



REPORT ON OPERATION **2009**

THIS IS NORFUND

Norfund – the Norwegian Investment Fund for Developing Countries – was created by the Norwegian Storting (parliament) in 1997. Norfund's objectives are to contribute equity and other risk capital, extend loans and provide guarantees for the development of sustainable commercial activities in developing countries. Norfund aims to establish viable, profitable activities that would not otherwise be initiated because of the high risk involved. Norfund contributes to reducing poverty and to economic developments in poor countries through investment in profitable enterprises and the transfer of knowledge and technology. Norfund always invests jointly with partners.

Norfund is a hybrid state-owned company with limited liability established by a special act of the Storting. Norfund is owned on behalf of the Norwegian Government by the Ministry of Foreign Affairs and the Minister of International Development, Erik Solheim, is the minister with constitutional responsibility. Its activities are to be conducted in accordance with the fundamental principles of Norwegian development cooperation policy. The board of directors is appointed by the King in Council.

Norfund and our international sister organisations are known as development finance institutions (DFIs). Norfund is supplied with capital over the develop-

ment assistance budget, and is the most important Norwegian instrument for combating poverty by promoting sustainable economic development. A smoothly functioning private sector and access to risk capital are important preconditions for enabling developing countries to expand their economies and achieve the best possible integration into the global economy.

Geographically, Southern and East Africa are Norfund's main investment areas, and Norfund has offices in Nairobi and Johannesburg. Norfund also focuses on certain countries in South-East Asia and Central America and has a regional office in San José, Costa Rica.

TABLE 1: KEY FIGURES NORFUND

	2009	2008	2007	2006
Committed investments (MNOK)	5 264	4 798	3 669	2 782
Number of investments	81	69	60	54
New committed investments (MNOK)	944	1 376	1 177	1 003
Share of new commitments in least developed countries	36%	43%	12%	15%
Return on invested capital	4%	21%	17%	24%
Average return (IRR) since start-up	11%			
Profit in investment currency (MNOK)	262	238	264	42
Capital supplied by owner (MNOK)	585	485	485	495
Recorded equity (MNOK)	5 871	5 302	3 919	3 299
Number of employees in Norfund	41	40	35	31
Number of employees in enterprises in which Norfund has invested	148 000	158 000	147 000	96 000

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FAVOURABLE INVESTMENT OPPORTUNITIES – DESPITE THE FINANCIAL CRISIS



The financial crisis in 2008 was followed by a global economic downturn in 2009. However, the downturn was less pronounced for poor countries than for the OECD countries.

In the past, cyclical downturns in the OECD have always caused an even steeper downturn in Africa. In 2009 the opposite occurred: growth in Africa declined, but was still appreciably higher than in wealthy countries.

There are several reasons for this, not least the fact that many poor countries are weakly integrated into the global financial system, and that China's and India's demand for commodities remains high. Foreign investment also fell, but to a lesser extent than feared, partly because development finance institutions (DFIs) like Norfund continued to invest in the poorest countries. In difficult times there is a need for investors who can think long-term and have the capacity and willingness to carry risk.

In all, Norfund and our European sister funds invested NOK 38 billion in 2009. According to our mandate, we shall provide additionality, effects extending beyond those driven by normal market behaviour. In other words, we contribute to more and better investments in developing countries because we are willing to assume more risk and costs

than most private investors. In addition we give priority to projects with substantial development effects. We strengthen these development effects through active ownership and support for the development of the enterprises. We are also catalysts, in that we demonstrate that it is feasible to make profitable investments, and thus attract more private investors.

In 2009 Norfund committed almost NOK 1 billion to new investments. A full 78 per cent was invested in sub-Saharan Africa, and 36 per cent in the world's least developed countries (LDCs). However, the dampened economic growth in our investment countries reduced the profitability of their business sectors. This had an effect on the return on our portfolio, which was 4 per cent in 2009. The average return since Norfund's inception has been 11 per cent.

Norfund's two principal messages in 2009 were that the prospects for economic growth in many poor countries in and outside Africa are far more favourable than most people realise, and that our portfolio and those of others have proved over a period of many years that it is possible to invest profitably in these regions. These messages have survived the financial crisis and the global recession.

We ourselves are particularly proud of our pioneering work in creating instruments to strengthen growth in small and medium-sized enterprises (SMEs) in

Africa. Among the highlights of the year were the establishment of two new funds: FIPA, the first private equity fund in Angola, and Fanisi, the first venture fund in East Africa. Both funds are innovations in their markets. Norfund has helped to establish them, appointed managers and invested considerable resources in raising capital and putting in place the legal framework. Together these funds will provide approximately NOK 400 million to SMEs.

In the field of energy, we succeeded in 2009 in establishing SN Power AfriCA, a company whose purpose it is to develop renewable energy in Africa and Central America. In addition to SN Power Invest AS (SN Power), in which Statkraft is the majority owner, TrønderEnergi and BKK are also owners. A separate management team has now been established to run the company, and ambitions concerning the development of renewable energy are running high. In addition, the Bugoye power station in Uganda started operations. The power station is small by Norwegian standards, but provides a substantial contribution to the Ugandan energy supply. Trønder-Energi is also an owner here. Another highlight in 2009 was production start at SN Power's first windmill park, Totoral, in Chile.

For all that, 2009 has not been an entirely positive year for Norfund. Unfortunately, no less than 15 deaths have been reported for companies in Norfund's


investment portfolio, largely as a result of accidents associated with operation of machinery and traffic accidents. SN Power's hydropower project in India, Allain Duhangan, was a special challenge with regard to the health and safety of the employees. Following investigations, restructuring, extensive training and other measures, the number of incidents has declined substantially. Nevertheless, there was a tragic fatal accident in March 2010.

Norfund's mandate is to contribute capital and transfer expertise to poor countries. It is of equal importance to curb the large illegal capital flows from poor countries. Offshore financial centres (OFCs), also known as tax havens, are used to conceal these flows and to

evade tax. Norfund has co-operated actively with the Ministry of Foreign Affairs to obtain greater insight into international capital flows through OFCs and to establish common rules for when and how Development Finance Institutions (DFIs) can use such jurisdictions. In the short term, Norfund refrains from using OFCs outside the OECD with which Norway does not have tax and information exchange agreements. The jurisdictions for investment funds that Norfund have been instrumental in establishing have been moved to the OECD. The practical consequences of limiting the use of OFCs are that Norfund has made fewer fund investments than planned in Africa and given more loans.

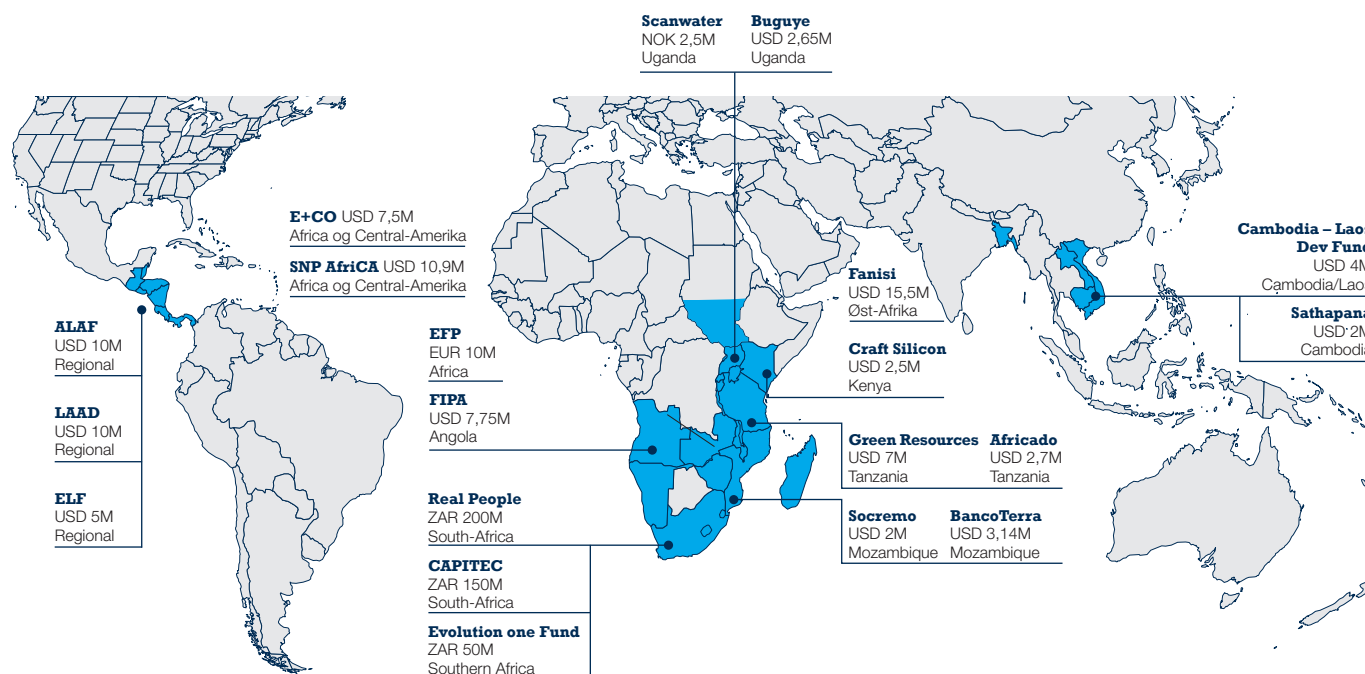
After 13 years of operations, Norfund is a mature investment fund. We currently invest twice as much as the new capital supplied to Norfund by the government each year. Nevertheless, capital is an effective constraint on the scope of our activities, and we are unfortunately obliged to say no to sound Norwegian projects in fields such as renewable energy. Looking ahead, our work will be focused on mobilising more private capital to all our investment areas. If the poorest developing countries are to succeed in the struggle against poverty, they need far more profitable investments. It is our task to contribute to this.

Happy reading!



Kjell Roland
Managing director

NEW INVESTMENT AGREEMENTS IN 2009



IMPORTANT EVENTS IN 2009

JANUARY	FEBRUARY	MARCH
<ul style="list-style-type: none"> • New ownership structure in SN Power. Norfund reduces its holding from 50 per cent to 40 per cent • SN Power AfriCA is established to increase the focus on investment in renewable energy in Africa and Central America. At the time of establishment, Norfund had an ownership share of 49 per cent and SN Power 51 per cent. • The Storting submits white paper no. 10 on the social responsibility of the business sector in a global economy, specifically on good corporate governance and development policy. 	<ul style="list-style-type: none"> • Norfund takes the initiative for a new EDFI working group to review investments in developing countries that operate through OFCs. • Norfund proposes to the Norwegian Ministry of Finance the establishment of a fund of NOK 10 billion for investment in low income countries, managed by Norfund. The capital is to come from the Government Pension Fund – Global. 	<ul style="list-style-type: none"> • Norfund presents strong earnings for 2008 of NOK 233 million in the investment currency and a return of 21 per cent. • Three tragic deaths in SN Power, India. New safety routines and rules are introduced. • Norfund signs a loan agreement with Capitec Bank in South Africa for a loan of up to ZAR 100 million (NOK 75 million). Capitec aims at the segment of the population that has traditionally not had access to financial services.
JULY	OCTOBER	
<ul style="list-style-type: none"> • Norfund moves to new premises at Aker Brygge, Oslo. 	<ul style="list-style-type: none"> • The opening of Bugoye Power Station, a hydropower facility in the north of Uganda owned by Norfund and TrønderEnergi. Bugoye has a power production equivalent to 7 per cent of electricity sales in Uganda. • Norfund commits to invest USD 4 million in the Cambodia-Laos Development Fund, a fund focusing on SMEs in Laos and Cambodia. 	



APRIL	MAY	JUNE
<ul style="list-style-type: none"> • The Storting Standing Committee on Foreign Affairs and the Standing Committee on Finance support Norfund's proposal that NOK 10 billion of the Government Pension Fund – Global should be invested in poor countries, and request that the government looks into how this can be done. 	<ul style="list-style-type: none"> • Norfund undertakes to invest EUR 10 million in European Financing Partners, a scheme for co-financing projects together with the other European DFIs. 	<ul style="list-style-type: none"> • The Capital Flight Committee submits a report with proposed guidelines for Norfund on the use of OFCs. • Norfund signs a loan agreement for USD 7 million with Green Resources. The company runs forest plantations and sawmills in Mozambique, Sudan, Tanzania and Uganda. • Norfund enters into an investment agreement for USD 5 million in Emergency Liquidity Facility, a fund for providing necessary liquidity to microfinance institutions in Latin America in the wake of the financial crisis. • Norfund commits to invest USD 10 million in a follow-up investment in Aureos Latin America Fund, which invests in SMEs in Latin America.
DECEMBER		
<ul style="list-style-type: none"> • Norfund establishes East Africa's first venture fund, Fanisi. The fund has capital of USD 40 million, of which Norfund has committed itself to contribute USD 15 million. • Norfund establishes FIPA, the first private equity fund for SMEs in Angola. The fund is worth USD 28 million, of which Norfund has committed itself to contributing USD 7.5 million. • Norfund signs a USD 7.5 million investment agreement with E+Co, which offers loans, equity and subsidies for business development to small and medium-sized entrepreneurs in clean energy in Africa and Central America. 	<ul style="list-style-type: none"> • Norfund undertakes to invest USD 2.7 million in Tanzania's first avocado plantation, Africado Limited. • Norfund enters into an investment agreement worth ZAR 50 million (NOK 35 million) with Evolution One Fund, which specialises in investments in SMEs in clean technology and renewable energy in Southern Africa. • Norfund commits to invest ZAR 200 million (NOK 150 million) in equity and loans in Real People, which offers credit to small enterprises and individuals in Southern Africa. Norfund's holding is 8.7 per cent. 	<ul style="list-style-type: none"> • Norfund signs an agreement for up to USD 4 million to buy a substantial holding in SOCREMO, a financial institution in Mozambique that is active in microfinance and provides loans to small enterprises. • At the end of 2009 Norfund has NOK 5.3 billion in committed investments.

PIONEERING WORK IN FUNDS TARGETING START-UP AND EARLY-PHASE ENTERPRISES IN AFRICA

FANISI

Fanisi means “prosperity” in Swahili, and is the name of the first venture capital fund in East Africa. The fund aims for investments in Kenya, Rwanda, Tanzania and Uganda. Norfund is behind the fund, and has worked on establishing it since 2007. A supply of risk capital for new enterprises is crucial to achieving growth in the private sector. With the aid of risk capital, Fanisi is to establish partnerships with and invest in start-up enterprises, early-phase enterprises and SMEs with a large growth potential.

In addition to owning 50 per cent of the management company, Norfund is Fanisi's principal investor, with an investment of USD 15 million. The World Bank's IFC, French Proparco and Finnish Finnfund are co-investors, and Soros Foundation has also recently decided to invest in the fund. Fanisi aims to manage a total of USD 50 million.

Shortage of capital

SMEs, and to an even greater extent start-up enterprises, are rarely on the customer list of traditional financial institutions and have difficulty in procuring long-term financing. There is often competition to finance the big, established companies, whereas the financing of new ideas, business models and services is regarded as too risky. Norfund's work with Fanisi arises from a desire to strengthen the ability of local capital markets to take risk and to secure financing for a market segment that has long been ignored.

Professionalise small enterprises

Fanisi will make equity investments in the range of USD 0.5 – 3 million with a view to playing an active part in companies, making them professional and enabling them to grow. This will involve boardroom work, and may also involve strategic advisory services, leadership training, new accounting systems and improved Health, safety and environment (HSE) standards. In addition to providing investment capital, Fanisi can assist enterprises with subsidies for internal capacity and development projects. The management team has wide-ranging experience gleaned from successful entrepreneurship, operational management and investment activities, plus an extensive network in the region. The head of Fanisi, Ayisi Makatiani, has previously established, managed and sold Africa Online – a highly successful telecommunications company.

Successful initial investment

In May 2009 Norfund made an equity investment of USD 2.5 million on behalf of Fanisi in the software and support company Craft Silicon. The investment will be sold to Fanisi in the course of 2010. Craft Silicon is a pioneer in the development and operation of software for banks and microfinance institutions, and also delivers electronic payment and mobile banking solutions. Mobile banking allows customers to make many types of transactions via their mobile phone, and is an especially important and useful service in poverty-stricken areas. It enables people



to use their mobile phone to pay accounts, transfer money to the family and make purchases, even when they are far from the nearest bank or PC. Dispensing with cash makes them less vulnerable to robbery. Craft Silicon has built up a solid product series, and the company's solutions are now in use in 38 countries, with more than 120 banks and microfinance institutions as customers. The company has 160 employees, the majority employed as programmers in Kenya. Others are employed in a subsidiary in Bangalore, India. Besides creating jobs and delivering useful services, Craft Silicon is expected to contribute to developing important technological know-how in East Africa.

Status

Fanisi has a team of 7 in place in Nairobi, working actively on a number of interesting investment opportunities. The fund's investors have committed to investing USD 40 million.

INNOVATIVE USE OF CASSAVA IN A NEW AGRICULTURAL PROJECT IN SWAZILAND

CASQUIP

Norfund has invested in Casquip, a combined agricultural and industrial project in Swaziland. Swaziland lies between South Africa and Mozambique and is one of the smallest countries in Southern Africa. According to the World Bank, Swaziland has the lowest life expectancy in the world, at just 31 years. It also has the highest HIV rate: 32.4 per cent of the adult population is infected. The country has 1.2 million inhabitants, and 28 per cent of the labour force is unemployed. The investment in Casquip is expected to have significant development effects.

Innovative use of cassava

Cassava is a root vegetable regarded first and foremost as an alternative to potatoes and vegetables. Casquip extracts starch from cassava roots for use in the paper and food industries, mainly for export to South Africa. Cassava starch is of high quality and therefore competitive in relation to other starch products.

Norfund has invested close to NOK 30 million in equity and loans in the company. The total investment in Casquip is NOK 100 million (ZAR 130 million).

Transfer of technology

In the past, Southern Africa has produced limited quantities of cassava, and until now cassava starch for industrial and food production has largely been imported from Asia. Casquip will give Swaziland a quality product which will increase export revenues, reduce imports and create jobs. The factory that produces the starch is state-of-the art, and an important example of technology transfer to Swaziland. The factory will also bring about a substantial increase in competencies throughout the value chain: handling of raw materials, production, planning, maintenance, logistics, personnel administration and financial control, in an area with very limited industrial activity and employment.

Demonstration effect

Casquip owns a large agricultural property of approximately 3 300 acres. Since start-up in December 2008, almost half of the area has been cleared of forest and scrub, cassava has been planted and the factory built. The intention is that the company should be self-sufficient with regard to raw materials, but the factory has the capacity to process a larger volume than can be harvested on the plantation. In the long term, Casquip therefore plans to enter into agreements with independent farmers in the area to cultivate cassava. The project will contribute to establishing cassava for industrial use in Swaziland. Agricultural



activities that increase value add through an industrial process have a high development effect, because value-added products can be sold at far higher prices than raw materials and at the same time pave the way for a more industrialised society.

Status

In January 2010, just over one year after start-up, the first cassava was harvested and starch produced. The first delivery of finished starch was made in February. The starch is of high quality and the product has been well received in the market. The growth period is somewhat longer than expected, but the crop was good. An organisation of 280 employees has now been established. The number will increase substantially as full production is approached.



A MACROECONOMIC OVERVIEW – AFRICA IN 2009

Negative news items dominate the picture of Africa projected by the media. The strong economic growth many African countries have experienced in the past decade is almost drowned in the Norwegian media coverage of Africa. Because of the prejudice prevailing against Africa, the Norwegian and international business sector fail to see the commercial opportunities this continent offers. Although there is some truth to the stereotypes, and although there are still a number of African countries that are at the bottom of global rankings in everything from standard of living to corruption, there are enormous differences from one country to the next. Africa is not "Africa", but 53 different countries.

Fastest growing economies

During the past decade, Africa has had some of the fastest growing economies in the world. Countries like Uganda, Mozambique, Ethiopia, Rwanda and Tanzania are among the foremost examples. None of them are oil-driven economies like Angola and Nigeria. Only a few years ago, sub-Saharan Africa was totally dependent on South Africa, the regional growth engine that contributes over a quarter of total sub-Saharan GDP. Today many sub-Saharan African countries are continuing to grow, although traditionally strong economies like South Africa and Kenya are having problems (see Figure 1).

From 2002, and up until the impact of the financial crisis in 2009, sub-Saharan Africa

experienced the highest GDP growth the region has seen for over 30 years. The annual growth rate averaged about 6.5 per cent. The period also stands out because it was longer and involved many more countries than previous good growth periods. The growth took place at the same time as a sharp increase in foreign direct investment (FDI).

Fewer conflicts and greater political stability

The long, broad-based growth period is attributable to many factors, not least fewer conflicts and greater political stability. Many African countries have also pursued a prudent macroeconomic policy with a well balanced public sector economy, so much so that many countries were able to pursue a counter-cyclical policy when the effects of the financial crisis hit Africa in 2009. Important macroeconomic indicators such as foreign debt, trade balance and foreign exchange reserves have improved considerably over the past decade for Africa as a whole. The commodity-dominated export structure has also benefited from high commodity prices and strong demand from countries enjoying strong growth, such as China, India and Brazil. The Chinese are also investing heavily in African infrastructure. As a result of low interest rates and greater risk-seeking, the supply of capital has also been greater than it has been for a long time, and foreign investors have diversified their portfolios into new markets, such as Africa.

The importance of a private business sector

Many African countries have gradually come to understand that the struggle to emerge from poverty entails profitable enterprises and foreign investments, while at the same time it is crucial to pave the way for domestic saving and a local business sector. Fifteen years ago, business in Africa was dominated by the public sector. Today the private sector is increasingly taking over, as happened in Asia and in many other regions that have since experienced strong growth. One constraint, however, is the lack of risk capital and expertise, which makes it difficult to develop profitable enterprises. The entry of private equity funds that invest capital and expertise in non-listed companies has therefore been an important success factor. These funds help firms to grow and develop. This type of investment is strongly supported by Norfund, which invests equity in private equity funds that target SMEs in need of growth capital and expertise. Twenty seven per cent of Norfund's new investments in 2009 were in investment funds of this type.

Financial crisis

The global financial crisis had a limited impact on sub-Saharan African economies in 2009. With the exception of South Africa, the financial sector is not very well developed in Africa, and the banking sector is dominated by local players who obtain capital from sources other than the global capital market.

These countries were therefore largely shielded from the direct financial crisis. However, Africa was hit through the subsequent crisis in the real economy.

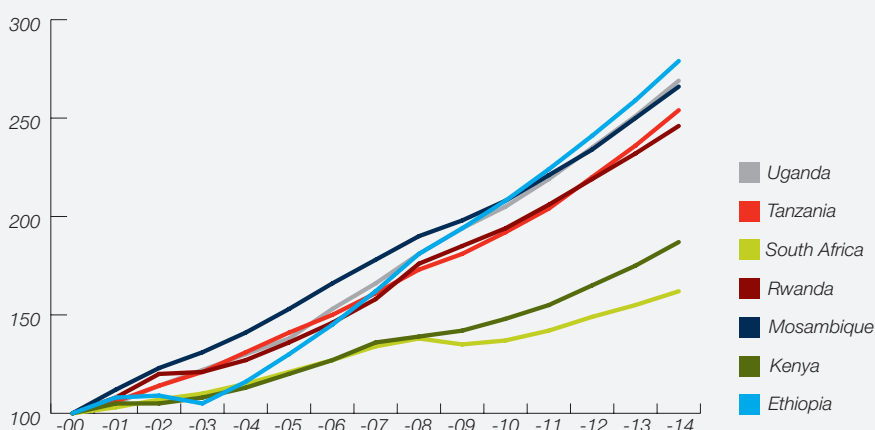
On the whole, sub-Saharan Africa is dominated by commodity exports. Falling commodity prices as a result of weakened global growth had a particular impact on commodity-dominated countries. Oil exporters and middle income countries were hit harder – at least initially – than low income countries that are less integrated into the global economy. But some of the fastest growing economies of recent years are countries that are not dominated by commodities: since 2003 Ethiopia has been growing faster than China, and Rwanda has been growing faster than Vietnam. Both Ethiopia and Rwanda are countries with a scarcity of commodities.

In addition to the effect of weakened commodity exports, both aid and income from tourism and African migrant workers abroad have fallen off. The income from family members abroad is important to many countries, and in a very poor country like Lesotho this income accounts for as much as 29 per cent of GDP.

Decline in foreign investment

The global recession also caused a pronounced scaling back of foreign direct investment in Africa. According to the United Nations Conference on Trade and

FIGURE 1 – INDEXED DEVELOPMENTS IN REAL GDP.



Year 2000 = 100. Outlook after 2008. When a country moves from 100 to 200, it means that GDP has doubled during the period. Sources: IMF, World Economic Outlook Database, October 2009.

Development (UNCTAD), 2009 marked a turning point after six years of continuous FDI growth in developing countries. Preliminary estimates show that such investment in Africa fell by 36 per cent in 2009 after peaking in 2008 (see Figure 2). FDI is a substantial contributor to the continent's fixed capital formation, with a share of 29 per cent of total gross fixed investment in 2008.

The decline in FDI was particularly evident in Africa's least developed countries (LDCs), where global demand for commodities is a considerable FDI driver. The decline was less than in most other

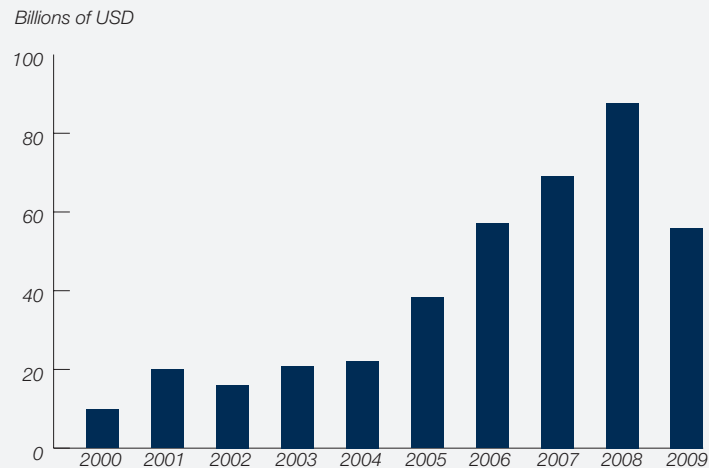
regions of the world, however, largely because of continued high investment in mining and the oil and gas sector. The decline in FDI is a threat to Africa's long-term development. Norfund, together with other DFIs, plays an important part in helping to maintain the positive developments seen in Africa over the past decade. Whereas private investment fluctuates with the business cycle and private investors have stopped or postponed investing as a result of the financial crisis, Norfund stepped up its activity in sub-Saharan Africa in 2009 and is increasingly investing in the countries with least capital and expertise.

Downturn – but continued growth!

GDP in sub-Saharan Africa is estimated by the International Monetary Fund (IMF) to have grown by 1.6 per cent in 2009, down from 5.6 per cent in 2008. The downturn was less severe than feared. As a result of improved macroeconomic conditions in many African countries, the negative effects of the financial crisis were less severe than in other regions (see Figure 3) and in previous economic downturns. According to the African Development Bank, the GDP of only six of 53 African countries declined in 2009 in relation to 2008. This is in strong contrast to the OECD countries, where all countries except South Korea and Australia experienced a fall in GDP. Moreover, commodity prices remained more buoyant than expected because of continued solid demand for African commodities from countries such as Brazil, China and India.

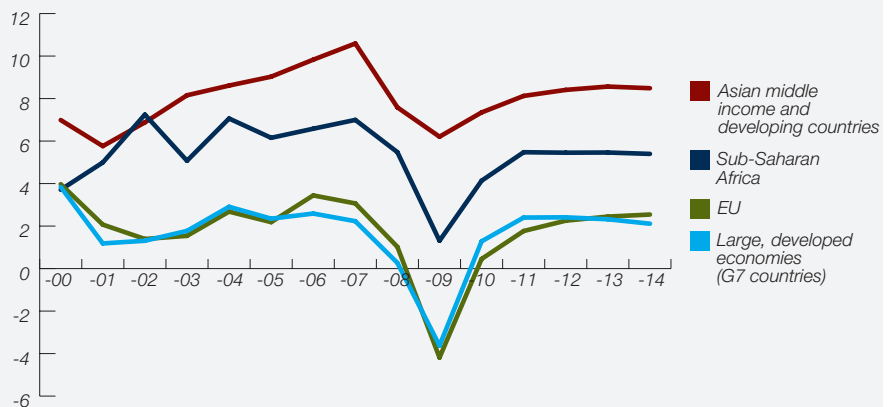
The IMF expects growth in sub-Saharan Africa to be 4.3 per cent in 2010 and 5.5 per cent in 2011. The strength of the recovery in the immediate future will depend largely on growth in Africa's most important export markets and investment partners, particularly China. In the longer term, investments in a profitable and sustainable business sector, and a well functioning energy and financial infrastructure, are crucial to enabling Africa to continue experiencing the unique social and economic development of the past decade.

FIGURE 2 – FOREIGN DIRECT INVESTMENT IN AFRICA



Source: UNCTAD

FIGURE 3 – GROWTH IN REAL GDP



Source: IMF, World Economic Outlook Database, October 2009



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AFRICA IS NOT “AFRICA”,
BUT 53 DIFFERENT COUNTRIES.

NORFUND AS A DEVELOPMENT INVESTOR

Norfund is a financial and responsible investor with a development policy mandate to establish and develop profitable, viable enterprises in developing countries. To achieve this and to mobilise capital from other investors, Norfund has established a strategy of concentrating on selected very poor geographical regions and on sectors with a high development effect.

MANDATE

Norfund's *mandate* is to develop sustainable commercial activities in developing countries by establishing and developing profitable activities which would not otherwise have been initiated because of the high risk involved. This means that Norfund makes investments that are additional to what would otherwise have happened in the market. In other words, Norfund invests where there is a shortage of capital and expertise.

The objective of being additional has two dimensions:

1. Contributing to *more* investments in poor countries because Norfund is willing to assume more risk and costs than most private investors.

2. Contributing to *better* investments, because Norfund gives priority to projects with a strong development effect and enhances these effects through active ownership and support for the development of the enterprises.

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

STRATEGY

Norfund's strategy is designed to enable us to fulfil the mandate in the Norfund Act, and reflects the overarching priorities in Norwegian development policy.

Establishing profitable and sustainable enterprises in some of the world's poorest and least developed countries is difficult and risky: It demands expertise and know-how in a number of areas. Our strategy therefore consists essentially of building up this investment expertise.

Norfund is a financial investor, and expertise in investing and in managing risk in developing countries is therefore vital. This is contingent on knowledge of the framework conditions in the countries and sectors in which Norfund invests, about companies and their management, and about the partners with whom we

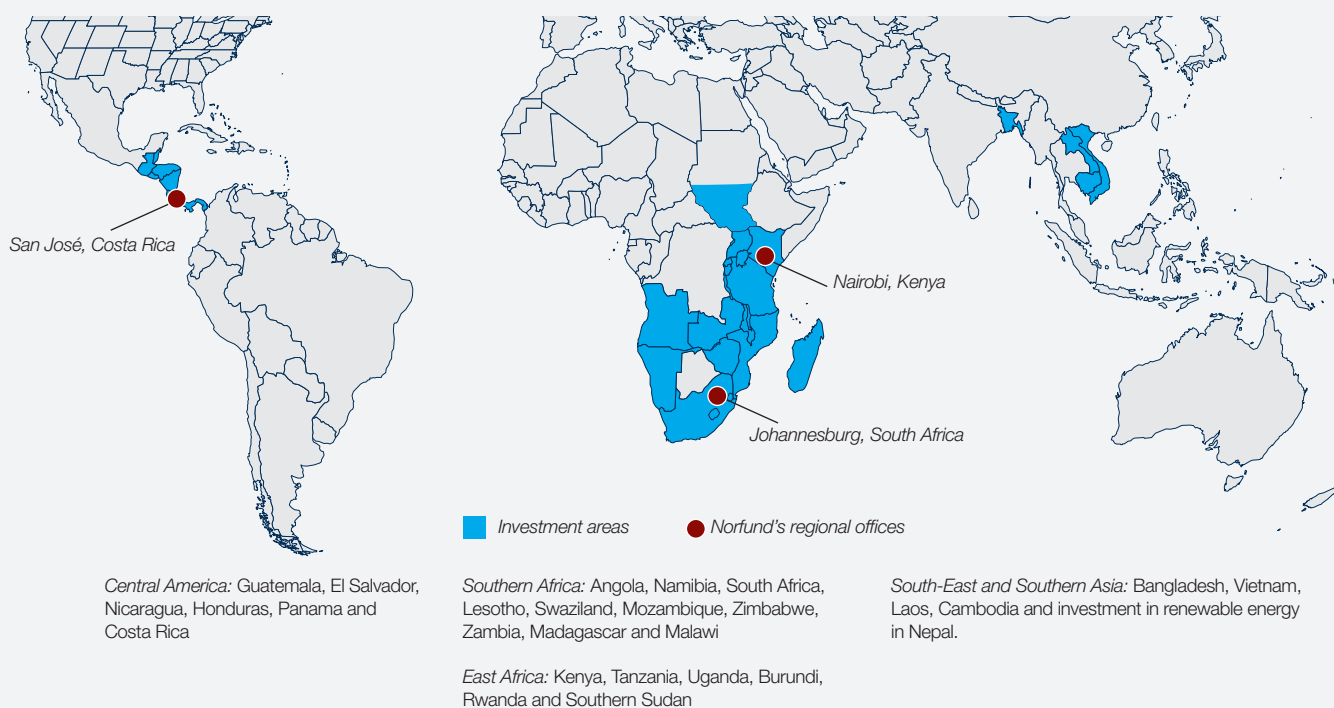
co-invest. In order to gain as much insight as possible into framework conditions and politics, Norfund has concentrated its investment in a limited number of countries. Important criteria for the choice of these countries have been prioritising Africa, ensuring a high share of investment in countries classified as least developed countries (LDCs) and including countries that are important in Norwegian development cooperation. These are countries with a particular shortage of capital and expertise.

Norfund has additionally chosen to concentrate especially on renewable energy and the financial sector. These are sectors where our activities result in particularly high development effects and where the conditions are in place for mobilising expertise of international quality among Norwegian partners. Access to energy and a functioning banking and financial system are crucial infrastructure for development.

A RESPONSIBLE INVESTOR

Sustainability is one of the key elements in Norfund's mandate. Norfund is a financial investor, and shall invest in profitable enterprises. In addition Norfund requires that the companies either have in place or develop good corporate governance and acceptable standards with respect to

NORFUND'S INVESTMENT REGIONS



environmental responsibility and working conditions. These are the prerequisites for the development effects Norfund aims for. Norfund's three main objectives as a responsible investor are: 1) to live up to Norfund's mandate and the principles for Norway's development assistance, 2) to reduce the risk of negative environmental or social impact, and 3) to contribute to raising the standards of environmental responsibility, working conditions and corporate governance. Norfund's aim is to create and develop well run companies that maintain good relations with employees, the local community and the authorities.

Before investment

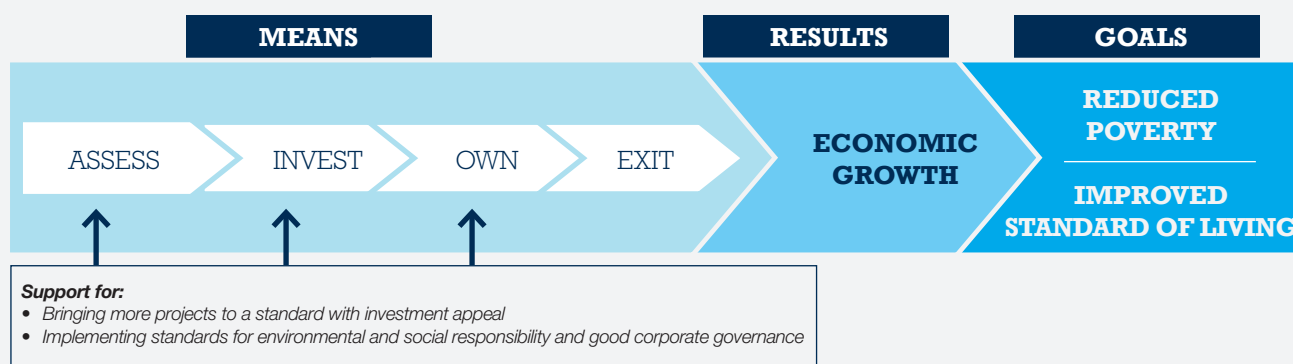
Before Norfund invests, considerable resources are spent on understanding

the business concept, the positive and negative effects the investment may have on the community, and the quality of the partners and their ability to achieve commercial success. A study of corporate governance and social and environmental risk factors forms a natural part of this process. Norfund does not expect "perfect enterprises", but will never finance projects that may lead to irreparable harm to the environment or work with partners who are unwilling to ensure safe and fair working conditions. A thorough description of these factors is included in all cases that are submitted for an investment decision to Norfund's investment committee and board of directors. Norfund does not require that the investments' performance fully

comply with all dimensions of the required standards at the time of the investment, but does require that they have an action plan for attaining this level over time.

Norfund has a list of the types of activity in which it does not invest, however. Investment in companies that are operated in contravention of national laws and regulations or in breach of international conventions, for example ILO's core conventions on forced labour and child labour and the CITES convention for the protection of endangered animal species, is not an option for Norfund. Also excluded is investment in enterprises that produce weapons, alcohol, tobacco, or have activities associated with pornography, gambling,

FIGURE 4 – NORMAL PHASES IN A DEVELOPMENT PROJECT WITH RESULTS AND GOALS



or the sale of hazardous materials. The list is harmonised with other development assistance investors and ensures a unified European position on excluded investment areas.

Standards used in Norfund's agreements

IFC standards are applied to environmental and social issues. In projects with a high risk of negative impact on the surroundings, external professionals are brought in to prepare impact analyses to ensure compliance with IFC's standards. As well as providing pointers as to whether an investment should be carried out or not, the standards provide guidelines for how the companies should be run. In addition, Norfund requires that companies follow IFC's guidelines for health, environment and safety (HSE) and Norfund's own guidelines for anti-corruption work. Building a shared understanding of what this means in practice and anchoring it in a binding agreement is a key stage of the investment process. It is also important to ensure that the agreement makes effective corporate governance possible.

Norfund always co-invests with other partners, and as a rule considerable work is put into harmonising the investors' positions on environmental and social issues so that companies feel that they are receiving a consistent message from their investors.

When the standards are laid down in agreements, the behaviour of companies that contravene, for example the exclusion list or the IFC standards, could be regarded as a breach of contract and give Norfund the right to require that the loan be repaid or to take legal steps regarding the shareholder agreement. This is dramatic and destroys value for a company, and it is very rare for this option to be used. As a rule there is willingness to find solutions and improve standards.

Active ownership

Norfund is an active owner. How active we are depends on the type of investment, our ownership share and who our co-investors are. Norfund makes equity investments more often than it provides pure loan financing. This tends to involve positions on the board, and boardroom work gives proximity to operations and the

possibility of influencing standards. Norfund wishes to be both a guarantor of fundamental rights and a driving force for raising standards over time. Given an ownership horizon of 4-10 years, Norfund works for the creation of a corporate culture that is engaged in continuous improvement of corporate governance and environmental and social standards. Action plans are used to stake out a long-term course for how companies should shift from operating according to local standards to international standards.

Since Norfund cannot own more than 50 per cent of the shares in a company, co-investing with like-minded investors and coordinating corporate governance as far as possible is important. Norfund also has a special grant facility that can be used to subsidise project development, boost the development effects of the projects and assume greater social responsibility in connection with projects. These grant resources are allocated independently of the commercial investment capital, and are an effective instrument in Norfund's execution of ownership (see page 37 for more on the grant facility).



The opening of the national tree-planting campaign in Islamabad.

LOCAL SOCIAL RESPONSIBILITY INITIATIVE

Many of the companies in which Norfund has invested launch social responsibility projects on their own initiative. An example is the Serena Hotel chain, which is working on social responsibility at all its hotels.

At the Kabul Serena Hotel in Afghanistan, the hotel employees decided in 2009 to assume responsibility for providing training in tourism and hotel management to representatives of the remote Bamyan province. They also provided financial support for a primary school in Kabul.

At the hotel in Islamabad, the employees became involved in helping refugees from the Swat Valley. A blood donation campaign was held and Serena entered into a public-private partnership with the urban development council of Islamabad on a national tree-planting campaign.

EUROPEAN COOPERATION IN 2009

In 2009 Norfund arranged a gathering of all those responsible for environmental and social affairs in the European EDFI network. The gathering contributed to a further harmonisation of working methods among investors and to simpler financing processes for enterprises.

During the year, Norfund has taken part in EDFI working groups to revise IFC standards, corporate governance and environmental and social standards in financial institutions and funds and chaired a working group on revision of the exclusion list.



WHEN A DEATH OCCURS

Good working conditions for employees are a fundamental goal for Norfund. It is of the utmost importance to Norfund to contribute to ensuring that companies emphasise HSE work to prevent accidents and deaths in portfolio enterprises. At the same time, Norfund's capital is invested such that its possibility of exerting ownership control differs from one company to the next. This means that Norfund's potential influence in companies in its investment portfolio varies.

Norfund requires all companies to observe national HSE standards and to work towards fulfilling the IFC requirements. All companies in which Norfund has invested equity directly also undertake to notify Norfund immediately of deaths or other serious incidents. It is a minimum requirement that funds and companies to which Norfund has given loans report any deaths in their annual HSE reporting.

When Norfund learns of a death, it follows up the company to find out what went wrong, the result of the local authorities' investigations and whether compensation was paid to the bereaved. As owner, Norfund is concerned with understanding whether the accident is a sign of systematic safety failure and whether the company needs to improve its HSE work.

In May 2009, one of our fund managers in Africa reported a death in a portfolio company. A casting mould had fallen on a steelworks employee. Although the investigation concluded that the company was not to blame for the accident, compensation was paid to the family. Despite the fact that this was the company's first work-related death in ten years, a number of steps were taken to raise the HSE standards. Unfortunately another death was reported in the same company four months later. An employee who used a blowtorch to cut open a gas cylinder, in contravention of safety procedures, was killed in the ensuing explosion.

Within three weeks of the second death, one of Norfund's personnel responsible for environmental and social standards and corporate governance visited the plant with the fund manager. They examined the accident site and interviewed selected representatives of the company's management and employees. HSE in portfolio companies was also a key item on the agenda at the fund's steering committee meeting in November 2009. This led to follow up of the HSE standards of portfolio companies, in that the fund manager engaged a third party to conduct an HSE audit. Subsequent to the audit, which was completed in November, the company has employed a dedicated HSE officer.

NORFUND'S INVESTMENT PORTFOLIO

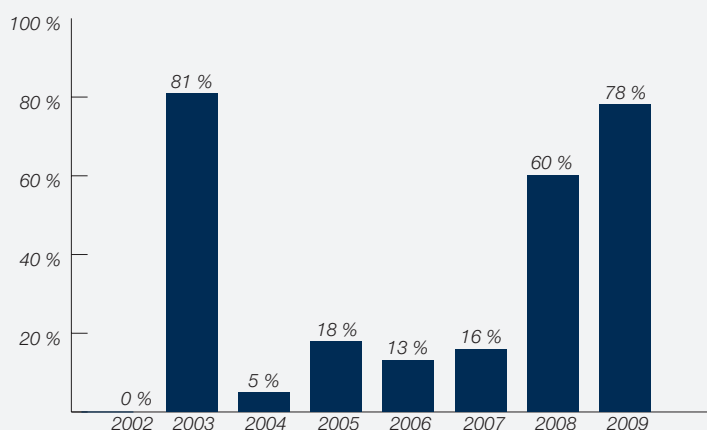
Norfund contributes to the struggle against poverty by investing in some of the most difficult markets and least developed countries in the world. In the course of 2009, Norfund committed to 22 new investments worth NOK 944 million, and at the end of the year Norfund had a committed portfolio for a total of NOK 5.3 billion. 78 per cent of the new investments were in Africa, and 36 per cent were in LDCs. Norfund's investments had a return of four per cent in 2009.

Africa

Norfund has a steadily increasing focus on sub-Saharan Africa. As shown in Figure 5, 78 per cent of new investment commitments in 2009 were in Africa, compared with 60 per cent in 2008. This is equivalent to about NOK 800 million in both 2008 and 2009.

Figure 6 shows the composition of Norfund's committed portfolio at the end of 2009. Thirty five per cent of the investments were in Africa, 37 per cent in Latin America and 28 per cent in Asia. The large shares in Latin America and Asia are mainly due to SN Power's investments in renewable energy. Norfund's portfolio at the end of 2009, excluding SN Power's investments (see Box 1), shows that 60 per cent of the portfolio is invested in Africa.

FIGURE 5 – SHARE OF NEW INVESTMENTS IN SUB-SAHARAN AFRICA



DEFINITIONS

Least developed countries (LDCs) are defined by the UN as countries with very low gross domestic income, underdeveloped use of human capital (quantified by means of a Human Assets Index) and which are assessed as economically unstable.

Low income countries have an annual per capita GDI of less than USD 935.

Lower middle income countries have an annual per capita GDI of between USD 936 and USD 3705.

Higher middle income countries have an annual per capita GDI of between USD 3 706 and USD 11 455.

BOX 1: PRESENTATION OF THE GEOGRAPHICAL DISTRIBUTION OF NORFUND'S PORTFOLIO EXCLUDING SN POWER

Norfund's investment in SN Power accounts for slightly less than half of Norfund's total investments. However, SN Power has different geographical focus areas from Norfund. In order to provide a more correct picture of Norfund's own geographical focus, we therefore also present the portfolio excluding SN Power's investments.

Norfund aims for more investment by SN Power in Africa and LDCs. This was the main reason for the establishment of SN Power Africa.

Least developed countries

In general, the poorer the country, the greater the need for Norfund's investment. Thirty six per cent of Norfund's new investment commitments in 2009 were in LDCs, 17 per cent in low income countries and 47 per cent in middle income countries (see Figure 7). The large share in middle income countries is mainly due to two large investments in the banks Capitec and Real People in South Africa. Both banks offer services to the poor in South Africa who do not have broad access to financial services. Norfund's total portfolio had an LDC share of 35 per cent at the end of 2009, excluding SN Power's investments.

Start-up enterprises

Starting an enterprise from scratch entails high risk. New projects often face challenges in attracting private capital, but may have a great potential for profitability and positive development

effects. Start-up enterprises are therefore an important and significant part of Norfund's activities. This type of investment is also the most demanding with respect to corporate governance, and Norfund is therefore dependent on having good industrial partners in its projects. Of Norfund's new commitments in 2009, 30 per cent were start-up projects compared with 32 per cent in the overall portfolio.

Appropriate financial instruments

Norfund strives to work in a manner that will mobilise further capital from other investors. Equity normally carries more risk than loans, and by investing in equity Norfund acts as a catalyst by putting banks and other private players in a better position to extend loans against collateral. In Norfund's portfolio (Figure 8), direct equity investment¹ accounts for 53 per cent, indirect equity investment

¹ Equity includes pure equity investments and mezzanine loans.

FIGURE 6 – NORFUND'S PORTFOLIO AT 31.12.09 – BY REGION

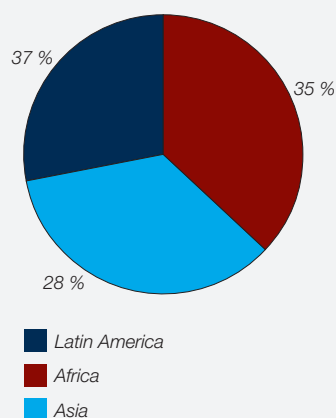


FIGURE 7 – NEW COMMITTED INVESTMENTS IN 2009, – BY OECD/DAC CLASSIFICATION

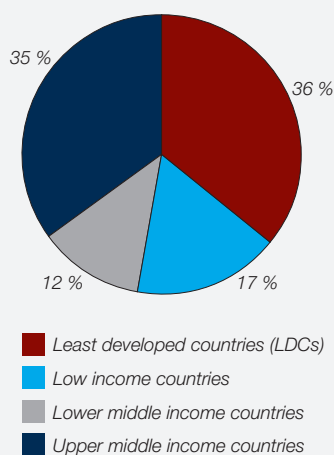


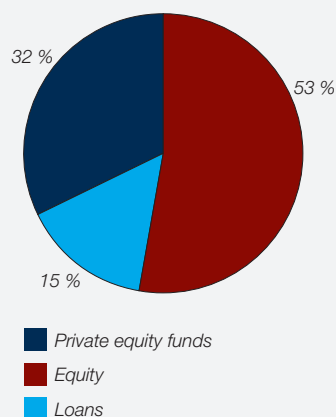
TABLE 2 – KEY FIGURES: ACTIVITIES IN 2009 AND PORTFOLIO AT 31.12.2009

Investment activity 2009	
New investment commitments (MNOK)	944
Share of least developed countries (LDCs)	36%
Share in Africa	78%
Share of start-up enterprises	30%
Share of equity	23%
Share of loans	50%
Share of funds	26%
Number of new commitments	22
Disbursed to investments (MNOK)	619
Paid in from investments (MNOK)	508

Portfolio at 31.12.2009	
Committed investments (MNOK)	5 264
Share in LDCs (excl. SN Power)	35%
Share in Africa (excl. SN Power)	60%
Share of start-up enterprises	32%
Share of equity	53%
Share of loans	15%
Share of private equity fund investments	33%
Number of investments	81
Committed investments	
renewable energy (MNOK)	2 348
Committed investments	
microfinance (MNOK)	683
Net disbursed investments (MNOK)	3 844
Employment	148 000
Share of women	29%
Payments to local authorities* (bnNOK)	4.2
Norfund's weighted share of	
corporate tax (MNOK)	46
Norfund's equity (MNOK)	5 871
Norfund's balance (MNOK)	5 906

* Payment to local authorities include corporate tax, charges, licences etc. for all Norfund's investments. The figure is not weighted according to Norfund's share.

FIGURE 8 – COMMITTED PORTFOLIO – BY DIFFERENT INVESTMENT INSTRUMENTS



through private equity funds 32 per cent and loans 15 per cent. Indirect equity investment means that Norfund invests in private equity funds, which in turn invest equity in companies. Of new investment commitments in 2009, 50 per cent concerned loans, 23 per cent direct equity and 26 per cent indirect equity through private equity funds.

Payments from and disbursements to investments

In the course of 2009, Norfund disbursed NOK 619 million to its investments. This is a decline from 2007 and 2008, when NOK 1 506 million and NOK 883 million, respectively, were disbursed.

All in all, Norfund received NOK 508 million from investments in 2009. The largest payment was from the sale of shares in SN Power to Statkraft in January 2009.

Jobs

At the end of 2009, 148 000 people worked in companies in Norfund's investment portfolio. By way of comparison, the number in 2008 was 158 000². The number employed was reduced by about 10 000 in 2009, due to the fact that some funds have withdrawn from investment companies with many employees.

In 2009, there were 95 000 employees in companies in which Norfund has invested indirectly through fund managers. 53 000 were employed in enterprises in which Norfund has invested directly, and of these, 34 000 were employed in microfinance institutions.

44 000 of the 148 000 employees were women, i.e. 29 per cent. By way of comparison, the women accounted for 32 per cent of employees in 2008.

Tax revenues

Companies in Norfund's investment portfolio paid NOK 4.2 billion to local authorities in 2009. The employees' income tax is additional. The tax contributed by our investments is very substantial, for two main reasons: the tax contribution is not weighted according to Norfund's holding in the companies, and the tax contribution from GrameenPhone in Bangladesh in 2009 was NOK 2.8 billion. The largest contributors to the remaining NOK 1.4 billion were SN Power (NOK 356 million), some financial institutions and some investments made through private equity funds.

If corporate tax on Norfund's direct equity investment is considered in isolation, Norfund's weighted share according to

its holding is NOK 46 million. This is a relatively low figure, and is due to the fact that the highest tax payers in Norfund's portfolio are not equity investments and are therefore not included in the weighted figure. Moreover, many of the equity investments are in early-phase companies which are not yet profitable and therefore pay little or no corporate tax.

Norfund pays hardly any tax deducted at source on interest and dividends. This is due to the fact that Norfund is not taxable in Norway, tax agreements between the countries in which Norfund has investments, and that many countries do not have tax at source on interest and dividends to foreign investors. Of the tax at source that has been paid, NOK 0.7 million is tax on interest and dividends on Norfund's investments in Cambodia and NOK 30 000 is tax in connection with investments in Kenya.

Increasing risk in the portfolio

Norfund's mandate dictates that we invest in challenging markets. In order to be an additional development investor, Norfund has in recent years shifted its portfolio more towards the least developed countries, sectors with high risk, and has increasingly been involved in starting up new companies. In addition Norfund is geared to act as a catalyst, and in many cases this involves investing in more risky instruments, such as equity.

Positive return on the portfolio

A positive return on our investments indicates that we are succeeding in creating profitable enterprises. Since start-up, Norfund has had a return of 11 per cent. In the present context, 'return' means the internal rate of return

² Norfund has earlier reported that this number was 248 000. The reason for the amendment is that due to a misunderstanding all the employees of BRAC were included in the reporting to Norfund in 2008, whereas Norfund's investment is confined to BRAC's microfinance business. The figures for 2009 have therefore been adjusted accordingly.

on the cash flow to and from investments, including the assumed value of the investments at the end of the year. As Table 3 shows, the return has varied considerably from year to year, and there are great variations within the investment portfolio. Given Norfund's risk profile, the return will also fluctuate substantially in the future. In order to obtain a better understanding of the return, it is therefore important to look at Norfund's return over an extended period. The investments in financial institutions and renewable energy have yielded the best return over time, particularly the investment in SN Power. If SN Power is excluded, Norfund has had a return in investment currency of five per cent since its inception.

The return in 2009 was four per cent in investment currency, and all investment areas showed a positive return. The return in 2009 was to some extent affected by the global economic situation and lower economic growth in the countries in which we invested.

Norfund makes annual valuations of all the investments in the portfolio. The valuations are the best estimate of the fair value of the investments at year-end, and are made pursuant to "International Private Equity and Venture Capital



Investments in financial institutions facilitates access to financial services for large sectors of the community.

Valuation Guidelines". The final profitability of our investments will only be clear when the assets are realised. Our valuations often prove to be somewhat conservative, and are therefore often lower than the value obtained through final realisation of the investments.

Termination of investments

In 2009 Norfund did not sell or terminate any of its equity or fund investments. Four loans were repaid in their entirety in 2009.

TABLE 3 – RETURN (IRR) IN INVESTMENT CURRENCY

	2002	2003	2004	2005	2006	2007	2008	2009	Since establishment
Financial institutions	19%	4%	18%	10%	9%	27%	9%	6%	10%
SME funds	-5%	-15%	-4%	17%	1%	32%	4%	5%	6%
Renewable energy	0%	17%	1%	-3%	44%	14%	25%	3%	14%
Industrial partnerships	-9%	-22%	-28%	2%	-19%	16%	10%	12%	-2%
Total	-4%	7%	-1%	4%	24%	17%	21%	4%	11%

The table shows Norfund's return exclusive of Norfund's operating expenses.

NORFUND'S FINACIAL RESULTS

SOLID RESULTS IN 2009

In 2009 Norfund had an net profit in investment currency of NOK 262 million compared with NOK 238 million in 2008. Income was NOK 224 million, compared with NOK 197 million in 2008.

The most important contribution to operating income in 2009 was the sale of shares in SN Power to Statkraft, with an accounting gain of NOK 143 million. Norfund more than doubled its loan portfolio in the course of 2009. However, as a result of lower global interest rate levels in 2009, interest income on the loans in our investment portfolio was NOK 34 million, compared with NOK 39 million in 2008. Dividends received in 2009 were on a level with those in 2008. Other project income consisted largely of payments from our loan portfolio from Norad, which were at the same level as in 2008.

Total operating costs were NOK 79 million, a 6 per cent increase on 2008. The higher payroll costs were due to increased staffing, particularly at our regional offices, and higher pension costs as a result of a fall in the value of Norfund's plan assets. Other operating expenses were lower than in 2008 as a result of reduced use of external assistance.

Measured in investment currency, our previous write-downs were reversed by NOK 3 million in 2009, compared with

TABLE 4 – PROFIT/LOSS IN 2009

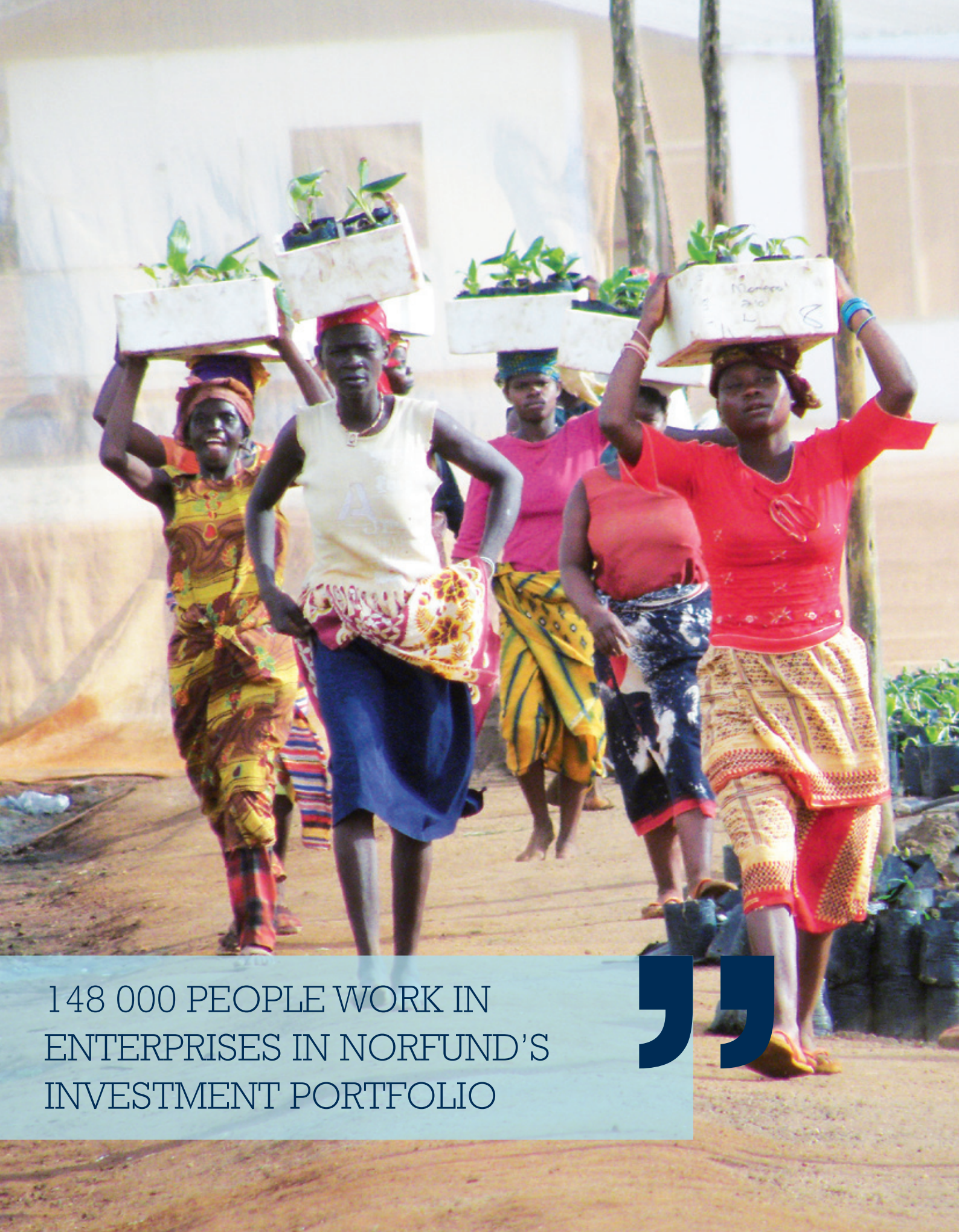
(millions of NOK)	2009	2008
Interest (investment portfolio)	34	39
Realised gains	143	32
Dividends received	25	26
Other project income	21	99
Total operating income	224	197
Payroll expenses	-44	-34
Other operating expenses	-35	-40
Total operating expenses	-79	-74
Write-down (-) on investments	3	-84
Operating profit in investment currency	149	39
Share of profit SN Power (40%)	82	120
Interest income liquid assets	41	69
Other financial items	-9	11
Net financial items	113	200
Net profit in investment currency	262	238
Exchange rate effects portfolio	-133	184
Profit in NOK	130	422

write-downs in investment currency of NOK 84 million in 2008. At portfolio level, the accounting value in investment currency of our investments thus remained unchanged through 2009.

The share of profits from SN Power was lower in 2009 than in 2008, due partly to weaker results from SN Power and partly to Norfund's holding being reduced from 50 to 40 per cent. The interest income of NOK 41 million was lower than in 2008 as a result of a lower interest rate on deposits in Norges Bank, despite higher

average deposits. Other financial items were foreign exchange losses unrelated to the investment portfolio.

The US dollar depreciated 17 per cent against the Norwegian krone in 2009, from NOK 7.00 to NOK 5.78. As a result, the value of our investments, which are largely in USD, fell substantially through 2009. Overall, the exchange rate effects impacted profits negatively to the extent of NOK 133 million, compared with a positive NOK 184 million in 2008. Our profit after these exchange rate effects was NOK 130 million.



148 000 PEOPLE WORK IN
ENTERPRISES IN NORFUND'S
INVESTMENT PORTFOLIO



INVESTMENT AREAS

Norfund's activities are divided into four investment areas: Renewable energy, Financial institutions, SME funds and Industrial partnerships.

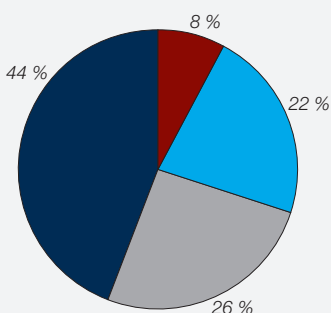
At the end of 2009, 44 per cent of Norfund's portfolio was invested in Renewable energy, 26 per cent in SME funds, 22 per cent in Financial institutions and 8 per cent in Industrial partnerships.

Norfund entered into committed investments for a total of NOK 944 million in 2009. 43 per cent was invested in Financial institutions, 27 per cent in SME funds, 13 per cent in Renewable energy and 17 per cent in Industrial partnerships.

FIGURE 10 – NORFUND'S FOUR INVESTMENT AREAS: REASONS FOR DEVELOPMENT AND MEANS USED

FINANCIAL INSTITUTIONS	SME FUNDS	RENEWABLE ENERGY	INDUSTRIAL PARTNERSHIPS
BUILD FINANCIAL INFRASTRUCTURE	STRENGTHEN SMES	BUILD ENERGY INFRASTRUCTURE	RISK CAPITAL WHERE THE DEVELOPMENT EFFECT IS PARTICULARLY STRONG
Why <ul style="list-style-type: none"> To create financial services for "unbanked" and small entrepreneurs How <ul style="list-style-type: none"> Invest in SME banks, funds and microfinance Partnership with NMI 	Why <ul style="list-style-type: none"> Invest in SMEs through local ownership Build a formal economy Strengthen the local capital market How <ul style="list-style-type: none"> Invest through PE funds or set up new ones if none exist 	Why <ul style="list-style-type: none"> Access to electricity is a prerequisite for economic growth How <ul style="list-style-type: none"> Set up companies with capabilities to build and operate Mobilise Norwegian capital and expertise 	Why <ul style="list-style-type: none"> Start-up and high-risk projects with high development effect Draw expertise and technology to sub-Saharan Africa and LDCs How <ul style="list-style-type: none"> Mobilise Norwegian business sector Be long-term and follow-up closely Identify sound industrial partners

FIGURE 9 – NORFUND'S PORTFOLIO – BY INVESTMENT AREA



Renewable energy NOK 2348 m
 Industrial partnerships NOK 425 m
 Financial institutions NOK 1140 m
 SME funds NOK 1351 m

FINANCIAL INSTITUTIONS

– INCREASE THE SCOPE OF BASIC FINANCIAL SERVICES FOR ENTERPRISES AND INDIVIDUALS

Highlights in 2009

- Norfund committed a total of NOK 406 million in seven projects.
- Two large new commitments to Real People and Capitec totalling ZAR 350 million (NOK 278 million).
- NOK 87 million in follow-up investments in financial institutions in Latin America, Asia and Africa.

The investment area Financial institutions invests in banks, microfinance institutions, funds that invest in the financial sector and other financial institutions. The primary goal of investing in and lending to financial institutions is to extend reliable financial services to private enterprises and individuals who do not have access to these services today.

Norfund regards Financial institutions as an attractive investment option with a good financial return and strong development effects. Financial institutions are therefore a key investment area for Norfund, particularly with a view to facilitating access to finance for SMEs.

At the end of 2009, the portfolio of Financial institutions consisted of a total of 26 projects in Africa, Latin America and South and South-East Asia. Norfund had committed to a total of NOK 1.1 billion in investments in this area, and a net amount of NOK 745 million was disbursed.

Strategy

Investments are largely in institutions that are owned locally and that have a promising growth potential. Norfund's investments are either direct, in the form of loans or equity, or indirect, through investment funds.

Norfund works with banks and other financial institutions that focus on SMEs and in the microfinance segment. Norfund's strategic alliance with the Norwegian Microfinance Initiative (NMI) and partners Ferd, DnB NOR/Vital, Storebrand and KLP constitutes its most important tool for investing in microfinance. Norfund also invests in our geographic priority regions, where NMI is not active. Norfund has a higher risk profile than NMI in direct investments in microfinance institutions.

In its work with financial institutions, Norfund is particularly concerned with exercising good corporate governance, providing basic banking competencies and encouraging an improvement in internal control and accounting systems.

Activity in 2009

2009 was an active year with a focus on making new investments. Seven investment agreements were signed in four new projects worth NOK 406 million.

New projects:

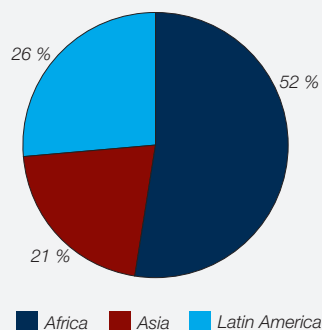
- *Microfinance in Mozambique:* SOCREMO is a financial institution in Mozambique that is active in microfinance and the SME sector. SOCREMO has a high deposit to loan ratio, which means safer financing of financial institutions and favourable growth opportunities. This could increase the

KEY FIGURES FINANCIAL INSTITUTIONS

Committed investments (MNOK)	1140
Net disbursed investments (MNOK)	745
Committed investments microfinance (MNOK)	683
New commitments in 2009 (MNOK)	406
Number of investments	25

Share in least developed countries	37%
Share of start-up enterprises	34%
Share of equity investments	24%

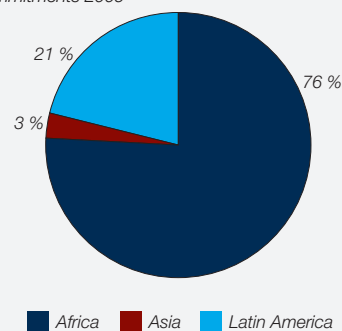
Geographical distribution of committed portfolio



Employed	39 000
Share of women	25%
Payments to local authorities (MNOK)	209
Norfund's weighted share of corporate tax (MNOK)	1.3

Customer deposits in financial institutions (MNOK)	731
(2.5 m depositors)	
Loans in financial institutions (bnNOK)	21.6
(8.7 m borrowers)	
Average corporate governance score (1 = poor, 3 = best)	2.1

Geographical distribution – new investment commitments 2009





CAPITEC BANK

Capitec Bank is one of the largest banks in South Africa that targets the section of the population that traditionally has not had access to financial services. Capitec has developed simple but innovative solutions and has 1.8 million customers today.

The bank has close to 350 branches located in impoverished areas where other banks are not represented. In this way, Capitec reaches out to people who have not previously been bank customers. The bank is growing rapidly and has 70 000 new customers each month on average. Capitec is regulated by the Reserve Bank of South Africa and is listed on the Johannesburg Stock Exchange.

Norfund has given loans totalling ZAR 150 million (NOK 117 million) to Capitec. This amount enables Capitec to reach about 85 000 clients, assuming an average loan sum.

Despite its substantial size, the financial crisis in 2009 made it difficult for Capitec to obtain sufficient capital in the market. Norfund was thereby able to play an important role in securing Capitec access to capital. Another important factor prompting Norfund's decision to invest was Capitec's robust corporate governance, including its efficient internal control systems.

supply of financial services to small, poor enterprises in Mozambique. In 2009 Norfund invested approximately USD 2 million in a holding of 18.4 per cent in SOCREMO.

- *Credit to low income customers in South Africa:* Norfund invested ZAR 150 million (NOK 121 million) in Capitec in 2009. The institution is described in more detail in a box on this page.
- *Liquidity aid during the financial crisis:* Emergency Liquidity Facility (ELF) is a fund that was established jointly with the Inter-American Development Bank (IDB) and others to help small Latin-American microfinance institutions through liquidity crises ensuing from natural disasters and man-made crises. The fund was bolstered with further capital in connection with the global financial crisis in late 2008 and early 2009. Norfund has committed itself to lending up to USD 5 million.

- *Credit in South Africa:* Real People is a financial institution that offers credit to small enterprises and individuals. The institution's registered office is in South Africa, but it also operates in other African countries such as Lesotho, Malawi, Tanzania, Swaziland and Kenya. Real People's customer base consists largely of people with low incomes who would not otherwise have had access to credit. Norfund committed ZAR 200 million (NOK 157 million) in the form of equity and loans in Real People in 2009. Norfund owns 8.9 per cent of the company.

Follow-up investments:

In addition to four new projects, the investment area made several follow-up investments:

- A new USD 2 million loan to micro-finance institution Sathapana, which focuses on female entrepreneurs in Cambodian villages.

- A follow-up investment of USD 3.1 million in Banco Terra in 2009. Banco Terra focuses on financing agricultural activities and is developing a network of branches in Mozambique. Norfund, together with our partners, launched the bank in 2006.
- A new USD 10 million loan agreement with Latin American Agribusiness Development Corporation (LAAD), which promotes economic and social development in Latin America through loan funding of medium-sized agricultural companies.

DEVELOPMENT EFFECTS

Share of portfolio in LDCs, Africa, start-up enterprises and equity

The investment area Financial institutions has invested 52 per cent of its capital in Africa and 37 per cent in LDCs. 34 per cent of investments went into start-up enterprises. 24 per cent of the capital is directly invested in the form of equity, and 31 per cent is invested indirectly in equity through funds. Loans account for a relatively large per cent, due to banks and financial institutions need for long-term debt financing.

Jobs and tax

In 2009 financial institutions in which Norfund has invested employed 39 000 people, of whom around 25 per cent were women. Financial institutions paid NOK 209 million in corporate tax, charges and licences to local authorities. Weighted according to Norfund's ownership share, Financial institutions paid NOK 1.3 million in corporate tax.

Scope of financial services

The primary objective of the investment area is to extend reliable financial services to SMEs and poor people. Figures for deposits and loans show how well Financial institutions is achieving this goal.

One of Norfund's most important and most fundamental contributions to development is to invest where there is a shortage of capital. The investment area therefore also reports on the number of loans and deposit accounts belonging to women and SMEs, because these groups have particularly limited access to financial services.

The financial institutions Norfund has invested in have more than 8.7 million borrowers and over NOK 21.6 billion in loans. Over 70 per cent of the borrowers were BRAC customers, but BRAC's borrowers accounted for less than 1 per cent of the total loan volume because these customers have a large number of small loans. In 2009, Financial institutions granted loans to 240 000 SMEs and to 1.1 million women.

Eight of the financial institutions in which Norfund has invested directly are authorised to have deposit accounts. In 2009, institutions that reported the number of deposits had over 2.5 million customers with deposit accounts, with total deposits of NOK 731 million. Half of them were customers of Capitec Bank. 27 500 of the deposits belonged to SMEs and 380 000 to women³.

Norfund also reports on loans as a share of total assets. Many banks in developing countries invest in domestic and safe government papers instead of in loan

assets, or accept deposits without lending the money further to small enterprises. This restricts the supply of financial services. The loan to assets ratio is therefore an important supplement to lending and deposit figures. Seventy per cent of the Financial institutions in which Norfund invests have a high loan to assets ratio. The ratio of the remaining 30 per cent is acceptable. A consistently low ratio in a financial institution may lead to Norfund exiting an investment.

Corporate governance

Norfund evaluates the approach of its financial institutions to corporate governance in the light of environmental and social responsibility. Our evaluation revealed that six of our financial institutions showed a satisfactory approach to such matters, including Capitec (see case study page 24). Seven institutions report that they are becoming increasingly aware of the importance of corpo-

rate governance. They have reported that they have corporate governance guidelines, or are in the process of implementing them. Eight institutions report that they do not have guidelines. In 2010 Norfund will continue working with the financial institutions to ensure that they implement sound corporate governance guidelines and best practices.

Outlook for 2010

In 2010 Norfund will continue its investment in financial institutions, focusing particularly on microfinance and banks that target SMEs. After several years of strong growth, Norfund's portfolio in 2010 will focus more strongly on follow-up and development of projects in the current portfolio and growth in prioritised areas, particularly in East Africa.

Real People offers credit to small enterprises and individuals with low income.



3 The breakdown into number of SMEs and women does not include Capitec's customers, since Capitec was unable to report figures broken down into these categories.

SME FUNDS

– A CHANNEL FOR REACHING OUT TO SMALL AND MEDIUM-SIZED ENTERPRISES

Highlights in 2009

- SME Funds committed a total of NOK 120 million in three different funds.
- The largest new investment was ZAR 50 million (NOK 39 million) in Evolution One Fund.
- The largest follow-up investment was a further 10 USD million in Aureos Latin America Fund.

Small and medium-sized enterprises are central to a smoothly functioning economy. This type of enterprise contributes to local employment, diversification of the economy and economic growth. Investing in funds is an appropriate strategy for reaching out to SMEs. Investing in the SME sector in Norfund's markets is very demanding, and the enterprises require close follow-up. Experience has shown that selected local fund managers can do this job well, and that they contribute to creating considerable wealth. Norfund has accumulated expertise in selecting

fund managers and establishing appropriate fund structures. Norfund currently has a portfolio consisting of 32 funds invested in Latin America, Asia and Africa. The funds invest locally in SMEs, primarily in equity instruments. Norfund's total commitments to fund investments amounted to NOK 1.4 billion at the end of 2009, of which a net amount of NOK 655 had been disbursed.

During the financial crisis in 2008, the market for new funds was difficult, and establishing funds was a slow process. This gave development-oriented investors like Norfund an even more important role than before in providing capital to new SME funds. A number of our existing funds also faced liquidity challenges in their portfolio companies. On balance, however, the subsequent and more pervasive economic downturn in our markets has affected the funds' results and value added far more than the original financial crisis. This has particularly affected funds in the exit phase, when they are dependent on selling their portfolio companies under the prevailing conditions. Since the last half of 2009, the market has shown some signs of improvement, and our managers express greater optimism about future exit potential.

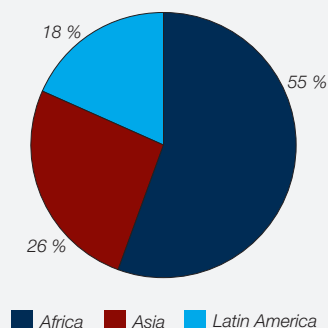
Strategy

Norfund invests equity in the form of venture capital in private equity funds and in other investment funds (see box on this page) that target SMEs in need of growth capital and expertise. By investing in SME funds and fund managers,

KEY FIGURES SME FUNDS

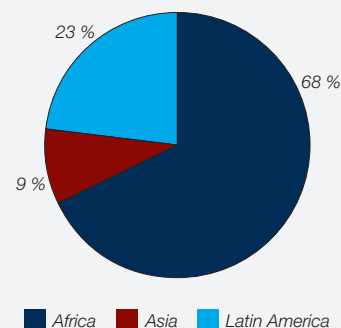
Committed investments (MNOK)	1 351
Net disbursed investments (MNOK)	655
New commitments in 2009 (MNOK)	254
Number of investments	36
Share in least developed countries	24%
Share of start-up enterprises	12%

Geographical distribution total portfolio – SME funds



Employed in the funds' investments	76 000
Share of women	39%
Payments to local authorities (MNOK)	60
Norfund's weighted share of corporate tax (MNOK)	15.3
Number of first-generation funds	18
Average corporate governance score (1 = poor, 3 = best)	2.2

Geographical distribution – new investment agreements 2009 – SMB funds



Private equity funds: Investors inject money into funds which are used for investing in companies in the very early phase, growth phase or restructuring phase. The funds operate as long-term and very active owners to create value in the companies.

Venture capital: Sub-category of private equity funds. Investment in technology companies in an early phase with potential for growth and expansion, typically prior to internationalisation.

Norfund helps to boost the formal economy and strengthen the local capital market.

Norfund will continue to invest in SME funds, primarily through external fund managers in which Norfund is not an owner, but also in some cases by establishing and owning new fund managers where a need is identified in the market.

Norfund's focus on SMEs and willingness to invest in first-generation fund managers and to establish funds and fund managers where there is a need today are Norfund's greatest value add. Norfund works with other investors for increased transparency in its investment funds in terms of both legal framework and fee structures.

Norfund invests in SME funds with a clear development profile and where there is an evident shortage of capital. At the same time, it is important to mobilise private capital for the fund investments. Consequently Norfund invests both in funds that lack access to commercial private capital because of their small size, narrow investment area or a lack of track record, and also in larger, more experienced funds which lack capital, in which Norfund can mobilise private capital.

Activity in 2009

In addition to taking over the FIPA and Fanisi funds, worth NOK 134 million, from Industrial partnerships, the investment area SME funds committed itself to investing in three different funds for a total of NOK 120 million in 2009:

- *Evolution One Fund* specialises in investing in SMEs in the fields of clean technology and renewable energy in

CAMBODIA- LAOS DEVELOPMENT FUND

The Cambodia-Laos Development Fund was established in 2009 with Norfund, Finnfund and IFC as investors. The total amount of investment capital is USD 10 million. Norfund has committed itself for USD 4 million. The fund invests in SMEs in Cambodia and Laos and will make its first investments in 2010. The manager's ambition is to have the fund reach a size of USD 20 million in the course of 2010.

First-generation fund

Cambodia and Laos are both classified as LDCs. However, their economies have grown in recent years and the countries now have great potential for further growth through the development of sectors such as tourism, manufacturing, retail trade, and through better use of their natural resources. But there are also major obstacles to further growth. The available capital has largely taken the form of short-term bank loans which have not been readily available to SMEs. The capital market has lacked private equity funds that are willing to invest risk capital in enterprises in the growth phase.

Norfund wishes to play an active part in the further development of these countries by contributing to

developing the financial infrastructure and bringing growth capital to SMEs. Norfund has therefore invested in a new management organisation, Emerging Markets Investment (EMI), through its investment in the Cambodia-Laos Development Fund. Although there is often high risk associated with this type of investment, it is important that Norfund and others are willing to carry it.

Partnership with Aureos

In 2001, Norfund and its British sister organisation CDC joined forces to establish Aureos. Aureos is regarded today as the world's largest manager of SME funds in emerging markets. To ensure the professional quality of the management of the Cambodia-Laos Development Fund, EMI has formed a partnership with Aureos. The partnership gives EMI access to the experience Aureos has built up after carrying out hundreds of transactions worldwide. Norfund regards the combination of Aureos' experience and EMI's local network as very valuable. In years to come, projects such as the Cambodia-Laos Development Fund could contribute to making investment in the countries around the Mekong River more accessible and attractive to private investors as well.



Norfund's chair, Kristin Clemet, speaking at the official opening ceremony of the Cambodia-Laos Development Fund



The mobile phone has made life easier for millions of people.

Southern Africa. The fund is the first of its kind in the region and may play an important part in the evolution of this sector in Southern Africa. Norfund has invested ZAR 50 million (NOK 39 million) and the total size of the fund is ZAR 577 million (NOK 452 million). The most important co-investors in the fund are Consensus Business Group and the African Development Bank (ADB).

- *Aureos Latin America Fund* invests in medium-sized enterprises in Latin America in sectors such as consumer goods, financial services, logistics, transport and education. The fund is an important player in the regional market for medium-sized investments, but in 2009 had difficulty in obtaining private capital in the wake of the financial crisis. Norfund therefore committed a further USD 10 million in the fund, bringing its total investments in the fund up to USD 25 million. The fund's total size is USD 184 million. The main co-investors are CDC and the Colombian Pension Fund.
- *The Cambodia-Laos Development Fund* invests in SMEs in Cambodia and Laos. Norfund committed USD 4 million in this fund. (see case study on page 27).

Norfund has also established two new funds: FIPA in Angola and Fanisi in East Africa. FIPA is the first private equity fund in Angola and Fanisi the first venture capital fund in East Africa. Both funds are innovations in their markets. Norfund has initiated them, appointed managers and invested considerable resources in raising capital and establishing the legal framework. Fanisi is described in more detail in a case study on page 6.

DEVELOPMENT EFFECTS⁴

Share of portfolio in Africa, LDCs, start-up enterprises and equity

55 per cent of the capital in SME funds is invested in Africa and 24 per cent is invested in LDCs. 12 per cent of the capital is invested in newly established fund managers who have set up new funds that are innovative in respect of geography and/or segment. The funds primarily invest equity in the underlying investments.

Jobs and tax

In 2009, 76 000 people, 39 per cent of them women, were employed in enterprises under the SME funds investment area.

The companies paid a total of NOK 600 million in corporate tax, charges and licences to local authorities. The financial institutions paid NOK 15 million in corporate tax, weighted according to Norfund's ownership share.

First-generation managers

Two thirds of the SME funds in which Norfund has invested are managed by first-generation managers. The reason for reporting on this indicator is that many first-generation managers have difficulty in attracting funds in the private capital market. By investing in qualified first-generation fund managers, Norfund also plays a part in stimulating competition between fund managers in developing countries.

Disbursement rate

The average disbursement rate is an important indicator for measuring the development effects of SME funds.

4 At the end of 2009 Norfund had disbursed capital to 27 SME funds. 24 of these reported their development effects.

A typical fund is designed to have an investment period of 3-5 years during which the fund invests the capital the investors have committed. However, investing the capital in time can be a challenge. This is largely because of the challenges inherent in investing capital in emerging and poorly developed markets in a prudent manner.

Norfund has developed a method for measuring the performance of the funds using this development indicator. The disbursement rate is interpreted such that funds score high if they invest rapidly compared with Norfund's expectations. A fund that scores low invests more slowly than expected. A relatively large share of Norfund's fund investments score lower than expected. This may be because Norfund has a large share of first-generation managers and Norfund's markets are demanding when it comes to investing in private equity. Norfund works with fund managers and other fund investors to improve the disbursement rate.

Corporate governance

Norfund works with its fund managers in the same way as with financial institutions to ensure that they take a proactive approach to corporate governance in their investments. This includes environmental and social responsibility. An assessment of Norfund's fund managers revealed that two of the fund managers had a robust approach to corporate governance. The majority (15) of Norfund's fund managers have become aware of the importance of such matters in the companies in which they invest. These managers have reported that they



Packing squash for export to the US, provides jobs for many women in Guatemala.

have guidelines for corporate governance or are in the process of developing and implementing them. Seven of Norfund's fund managers report that they do not have any such guidelines or require that enterprises they invest in have them. In 2010, Norfund will work with its fund managers to ensure that they promote good corporate governance guidelines in their portfolio companies and that these guidelines are optimally implemented.

Outlook for 2010

Norfund observes a growing interest among private investors in opportunities in Africa and other less developed markets.

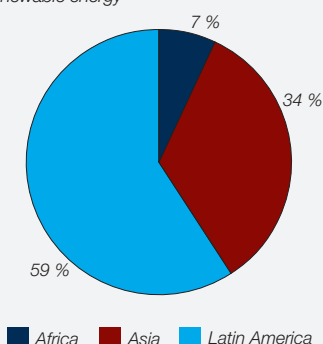
Many participants are nonetheless very sceptical to investing in these markets because they lack the experience and expertise that is required to invest. In 2010 Norfund aims to help channel this private capital to markets in which Norfund is active.

One concrete initiative Norfund intends to work on is the establishment of a co-investment mechanism that will make it easier for private investors to co-invest in funds with Norfund. Fund investments can be attractive to private investors because they are diversified and have moderate risk, while offering a high expected return.

KEY FIGURES RENEWABLE ENERGY

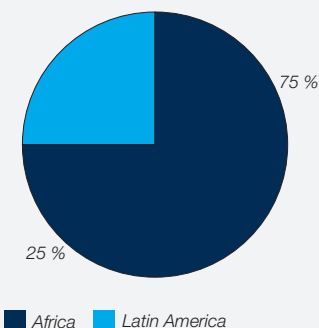
Committed investments (MNOK)	2 348
Net disbursed investments (MNOK)	2 220
New commitments in 2009 (MNOK)	120
Number of investments	4
Share in least developed countries	6%
Share of start-up enterprises	44%
Other equity investments	96%

Geographical distribution total portfolio
– Renewable energy



Employed	1 600
Share of women	12%
Payments to local authorities (MNOK)	356
Norfund's weighted share of corporate tax (MNOK)	29.3
Production capacity	629
	(299 under development)
Equivalent to power consumption for	11.4m
	people
CO ₂ reduction	2m tonnes

Geographical distribution – new investment
agreements 2009 – Renewable Energy



RENEWABLE ENERGY

– THE BASIS FOR IMPROVED WELFARE

Highlights in 2009

- SN Power AfriCA was established. The company is dedicated to developing renewable energy projects in Africa and Central America.
- The Bugoye hydropower plant in Uganda and wind farm Totoral in Chile were commissioned and started commercial operations.
- The HSE standard at the Allain Duhangan project in India had reached an acceptable level by the end of the year, following a successful safety programme

Prosperity is strongly linked to access to electricity. Reliable electricity is a prerequisite for establishing and developing the manufacturing and commercial sectors. Electricity can benefit individuals by paving the way for better health through a better indoor climate and more advanced health services. Some 1.6 billion people in the world today have no access to electricity. However, developing energy production facilities is very capital-intensive. The International Energy Agency (IEA) estimates the need for investment in power production in developing countries to be USD 3 400 billion going forward to the year 2030⁵.

At present hydropower is one of the few renewable energy sources that can compete unsubsidised with fossil energy. Thus hydropower will in many cases be the only real large-scale alternative to coal, oil and gas-based energy production.

Developing hydropower facilities is time-consuming and capital- and expertise-intensive. This, coupled with challenging framework conditions, has led to the renewable energy potential of most poor countries being grossly under-exploited. Norfund wishes to promote renewable energy production as a basis for economic growth and enhanced quality of life in developing countries. This is best done by equity investments, thereby mobilising other capital and technical expertise. Collaboration with Norwegian energy producers such as Statkraft, TrønderEnergi and BKK are examples of this.

Strategy

Norfund has a strong sectoral focus on renewable energy. Norfund's strategy is to mobilise sound technical partners while at the same time diversifying its portfolio. SN Power has shown that with the right combination of capital and expertise it is possible to deal with the many risk factors involved in making renewable energy investments commercially sustainable. The restructuring of SN Power, the establishment of SN Power AfriCA and the contributions from Statkraft, TrønderEnergi and BKK are sizable steps towards realising Norfund's strategy in this area.

Activity in 2009

The Bugoye hydropower station in Uganda opened ahead of schedule, and with satisfactory HSE standards. The facility has a power output of 13 MW and an estimated annual production of 82 GWh. Bugoye's power production accounts for seven per cent of electricity sales in Uganda. The overall financing package for the project

⁵ World Energy Outlook 2008



Electricity makes it easier to do homework after dark.

was USD 50 million. TrønderEnergi and Norfund co-owners. The Norwegian government has also contributed direct economic support to the project through the Ministry of Foreign Affairs.

In December Norfund signed a loan agreement for NOK 43 million with E+Co, which provides loans, equity and business support for the commercial development of small and medium-sized energy entrepreneurs in Africa and Central America (see box on this page).

The establishment of SN Power AfriCA is complete. The company, which is to focus on African and Central America, is fully operational. There is significant unutilised potential for hydropower in both regions. Many potential projects have been analysed, and it is expected that the first investments will be made in the first half of 2010. On the ownership side, Norfund has sold a combined holding of 35 per cent to BKK and TrønderEnergi. After selling down, Norfund owns 19 per cent of the shares in SN Power AfriCA in addition to the holding owned indirectly through SN Power, taking Norfund's exposure to 37 %.

In October, Tata Power and SN Power entered into a joint venture agreement with a view to developing hydropower projects in India and Nepal. The partners aim to develop projects totalling 4 000 MW by 2020.

A successful safety programme has been carried out at SN Power's Allain Duhangan project in India. A total of fifteen deaths took place in the period 2006 to 2009 in connection with the development of the project, of which SN Power is a minority owner. Four of them occurred in the first quarter of 2009. During the last nine months of the year, registered incidents were reduced to an acceptable level, but unfortunately a fatal accident occurred at the plant in March 2010 in connection with the erection of a high voltage mast.

In Chile, power production started at SN Power's first windpower project, Totoral. The expected annual production of the windpark is 110 GWh, enough to meet the needs of about 50 000 Chilean households. Totoral will produce carbon-neutral energy and is approved under the Kyoto Protocol's Clean Development

E+CO

In December 2009, Norfund and E+Co signed a loan agreement for NOK 43 million. The agreement opens the way for a loan of a further NOK 30 million from Norfund's Swiss sister organisation, Sifem.

E+Co contributes equity, loans and business support to small-scale energy entrepreneurs in developing countries. E+Co's investments range from NOK 150 000 to NOK 6 million in various types of solar energy, biomass energy, mini-hydropower facilities and means of increasing energy efficiency. Over the past 15 years, E+Co has made over 200 energy-related investments and has mobilised NOK 1 400 million for energy investments in developing countries in Latin America, Africa and Asia.

E+Co has developed a unique triple bottom-line reporting system which measures the results of investments across 34 social, environmental and financial indicators. So far E+Co's investments have contributed to supplying 5.6 million people with clean energy, reduced emissions by 4 million tonnes of CO₂ and achieved a return (IRR) of 8.4 per cent. E+Co has ambitious goals of helping to supply 80-100 million people in developing countries with clean energy by 2020. E+Co also works actively to assist its entrepreneurs in securing funding under the Clean Development Mechanism (CDM).

Norfund is impressed at what E+Co has achieved so far, and is interested in contributing to an upscaling in the future. Norfund has structured the loan agreement with E+Co in a unique manner, with a low fixed interest-rate element. At the same time, E+Co and Norfund share the upside opportunities and the risk through a variable portion that is dependent on CO₂ quota sales from the projects financed through the loan facility. Norfund's goal is for this structure to interest other investors so that E+Co can access more capital and attain its ambitious growth targets.

Mechanism (CDM). Totoral is expected to avoid 65 000 tonnes of CO₂ emissions annually. 60 per cent of the employees involved in the development were recruited locally. The project was completed on schedule, below budget, and with satisfactory environmental and safety results.

DEVELOPMENT EFFECTS

In 2009, information on the development effects of Renewable Energy was collected for two investments: Bugoye and SN Power.

Share of portfolio in LDCs, Africa, start-up enterprises and equity

Only 6 per cent of the committed renewable energy portfolio is in Africa. The reason for this is that SN Power's investments are largely in Asia or South America. Only 11 per cent of investments are in LDCs for the same reason. These shares are expected to increase in coming years with the establishment of the new company SN Power AfriCa, which is dedicated to the development of renewable energy projects in Africa and Central America. 44 per cent is invested in new-build facilities, and a full 96 per cent is invested as equity.

Jobs

In 2009, a total of 1 574 people worked in these companies. 193 of them were women, which is equivalent to 12 per cent. In addition, 5 672 people worked as contractors for SN Power.

Tax revenues

A total of NOK 356 million in corporate tax, charges and licences etc. was paid to local authorities in 2009. Weighted for Norfund's ownership share, the financial institutions paid NOK 29.3 million in corporate tax.

Capacity and production

SN Power and Bugoye had total capacity of 970 MW, and SN Power has projects under development that will increase capacity by 625 MW. Work is also in progress on potential projects which may lead to a further 1 775 MW increase in capacity.

In 2009, 3 816 GWh of electricity was produced at SN Power's facilities and at Bugoye.

Power supply

The electricity produced by SN Power and Bugoye is sold to other companies that deliver power to end-users, both individuals and corporate customers. Given estimates of annual per capita power consumption in various countries and the amount of electricity produced, estimates can be made of how many people are supplied with power. This power consumption corresponded to 11.4 million people in 2009.

Greenhouse gases avoided

Development of energy sources based on renewable energy in developing countries reduces the need for energy from coal and diesel power stations. As a result of the power produced by SN Power and Bugoye, approximately 2 million tonnes of CO₂ emissions were avoided in 2009. Both Bugoye and a number of SN Power's facilities come under the Kyoto Protocol's CDM scheme. A total of 11.6 million tonnes of CO₂ have been approved. It is estimated that a further 3 million tonnes of CO₂ have been avoided. These are currently undergoing the CDM approval process.

Dialogue with interest organisations

Almost half of Norfund's capital is invested in renewable energy. In 2008, Norfund arranged for the first time a dialogue with a number of relevant interest organisations in the field of hydropower. The organisations urged Norfund to increase its focus on small-scale energy investments and to diversify its energy investments. The investments both in Bugoye and in the clean energy funds Evolution One and E+Co are motivated by this counsel.

A similar dialogue was also held in 2009 at which the organisations encouraged Norfund to maintain this focus.

In 2009 Norfund participated actively in a project on sustainable energy investment in developing countries administered by Energy Norway. The project involves government, interest organisations and business.

Outlook for 2010

SN Power is Norfund's main instrument for investment in renewable energy in South America and Asia, and SN Power AfriCa in Africa and Central America. Norfund will continue to oversee corporate governance in the companies, and will work in particular for the success of SN Power AfriCa with its corporate and investment targets.

SN Power plans to complete the following projects in the course of 2010:

Country	Project	MW	GWh
Chile	La Higuera	155	811
Chile	La Confluencia	156	700
India	Allain Duhangen	192	800

They represent a total of over 500 MW of installed capacity and 2 300 GWh in annual production. Under the CDM scheme they will contribute to reducing CO₂ emissions by 1.5 million tonnes annually.

Norfund continues its cooperation with TrønderEnergi in Uganda and is evaluating new opportunities for cooperation. It is intended that during the course of the year full financing will be achieved for the Kikagata hydropower project on the Kagera River, which forms the boundary between Tanzania and south-west Uganda. The project may generate up to 25 MW, and approval will be sought under the CDM.

INDUSTRIAL PARTNERSHIPS

INVESTMENTS WITH ESPECIALLY STRONG DEVELOPMENT EFFECTS

Highlights in 2009

- Continued investment in the agricultural sector in Africa, including investment in the Africado avocado plantation in Tanzania.
- Establishment of two new funds in Africa: FIPA in Angola and Fanisi in Kenya.
- A new loan of USD 7 million to Norwegian-owned Green Resources.

This investment area used to be called “Direct Investment”, but in 2009 the name was changed to “Industrial Partnerships”. Industrial Partnerships gives loans to and invests equity in individual companies in

sectors other than energy and finance in Southern and East Africa. The department has also been responsible for establishing the new FIPA and Fanisi funds, which has taken a great deal of resources. Once the funds were established, responsibility was transferred to the investment area SME Funds. Besides FIPA and Fanisi, the department made committed investments for NOK 164 million in 2009. At the end of 2009 it had committed investments for a total of NOK 425 million, distributed among 16 engagements.

Industrial Partnerships invests directly where the established banking business does not dare, in new establishments and in other projects with high risk and high development effects. This is the investment form

that gives Norfund the greatest opportunity of choosing partners and projects, but it is equally demanding with respect to evaluation of projects and partners and to understanding of sectors and countries. Owners, management, authorities and often also customers are involved in the work of making the company viable. If they are successful, there may be substantial profitability and development effects for both the local community and the country.

Strategy

Industrial Partnerships shall make investments that have especially strong development effects, engage in active ownership, and have a local network and presence. The geographical focus is on sub-Saharan Africa.

Angola picks itself up from war and poverty to become one of Africa's fastest growing economies.



Agriculture and industry related to agriculture are most important, but Norfund also invests in other sectors, such as tourism and industry. Norwegian companies can potentially contribute a great deal to growth in Africa, and Norfund is interested in more investment involving other companies. In addition to capital, Norfund assists partners in understanding countries and markets and provides locally anchored investment expertise through our experienced project managers, and a local business network.

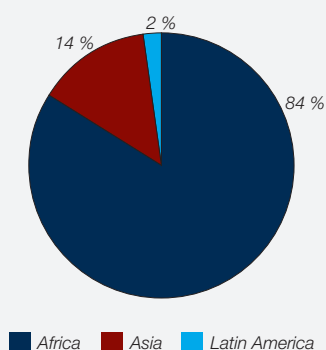
Norfund never owns more than 50 per cent of the shares in a company, but in this investment area we normally seek equity positions that confer influence. Positions typically vary from 15 to 45 per cent. Secured loans are also a possibility in the case of Norwegian companies.

KEY FIGURES

INDUSTRIAL PARTNERSHIPS

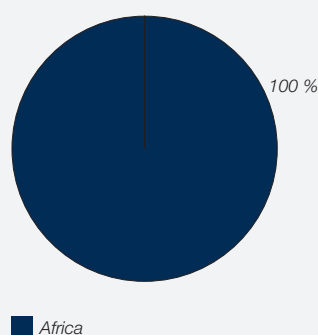
Committed investments (MNOK)	425
Net disbursed investments (MNOK)	224
New commitments in 2009 (MNOK)	164
Number of investments	16
Share in least developed countries	56%
Share of start-up enterprises	21%
Share of equity investments	56%

Geographical distribution total portfolio
– Industrial partnerships



Employed	18 000
Share of women	27%
Payments to local authorities (MNOK)	3 006
Norfund's weighted share of corporate tax (MNOK)	0.5
Domestic purchases (MNOK)	348

Geographical distribution – new investment
agreements 2009 – Industrial partnerships



Activity in 2009

Agriculture in Africa: In 2009 Norfund invested in an avocado plantation in Tanzania. The plantation is to produce avocados, mainly for export to Europe (see box p. 36). The department has also spent considerable resources on following up and further developing other agricultural investments in the portfolio: Casquip in Swaziland and Matanuska in Mozambique.

In 2009 Norfund also signed a new loan agreement for USD 7 million with the Norwegian-owned company Green Resources AS. The paid in capital is to go to further development of forest plantations in Tanzania, Uganda and Mozambique, and the Sao Hill sawmill in Tanzania. Norfund has been involved with the company since 2003, but the new loan represents a considerable stepping up of this involvement.

Establishment of two new funds in Africa:

In recent years Norfund has been engaged in establishing two new local funds in Africa, one in Kenya and one in Angola. Both were established in 2009. Fanisi is a venture capital fund based in Nairobi which is to invest risk capital jointly with local East African entrepreneurs in start-up enterprises. The fund is the first of its kind in the region, and the fund managers consist mainly of highly qualified Kenyans with solid entrepreneurial experience from several sectors in the region. Fanisi's strategy includes providing advisory services on management, entrepreneurship and corporate governance to the companies in which it invests.

Fundo de Investimento Privado – Angola (FIPA) is a joint venture between Norfund and the local Banco Africano de Investimentos (BAI). The fund is to invest in

SMEs. At present there are no private equity funds in Angola, so FIPA is the first of its kind in the country. Norfund and BAI have worked for a number of years on putting in place the legal framework for the establishment of funds in Angola. Funds like FIPA are particularly important in a country that is urgently in need of investment in areas other than the dominant oil and gas sector.

Strengthened European cooperation:

Since 2005, Norfund has taken part in the EFP co-financing mechanism along with Norfund's many sister organisations and the European Investment Bank (EIB). Norfund has invested in nine projects through EFP, all of them in Africa and 61 per cent of them in LDCs. Besides making it possible to finance major projects in developing countries, EFP is also important to cooperation and transfer of expertise among the European DFIs. In 2009 Norfund committed itself to contributing EUR 10 million to EFP.

LDC loan scheme: Norfund has established a loan scheme for providing small loans to Norwegian companies that invest in LDCs. The objective is to realise risky projects with a high development effect. Emphasis is placed on local anchoring and transfer of expertise. In the course of 2009, a new loan was issued under this scheme.

DEVELOPMENT EFFECTS

Share of portfolio in LDCs, Africa, start-up enterprises and equity

84 per cent of committed capital is devoted to Africa and all new investments are to go only to Africa. The LDC share is 56 per cent. 21 per cent of the

capital is in start-up projects, but including the investments made since Norfund's new strategy took effect in 2007 brings the share up to 47 per cent. Over half of the capital, 56 per cent, is invested as equity.

Jobs

Investment area Industrial Partnerships had 12 active investments in 2009. The companies differ considerably. Two of them are very small, and loan-funded through the LDC loan scheme. They have only a handful of employees each, whereas GrameenPhone, Matanuska and Green Resources each have several thousand employees. A total of 18 000 people, 27 per cent of them women, worked in enterprises invested in through Industrial Partnerships. This share is higher in enterprises that are related to primary industries, such as Casquip, Matanuska and Nicafish.

Apart from those formally employed in the companies, there are many others who benefit indirectly from them, such as vendors, contractors and suppliers of services to the companies and their employees. It is difficult to determine how many this applies to, but Matanuska, for example, estimates that 500 employees work for contractors who develop irrigation facilities and are constructing the buildings the company needs. Nicafish also provides a living to almost 1 800 local fishermen who sell their catch to the company.

Tax revenues

In addition to the development effect due to the fact that people who work in the formal economy can more easily plan their lives and borrow on the basis of future earnings, the employees pay income tax



Nicafish provides income to local fishermen and creates many jobs at the factory.

and the companies pay taxes that are important for enabling the authorities to finance collective benefits. The total of corporate tax, charges and licenses is over NOK 3 billion, which is very largely attributable to GrameenPhone's great success in Bangladesh. Weighted according to Norfund's holding, this contribution is NOK 0.5 million. Only two of Norfund's recent equity investments through Industrial Partnerships have reached the profitable operations phase.

Domestic purchases

An expected development effect of Norfund investment is the creation of opportunities for other commercial activities. Norfund has therefore decided to ask companies to report purchases of goods and services, and the relative proportions of domestic purchases and imports.

In 2009 the companies made purchases for NOK 348 million. The amount excluding GrameenPhone is approxi-

mately NOK 65 million. There are large differences between countries with respect to the relative quantities of domestic and export goods and services purchased. Whereas Nicafish and TPS Pakistan purchase more than 90 per cent locally, Matanuska's share of imports is almost equally large. The fact that the companies are in different phases is part of the explanation for these differences. Start-up enterprises often need to import more specialised goods and materials than companies engaged in regular operations. Moreover, LDCs often do not have domestic industry to supply export-oriented companies with the necessary factor inputs.

Geographical factors also play a part: an enterprise like Matanuska has an extra high development effect because of its isolated location in northern Mozambique, but its location makes it logical to import goods from markets in neighbouring countries such as Zimbabwe and Malawi.

AVOCADOS IN TANZANIA

In winter 2009, Norfund entered into an agreement to invest equity and extend a loan to Africado Ltd, an avocado plantation at the foot of Kilimanjaro, in Tanzania.

The height and climate make it possible to deliver fresh fruit to the European market at a time of year when avocados are in short supply because of the different harvest seasons in South Africa, South America and Europe.

The company plans to increase the total area available from about 200 to 375 acres. Up to the present about 160 acres have been planted, and the first crop will be harvested in 2010.

In due course the company will also engage a large number of independent farmers as vendors of avocados. When it reaches full capacity, Africado plans to employ around 400 people and provide a market for the production of several thousand independent farmers.

The company will contribute export revenues to Tanzania. Avocados will also be introduced as a new agricultural product that provides sales revenue in an area that has been dominated by coffee-growing. In view of the global fluctuations in coffee prices, a broader-based industrial structure will reduce the vulnerability of the farmers.

The investment in Africado is consistent with Tanzania's own poverty reduction strategy.



Training

An important development effect of Norfund's activities is enhancement of expertise. Employees who acquire new skills, knowledge and insight are more valuable to companies and more eligible employees. Norfund has therefore asked investment enterprises for the first time to report on the training activities that have taken place during the year. With the exception of two companies, all have carried out extensive training activities.

Of a total of 18 000 company employees, 23 per cent have received training for the positions they are to fill or already hold. For example, Matanuska has carried out an extensive training programme for employees working with agricultural operations, handling of bananas, foreman training and personnel management. Ten per cent have received training that is not directly related to their positions, such as courses in understanding finance, conflict management, presentation skills, nutrition and HSE.

Transfer of technology

Corporate investment and activity is often the most effective way of achieving transfer of technology. A development effect that is given positive weight in Norfund's investment decision is whether there is a potential for transfer of technology. Seven of the 12 investments in 2009 contain elements of transfer of technology. For example, technology company Euro TechBridge is introducing new technology for tracing the origin of export goods in the agricultural sector in Uganda. This helps to secure access to western markets and prevents disguised protectionism. Scanwater's water purification technology is another example of important transfer of technology.

Infrastructure improvement

The establishment of companies may also lead to improvements in the physical and social infrastructure which benefit local communities. Examples are better roads and easier access to electricity and water. The companies report on this aspect to Norfund. For example, IT company Craft Silicon improved the social infrastructure by giving IT training to local youngsters. The agricultural companies Green Resources and Matanuska have mended roads, built schools and improved the water supply.

Anti-corruption policy

It is important for Norfund as owner and lender to prevent corruption in investment companies. In addition to committing the companies through agreements, Norfund requires reporting of established corporate policy and rules on corruption and acceptable business practice. Nine of the companies reported that they have internal anti-corruption rules.

Outlook for 2010

Industrial Partnerships is to continue the work of building a portfolio of projects with a high development effect and high additionality.

Agriculture and industry related to agriculture receive priority, and we intend to build up expertise in this field. It is also crucial to build up an organisation that can handle demanding projects in difficult markets.

OTHER ACTIVITY

Norfund's grant facility

Norfund can use grant resources in addition to commercial investment to strengthen its role as a development investor.

The grant resources are used in three areas:

1. Project development: To contribute to starting new enterprises and funds which would not otherwise be initiated because the costs are too high and/or the projects too risky.

2. Strengthen development effects:

One important development effect of Norfund's activities is its contribution to the development of expertise and a culture of sound enterprise management and to taking account of environmental and social factors. Considerable resources are accordingly invested to build up expertise in enterprises through training and education, in addition to the work of improving corporate governance.

3. Broader social responsibility: Our enterprises are located in local communities that are often poorly developed. As a result there is a need for the enterprises to accept broader responsibility for their employees by contributing to the health, education and development of the community. Support is therefore given to programmes to combat HIV/AIDS among the employees and their families and to other measures that strengthen the development effects for the local community.

In 2009 Norfund managed NOK 94 million of grant capital, of which NOK 24 million went to Norfund's grant facility. The grant facility used NOK 14 million for project development, NOK 7 million to strengthen development effects and NOK 2 million to assume a broader social responsibility. The largest projects in 2009 include the establishment of the Fanisi and FIPA funds, a pilot project for the Kikagati hydropower station and a subsidy for the establishment of a HIV/AIDS programme in Aureos East Africa's investments.

In addition, Norfund gave an earmarked subsidy of NOK 60 million to the Bugoye hydropower station project and NOK 10 million in operating subsidy to NMI.

Around 90 per cent of the grant resources were used for activities in Africa.

Loan portfolio

In 2001 Norfund took over a loan portfolio of 48 loans from Norad. 14 were in Africa, 11 in South-East Asia including China, 18 in Southern Asia, four in Latin America and one in eastern Europe. 44 of the loans were for less than NOK 5 million and the interest conditions for all of them were easy (less than normal market rates).

The loan balance at the end of 2009 was NOK 33 million, and the estimated value NOK 12 million. The last payment falls due in 2011. By the end of 2009, Norfund had received a total of NOK 373 million in interest and payments on the principal.



The carousel in front of the school in connection to the Matanuska project is popular, and is also an efficient well pump for the school's water and sewer system.

Information Office

The Information Office for Private Sector Development in Developing Countries facilitates the access of Norwegian companies to information and guidance about financial support and funding of commercial activities in poor countries. The office belongs administratively to Norfund and is located physically with Norad. The office received 290 inquiries in 2009 as compared with 283 in 2008. In 2009 Norfund and Norad made an evaluation of the Information Office for Private Sector Development in Developing Countries and decided to continue operations.

Tender Guarantee Scheme

The Tender Guarantee Scheme is administered by GIEK on behalf of Norfund, and is intended to encourage Norwegian companies to invest in poor countries. The least developed countries and Norway's partners have the highest priority. Priority is also given to participation by SMEs. In 2008, four applications were processed and NOK 0.7 million paid out in compensation. The Tender Guarantee Scheme charged NOK 0.8 million to Norfund's account in 2009.

NORFUND'S BODIES AND EXTERNAL RELATIONS

NORFUND'S BOARD OF DIRECTORS IN 2009



KRISTIN CLEMET, CHAIR, OSLO

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



KARL-CHRISTIAN AGERUP, DEPUTY CHAIR, OSLO

Born in 1962, MSc in management. Managing director of Oslo Innovation Centre. Founder and partner of Northzone Ventures. Extensive experience from the financial sector, including Hugin AS, McKinsey and Company and Milipore Corporation. He also has boardroom experience from the Norwegian Children and Youth Council (LNU) and Schibsted ASA.



BORGHILD HOLEN, DIRECTOR, OSLO

Born in 1955, Master's degree in Business and Economics (siviløkonom). Head of the international section of the International Corporates and Institutions Division of DnB NOR bank. 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).



MARI SKJÆRSTAD, DIRECTOR, HAMAR

Born in 1969, degree in law. Ms Skjærstad is a lawyer and partner in the firm of lawyers Johnsrud, Sanderud & Skjærstad AS, and has worked as a commercial lawyer since 1995. Her other directorships include Mesta, Flytoget, Scana Industrier and Forsvarsbygg.



STEIN TØNNESSON, DIRECTOR, OSLO

Born in 1953, PhD in history. Senior researcher at the International Peace Research Institute, Oslo (PRIO). Dr Tønnesson has extensive research experience, with a particular focus on Asia. He is a former chair of the board of the programme “Development Paths in the Global South”, under the auspices of the Research Council of Norway. His boardroom experience includes CARE Norway.



SVEIN TVEITDAL, ALTERNATE DIRECTOR, FROLAND

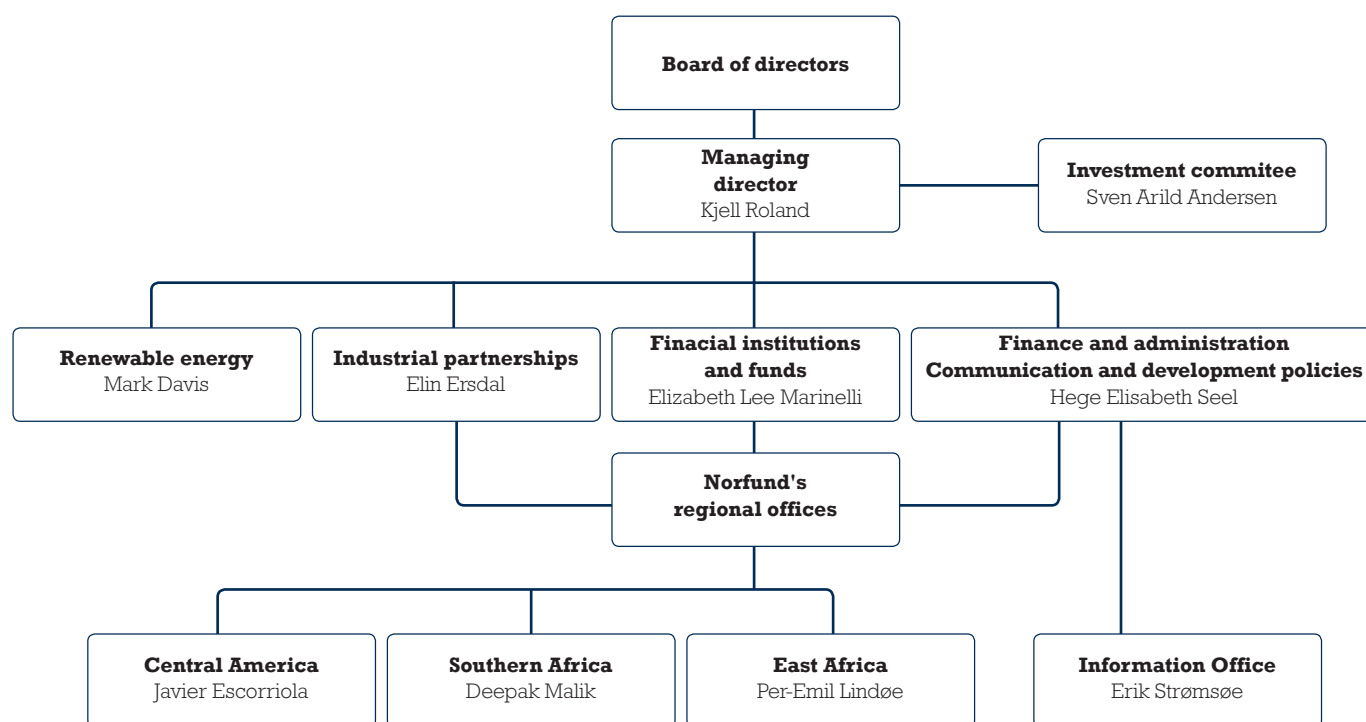
Born in 1947, civil engineer. Director of Klima 2020 AS and ambassador for the environment of Arendal Municipality. Mr Tveitdal is a former director of GRID Arendal and divisional director of the UN Environmental Programme (UNEP), at its head office in Nairobi, Kenya. He is currently chairman of the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



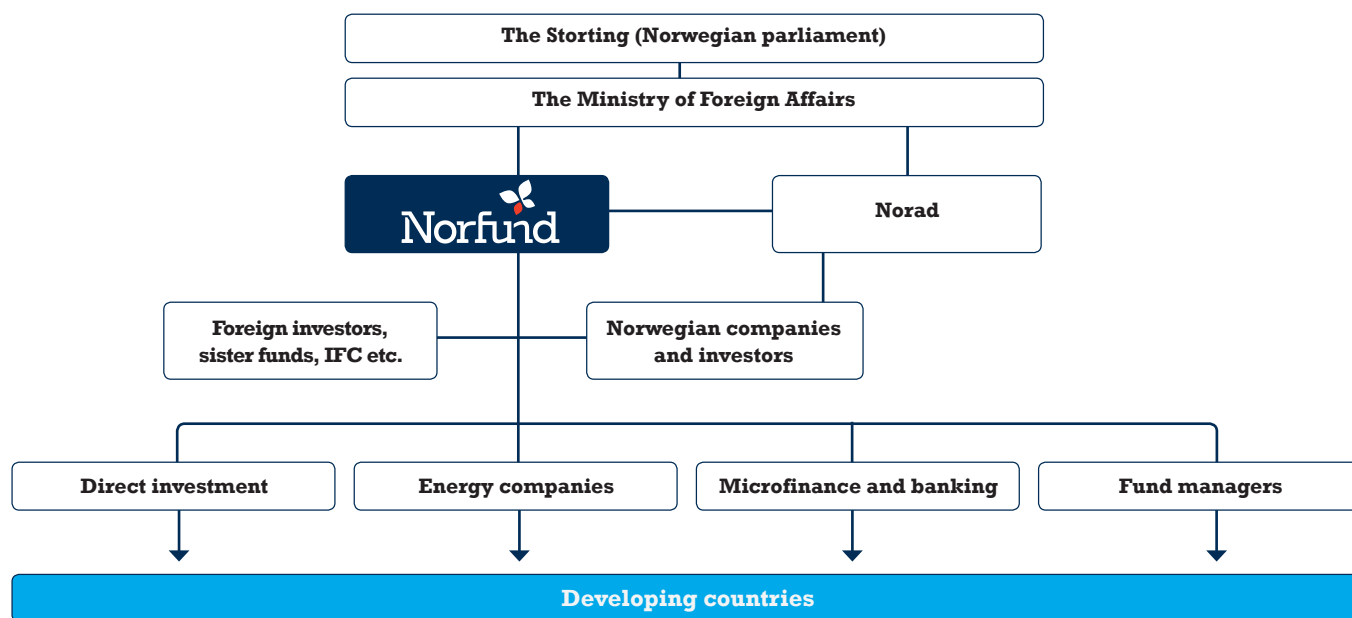
ANETT HOLLUM VALSVIK, ALTERNATE DIRECTOR, OSLO

Born in 1966, Master's degree in Business and Economics (siviløkonom). Ms Valsvik is employed with Det Norske Veritas and has previously worked in the Asian Development Bank and in the Norwegian Agency for Development Cooperation (Norad). She has more than 10 years of experience from development cooperation projects and international finance institutions. Ms Valsvik was on the board of Norplan from 2003-2005, and has also served as a director of Scan-Water AS.

NORFUND'S ORGANISATION



EXTERNAL RELATIONS



COMMUNICATION

Norfund invests government resources and serves as a tool of Norwegian development policy. This calls for a high degree of transparency concerning its activities. At the same time, the Fund is required to be businesslike in relation to partners, co-investors and clients, which demands discretion in some circumstances.

Norfund is Norway's leading professional environment for investment in private

equity in developing countries. It has a broad network of contacts with investors and enterprises in Norway and abroad. Norfund is a member of the European Association of Development Finance Institutions (EDFI), where both guidelines and business opportunities are discussed.

Norfund contributes to the public debate on poverty reduction and the need to build profitable workplaces, infrastruc-

ture, technology and expertise in developing countries. Norfund is open about ethics and social responsibility in its activities, and about the challenges investors meet in developing countries. The Fund's website contains information about investments, guidelines, news and professional matter: www.norfund.no.

Feel free to contact us at post@norfund.no.



NORFUND COMMITS ALL COMPANIES
TO FOLLOW INTERNATIONAL
STANDARDS FOR HSE



DEFINITIONS AND ABBREVIATIONS

Additionality – Value added over and above what the market or private sector commercial agents normally supply.

ALAF – Aureos Latin America Fund

Catalyst – Mobiliser of private capital and expertise that would not otherwise have been available to poor countries.

CDC – Commonwealth Development Corporation. UK's DFI.

CDM (Clean Development Mechanism) – A system for international trade with developing countries with emission quotas.

CER (Certified Emission Reduction) – Climate quotas for reduction of carbon emissions.

CITES – Convention on International Trade in Endangered Species; a multi-lateral international agreement among countries to control trade in wild fauna and flora.

DAC – Development Assistance Committee; a coordination body for development assistance within the OECD (see explanation below).

DFI – Development Finance Institution; A collective name for institutions that invest in developing countries with the object of combating poverty by contributing to economic growth. Norfund is a DFI.

EDFI – European Association of Development Finance Institutions: a European association of development financial institutions of which Norfund is a member.

EFP – European Financing Partners

ELF – Emergency Liquidity Facility

FDI – Foreign Direct Investment

FIPA – Fundo de Investimento Privado Angola

GDI – Gross domestic income

GDP – Gross domestic product; Indicates the size of a country's economy, measured as both total amount and per capita (per inhabitant).

GIEK – Norwegian Guarantee Institute for Export Credits

HSE – Health, safety and environment

IFC – International Finance Corporation; part of the World Bank group and invests in the private sector in developing countries.

ILO – International Labour Organisation; a global employee organisation, part of the UN.

IMF – International Monetary Fund

IRR – Internal Rate of Return

LAAD – Latin American Agribusiness Development Corporation

LDCs – Least developed countries.

OECD – Organisation for Economic Cooperation and Development. An international organisation of economically developed countries (industrial countries).

OFC – Offshore finance centres. Also known as closed jurisdictions or tax havens.

Private equity funds – Investors inject money into funds that are used for investing in companies in the very early phase, growth phase or restructuring phase. The funds operate as long-term and very active owners to create value in the companies.

SMEs – Small and medium-sized enterprises. According to the IFCs' definition, small enterprises in developing countries have up to 50 employees and a turnover of up to NOK 18 million. Medium-sized enterprises have between 50 and 300 employees and a turnover of NOK 18-45 million.

SN Power – Statkraft Norfund Power Invest AS

Venture funds – Category of private equity funds. Investments in technology companies in an early phase, with potential for growth or expansion, typically prior to internationalisation.



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