

SOUTH- AND SOUTHEAST ASIA
• Total



Message from the Managing Director

Major ambitions – solid investments

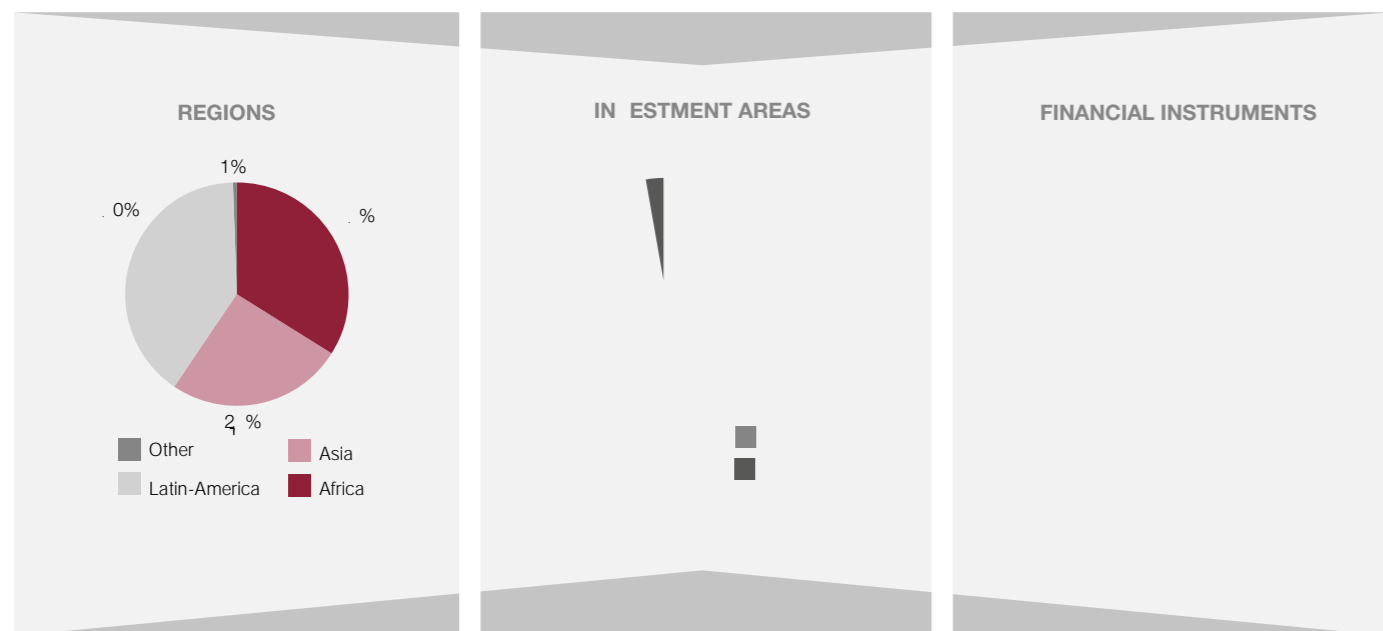
Norfund has continued to deliver in 2012 by making solid, profitable investments in what are perceived by many as high-risk countries and industries. Norfund committed NOK 1.23 billion in new investments during the year. This capital has contributed to the establishment of nine new enterprises, and supported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

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

In addition to delivering investments to markets we have come to know very

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NORFUND'S PORTFOLIO





Capitalising growth

“Creating safe jobs



Norfund – A Development Finance Institution

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

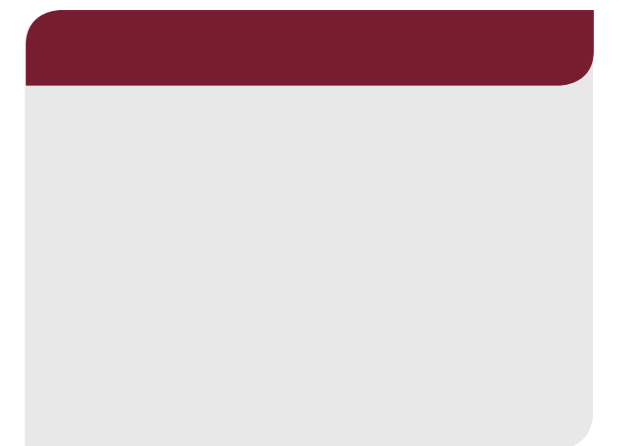
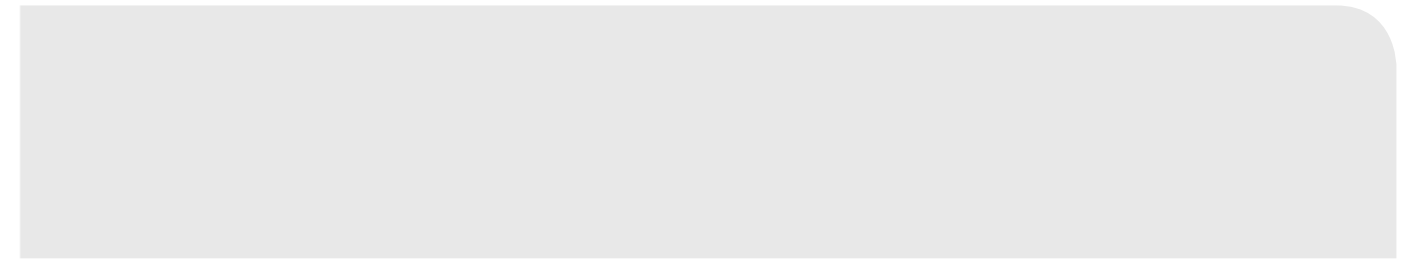
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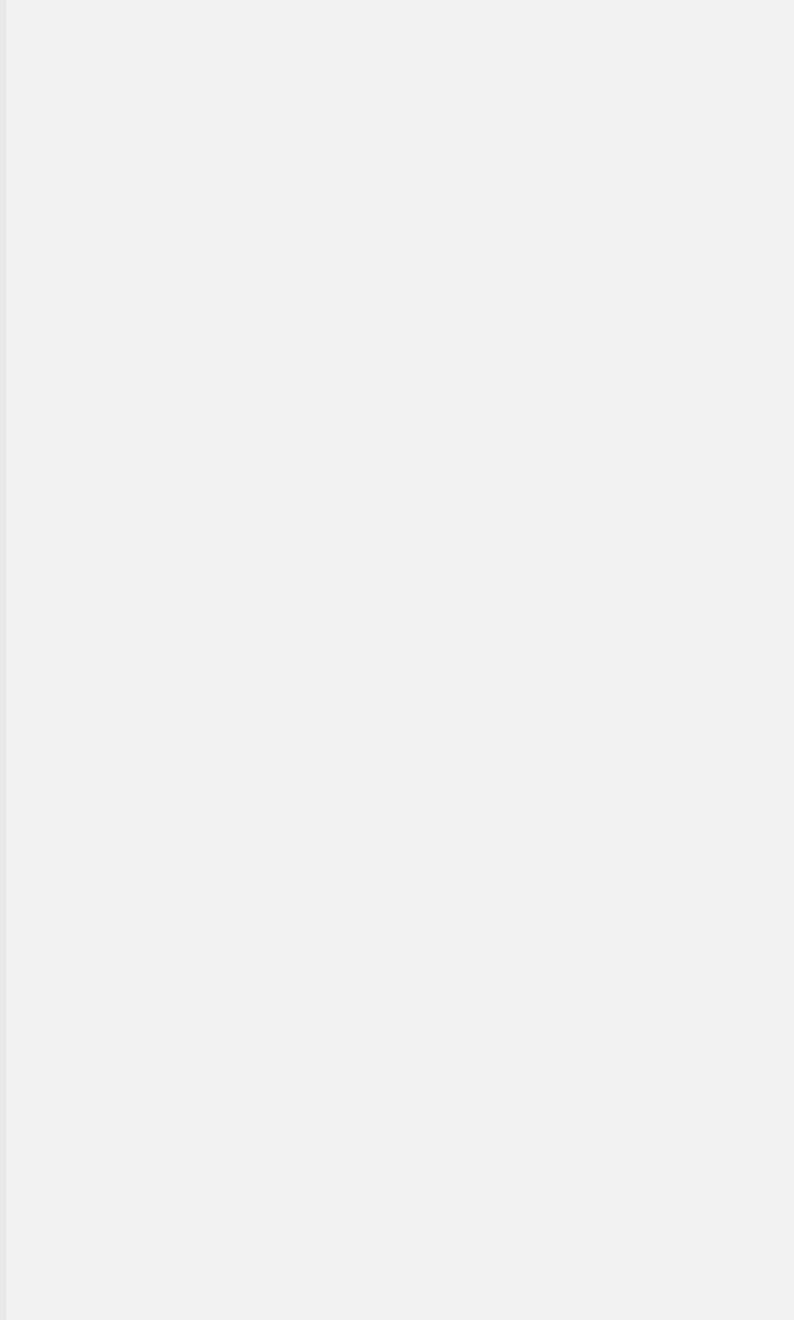
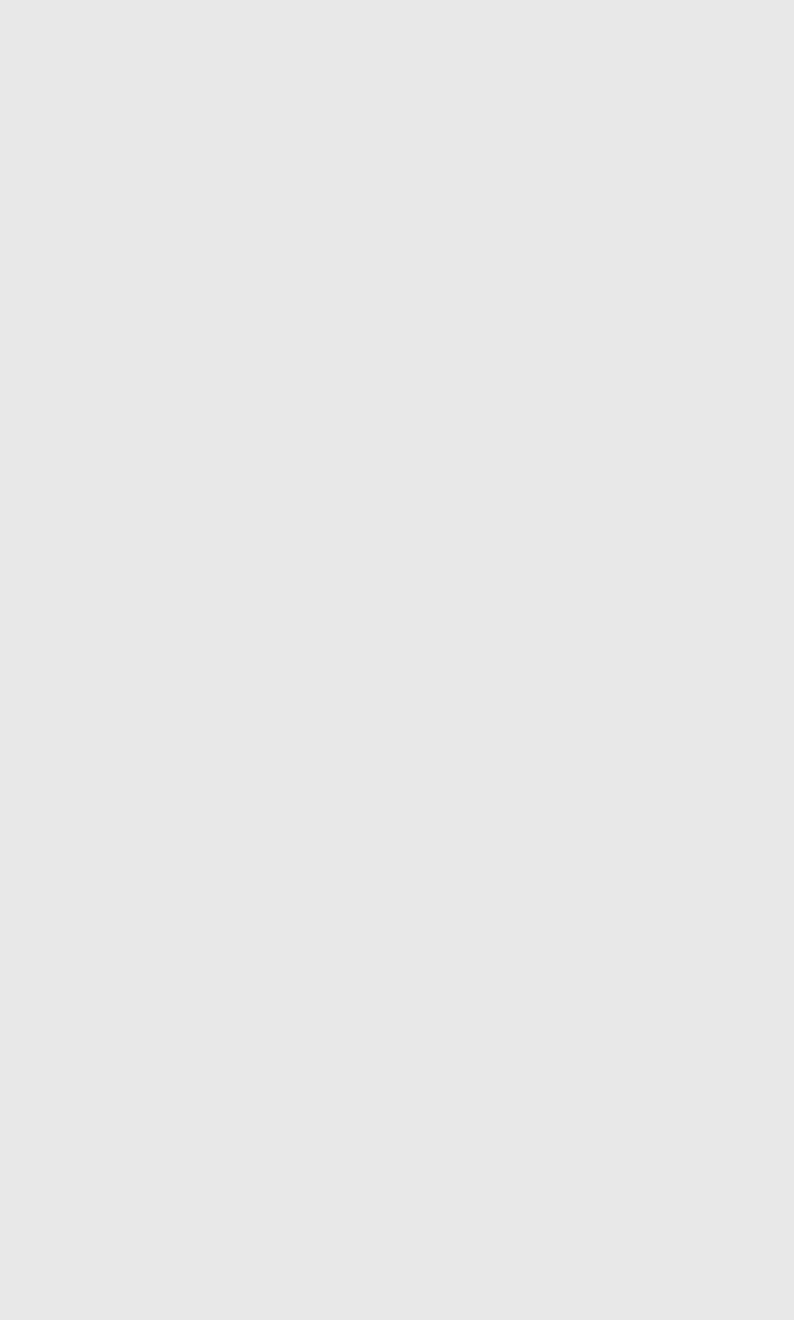
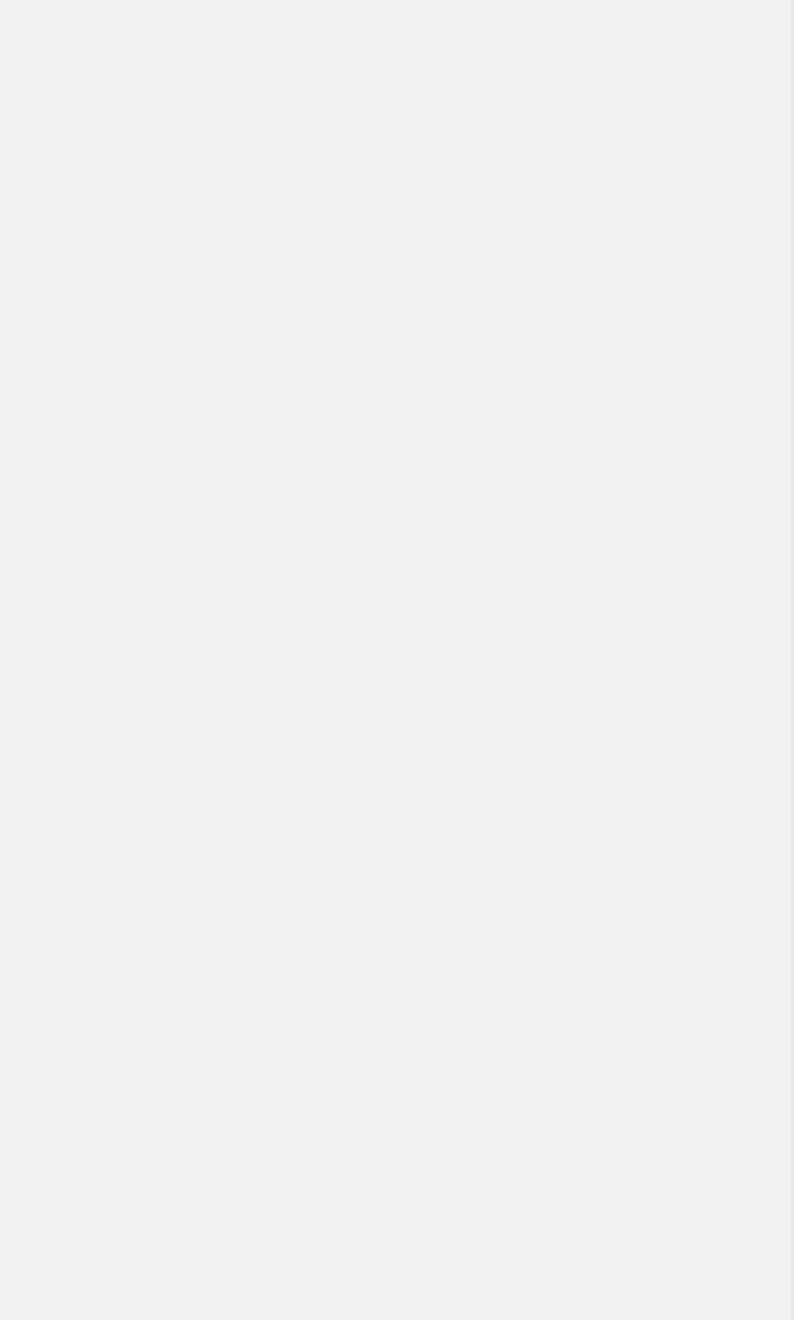
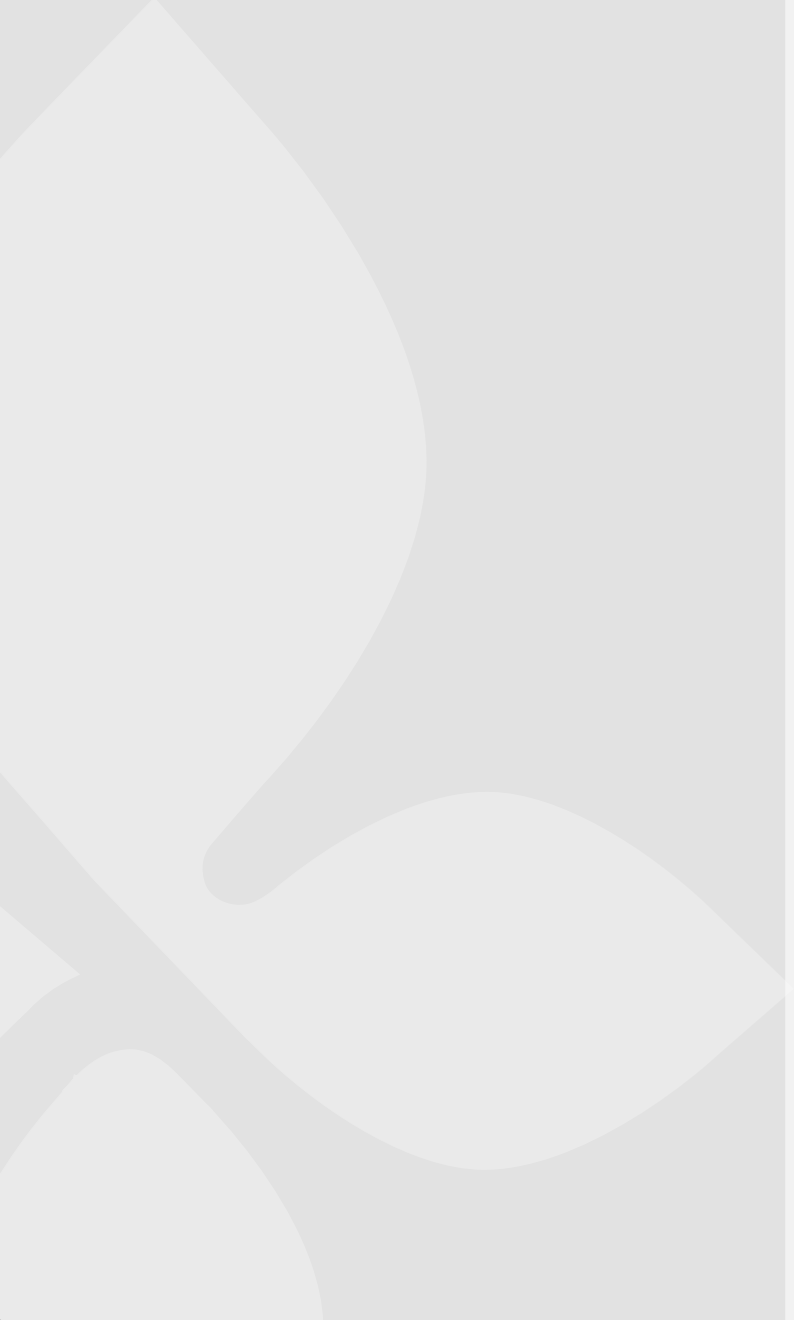
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Norfund – A Development Finance Institution

No country has ever escaped poverty without economic growth. Sustainable business is at the core of a well





Norfund's cross-sector investments



Norfund's

FINANCE AND INDUSTRY EXPERTS

Norfund has the largest specialised team in Norway for investment in developing countries. Of a total of 50 employees, 32 work directly with the investments and follow the projects through all phases of the investment process. This requires broad competencies in finance and industry. The team has extensive experience in investment in developing countries. The team has extensive experience in investment in developing countries. The team has extensive experience in investment in developing countries.

investments

broad

investments in developing countries. The team has extensive experience in investment in developing countries. The team has extensive experience in investment in developing countries.

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Norfund's Board of Directors 2012



Styreleder Kristin Clemet (Chair)

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

Borghild Holen, director

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

Finn Jebsen, director

Born in 1950, Mr Jebsen holds a Master's degree in Business and Economics (siviløkonom). Jebsen is self employed. He has 25 years of experience from the Orkla Group where he was on the management team from 1984, and Group Head from

2001-2005. He has extensive board experience from among other Kavli Holding AS, KLP Insurance, The Kongsberg Group and Norsk Hydro ASA.

Stein Tønnesson, director

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

Svein Tveitdal, director

Born in 1947, Mr Tveitdal is a civil engineer by training. He is

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

CAPITAL BASE

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

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

AFRICA

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

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

LEAST DEVELOPED COUNTRIES (LDCs)

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

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

START-UP ENTERPRISES

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

Results

EMPLOYMENT

At the end of 2012, Norfund's investment portfolio directly employed 294,000¹ full-time equivalents, compared with 265,000 at the end of 2011. This increase is attributed to a growing portfolio (from 99 to 107 projects), as well as improved reporting from companies.

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

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

is investing in also important of investments in the management of women in management in Norway. The proportion of women in management in Norway is 39 per cent, which is higher than the average of 35 per cent across the portfolio. In Norway, the proportion of women in management is 39 per cent, which is higher than the average of 35 per cent across the portfolio. In Norway, the proportion of women in management is 39 per cent, which is higher than the average of 35 per cent across the portfolio.

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

POSITIVE RETURN ON THE PORTFOLIO

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

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

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

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

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

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

EXITS

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



Renewable energy

Overview

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

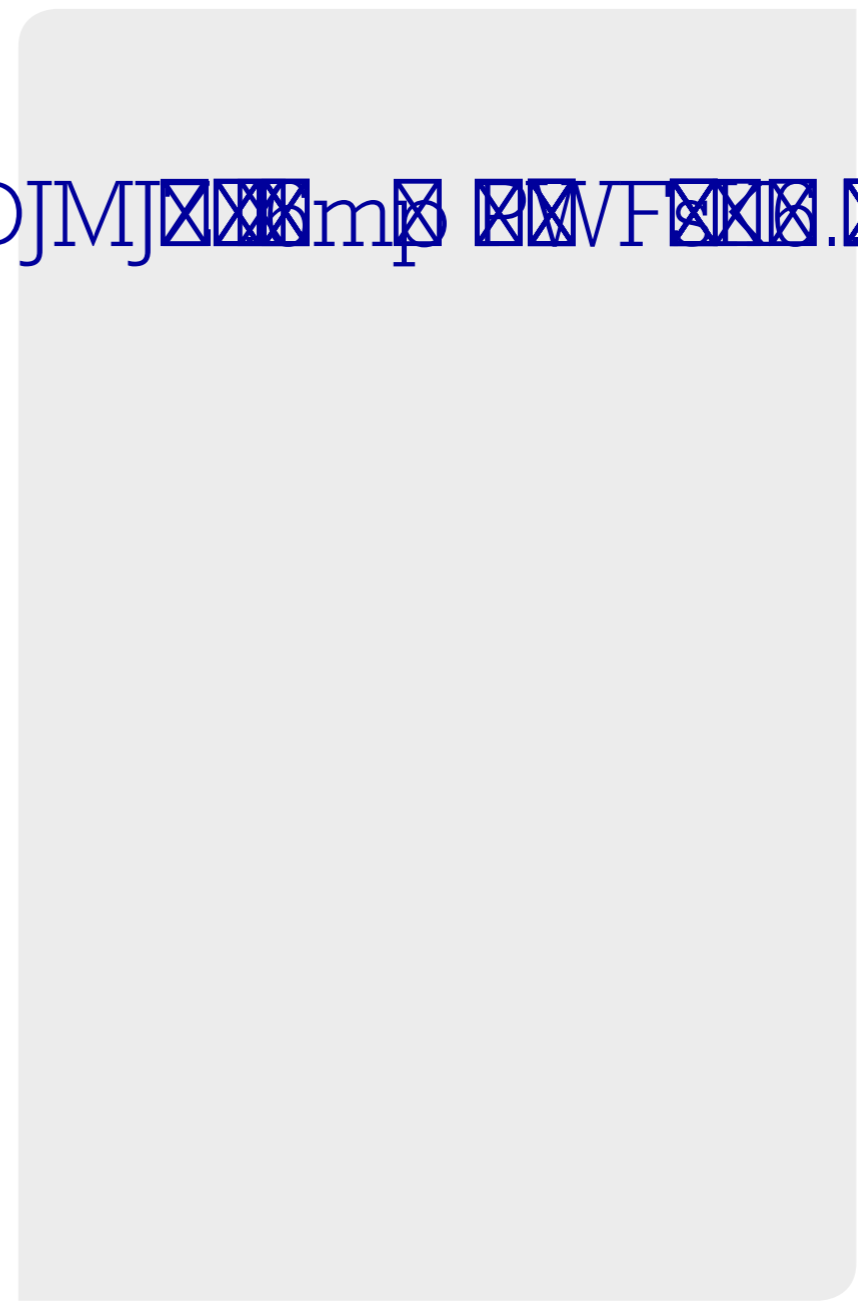
SN Power is still our most important investment in renewable energy. In 2012, Norfund increased its commitment in the company by NOK 417 million (to a total of NOK 3.6 billion). The new funds will be used for projects in Latin America and Southeast Asia. After 10 years in the market, SN Power has invested in the development of 39 power stations in nine countries, which will have a total installed production capacity of 2,398 MW when in production. Major events for SN Power in 2012 included the Allain duhangan power station in India reaching full capacity (192 MW), and the opening of wind farms in Bahia and Barra dos Conquieiros in Brazil (120 MW).

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

Other important events in 2012:

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

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





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

- Ficohsa in Honduras, a bank with 20 years of experience in delivering financial services to the private market and to small and medium-sized enterprises. Banco Ficohsa is now expanding to several countries in the region. To strengthen the bank's financing of small enterprises and to develop the local financial services sector, Norfund has provided a loan of NOK 70 million.
- Norsad, a collaborative effort with Finnfund, IFU and Swedfund, aims to provide long-term financing to SMEs in southern Africa.





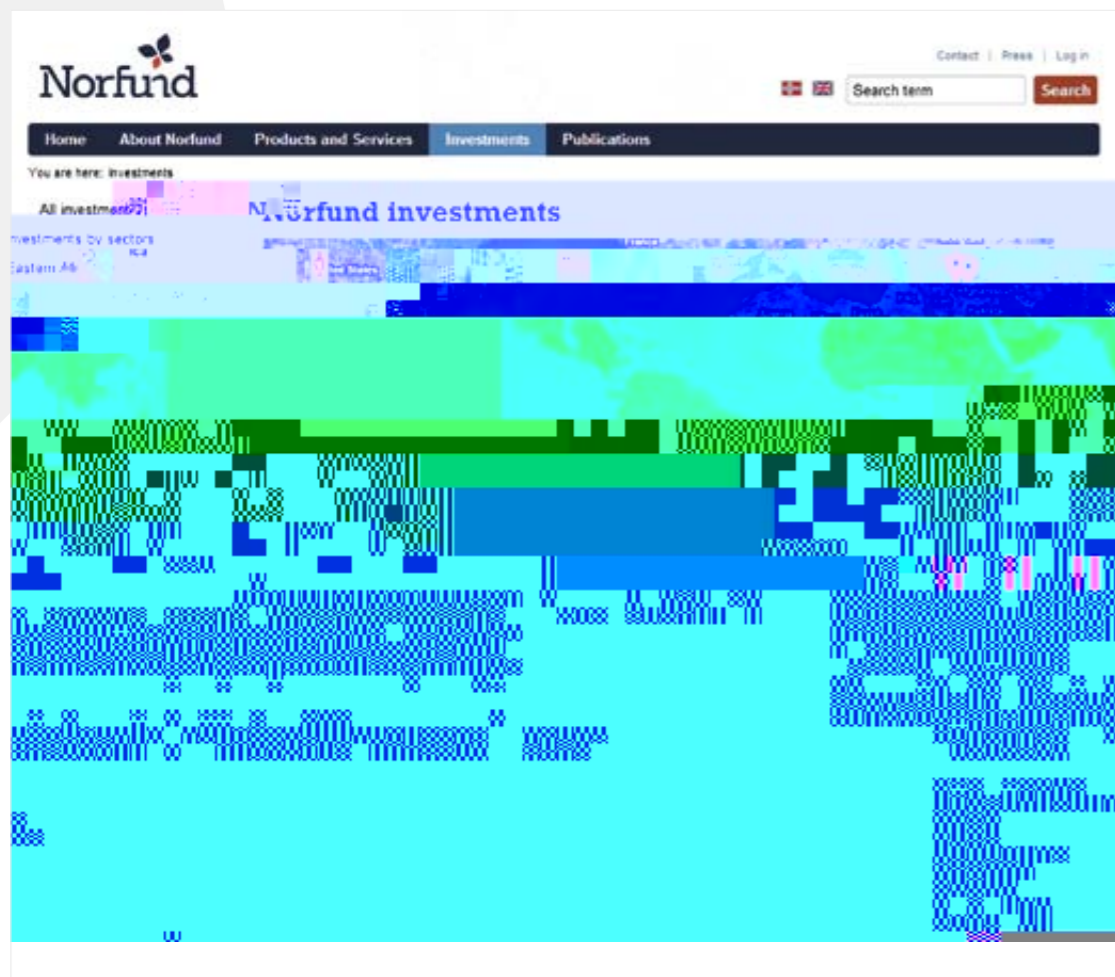
In 2012, Norfund committed NOK 23 million to this high risk investment area. The total project development and new instruments portfolio is NOK 227 million, spread among 17 companies. With the exception of work to explore smallscale hydropower potential in Myanmar, all projects are in Africa.

RENEWABLE ENERGY

The Project development Facility (PdF) for renewable energy was established in 2011. In 2012, NOK 13 million was committed to four projects in Sub-Saharan African in wind, hydro, and biogas. In total, Norfund has invested NOK 35 million in six projects through this Facility. If project development is successful, the intention six

Norfund on the web

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



Norfund's activities are conducted in accordance with the principles of the (1) Norwegian (2) Development cooperation

