poverty), 7 (Affordable and clean energy), 8 (Decent work and economic growth) and 9 (Industry innovation and infrastructure. Each year, Norfund gathers data on development effects in our portfolio companies. These include companies we are invested in both directly and indirectly through platforms and funds. The data is gathered based on harmonized indicators. In 2022 Norfund received data from 915 companies (a 97% response rate) for the Development Mandate. To highlight the actual development in portfolio companies, we also report changes from 2021 to 2022 for those which were part of the portfolio and reported also 2022/2021 data (71%).

At the close of 2022 there were a total of 514,000 jobs in Norfund's portfolio companies. 60% of these were in Africa, and 28% were in Least Developed Countries. Women held 37% of these jobs; youth under the age of 25 held 18% of them. There was a net increase of 24,500 new jobs in Norfund's portfolio companies in 2022, equivalent to a 7% increase, the largest part being in Africa. Taxes and fees paid by portfolio companies constituted 23.2 billion NOK, of which 17 billion NOK was paid in Africa.

Norfund uses the Joint Impact Model to estimate the indirect effects of our investments. These estimates show that the ripple effects of Norfund's investments both backwards (value chain and suppliers) and enabled (effects of access to finance and energy) are substantially bigger than the direct effects. It should be noted though that these numbers are modeled estimates and come with a significant degree of uncertainty.

As part of the Norfund strategy for 2019-2022 ambitions were set for each investment area to reflect accumulated organic growth (that is, development in the companies after

Norfund invested) on sector-relevant parameters. Clean energy delivered above ambitions with access to energy at 7.6 million new households (2022 goal: 1.5 million) and new capacity financed at 5.3 GW (2022 goal: 5 GW). Financial Institutions also delivered above ambitions with 32.1 million new banking clients (2022 goal: 15 million clients) and an increased loan portfolio of 195.9 billion NOK (2022 goal: 130 billion NOK). For Scalable Enterprises, the situation was more challenging, particularly due to COVID-19. Ambitions were not met, with increased revenues for portfolio companies at 1.1 billion NOK 2022 goal: 2 billion NOK) and 32,300 new jobs created (2022 goal: 50,000).

All numbers for development effects are unattributed, meaning they show the total effect of Norfund's portfolio companies and do not account for Norfund's ownership stake. More comprehensive information on Norfund's development effects is available in the annual report.

[1] *IRR in Norfund is at a gross rate as costs related to investing in the instrument such as due diligence, evaluation and other direct or indirect costs are not considered.*

Investments and results in 2022 – Climate mandate portfolio

The climate mandate became operational in 2022, making it too early to report meaningful numbers on financial returns. At the end of 2022, the total committed portfolio was 2.14 billion NOK. The investments were primarily in large-scale integrated power producers (IPPs), and one in transmission. For the climate mandate, the board has set an indicative risk threshold for individual country exposure of 25 per cent. 2022 was the first year of investment and the fund invested in only two countries (India and South Africa), which means it is too early to apply the risk threshold.

Also for the climate mandate, Norfund's investments contribute directly to the attainment of the UN Sustainable Development Goals. These are SDG 13 (Climate action), 7 (Affordable and clean energy) and 8 (Decent work and economic growth). For 2022 Norfund contributed to financing 2 443 MW renewable energy and estimated ex ante avoided greenhouse gas emissions of 6,2 million tonnes CO_2 equivalents. This is in line with the ambitions for the strategy period for the climate mandate (2022-2026) of 9 GW renewable energy financed and 14 million tonnes of avoided emissions. Due to the fact that only a limited number of companies in the climate mandate portfolio reported data for 2022 it is not possible to report on jobs and taxes. This will be reported for 2023. As for the development mandate, this numbers are not unattributed.

Review of the financial statements

Norfund ended the year with an operating income of 1070 million NOK and a positive result after tax of 2.243 billion NOK. We received total dividends of 421.2 million NOK where KLP Norfund Invest AS (138 million NOK), Agua Imara (92 million NOK), Klinchenberg B.V. (82 million NOK), a joint venture with Scatec, and Arise B.V. (33 million NOK), were the most significant. Interest income has increased significantly to 475 million NOK as we have achieved a growth of 28 per cent of our loan portfolio in local currency, while floating interest rates have soared as national banks have increased their interest rates from around zero to levels we have not had since prior to the financial crisis. However, the most significant effect on income and financial statements for 2022 is the significantly weaker NOK with a 11.8 per cent decrease against USD, our main currency. The historically weak NOK results in a higher value of investments and cash holdings converted into NOK. This shows the significant impact that NOK fluctuations have on income and financial statements, an effect that will be reversed if there is a similar strengthening of the NOK. To the board, however, the relevant indicator is IRR measured in local currency as this better captures Norfund’s underlying performance.

While some investment areas have seen improvements as COVID-19 restrictions have been lifted, repercussions of the pandemic as well as the Russian invasion of Ukraine have led to high inflation rates in many markets, with negative effects on our investments and subsequent write-downs. Further, as the situation in Myanmar remains challenging, we have further written down our investments in the country with NOK 63 million and have now written down an average of 72 per cent of these assets. All in all, we have accounted for net write-downs of 243 million NOK in 2022.

Last year, overall labor costs rose by 14 per cent, to 180 million NOK, after further strengthening both corporate and investment departments to be able to deliver on the climate investment mandate. This also means increases in the other cost areas, but on balance within the expectations for 2022. Travel costs remained at a lower level than we expected as travel has been still restricted throughout the first quarter of 2022.

Norfund's overall balance at the end of 2022 was 37.4 billion NOK, an increase of 4.9 billion NOK on 31.12.2021. The total earnings added to the earned equity amounted to 2.2 billion NOK. As of 31.12.2022 the net asset value, based on the estimated market value of Norfund's portfolio, was 39.8 billion NOK.

At the end of 2022, Norfund had outstanding, undisbursed commitments totaling 8.5 billion NOK. Cash holdings were 5.5 billion NOK, in addition to current assets of 8.3 billion NOK. When the Climate Investment Fund was established, 5 billion NOK of Norfund's cash and current asset reserves were reserved for this purpose. 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 2022 provide a true and fair view of Norfund's financial position.

Organisation, environment and corporate social responsibility

Corporate governance

The General Assembly is Norfund's supreme body. Corporate governance is exercised through decisions taken by the General Assembly, including the adoption of and any amendments to the Norfund statutes. In 2022 an extraordinary general meeting was held to pass a resolution to amend Norfund's statutes to include a new article on the management of the Climate Investment Fund and raise the expectation on Norfund's investments in renewable energy. In addition, a resolution was passed to formalise the governance instructions for the Climate Investment Fund. These resolutions were anchored in a revision of the Norfund Act, passed by the Norwegian parliament, to reflect the fact that Norfund has now been tasked with managing the new fund. The Norwegian Ministry of Foreign Affairs receives quarterly reports, and four contact meetings are held through the year. Norfund's Board of Directors is elected by the General Meeting, and two members are elected by and among the Fund's employees. The Board consists of nine members. In 2022, the Board held a total of eight Board meetings. In addition, the Board travelled to London and Cambridge for a session on Norfund's role in a changing world and meetings with key partners. Norfund has taken out a Directors and Officers Liability Insurance with AIG.

Norfund has a framework of governing documents ranging from the Norfund Act and statutes to policies adopted by the board, guidelines for important areas, to procedures for the conduct and follow-up of investment activities. The structure is geared to Norfund's activities. The Investment Committee considers investment proposals and contributes to quality assurance. In 2022 the committee consisted of eight members, two of whom are external. The Credit Committee considers and approves loans to financial institutions and consists of five members, one of whom is external. Both committees are authorised to approve individual investments of between 4 million USD and 20 million USD. Both committees also submit their recommendations for investments of over 20 million USD, but it is the Board that approves them. Investments of less than 4 million USD are considered and approved by the management.

Risk management and internal control

It is at the core of Norfund's mandate to take risk. The risks taken and how these are managed are set up in Norfund's risk appetite statement. This statement describes two categories of risks. The first is about where and in what Norfund invests (such as markets, instruments, and currency risks). These risks are managed by market insight, local presence, and portfolio diversification. The second category is risks related to how investment partners are selected and how Norfund operates and runs investment and operational processes (such as risk of corruption, ESG compliance and health & safety). These risks are minimized by designing and implementing appropriate systems and processes, regular training, contractual requirements, internal control and compliance. The risk appetite statement was updated in 2022 to also include climate risk.

In 2022, Norfund worked to strengthen and operationalise the recently introduced risk management initiatives. This includes the systematic use of the framework for Enterprise Risk Management (ERM) which is a tool for the management and board to identify, monitor and manage key operational risks. Under the current framework, the risk overview is updated and reported to the management team, Risk and Audit Committee and the Board every six months. IT security continued to be a priority and a new IT strategy was developed. An external audit of the IT operations was performed, concluding that governance and control of the IT operations and IT security has been significantly improved.

Financial operations continued to streamline processes and implemented further checks and segregation of duties to minimize risk of fraud and unintended error, especially regarding payments. A new accounting system was introduced in 2022 to improve overview of the daily business and to enable automatization of processes and reconciliations to reduce risk with manual tasks.

Norfund has developed a country risk tool to assess, understand and manage country risk. This tool enables Norfund to monitor portfolio exposure by country and the risk level of the country with respect to political, economic, E&S and business integrity. Based on the country risk tool the board has set risk thresholds on exposure to individual countries and groups of countries. The country exposure under both the development and climate mandate are in line with the indicative risk thresholds set by the board.

Norfund has zero tolerance for corruption and financial irregularities in its portfolio companies. There were six reports of purported financial irregularities in the portfolio, of which two cases were documented irregularities and four cases remain unsubstantiated allegations. Norfund has established systems for preventing, reporting and handling irregularities in its portfolio. One of the confirmed cases was reported further to the Ministry of Foreign Affairs.

In addition to the reports on purported financial irregularities from our portfolio companies, Norfund received a total of six whistleblowing reports through our externally managed whistleblowing channel. Norfund has followed up, maintaining confidentiality and integrity of the whistleblowers in accordance with internal procedures. No allegations or claims raised through the whistleblowing channel in 2022 have led to any further criminal or formal proceedings. A dedicated business integrity week was launched in 2021 and carried out for the second time in 2022 with corruption as the main theme.

Organisation and operational efficiency

Norfund has experienced substantial growth over the past few years, both in new investments, size of portfolio and number of employees. As the organisation grows it has been necessary to strengthen corporate staff functions to ensure that the growth is monitored and supported sufficiently. Recruitments during 2022 have primarily been related to the responsibility for the climate mandate as well as increased expectations and requirements for measurement and reporting. The regional offices have also grown, reflecting the ambition to primarily grow the organisation close to the markets in which Norfund invests. In 2022 Norfund initiated a cost efficiency study, mapping Norfund against a selection of other DFIs. Preliminary findings show that Norfund is among the most cost efficient, as measured by the share of operational costs of committed capital. Norfund's ambition is that this number will remain below the average of comparable development finance institutions. This, combined with the efforts to strengthen and improve processes as described under «Risk management and internal control» will going forward strengthen Norfund's work on operational efficiency.

Increased complexity due to organisational growth has been defined as a key risk. Acknowledging that a specific and concrete corporate culture is paramount to ensure that the organisation develops and grows smart, Norfund initiated a project in 2022 to further strengthen the corporate culture. This resulted in *The Norfund Way* – five action driven values that describe the attitudes and behaviours we believe are most important to promote and deliver on Norfund's mandate.

By year end 2022 Norfund had 127 employees; of those 121 are permanent positions, representing 24 nationalities. Strong regional offices with experienced teams that are close to our markets are vital to succeed with Norfund's investment strategy. In addition to the office in Oslo, Norfund consists of five regional offices in Accra, Cape Town and Nairobi in Africa, Bangkok in Asia, and San José in Central America.

The activity duty and the duty to issue a statement (aktivitets- og redegjørelsesplikten) is provided in a separate report on the Norfund website, available under the annual report. Norfund has guidelines for recruitment, competence building and gender equality and procedures for employee follow-up and remuneration. In 2022, "desk swap" was introduced, whereby employees can work at a different office for a short period of time. The aim is to strengthen company culture and promote learning across the organisation as well as increase employee motivation. In 2022, 10 employees were assigned to desk swaps.

Norfund is hiring more young employees, and the average age has fallen from 41.4 in 2019 to 40.4 in 2022. The gender balance remains stable with 48 per cent female and 52 per cent male employees. In 2022, Norfund had 23 new employees, 48 per cent women and 70 per cent aged 30 or under. The internal network “Young Norfund” ran a self-leadership training and provided an arena for young employees to develop professional skills and share experience. In 2022 Norfund continued the internship programme, which aims to enhance diversity and support employer branding. Six students/recent graduates participated.

Sick leave in 2022 amounted to two per cent of working hours. This is one per centage point lower than in 2021, and the Board of Directors does not deem it necessary to implement 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.

In 2022, Norfund continued to monitor salary levels across functions, including conducting an annual gender pay gap analysis. Following the adjustments that were made in 2021, no further adjustments were required in 2022. Guidelines for executive pay and reports on salaries and other remuneration of senior executives are both published on the Norfund website.

Corporate social responsibility

Social responsibility is a foundation for Norfund’s activities, both for its own operations and the portfolio companies. The cross-cutting considerations of Norwegian development policy – human rights, gender equality, anti-corruption, climate and environment – all form part of these efforts.

Norfund has significantly strengthened its work on climate in 2022. The ambitions and actions in this area reflect owner expectations and the fact that Norfund is an investor in developing countries, which presents different challenges and opportunities than for organisations in more developed markets. Norfund is aligned with the other European DFIs in its commitment to net zero by 2050, aligning all new investments with the Paris agreement and assessing climate risk for all new investments. Norfund also reports in line with TCFD. In 2022, improvements were made to strengthen climate competence and integrate risk assessments into the investment process. Integrating climate effectively is challenging and this work will continue in the coming years.

With regards to Norfund's own operations, Norfund was certified as an Eco-Lighthouse (Miljøfyrtårn) in 2022 and uses this framework to improve our internal environmental performance. Emissions from operations and the process to estimate emissions from the investment portfolio can be found in Norfund's annual report.

For the ***development mandate***, there is a requirement that approximately 60 per cent (previously 50 per cent) of capital allocations from the government should over time be invested in renewable energy, an important contribution to mitigating climate change. In line with the mandate, the organization will also continue to prioritise the least developed countries and Sub-Saharan Africa, which are expected to be hardest hit by climate change.

For the ***climate mandate***, established in 2022, the mission is to avoid greenhouse gas emissions and hence this is a cornerstone of Norfund's contribution to mitigating climate change.

Norfund works systematically with environmental and social (E&S) risk throughout the investment process, applying the environmental and social standards of the International Finance Corporation (IFC). The IFC standards are tailored to investments in developing countries. By applying these operational standards, Norfund meets the expectations of responsible business conduct in Meld. St. 8 (2019–2020) (The state's direct ownership of companies) including the expectation that due diligence should be performed to avoid harm to people, society or the environment as described in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGP). In 2022, EDFI published a summary statement on human rights that describes the DFIs' ambitions and commitments in this important area, including support for the Guiding Principles on Business and Human Rights (UNGP). In 2022, Norfund's work on E&S was further strengthened by the expansion of our ESMS (Environmental and Social Management System), development of a new E&S monitoring system as well as recruitment (9 FTEs now work as dedicated E&S advisors) and competence building (improved mandatory E&S training for all investment staff).

Good working conditions are a requirement for all companies in Norfund's portfolio. Norfund monitors health, safety and environment (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 2022 Norfund regrettably experienced 13 fatalities in directly held portfolio companies. Seven of the fatalities were the result of traffic accidents. These incidents are reported to the Board, and in special cases also to the Ministry of Foreign Affairs. One of these was reported to the Ministry of Foreign Affairs. Norfund follows up all fatalities related to its 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 has a firm policy on responsible tax which is aligned with the European DFIs based on a review conducted in 2021, operational adjustments, including more focus on tax structure elements and adjustments in the investment manual, were initiated in 2022. There was substantial investment in funds and companies with regional outreach in 2022, and hence extensive use of third countries also in 2022.

Norfund has a Business Support Program funded by the Ministry of Foreign Affairs. The purpose of this facility is to enhance the development effects of investments. For example, Norfund supports capacity development and climate adaptation training for smallholder farmers and digitalization of a training program for women entrepreneurs. In 2022, 19 new Business Support projects were approved, a total of 27.4 million NOK was committed, and the portfolio consisted of 54 active projects.

In 2021 Norfund signed up to the "2X Challenge", designed to promote investors' work for equal opportunities in their investment activities. In 2022, the primary focus was to strengthen implementation of the Norfund's gender position by enhancing the investment process and working through the business support program. As a result, 2022 saw an increase of Business Support projects focusing on this issue. Dialogue with external stakeholders continued.

Norfund regularly engages in dialogue and collaborates with civil society organisations and other partners. In 2022, a dialogue meeting on Norfund's impact took place with all interested organisations, and several bilateral meetings were held with individual organisations on issues such as climate and environment, gender equality, child labour, microfinance and job creation.

The Norwegian parliament established a separate Project Development and Risk Mitigation Facility (PDRMF) in 2019, renamed the Frontier Facility to better communicate its purpose in a simple way. Through this, Norfund can provide early-stage project development and risk mitigation. The facility is used for projects with higher risk than the investments in Norfund's core portfolio and is managed separately. The current portfolio consists of eight projects with 94.8 million NOK committed. In 2022 one PDRMF project was converted into an equity investment, which allowed for a replenishment to the facility of 26.8 million NOK.

Outlook for the future

The UN Sustainable Development Goals (SDGs) and the climate ambitions set out in the Paris agreement provide important guidelines for development going forward, also for Norfund. The funding gap to reach the SGDs was formidable in developing countries already before the COVID pandemic and the Russian invasion of Ukraine. The investment gap has now widened even more.

The economic outlook for developing countries is bleak. The World Bank estimates that over the next two years, per capita income growth in emerging and developing economies will average 2.8 per cent, a full percentage point below the 2010-2019 average. In Sub-Saharan Africa – which accounts for 60 per cent of the world's poor – growth in per capita income over 2023-24 is expected to average just 1.2 per cent, a rate that could cause poverty rates to rise, not fall. By the end of 2024, GDP levels in emerging and developing countries will be roughly 6 per cent below levels expected before the pandemic. The Bank further estimates that over the 2022-24 period, gross investment in these economies is likely to grow by 3.5 per cent on average – less than half the rate of the previous two decades. In fragile and conflict-affected areas, average per-capita incomes are expected to decline by 2024.

After the balance sheet date, there has been substantial turbulence in the financial industry where several banks, especially in Europe and the United States, face significant challenges. This has led to uncertainty in the financial markets. At the time of submission of the annual accounts it is the board's assessment that this does not present significant uncertainty for Norfund's financial position. Still, it should be underlined that this economic backdrop, combined with uncertainty about possible new corona virus outbreaks and the development of the war in the Ukraine creates instability and uncertainty, not least for Norfund's markets.

This situation entails new challenges for companies in Norfund's portfolio, but it also clearly shows the need for a patient, countercyclical investor like us. When capital flows are moving out of developing countries, Norfund's role becomes even more important. It also shows the importance of investing in the priority sectors, for example strengthening the agricultural value chains, not least in Sub-Saharan Africa, a region which is a large net importer of food. With the high energy prices and a return to fossil fuels in many parts of the world, it also positions the Climate Investment Fund as part of the solution to avoiding large-scale emissions from countries such as India and Indonesia.

Even in challenging conditions, Norfund's pipeline remains strong for both mandates. By the end of 2023, we estimate that the committed portfolio will be approximately 31.2 billion NOK for the development mandate and 3.6 billion NOK for the climate mandate. However, these numbers depend on market conditions and continued development of pipeline.

Norfund has revised its strategy for the 2023-26 period. Our mission now reflects the two mandates – development and climate: "Norfund invests to create jobs, improve lives and support the transition to net zero by investing in companies that drive sustainable development". The four investment areas for the development mandate – Renewable Energy, Financial Inclusion, Scalable Enterprises and Green Infrastructure – still address key development needs in our markets and will remain. The strategy for the new climate mandate has been developed to deliver on the mission to avoid large scale climate emissions. By clearly delivering on both our development and climate mandates, as well as understanding the interlinkages between the two, we have a strong foundation for continued growth in the next strategy period. 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 for both the development and the climate mandate.

As Norfund, we never succeed on our own, but rely on collaboration with our partners – our investees, co-investors, owner and other stakeholders. We are grateful for the trust that they have put in us in 2022 and will do our utmost to deliver also in 2023.

The Board views Norfund as well equipped to deliver on the strategy and goals that have been set, and thanks the management and employees for their important work through a demanding year. Norfund will continue to make an important contribution to the success of an ambitious development and climate agenda and contribute to creating jobs, improving lives and supporting the transition to net zero in the developing countries of the world.

Oslo, 8 May 2023

Olaug Svarva

Brit Rugland

Åslaug Haga

Jarle Roth

Lasse David Nergaard

Tove Stuhr Sjøblom

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Auditor’s 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 2022, 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 2022, 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 relevant laws and regulations in Norway 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 and the other information accompanying the financial statements. 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 nor the other information accompanying the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report and the other information accompanying the financial statements. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the other information accompanying the financial statements and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report and the other information accompanying the financial statements otherwise appear to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report or the other information accompanying the financial statements. 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 statutory 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.

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, 8 May 2023
Deloitte AS

Grete Elgåen
State Authorised Public Accountant

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

Revisors beretning

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Til generalforsamlingen i Norfund

UAVHENGIG REVISORS BERETNING

Konklusjon

Vi har revidert årsregnskapet for Norfund som består av balanse per 31. desember 2022, resultatregnskap og kontantstrømoppstilling for regnskapsåret avsluttet per denne datoen og noter til årsregnskapet, herunder et sammendrag av viktige regnskapsprinsipper.

Etter vår mening

- oppfyller årsregnskapet gjeldende lovkrav, og
- gir årsregnskapet et rettvisende bilde av selskapets finansielle stilling per 31. desember 2022, og av dets resultater og kontantstrømmer for regnskapsåret avsluttet per denne datoen i samsvar med regnskapslovens regler og god regnskapsskikk i Norge.

Grunnlag for konklusjonen

Vi har gjennomført revisjonen i samsvar med International Standards on Auditing (ISA-ene). Våre oppgaver og plikter i henhold til disse standardene er beskrevet nedenfor under *Revisors oppgaver og plikter ved revisjonen av årsregnskapet*. Vi er uavhengige av selskapet i samsvar med kravene i relevante lover og forskrifter i Norge og International Code of Ethics for Professional Accountants (inkludert internasjonale uavhengighetsstandarder) utstedt av International Ethics Standards Board for Accountants (IESBA-reglene), og vi har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Innhentet revisjonsbevis er etter vår vurdering tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

Øvrig informasjon

Styret og daglig leder (ledelsen) er ansvarlige for informasjonen i årsberetningen og annen øvrig informasjon som er publisert sammen med årsregnskapet. Øvrig informasjon omfatter informasjon i årsrapporten bortsett fra årsregnskapet og den tilhørende revisjonsberetningen. Vår konklusjon om årsregnskapet ovenfor dekker verken informasjonen i årsberetningen eller annen øvrig informasjon.

I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese årsberetningen og annen øvrig informasjon. Formålet er å vurdere hvorvidt det foreligger vesentlig inkonsistens mellom årsberetningen, annen øvrig informasjon og årsregnskapet og den kunnskap vi har opparbeidet oss under revisjonen av årsregnskapet, eller hvorvidt informasjon i årsberetningen og annen øvrig informasjon ellers fremstår som vesentlig feil. Vi har plikt til å rapportere dersom årsberetningen eller annen øvrig informasjon fremstår som vesentlig feil. Vi har ingenting å rapportere i så henseende.

Basert på kunnskapen vi har opparbeidet oss i revisjonen, mener vi at årsberetningen

- er konsistent med årsregnskapet og
- inneholder de opplysninger som skal gis i henhold til gjeldende lovkrav.

Ledelsens ansvar for årsregnskapet

Ledelsen er ansvarlig for å utarbeide årsregnskapet og for at det gir et rettvisende bilde i samsvar med regnskapslovens regler og god regnskapsskikk i Norge. Ledelsen er også ansvarlig for slik internkontroll som den finner nødvendig for å kunne utarbeide et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Ved utarbeidelsen av årsregnskapet må ledelsen ta standpunkt til selskapets evne til fortsatt drift og opplyse om forhold av betydning for fortsatt drift. Forutsetningen om fortsatt drift skal legges til grunn for årsregnskapet så lenge det ikke er sannsynlig at virksomheten vil bli avviklet.

Revisors oppgaver og plikter ved revisjonen av årsregnskapet
Vårt mål er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en revisjonsberetning som inneholder vår konklusjon. Betryggende sikkerhet er en høy grad av sikkerhet, men ingen garanti for at en revisjon utført i samsvar med ISA-ene, alltid vil avdekke vesentlig feilinformasjon. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon er å anse som vesentlig dersom den enkeltvis eller samlet med rimelighet kan forventes å påvirke de økonomiske beslutningene som brukerne foretar på grunnlag av årsregnskapet.

Som del av en revisjon i samsvar med ISA-ene, utøver vi profesjonelt skjønn og utviser profesjonell skepsis gjennom hele revisjonen. I tillegg:

- identifiserer og vurderer vi risikoen for vesentlig feilinformasjon i regnskapet, enten det skyldes misligheter eller utilsiktede feil. Vi utformer og gjennomfører revisjonshandlinger for å håndtere slike risikoer, og innhenter revisjonsbevis som er tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon. Risikoen for at vesentlig feilinformasjon som følge av misligheter ikke blir avdekket, er høyere enn for feilinformasjon som skyldes utilsiktede feil, siden misligheter kan innebære samarbeid, forfalskning, bevisste utelatelser, uriktige fremstillinger eller overstyring av internkontroll.
- opparbeider vi oss en forståelse av intern kontroll som er relevant for revisjonen, for å utforme revisjonshandlinger som er hensiktsmessige etter omstendighetene, men ikke for å gi uttrykk for en mening om effektiviteten av selskapets interne kontroll.
- evaluerer vi om de anvendte regnskapsprinsippene er hensiktsmessige og om regnskapsestimatene og tilhørende noteopplysninger utarbeidet av ledelsen er rimelige.
- konkluderer vi på om ledelsens bruk av fortsatt drift-forutsetningen er hensiktsmessig, og, basert på innhentede revisjonsbevis, hvorvidt det foreligger vesentlig usikkerhet knyttet til hendelser eller forhold som kan skape tvil av betydning om selskapets evne til fortsatt drift. Dersom vi konkluderer med at det eksisterer vesentlig usikkerhet, kreves det at vi i revisjonsberetningen henleder oppmerksomheten på tilleggsopplysningene i årsregnskapet, eller, dersom slike tilleggsopplysninger ikke er tilstrekkelige, at vi modifiserer vår konklusjon. Våre konklusjoner er basert på revisjonsbevis innhentet frem til datoen for revisjonsberetningen. Etterfølgende hendelser eller forhold kan imidlertid medføre at selskapet ikke kan fortsette driften.
- evaluerer vi den samlede presentasjonen, strukturen og innholdet i årsregnskapet, inkludert tilleggsopplysningene, og hvorvidt årsregnskapet gir uttrykk for de underliggende transaksjonene og hendelsene på en måte som gir et rettvisende bilde.

Vi kommuniserer med styret blant annet om det planlagte innholdet i og tidspunkt for revisjonsarbeidet og eventuelle vesentlige funn i revisjonen, herunder vesentlige svakheter i intern kontroll som vi avdekker gjennom revisjonen.

Oslo, 8. mai 2023
Deloitte AS

Grete Elgåen
statsautorisert revisor

Denne revisjonsberetningen er signert elektronisk.