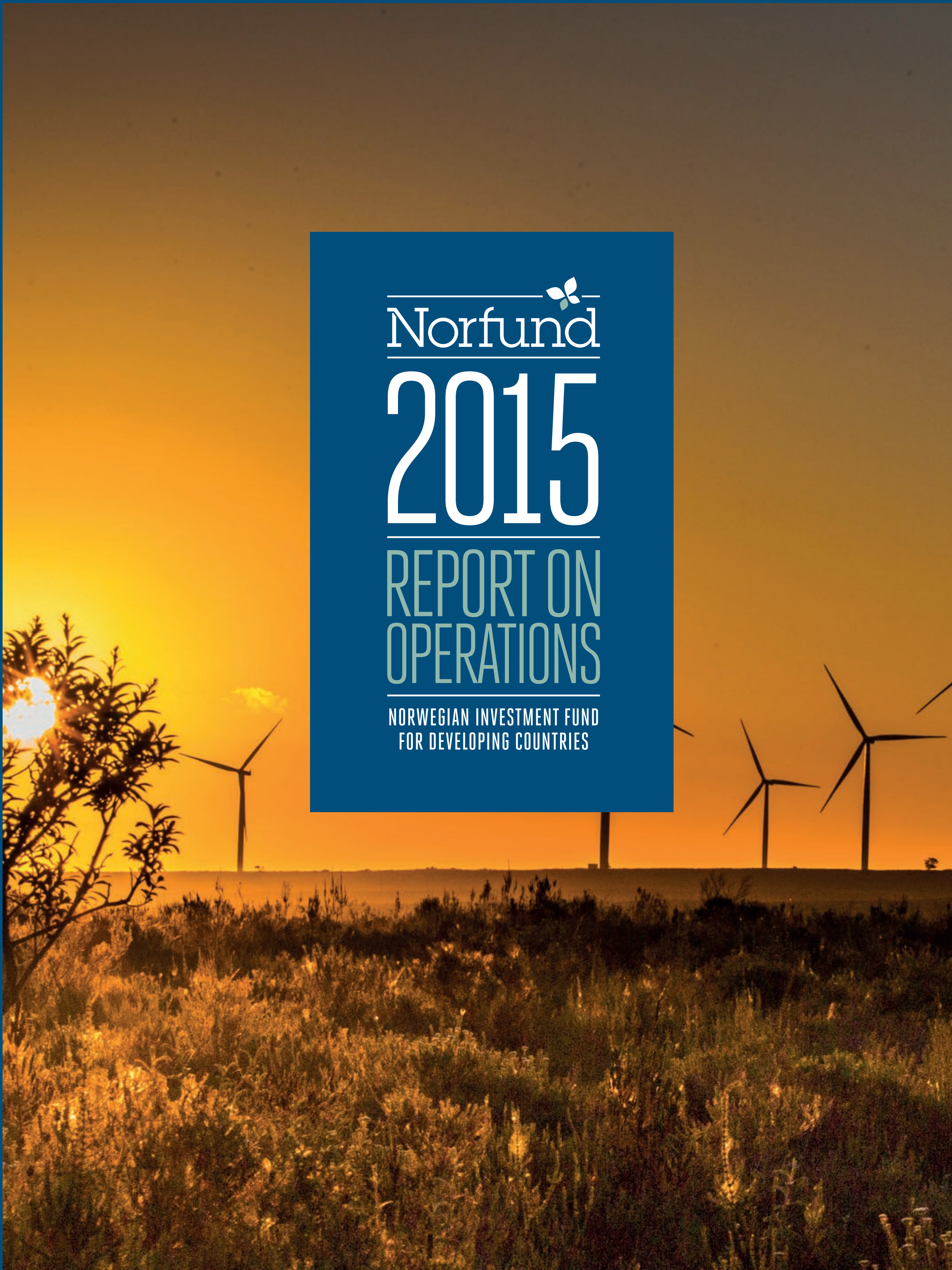

Norfund

2015

REPORT ON OPERATIONS

NORWEGIAN INVESTMENT FUND
FOR DEVELOPING COUNTRIES

Norfund
Report on Operations 2015

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07 Media

THIS IS NORFUND

Norfund – the Norwegian Investment Fund for Developing Countries – was established in 1997 by the Norwegian Parliament. The purpose is to contribute to building sustainable commercial businesses in developing countries.

The key importance of the private sector for creating economic growth and combating poverty is highlighted in the sustainable development goals adopted by the UN in September 2015. A profitable private sector with capacity for growth, which generates revenue and creates good workplaces, is essential for attaining the goal of ending extreme poverty by 2030.

Norfund is a state-owned company with limited liability, an instrument for Public Private Partnerships, and the government's main instrument for combatting poverty through private sector development. The fund's activities are conducted in accordance with the principles of Norway's development cooperation policy. Funding is provided via capital allocations from Norway's budget for development assistance. Norfund and similar investment funds in other countries are known as Development Finance Institutions (DFIs).

Norfund provides equity, other risk capital, and loans to companies in selected countries and sectors in which businesses lack access to sufficient capital to develop and grow. Our priority investment regions are Southern Africa and East Africa, and we have offices in Johannesburg, Maputo, and Nairobi. From 2016, West Africa will also become a priority region for Norfund and we will establish a new regional office in Ghana. We are also investing in selected countries in South-East Asia and Central America via our regional offices in Bangkok and San José.

Norfund always invests jointly with partners, both Norwegian and non-Norwegian. Co-investing this way enables us to leverage additional capital and provides the industrial and local knowledge needed for each investment.

The state's ownership in Norfund is governed by the Ministry of Foreign Affairs. The Minister of Foreign Affairs constitutes the General Assembly. The General Assembly appoints Norfund's Board of Directors. ■

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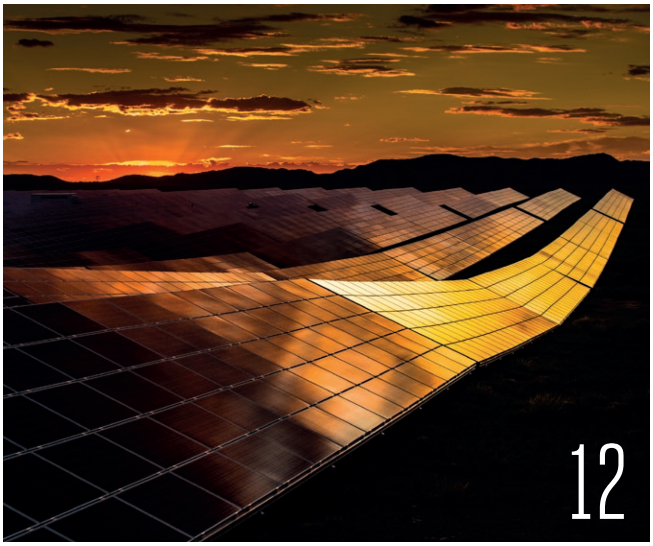
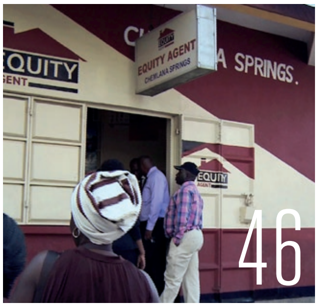


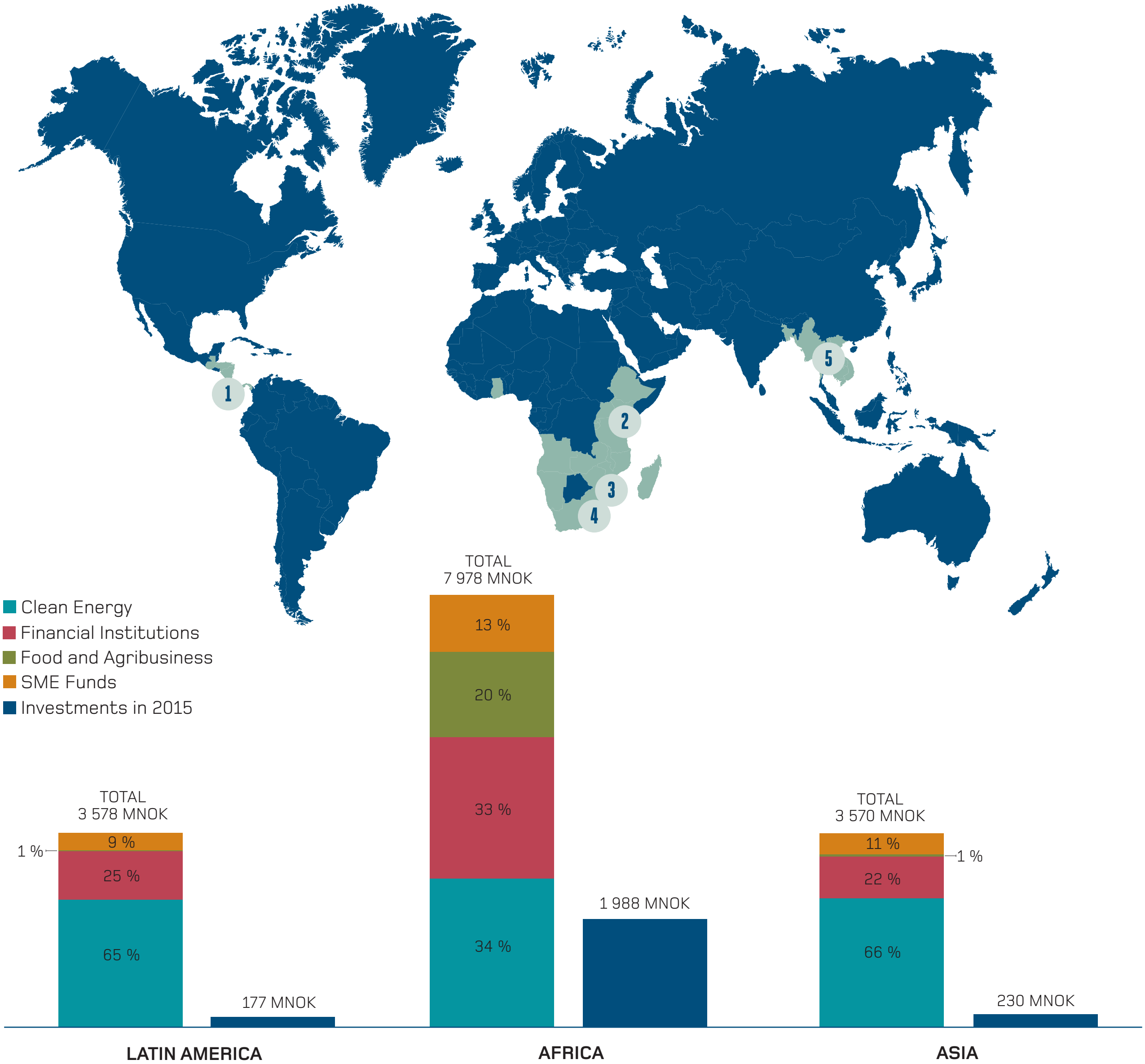


PORTFOLIO AND RESULTS END OF YEAR 2015

15.1
billion NOK
total comitted

700
companies
in the portfolio

382,000
jobs in the portfolio companies



1 San José
Costa Rica

2 Nairobi
Kenya

3 Maputo
Mozambique

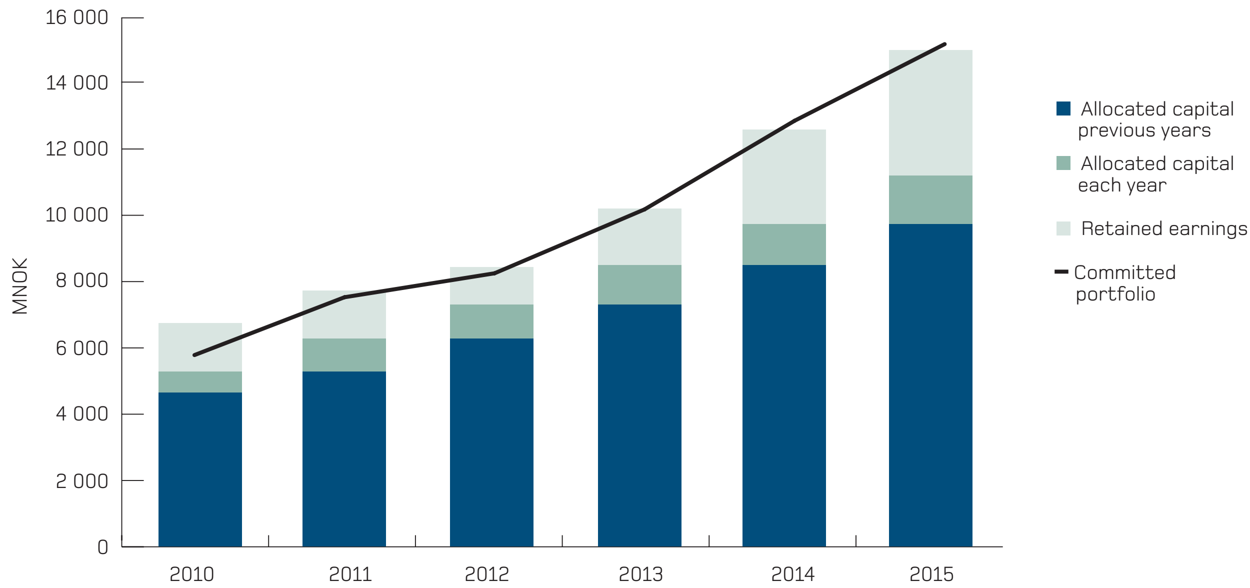
4 Johannesburg
South Africa

5 Bangkok,
Thailand

4,800 MW
installed by portfolio companies

2.4
billion NOK
new investments in 2015

8.6
billion NOK taxes paid by
portfolio companies in 2015



KEY FIGURES NORFUND 2010-2015	2010	2011	2012	2013	2014	2015
Committed investments in total portfolio (MNOK)	5 844	7 581	8 295	9 630	12 843	15 127
Capital allocated by the owner (MNOK)	629	1 000	1 030	1 198	1 230	1 480
New investments (MNOK)	844	2 198	1 234	1 872	3 645	2 395
Share of new investments in least developed countries	45 %	14 %	54 %	42 %	24 %	38 %
Share of new investments in Africa *	67 %	46 %	82 %	68 %	85 %	85 %
Internal Rate of Return (IRR)	10 %	9 %	10 %	-1 %	-6 %	3,5 %
Total equity (MNOK)	6 747	7 735	8 439	10 201	12 597	15 006
Ratio of cash to equity	29 %	13 %	19 %	20 %	20 %	8 %
Number of direct investments	85	99	107	118	126	129
Number of employees in Norfund	45	49	50	54	61	69
Total number of jobs in portfolio companies	167 000	265 000	294 000	314 000	227 000	382 000

* Excl. SN Power/SKIHI

A MESSAGE FROM

KJELL ROLAND

Managing Director

INCREASED NEED FOR DEVELOPMENT FINANCE

Last year emerging markets experienced reduced growth, falling commodity prices and the worst capital flight in 15 years. Developing countries suffered from significant debt and trade deficits. Increased uncertainty about the global economic outlook and financial stability increased Western investors general risk aversion. Under this challenging environment, Norfund and several other European Development Finance Institutions (DFIs) increased their investments significantly – to build sustainable enterprises, generate jobs and reduce poverty.

INCREASED NEED FOR DFI INVESTMENTS

The uncertain global economic outlook gave rise to extensive capital flow volatility and imbalances. The most recent example is Britain's Barclays Bank that decided to exit all its African operations after more than a century of presence. In 2015, global investors and companies pulled $735bn out of emerging markets, seven times more than in 2014. Crashing commodity prices, Chinese slowdown and a string of policy failures has made Western investors to reassess the risk of investing in Africa after years of optimism.

In such turbulent times we see a growing demand and need for DFI capital. African leaders say again and again that commercial investments are what their countries need, more than traditional aid. In 2015, UK, Finland and the Netherlands responded to this need and significantly increased capital to strengthen their DFIs. The Norwegian government has been a pioneer in this respect, systematically boosting Norfund's capital base for many years, so also in 2015 and 2016.

DFIs have the expertise to appraise and structure the kind of complex transactions required in developing nations. We can mobilize international and local capital and partners — sovereign wealth funds, pension funds, insurance companies, foundations and entrepreneurs — in ways that governments cannot. In addition, we can often adopt "leap frog" technology and scale solutions with the highest environmental and social standards in these markets. Almost none of the commercial power plants built in Sub Sahara Africa, outside South Africa, over the last 15 years would have been possible without DFI finance.

Since 2005 the European DFI portfolio of investments in Sub-Saharan Africa has quadrupled. Investing responsibly in sustainable companies is development!

NORFUND STRATEGY 2016 – 2020

We embarked on a strategy process in 2015 involving Norfund staff and partners, resulting in a new Norfund Strategy 2016–2020, adopted by the Board in January 2016. Norfund's new strategy builds on our key investment thesis of concentration in a limited number of countries, sectors and instruments. Currently, we target 30 countries, of which 16 are classified as LDCs (Least Developed Countries). 19 of our investment countries are in Sub-Saharan Africa. We will continue investing in clean energy and financial services in Africa, Central America and some parts of South East Asia, with increasing emphasis on Africa. We are now also ready to expand gradually into West Africa and plan to open an office in Ghana. One sector with increased focus in Africa will be Food and Agribusiness, a sector with massive employment potential in developing countries.

MAJOR INVESTMENTS IN 2015

A 12.2 % stake in **Equity Bank**, the second largest bank in Kenya, was Norfund's largest new investment in 2015. As the largest shareholder, Norfund supports the bank's strategy of lending to small and medium-sized enterprises, and providing services to the low-income mass-market, those with previous limited or no access to financial services.

The recent investment into the logistics and distribution-company **Freight in Time** was one of the first investments in our new strategic focus area - to extend along the agricultural value chain. In 2015 we increased our investments in fragile states with equity and loans to **three microfinance institutions in Myanmar**. We also explored alternative SME investment models for vulnerable states, with our investment in the company **Kinyeti** in South Sudan as one example.

BUILDING SUSTAINABLE BUSINESSES

Norfund aims to create companies that can remain in business and contribute to jobs and revenue generation over time. Once companies reach this stage, we exit the investment and reinvest our capital in other enterprises. An analysis conducted of all exits since inception documents that this has been achieved to a large degree; 85 per cent of the direct investees that were active when Norfund exited are still operational. The majority of these companies increased their workforce during Norfund's holding period and continued to grow after our exit.

INVESTING FOR DEVELOPMENT

2015 was a year of international co-operation with important milestones reached in Addis Ababa, New York and Paris. International development is no longer a question of rich donors aiding poor recipients, but rather of partners joining forces to provide an effective response to global challenges. The private sector is the most important contributor to income, jobs and tax revenues in developing countries. A recent ODI-study[1] documents that a 10% increase in DFI investments leads to a 1.3% increase in growth in lower-income countries, compared with an increase of just 0.9% in higher-income countries.

The Norwegian Government signals stronger and strategically oriented efforts for private sector development in developing countries in the White Paper 35 (2014–2015) *«Sammen om jobben – næringsutvikling innenfor utviklingssamarbeidet»*. Over time, Norfund has built a substantial portfolio of investments that are both profitable and sustainable. White Paper 35 indicates that capital will continue to be made available for investment through Norfund going forward. We are ready! Norfund has the capacity and expertise needed to invest in development on a substantial scale - in an open, transparent and sustainable manner.

Kjell Roland
Managing Director

[1] ODI - Overseas Development Institute, see page 8

RISING TO THE CHALLENGE:

THE NEW ROLE OF DFIS IN AN EVOLVING AID ARCHITECTURE


Dirk Willem te Velde[1]
Overseas Development Institute, Head of Programme

Max Mendez-Parra
Overseas Development Institute, Research Fellow

INTRODUCTION

The shareholders of development finance institutions (DFIs) are increasingly expecting DFIs to take on highly visible roles in tackling global challenges. Last year's major development conferences provided two such examples. At the Addis Ababa Action Agenda on Financing for Development in July 2015, DFIs were awarded an explicit and more prominent role in the world of development finance. Moreover, the Paris climate change agreement in December 2015 assigns DFIs to provide part of the $100 billion climate finance. The role of DFIs are increasingly framed in terms of macro-debates and major development challenges, rather than through the traditional approach of supporting individual private sector projects one at a time.

DFIs have great potential to contribute to global development by investing in the private sector. The resources of DFIs aim to be additional to what the market can provide, catalysing further investment. DFIs are also increasingly important in macro financial terms. However, despite their increased importance in global debates and in developing economies, there is insufficient information to assess how well DFIs are meeting the ever increasing expectations of those with a stake in DFIs. DFIs usually assess their development impact by pointing to successes at the project level; but only recently have they started looking beyond the project level and developing guidelines on how to assess indirect effects (which are normally much more important than direct effects). Apart from a few recent studies, there have been no systematic attempts to assess the macro-economic impact of DFIs. Yet, that is what the general public and the DFIs shareholders are interested in: to what extent do DFIs create jobs, raise growth, increase the use of renewable energy or crowd-in local private sector investment.

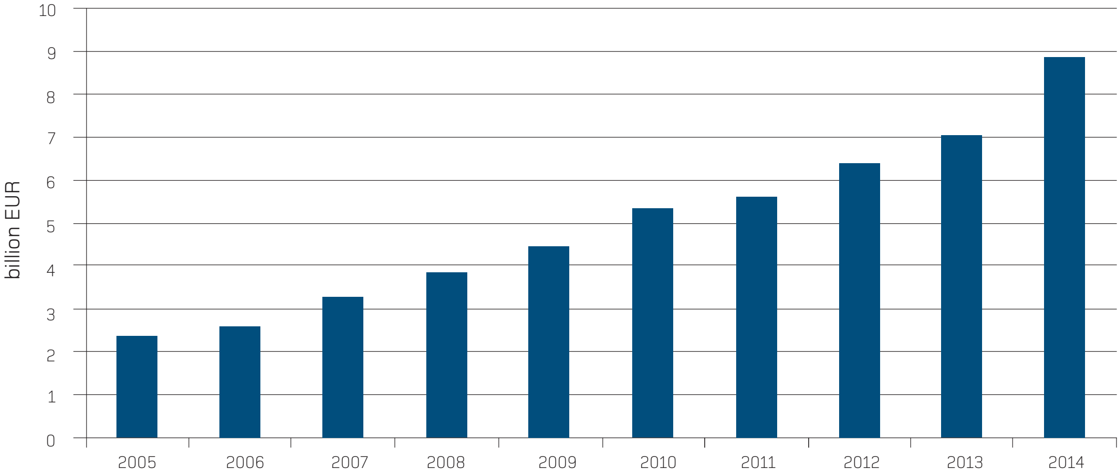
We have undertaken a new study for Norfund to address these questions. We include multilateral DFIs (IFC, AfDB, EIB, MIGA) as well as bilateral DFIs (such as Norfund) in the definition of DFIs. The study (i) provides a complete literature review on the macro-economic effects of DFIs; (ii) examines the data graphically; and (iii) collects country-specific DFI investment data in sub-Saharan Africa (SSA) and (iv) undertakes a comprehensive econometric analysis of DFIs in SSA.

REVIEWING THE EVIDENCE ON THE MACRO-ECONOMIC IMPACT OF DFIS

The literature review covers a number of studies on the

[1] This article is based on a background study conducted by the authors and Isabella Massa for Norfund. References can be found in that study.

Figure 1: EDFI's portfolio (in € billion) in SSA is growing rapidly, 2005–14



Source: Authors' elaboration on data provided by European DFIs (EDFI)

macro-effects of DFIs, with impact areas ranging from economic growth, investment, jobs, labour productivity, tax revenues, poverty reduction, food security, to renewable energy. In some areas, there is relatively little evidence, e.g. in relation to the direct impact on poverty (all the major channels work indirectly). However, in other areas we know more. The following powerful findings on the macro contribution of DFIs are based on econometric regressions in Massa (2011), Te Velde (2011) and Jouanjean and te Velde (2013) and new work for Norfund on SSA in Massa, Mendez-Parra and Te Velde (2016):

DFIs and economic growth

- A 10% increase in DFI investments leads to a 1.3% increase in growth in lower-income countries, while the same increase in DFI investments enhances growth by 0.9% in higher-income countries.
- The effect of DFI investments on the rate of GDP per capita growth in SSA is positive for all DFIs considered individually and collectively. If the DFI/GDP ratio increases by 1% (which is approximately USD 15 billion for the whole SSA), per capita growth increases by 0.24% on average. This would however require a tripling of current levels of DFI investment.

DFIs and investments

- The financial transfers by DFIs lead to increases in investment as measured by gross fixed capital formation (GFCF) in low and middle income countries. A one percentage point increase in DFI investments (financial transfer) to GDP ratio leads to a 0.8 percentage point change in the investment to GDP ratio. Using actual DFI data for 26 countries, DFIs have kept investment to GDP ratios at least 1.5 percentage points higher than would otherwise have been the case.
- For SSA, there is a positive effect of DFI investments on GFCF. Further analysis on DFI investment in Uganda and Ghana suggests that DFI investment has coincided with increases in Foreign Direct Investment (FDI) and domestic investment.

DFIs have great potential to contribute to global development by investing in the private sector.

DFIs and labour productivity

- For each percentage point shift in the ratio of DFI investments to GDP, the effect on labour productivity is found to be between 3.4% and 7.5% and statistically significant for low and middle income countries.
- In the case of SSA, investments made by the IFC, OPIC and Norfund have had a more positive and significant effect on changes in labour productivity than other DFI investments.

Photo: Globeleq

THE SECTORAL AND GEOGRAPHICAL DISTRIBUTION OF THE EUROPEAN DFIS' INVESTMENTS

The consolidated portfolio of the fifteen European DFIs (EDFI) has grown from €10.9 billion in 2005 to 32.9 billion in 2014. This represents an increase of 204% over the period, or 13% per year.

The total value of new EDFI investments in sub-Saharan Africa nearly tripled from €0.9 bn in 2005 to €2.3 bn in 2014 (whilst the portfolio quadrupled over that period, see figure 1). Some DFIs are geared more towards SSA countries than others: in 2014, the Swedish and the Portuguese DFI had 64% and 58% respectively of their portfolio in sub-Saharan Africa followed by Norfund (47%) and Finnfund (44%). It is worth noting that the total exposure in sub-Saharan Africa of ten out of the fifteen European DFIs is higher than that of the International Finance Cooperation in the World Bank (IFC), which in 2014 invested 17% of its committed portfolio in SSA economies.

Some European DFIs specialise almost entirely (although not exclusively) in equity and quasi-equity. Other European DFIs have the majority of their committed portfolio through loans. Most do very little in guarantees. As a whole they invest mainly in financial services and infrastructure. In 2014, 50% (EUR 16.3 bn) of the total consolidated EDFI portfolio was invested in the financial sector (mainly in investment funds and banks), while the share invested in infrastructure was equal to 24%. A much smaller share (13%) is invested in industry/manufacturing.

DFIs investments in Sub– Saharan Africa

DFIs matter greatly at the macro-economic level in Sub-Saharan Africa (SSA). In 2014 European DFIs' investments were equivalent to 5% of Foreign Direct Investments (FDI) and 7% of aid in SSA. If we also take into account multilateral DFIs (IFC, EIB and AfDB), then DFIs' investments represented 16% of FDI and 22% of aid in SSA. The relative importance of DFIs vis a vis pure aid grants is greater in African middle income countries.

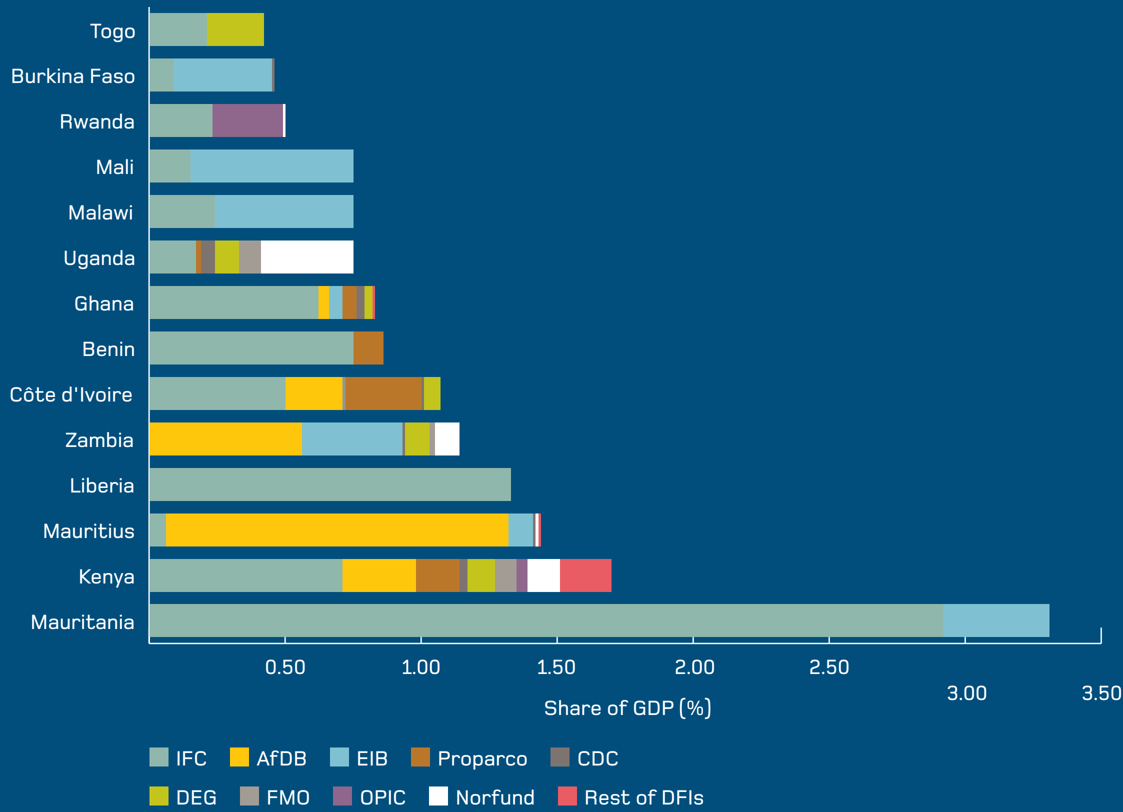
In 2013, investment by DFIs amounted to more than 1% of GDP in Cote d'Ivoire, Zambia, Liberia, Mauritius, Kenya and Mauritania (Figure 2). EDFIs play a major role in countries such as Uganda and Kenya.

We use the example of Ghana to visualise the relationship between DFIs' investment and gross fixed capital formation (see Figure 3:). DFIs' investment and FDI have supported the rapid increase in private sector GFCF since the mid-2000s. At the same time, aid has reduced its share as a source of finance in Ghana. In fact, since 2008, FDI has surpassed aid as a source of finance for development. In addition, DFI investments are almost half the value of aid in 2013. If this trend continues, DFI investments in Ghana will soon be as high as aid (excluding humanitarian aid).

CONCLUSION

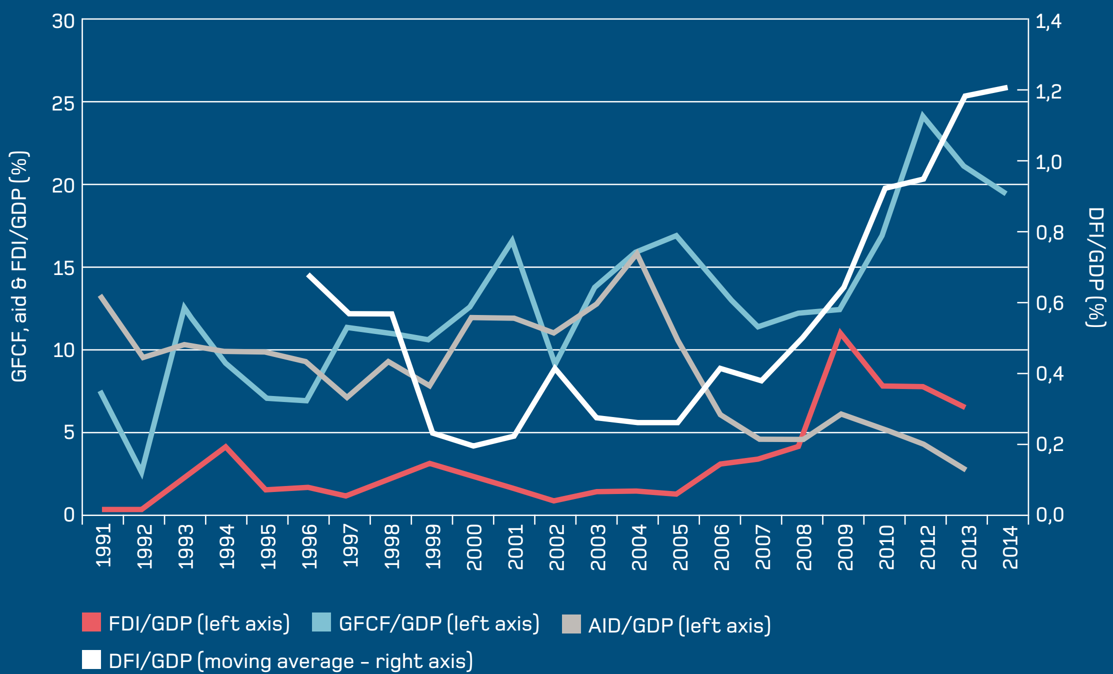
DFIs are already making an important contribution at the macro-level, in terms of growth, productivity and renewable energy use. Seen from this perspective, we should revisit and update our views of DFIs to reflect this new reality. There may have been a tendency to scrutinise individual DFI projects, and whilst that may still be needed in the future, we should not lose sight of the bigger picture. What does it all add up to? The evidence in our background study suggests that aggregated macro-effects can be identified. Future discussions should centre on the needs of DFIs to increase their effectiveness in tackling global challenges. ■

Figure 2: DFIs investment as a share of GDP by country and DFI in selected Sub-Saharan African countries, 2013



Source: Authors' elaboration on data provided by EDFI and individual DFIs (see background paper).

Figure 3: Figure 3: DFIs have become important financiers of private investment in Ghana



Source: own calculations based on World Development Indicators, information provided by DFIs.

REPORT ON OPERATIONS

THIS IS NORFUND

Year 2015

BOARD OF DIRECTORS

Norfund's Board of Directors ensures that the Fund operates in accordance with the Norfund Act of 1997 and the terms set by the owner related to annual capital allocations. The Board defines Norfund's strategy and approves individual investments exceeding specified amounts. Other investment decisions are delegated to management.

Back row: Vegard Benterud, Brit Rugland, Kristin Clemet, Martin Skancke, André Støylen.
Front row: Borghild Holen, Nina Elisabeth Hansen, Finn Jebsen.

KRISTIN CLEMET | **Chair**
Kristin Clemet has been the chair of the Norfund board since 2007. She has a degree in Business and Economics (siviløkonom) from NHH and is at present head of the Norwegian think tank Civita. Ms Clemet has extensive political experience: She was the Norwegian Minister of Education and Research from 2001-2005, Minister of Labour and Administration from 1989-1990, and a member of the Norwegian Parliament (Stortinget) from 1989-1993. She was the Deputy Director of the Confederation of Norwegian Enterprise (NHO) from 1998-2001. Ms Clemet has a number of other directorships.

FINN JEBSEN | **Director**
Finn Jebsen has been a member of the Norfund board since 2012. He has a MBA from UCLA and a degree in Business and Economics (siviløkonom) from NHH. Mr Jebsen is self-employed and has extensive experience in the Norwegian industrial sector. He worked in the Orkla Group for 25 years where he was a member of the Group Executive Board from 1984, and CEO from 2001-2005. He has served on the boards of many companies, now including Kavli Holding AS, Awilhelmsen AS, Kongsberg Gruppen ASA, and Norsk Hydro ASA.

MARTIN SKANCKE | **Director**
Martin Skancke has been a member of the Norfund board since 2014. He has a Master's degree in Economics and a degree in Business and Economics (siviløkonom). He is a self-employed consultant at Skancke Consulting, and advises on the design and management of sovereign wealth funds and other long-term investment vehicles. He worked in the Norwegian Ministry of Finance from 1990, and headed the Ministry's Section for Monetary Policy and Public Finances from 1994. From 2002-2005 he was Director General at the Office of the Norwegian Prime Minister, and from 2006-2011 he was Director General and Head of the Ministry of Finance's Asset Management Department.

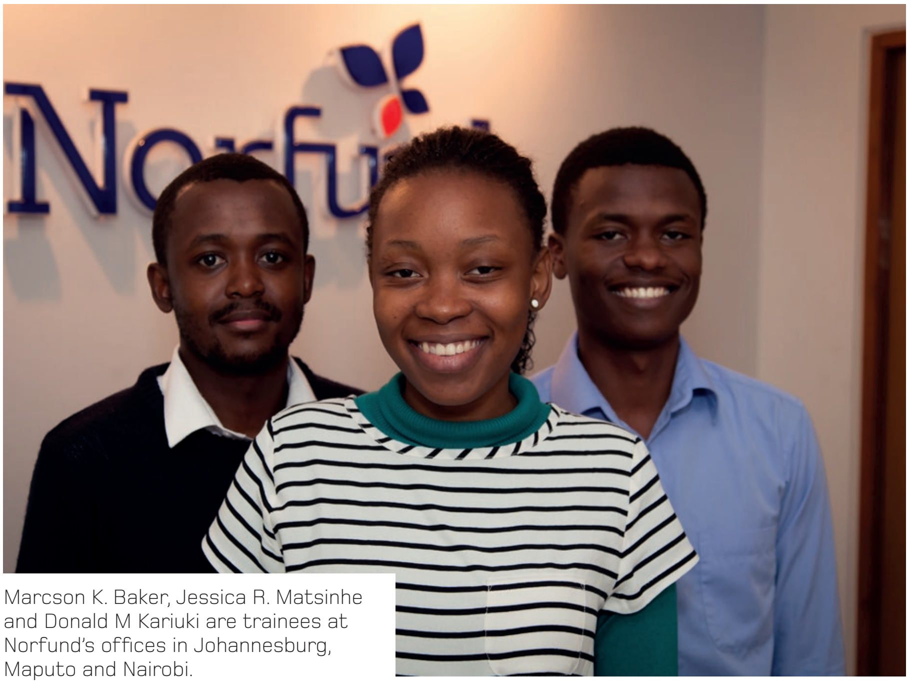
BRIT RUGLAND | **Director**
Brit Rugland has been a member of the Norfund board since 2015. She has a Bachelor of Business Administration from Eastern Michigan University, USA, and a Master of Management from BI. She has broad experience in both equity investments and the industrial sector, including Statoil. Since 2000, she has been a General Manager of various parts of the Rugland Group. Ms Rugland has also served on Norges Bank's Executive Board, and chaired the Board of Gassco.

ANDRÉ STØYLEN | **Director**
André Støylen has been a member of the Norfund board since 2015. He has a degree in Business and Administration (siviløkonom) from BI Norwegian Business School and is CEO of Sparebankstiftelsen DNB. Previously he was CFO of Norwegian Red Cross and consultant in McKinsey&Co. He has also many years of political experience, including five years as Vice Mayor for Finance in Oslo. He has extensive board experience, among others board member of the Norwegian National Museum and deputy chairman of the Supervisory Council of Norges Bank.

BORGHILD HOLEN | **Director**
Borghild Holen has been a member of the Norfund board since 2007. She has a degree in Business and Economics (siviløkonom) from NHH. She has long experience from the Norwegian financial sector and is at present Head of International Financial Institutions and Trade in DNB Bank. She has previously worked at the Norwegian credit finance institution Eksportfinans, was a member of the North-South Commission for development aid and a board member of GIEK.

NINA ELISABETH HANSEN | **Director (employee elected)**
Nina Elisabeth Hansen has been a member of the Norfund board since 2015. She has a degree in Business and Administration (Siviløkonom). Ms Hansen has worked at Norfund since 2012 as the Finance Manager. Previously she worked as the Finance Manager in Nets Norway AS/Teller AS, Hafslund Fjernvarme AS, and in the Group Account Division in Kværner ASA. Ms Hansen is a former Director in Eidsiva Bioenergi AS.

VEGARD BENTERUD | **Director (employee elected)**
Vegard Benterud has been a member of the Norfund board since 2015. He has a Master's degree in Industrial Economics and Technology Management from the Norwegian University of Science and Technology. Mr Benterud joined Norfund in 2006 where he works as a Senior Investment Manager, working with Norfund's SME funds. Previously he worked as a Portfolio Manager at NBIM and he has held the position of Investment Director at the Norwegian Microfinance Initiative (NMI). He is currently a member of various boards and investor committees within the Norfund SME Funds portfolio.



Marcson K. Baker, Jessica R. Matsinhe and Donald M Kariuki are trainees at Norfund's offices in Johannesburg, Maputo and Nairobi.

ORGANISATION

INVESTMENT EXPERTISE. Norfund has Norway's largest specialist team managing investments in developing countries. 43 of Norfund's 69 employees work directly with these investments and follow projects through all phases of the investment process. Several investment staff hold board positions in investee companies. Additional recruitment to such positions is undertaken via Norfund's external networks.

To build and retain expertise, Norfund has three sector-based departments: : Financial Institutions, Clean Energy and Food and Agribusiness. The Food and Agribusiness department also supports the development of small and medium-sized enterprises (SMEs) through investments in SME Funds.

COUNTRY PRESENCE. Twenty-one locally recruited experienced Norfund staff members are employed across five regional offices (Johannesburg, Nairobi, Maputo, San José and Bangkok) to ensure local proximity and knowledge.

DEVELOPMENT EXPERTISE. Norfund has dedicated experts monitoring environmental, social and governance issues related to our investments.

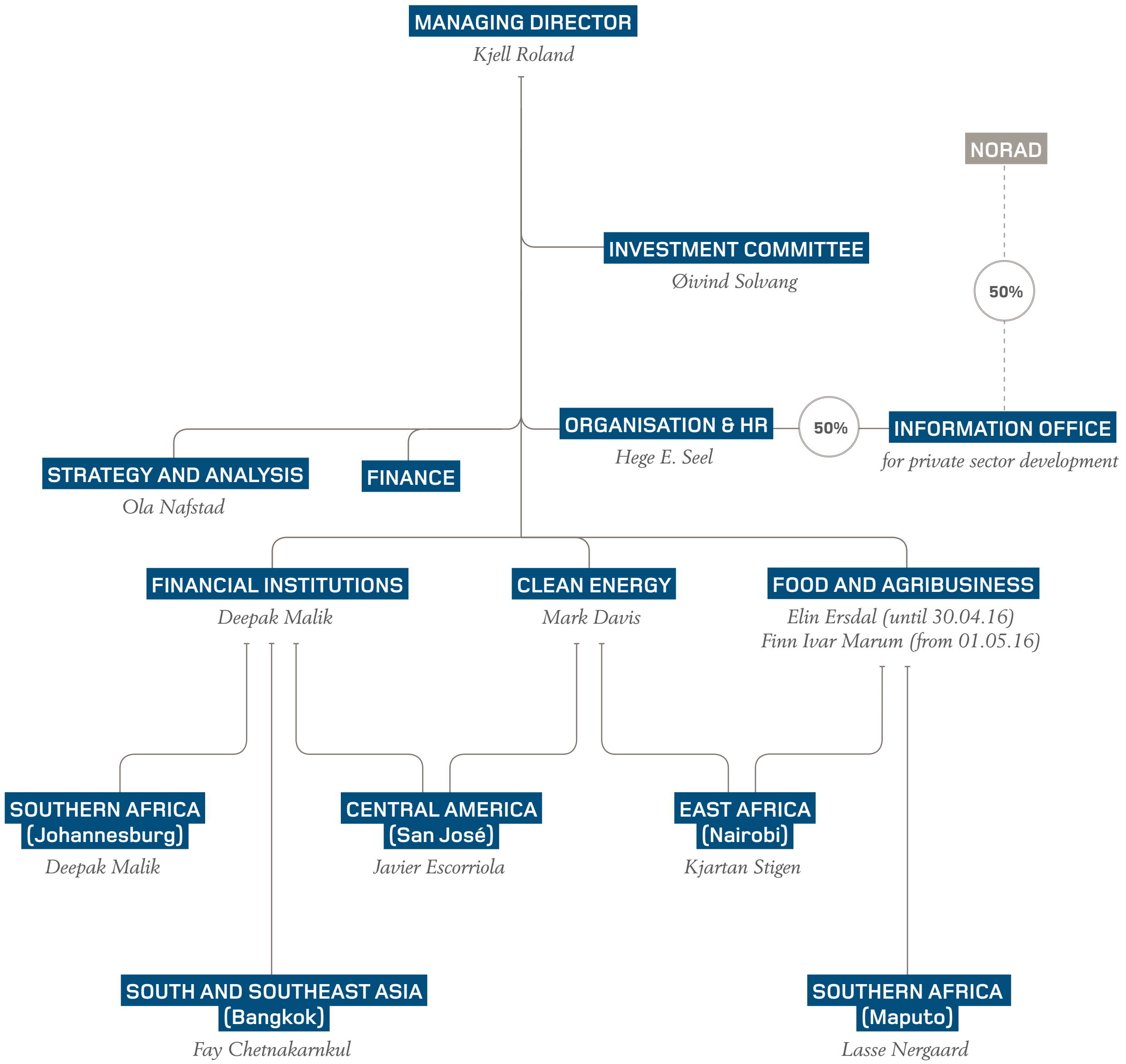
The Strategy and Analysis Department provides internal and external analysis and reports, supplying relevant information to partners and other stakeholders. Norfund participates actively in Norwegian and international debates about private sector development in developing countries.

The Finance Department supports the investment projects and facilitates reporting to our Norwegian co-partners. The Organisation and HR Department is responsible for staff-related issues as well as internal control and overall compliance. To keep the organization small and non-bureaucratic, a number of support functions, such as accounting, legal advisory services, and IT systems are outsourced. ■

INVESTMENT COMMITTEE

Norfund's Investment Committee reviews all prospective investments at least twice to ensure the quality of investment decisions. Projects are evaluated when a project is approved in principle, a further thorough assessment of a project's risks and development effects is undertaken prior to final approval.

The Investment Committee acts as an advisory board for the Managing Director, and is chaired by an external expert to ensure the independence of its assessments. Representatives from Norfund's management team, as well as internal staff and external members are included.


MANAGING DIRECTOR
Kjell Roland
NORAD
50%
INVESTMENT COMMITTEE
Øivind Solvang
ORGANISATION & HR
Hege E. Seel
50%
INFORMATION OFFICE
for private sector development
STRATEGY AND ANALYSIS
Ola Nafstad
FINANCE
FINANCIAL INSTITUTIONS
Deepak Malik
CLEAN ENERGY
Mark Davis
FOOD AND AGRIBUSINESS
Elin Ersdal (until 30.04.16)
Finn Ivar Marum (from 01.05.16)
SOUTHERN AFRICA
(Johannesburg)
Deepak Malik
CENTRAL AMERICA
(San José)
Javier Escorriola
EAST AFRICA
(Nairobi)
Kjartan Stigen
SOUTH AND SOUTHEAST ASIA
(Bangkok)
Fay Chetnakarnkul
SOUTHERN AFRICA
(Maputo)
Lasse Nergaard

HOW ENTERPRISES CONTRIBUTE TO DEVELOPMENT

NORFUND'S MISSION IS to contribute to development through the financing of profitable enterprises. Companies contribute to economic and social development through the direct and indirect employment opportunities they provide, the goods and services they offer and, indirectly, through the taxes they pay. Norfund collates data from all its portfolio companies and funds each year to monitor these effects.

JOBS

Jobs are vital to reducing poverty. They provide income and other benefits to people, and offer opportunities to expand knowledge and skills. In addition to the jobs generated directly by each company, jobs may also be generated indirectly due to increased economic activity and the goods and services the companies offer. Norfund monitors the number of permanent and temporary jobs in its portfolio companies and the percentage of female employees.

TAXES

Governments are dependent on taxes to provide essential public services such as healthcare and education. Income tax, value added tax, licence fees and customs duties are all important sources of revenue. Norfund collects information each year about the amount of corporate income tax transferred by investees to governments, as well other taxes and fees.

GOODS AND SERVICES

ENERGY
Access to reliable electricity is a precondition for economic growth and human well-being. Energy generated from renewable and low carbon sources also contributes to limiting the emission of greenhouse gases. The energy companies we work with report on the amount of electricity their power plants deliver annually to the grid and estimate their impact of greenhouse gas reduction.

RISK CAPITAL FOR SMEs
Access to risk capital through SME-funds supports the establishment and growth of SMEs. The funds we have invested in report on the number of businesses supported and the performance of these enterprises.

FINANCIAL SERVICES
Basic financial services – such as bank accounts, credit, and insurance – allow people to start or expand businesses, invest in education, build assets, and shield themselves against risks. Norfund's investees target SMEs and deliver services to individuals previously outside banking systems. The financial institutions in Norfund's portfolio report on the number and volume of loans they provide to their clients.

AGRICULTURAL PRODUCE
Agriculture is the main economic sector in most developing countries. Higher agricultural productivity and increased local value creation play key roles in economic growth and poverty reduction in rural areas. Investments in primary agriculture, processing and sale of agricultural products can also contribute to improving food security. The agribusinesses in Norfund's portfolio regularly report on the quality and yields of the crops they produce.

INCREASED ECONOMIC ACTIVITY

Companies can influence local economic activity through their increased purchase of local services and goods. In the agricultural sector, such impacts can be particularly strong because companies typically source most of their input locally. Increased consumption by employees also contributes to increased economic activity in the local community. To estimate the effects of enterprises on the supply chain, Norfund monitors the value of the companies' domestic purchases and the number of smallholder farmers associated with the investments.


MaxiFoam

INVESTING IN SUSTAINABLE ENTERPRISES

The creation of sustainable enterprises and stable, quality jobs in developing countries are essential to economic growth and poverty eradication. Sustainable businesses are at the core of a well-functioning private sector, working with the public sector and civil society to enable development.

Norfund's mandate, defined by the Norfund Act of 1997, is to create sustainable commercial activities in developing countries by establishing and developing viable, profitable enterprises that would not otherwise have been in business. These enterprises contribute to economic and social development through the direct and indirect jobs they provide, the goods and services they offer, and through the taxes they pay.

An additional investor

Norfund supplies capital and competencies that are otherwise unavailable. We make more capital available in targeted countries and sectors because we are willing to assume more risk than many other investors. We prioritise projects that have strong development effects, and enhance these effects through active ownership and business development support.

A catalytic investor

Establishing mechanisms for mobilising private capital is a central part of Norfund's activities. We work as a catalyst, leveraging partners, additional private capital and expertise for our projects. SN Power, NorFinance, KLP Norfund Invest and the fund manager Aureos are examples of such successful establishments.

STRATEGY 2016–2020

Norfund's Strategy 2016–2020 builds on the strategy established in 2007 and will support the Sustainable Development Goals adopted by the UN in September 2015. It assists us to fulfil our mandate effectively and efficiently, and reflects the overarching priorities of the Norwegian government's development assistance policy.

The new strategy maintains our high degree of concentration on particular countries, sectors and instruments. Norfund prioritises regions in which our investments can have strong development impacts. Our investment expertise is focused across a limited range of countries, mostly the poorest and least developed. Currently, Norfund targets 30 countries, of which 16 are classified as LDCs (Least Developed Countries). 19 of our investment countries are in sub Saharan Africa. The indicator-set below is used as a guide for allocating capital according to Norfund's strategy:

- Sub-Saharan Africa: > 50 %
- Least Developed Countries: > 33 %
- Greenfield Investments: > 20 %
- Equity Investments: > 70 %
- Renewable Energy: > 50 % of allocated capital from owner

Investment sectors

Norfund's investments are concentrated in three sectors: energy, finance and agribusiness. Well-run enterprises in these sectors can have particularly strong development effects: the availability of electricity and effective financial systems are crucial infrastructural requirements for development. Similarly, investing in primary agriculture and agribusiness can contribute to higher farm incomes, job creation and greater food security.

A central part of Norfund's activities is to support the

Mpongwe Milling in Zambia sources its maize and wheat from the Agrivision plantation and from thousands of smallholder maize farmers.

development of small- and medium-sized enterprises (SMEs) through specialised funds. This is because SMEs have a significant impact on job creation.

A strategic and active minority investor

Norfund provides capital in the form of equity and debt to selected companies. Preference is given to equity investments because equity is the scarcest type of capital for businesses in most developing countries. Our active ownership enables us to be an influential shareholder and to have an influence on company governance and decisions related to environmental and social impact.

Our business model leverages limited public funds by co-investing with private partners. Norfund acts always as a minority investor alongside these private investors, and our ownership stakes do not usually extend beyond 35 per cent.

Investment expertise

Developing expertise within our own organisation is central to Norfund's strategy. To succeed as investor, we must possess expertise in risk appraisal and risk management. Familiarity is also needed with the business environments, enterprises, politics and management approaches in the countries and sectors in which we invest. Norfund also mobilises competence from our partners.

IMPACT INVESTMENTS

Norfund also invests in Impact Investments, a special asset class that has higher risk than we typically accept. Impact Investments are made because their expected development impacts are especially high. The maximum commitment to such investments will be NOK 1 billion. This asset class is not included in the return calculations associated with Norfund's financial targets, and are marked in italics in the sector-based portfolio overviews in this report.

Any investments meeting one or more of the following criteria qualify for inclusion in the Impact Investments asset class:

Project development in renewable energy: In general, businesses must have comprehensive plans and structures in place before Norfund will invest in them. In the clean energy sector, project development can be costly and take time; large-scale, complex projects may involve multiple stakeholders. There are often few potential investments in in Norfund's target countries. In such cases Norfund may need to invest in project development prior to a commercial investment.

Early engagement in fragile states: Fragile states are characterized by particularly poor investment climates and high levels of risk. Development assistance is important when countries are emerging from conflict, struggling with weak governance, and in need of new institutions. Private sector development will contribute to ensuring growth and providing employment.

SME fund: In poor countries and markets in which SME funds are unavailable, the establishment of new, locally based investment funds can be effective in promoting SMEs. SME access to capital in such markets can have a very high potential development impact. This means that Norfund may invest in these new funds, even though they may be higher risk and the profit potential is below the level we usually accept.

Loans to Norwegian SMEs: Norfund manages a targeted loan facility tailored to smaller projects initiated by Norwegian companies. Our Small Enterprise Loan Facility extends loans to small projects that have Norwegian participation and which are undertaken, preferably, alongside local businesses. Norfund is, however, not limited to making investments with Norwegian partners only.

OUR MARKET SPACE:

between development aid and commercial business

Norfund operates in the space between traditional development aid and commercial markets. We don't provide traditional aid, and our funds are not grants. Instead, our funds are invested in, or lent to, commercial enterprises. Norfund is not a strictly commercial investor either. We accept high risks and invest in extremely challenging countries and sectors that most other investors would not invest in. Nevertheless, it is important to maintain a diversified portfolio to ensure sustainability.

EXITING ENTERPRISES –

for further development by new owners

When businesses are economically sustainable they will earn profits and, over time, become increasingly attractive to private investors. At a certain point, Norfund's finance may no longer be additional. Our strategy is to exit investments when we are no longer additional: typically after 5-10 years for equity investments, after 5-7 years for loan holdings, and after 9-11 years for fund investments. Capital and the profit generated are reinvested in new projects in which there is a greater need for risk capital (more about exits on page 34). ■

IFC PERFORMANCE STANDARDS ON ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

All companies in which Norfund invest must commit to gradually raise their performance to the International Finance Corporation (IFC) standards. The IFC standards cover the following 8 areas:

1. Assessment and Management of Environmental and Social Risks and Impacts (throughout the project's lifecycle)
2. Labour and Working Conditions
3. Resource Efficiency and Pollution Prevention
4. Community Health, Safety, and Security
5. Land Acquisition and Involuntary Resettlement
6. Biodiversity Conservation and Sustainable Management of Living Natural Resources
7. Full respect for Indigenous Peoples.
8. Protection of Cultural Heritage

Gender equality is important for Norfund. 38% of employees in the financial institutions in which Norfund has invested are women.

1

IDENTIFYING PARTNERS AND PROJECTS
Norfund identifies potential investments and partners within target sectors and geographies by considering their previous practice and ability to deliver to our standards. As a minority shareholder it is important to ensure that our co-investors are willing and able to support the high standards we demand.

A RESPONSIBLE INVESTOR

Being a development investor, it is important to select the right investments with the highest impact, but also to ensure that the investment process and ownership is done in a responsible manner.

Sound consideration of environmental, social and governance-related concerns (ESG) is a prerequisite for all our investments. Norfund faces many challenges when investing in demanding markets, among others weak legal frameworks and complex property rights issues.

EXIT
We strive to create companies that are sustainable, financially viable, well managed and can remain in business over time. When Norfund's capital is no longer additional, the investment is exited. The capital released is reinvested in other enterprises.

5

2

DUE DILIGENCE

Several issues need to be assessed of a potential investment: the finances of the company; budget assumptions; potential markets, customers and competitors; relevant tax issues; environmental, social and governance-related concerns. Norfund negotiates with its partners to ensure that they are prepared to follow Norfund's requirements. We do not expect enterprises to be 'perfect' when we invest initially, but we expect a willingness to improve and comply.

It is a fundamental requisite that all enterprises Norfund invest in adhere to national rules and legislation. In addition, Norfund's investments are based on the IFC's environmental and social performance standards (see page 23). These standards provide guidelines for the assessments that are undertaken during Norfund's investment process, and the companies must commit to gradually raise their standards according to IFC's standards.

Norfund spends considerable time and resources ensuring that the investment process is done in a responsible manner and contributes to strengthening the investees so that they become sustainable enterprises. This project cycle describes how we work.

3

INVESTMENT

We ensure that our requirements are legally binding. This includes compliance with environmental and social standards for the working environment. Plans for the implementation of higher standards are included in our investment agreements.

4

ACTIVE OWNERSHIP

As an active responsible owner, we are normally represented in the board. We monitor regularly all enterprises we have invested in and we document their development effects. Norfund also manages a grant facility for investees to strengthen their development effects.
(see page 32)


Songas

REPORT ON OPERATIONS

PORTFOLIO AND RESULTS

Year 2015

PORTFOLIO

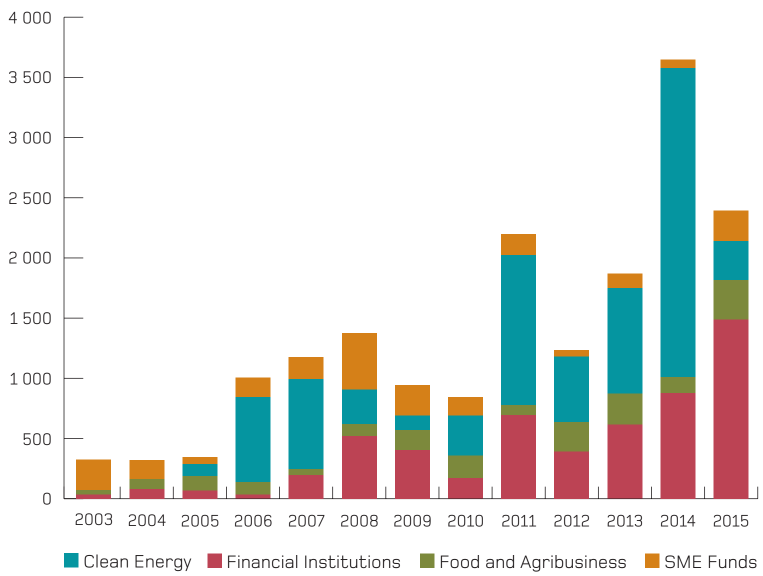
Since 2012, Norfund's capital base has almost doubled, from 7.9 billion NOK to 15.1 billion NOK today. The growth is attributable to substantially increased supplies of fresh capital from the Norwegian Ministry for Foreign Affairs (MFA), and to the annual earnings from the portfolio. Growth is expected to continue, and in 2020 Norfund's capital is expected to be close to 25 billion NOK.

15.1
billion NOK
total comitted

2.4
billion NOK
comitted in 2015

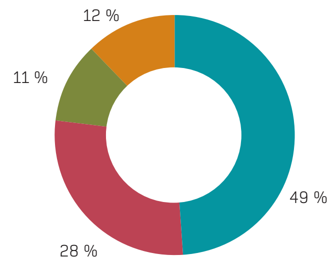
1.48
billion NOK allocated
from MFA in 2015

NEW INVESTMENTS PER YEAR

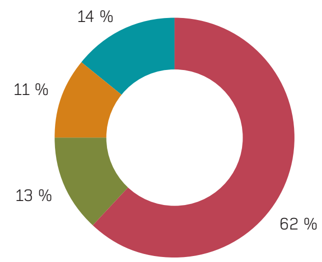


Since 2003, Norfund's yearly investment activity has increased significantly. The main drivers of investment capacity are available capital, the project pipeline, and staffing. High year-on-year variations occurs because of the long and complex project development processes. Norfund's investments nearly doubled from 2013 to 2014 due to the execution of several large investments in clean energy. 2015 was also a year with high investment activity, although not as extraordinary as 2014.

BUSINESS AREAS IN TOTAL PORTFOLIO



BUSINESS AREAS NEW INVESTMENTS IN 2015

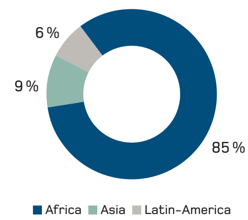


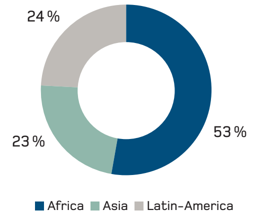
In 2015, 62 per cent of Norfund's new commitments were in financial institutions. This is due to a major investment in Equity Bank, Kenya (see page 51).

Clean Energy
Financial Institutions
Food and Agribusiness
SME Funds

	INVESTMENTS IN 2015	TOTAL PORTFOLIO

85% IN SUB-SAHARAN AFRICA IN 2015
Since 2010, Norfund's target has been to invest minimum 50 per cent of our capital in Sub-Saharan Africa. To achieve this goal, we have increased our activity in the region and strengthened our presence through a significant number of new investments. New investments have also been made in selected countries in Asia and Central America.



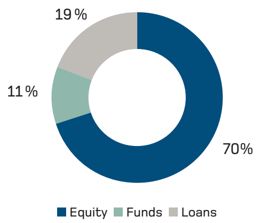


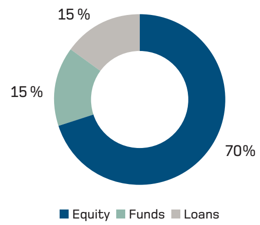
38% IN LEAST DEVELOPED COUNTRIES (LDCS) IN 2015
The need for DFI investments is generally highest in LDCs because these countries struggle to attract private capital. Strengthening our focus on Sub-Saharan Africa contributes to meet this goal as this region has a high number of LDCs.

38 %
NEW COMMITMENTS IN LDCS

29 %
COMMITMENTS IN LDCS

EQUITY IS PREFERRED INSTRUMENT
Equity investments have a higher level of risk than debt, and access to high-risk capital is particularly limited in poor countries. When Norfund finances an enterprise with equity, it is easier for the company to obtain debt, for example from local banks. Equity investments also tend to have a greater catalytic effect.





HIGH SHARE OF START-UPS
New enterprises are necessary for private sector development. Many start-ups/greenfields have high potential, but often have high risk. Obtaining capital can be extremely challenging. While the high-risk/high-impact nature of start-ups makes them suitable investment targets for Norfund, this type of project work is demanding both in terms of execution and hands-on follow-up.

18 %
NEW GREENFIELD COMMITMENTS

24 %
GREENFIELD COMMITMENTS

RESULTS

As a Development Finance Institution, Norfund measures its annual results both as financial returns as well as developmental effects. Positive financial returns over time indicate that our portfolio companies are financially viable. These companies contribute to development among others by providing jobs and increasing tax revenues.

FINANCIAL RETURNS – INTERNAL RATE OF RETURN (IRR)*

The internal rate of return for the portfolio, measured in the investment currencies since inception, is calculated to be 5.4 per cent. In 2015, the return, measured in investments currencies, was 3.5 per cent.

The explanation for the relatively weak 2015 figures for Food and Agribusiness is largely attributable to challenges in a limited number of projects.

The 12 per cent return on our investments in **Financial Institutions** is due to good performance and increased valuation of the banks, microfinance institutions and other financial institutions.

Low energy prices and the continued depreciation of currencies over the past two years have had a negative impact on the IRR of the **Clean Energy** portfolio. However, **Clean Energy** investments, representing around 50 per cent of the portfolio, are expected to yield long term returns of approximately 10 per cent.

Internal Rate of Return (IRR)	2007	2008	2009	2010	2011	2012	2013	2014	2015	Since inception 1997–2014
Financial Institutions	27	9	6	9	6	9	4	6	12	8
Clean Energy	14	25	3	11	10	12	-4	-9	2	6
SME Funds	32	4	5	10	3	9	12	-3	0	6
Food and Agribusiness	16	10	12	7	2	-10	-4	-10	-4	-5
Total	**17**	**21**	**4**	**10**	**8**	**10**	**–1**	**–6**	**3.5**	**5.4**

Calculated in NOK the IRR was 18.7 per cent in 2015, and 10.5 per cent since inception.

***CALCULATION OF IRR**

Norfund uses both the "since inception internal rate of return"(SI IRR) and the "horizon performance calculation" (Horizon IRR) in its IRR calculation.

The SI IRR is a since inception calculation that solves for the discount rate, which makes the net present value of an investment equal to zero. The calculation is based on cash-on-cash returns over equal periods modified for the residual value of the portfolio company's Net Asset Value (NAV). The residual value attributed to each respective area being measured is incorporated as its terminal value. Transactions are accounted for on a quarterly basis, and annualized values are used for reporting purposes.

Norfund uses the Horizon IRR calculation to calculate the annual IRR figures. The Horizon IRR performance calculation is a money-weighted return similar to the SI IRR; however, it is measuring performance between two points in time. The calculation incorporates the beginning NAV, interim cash flows and the ending NAV. All interim cash flows are recorded on a quarterly basis.

In order to aggregate cash flows and calculate pooled returns for the Norfund portfolio and sub portfolios, the cash flows and NAVs pertaining to individual investments are converted to one currency using the end-of-period exchange rate for all historical cash flows and NAVs. The numbers are then aggregated for calculation of Horizon IRR and SI IRR. Such aggregation allows for a money-weighted local currency portfolio IRR without taking into account currency fluctuations during the measured periods. As a cross reference Norfund will also calculate Horizon IRR and SI IRR in NOK taking account in-period currency fluctuations.

DEVELOPMENT EFFECTS

While financial returns over time show the extent to which the enterprises are viable, the development effects indicate the contributions that enterprises are making to development at large. Development effects are often difficult to measure by numerical methods. However, Norfund reports annually on the measures below:

	2015
JOBS The private sector provides nine of out ten jobs in developing countries and is a key player in the fight against global unemployment. In 2015, Norfund's portfolio companies employed 146,000 people in Africa, 114,000 people in Asia and 40,000 people in Latin America. An additional 82,000 jobs were reported by a microfinance fund with presence in several regions. Data from companies with two consecutive years of reporting shows an overall job growth of 9 per cent.	382,000 **JOBS IN NORFUND'S PORTFOLIO COMPANIES IN 2015**
WORKFORCE Jobs impact on society by contributing to gender equality and social cohesion. Our local financial institutions have a particularly high share of female employees, while companies in the construction industry remain male-dominated. In 2015, 92 per cent of the people employed by Norfund's portfolio companies were on permanent contracts. The remaining eight percent were engaged in activities of a temporary nature, such as the construction of power plants or the harvesting of agricultural produce.	34% **OF JOBS WERE HELD BY WOMEN IN 2015**
PAYMENTS TO SUPPLIERS Through their purchases of goods and services from local enterprises, Norfund's investees can contribute to enterprise growth and job creation. The portfolio companies purchase goods such as raw materials, and services such as IT, maintenance and security.	22 **BILLION NOK WORTH OF DOMESTIC PURCHASES IN 2015**
TAXES In addition to creating jobs, our portfolio companies pay taxes and fees in the countries in which they operate. This revenue enables governments to invest further in infrastructure, for example, and to provide services such as healthcare and education.	**AFRICA** 4.3 · **ASIA** 2.7 · **LATIN AMERICA** 1.5 · **GLOBAL** 0.1 **BILLION NOK PAID IN TAXES**

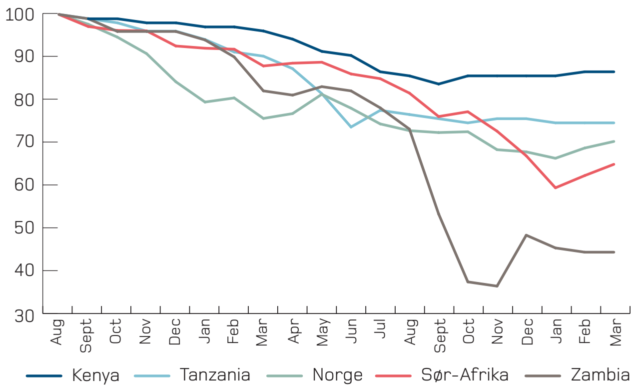
[1] *Full-time equivalent positions*

FALLING COMMODITY PRICES AND HIGH CURRENCY FLUCTUATIONS IN 2015

Norfund invests in countries where the macroeconomic conditions, markets and companies are characterised by high risk. In 2015, falling global commodity prices increased the challenges in several African countries. This included falling exchange rates faced by many of the countries in which Norfund invests. Southern Africa, including Zambia, was hit particularly hard.

Norfund's investments are largely made in foreign currency. Given the high equity share in the portfolio, the underlying currency exposure in the portfolio is to local currency. As Norfund's returns are to be reinvested in developing countries, we usually report the return on investments in the investment currency, not in NOK. Most of the local currencies in which Norfund has invested depreciated substantially against the US dollar through 2015.

Currency Index 2015/2016



THE NORFUND GRANT FACILITY – for sustainable financial and developmental results

As an active and strategic minority owner, Norfund provides support to our portfolio companies in order for them to deliver on their business and growth plans as well as to strengthen the developmental effects of our investments. In addition to giving strategic advice at board level, Norfund has a business development and support scheme that enables Norfund to co-finance technical and professional assistance in the following areas:

1. Project Development
Enable development and realization of projects by mitigating risks and ensuring that sufficient preparatory measures can be taken.

2. Enterprise Improvements and ESG
Strengthen environmental, social and governance (ESG) standards, procedures, and capacities in investees; management and professional skills; and the sustainability of investees.

3. Local community development interventions
Strengthen local developmental effects in host communities by supporting investees' local community outreach efforts and other relevant projects to bridge the gap between development activities and the investment projects.

Norfund normally receives funding for the Grant Facility from the Norwegian MFA on an annual basis and the funds are earmarked for Norfund's investments. In 2015, 19 new initiatives were approved to 18 different investees. The majority being Enterprise Improvement and ESG grants in Sub-Saharan Africa. During the year the active grant portfolio consisted of 53 grant interventions, reaching around 60 companies and SME funds.

EXITED COMPANIES 2015

BUGOYE HPP

Country: Uganda
Investment year: 2008
Investment: Equity and loan, 59.8 MNOK
IRR[1]: 6%

Bugoye is a 13 MW hydropower plant in Uganda developed together with TrønderEnergi. Construction was completed in 2009 and the plant has been operational since. It produces 82 GWh of electricity annually. Norfund's stake in the project was 27.5%. In July 2015 Norfund's shares were sold to Uganda Hydro Holdco, a 100% owned subsidiary of Africa Renewable Energy Holdings Ltd, managed by Berkeley Energy.

SAN ANTONIO

Country: Guatemala
Investment year: 2014
Investment: Mezzanine loan, 31.2 MNOK
IRR: 18%

San Antonio is a 53 MW wind farm in Guatemala. The project reached commercial operations on time, the Norfund loan was repaid and the plant now produces 130 GWh annually.

HIDRO SANTA CRUZ

Country: Guatemala
Investment year: 2011
Investment: Mezzanine loan and loan, 10.4 MNOK
IRR: -6%

Hidro Santa Cruz was a project meant to develop a 5 MW hydro plant on the Canbalam River. The project was stopped following local protests, demonstrations and escalating violence in the area.

EXIM BANK LTD.

Country: Tanzania
Investment year: 2007
Investment: Mezzanine loan and loan, 51.1 MNOK
IRR: 4%

Exim Bank Ltd. was Norfund's first investment in a financial institution in Tanzania. Through its investment Norfund has contributed to Exim Bank's strong growth in lending. Exim Bank is today a successful SME bank that delivers strong financial results.

LOCFUND

Country: Latin-America
Investment year: 2007
Investment: Equity and loan, 8.8 MNOK
IRR: 5.6%

LOCFUND was the first local currency micro-finance fund in Latin America. In total 45 microfinance institutions in 13 countries were funded directly giving more than 92,000 loans to micro clients. The fund was a success, and a second fund double its size was launched in 2013, Locfund 2.

SOLIDUS INVESTMENT FUND S.A.

Country: Latin-America
Investment year: 2005
Investment: Equity, 11.9 MNOK
IRR: 3.3%

Solidus was a micro-finance fund that offered quasi equity investments to micro-financing institutions in Latin-America. Norfund's ownership share was 6.25% in the company.

BUSINESS PARTNERS MADAGASCAR SME FUND

Country: Madagascar
Investment year: 2006
Investment: Equity, 6.1 MNOK
IRR: -42%

Business Partners Madagascar SME Fund focused on small businesses in Madagascar. The performance of the fund was rendered near impossible by the political events in Madagascar since February 2009, resulting in a final IRR of -43%. Norfund's stake in the fund was 14.12%.

AMSCO

Country: Regional
Investment year: 2001
Investment: Equity, 1.8 MNOK
IRR: -100%

AMSCO (African Management Services Company) is a UNDP Regional Project which provides professional management services to private companies and commercially operated public enterprises in Africa, with the aim of developing local management capacity and contributing to the overall growth and health of the businesses. In December 2015, Norfund sold its shares back to AMSCO nominal value of EUR 1, as the investment horizon had passed and this was considered the best way to preserve the developmental role of Amsco.

Additionally, 6 loans were repaid during the year.

[1] This IRR differs from the IRR reported in Norfund's annual report ,note 10, because the IRR here is the combined IRR of the loans and equity, while the note in the annual report only refers to the equity investments.

OUR TRACK RECORD

In 2015, as part of our strategy process, we conducted an analysis[1] of exited investments since Norfund's inception to improve our understanding of the impact of the portfolio. We found that most of the exited companies are still operational today and have continued growth in terms of profits and number of jobs.

OVERVIEW OF EXIT ACTIVITY

An "exit" occurs when loans are fully repaid to Norfund, when Norfund sells its equity stake (including funds), or when an investment is liquidated. From 1997–2014, Norfund exited 56 direct investments with a combined investment volume of NOK 1,626 million and more than 200 SMEs indirectly through funds.

FINANCIAL PERFORMANCE

All companies need to be financially viable in the long-term – even after we exit – and we calculate the Internal Rate of Return (IRR) to measure this viability.

- **The average IRR for the exited direct investments was 5%**
  Loans had the highest IRR (9%) and funds the lowest (2%). The IRR for equity was 4%.

- **The average IRR on direct investments was highest in the Africa region (12%)**
  In Latin America, the IRR was negative (-3%). Asia and Africa outperformed Latin America also for the investees of funds. The analysis of investees of funds showed that investing in LDCs has provided reasonably good returns (an average IRR of 5%).

- **'Start-up' and 'restructuring' deal types have been challenging**
  The IRR for each was negative. "Expansion" on the other hand, had a IRR of 7%.

- **The average holding period for Norfund's investments was 6 years and varied by instrument**
  Funds had the longest holding period of between nine and 11 years. Most loans had a holding period of four to six years, and most equity investments a holding period of five to seven years.

JOB CREATION

Getting a job is the most effective way of escaping poverty, and employment creation is therefore an important development effect of Norfund's investments.

- **The workforce grew in most companies during the holding period**
  64% of Norfund's exited investments, including investees of funds, increased their workforce during the holding period. More than 33,000 direct new jobs were created, raising the total number of jobs in these 137 companies to 118,000.

- **The more profitable investments created more jobs**
  Profitable investments experienced higher job growth than less profitable investments. This was true both for direct investments and the investees of funds.

CURRENT STATUS OF EXITED COMPANIES

Norfund strives to ensure that the companies in which we invest are able to operate profitably after we exit. In that way, the development effects of our investments persist and we can reinvest the capital in new companies. In 2015, we contacted former direct investments to learn more about their development after our engagement with them ended.

- **85% of companies that were operational when Norfund exited are still operational today**
  The analysis showed that 34 out of 38 companies were operational at the time we exited. Today, 29 of these companies are still operational: nine have been part of mergers and acquisitions, and 20 remain in their original form.

- **The operational companies are growing, increasing their profits, and hiring more people**
  Our survey data shows that the lending portfolios in all the financial institutions have continued to grow after Norfund's exit. Profitability continued to increase in almost 70 per cent of the companies and 65 per cent of the companies have continued to increase their workforce since Norfund's exit. ■

[1] The analysis included financial (IRR) and development aspects (job creation) as well as post-exit performance, depending on data availability.

IN THE PERIOD 1997-2004, NORFUND EXITED 56 DIRECT INVESTMENTS AND MORE THAN 200 SMES THROUGH FUNDS

The operational companies are **growing**, increasing **profits** and hiring **more people**

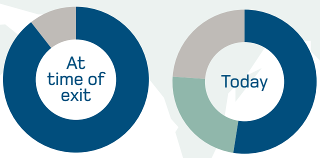
Profitability increased in **70%** of companies

Job growth continued in **65%** of companies

Funds: 9–11 years
Equity: 5–7 years
Loans: 4–6 years

Average **holding period** for the direct investments was **6 years**

85% of companies that were **operational** when Norfund exited are still operational today



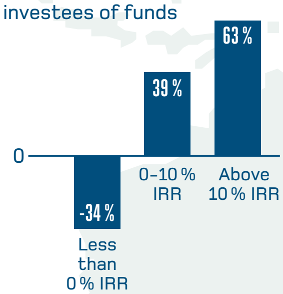
33,000

new jobs created

64 % of companies **increased** their **work-force** during Norfund's holding period

Average IRR was **5%** for the direct investments

AVERAGE JOB GROWTH: for investees of funds



The most profitable investments created more jobs

NORFUND'S AUDITED RESULTS FOR 2015*

Profit & Loss	MNOK 2015	MNOK 2014
Interest (investment portfolio)	178	146
Realised gains	1	40
Dividends received	87	85
Other operating income	8	6
Share of profit associatied companies	66	185
Total operating income	**340**	**462**
Payroll expenses	-85	-78
Other operating expenses and depreciation	-88	-62
Total operating expenses	**–173**	**–140**
Write downs investment projects **	-326	-356
Operating profit in investment currency	**–159**	**–34**
Net financial items	**164**	**149**
Tax	0	0
NET PROFIT IN INVESTMENT CURRENCY	**5**	**115**
Exchange rate effects portfolio	421	483
Profit	**426**	**598**

* Detailed accounts are published in our annual report, can be found at norfund.no
** Excluding currency effects. With foreign exchange effects, the write-downs in 2015 were 139 MNOK

Norfund is an investment fund, and hence, the profit and loss accounts do not cover the true long term value creation in the portfolio. Thus, when reading our financials, be aware of the following:

- Our mandate is to create sustainable and profitable business in poor countries. Thus, profitability in investee currency is regarded as a success criteria, not the amount of capital returned in NOK. Our bottom line is net profit in investment currency, not profits after conversion to NOK.
- As an investment company, our operational income is the sum of the interest, dividends and the sale of shares. Financial items are related to capital not yet disbursed, but kept in bank deposits in Norway.
- According to the Norwegian Generally Accepted Accounting Practice (GAAP), values of investments are booked as original purchase price or lower if impairments have been made. The deviations from purchase prices are write-downs. Being a high risk fund in LDC's in developing countries, significant write-downs should be expected. The calculated returns on page 30 are based on current valuations (including our present valuation of the portfolio) and provide a more realistic representation of the value creation in our portfolio.
- Norfund has made a strategic decision to remain a relatively small and lean organisation. Legal support, IT and specialist advice, accounting and other services are sourced from other companies, and this is reflected in "other operating expenses".

COMMENTS TO THE 2015 RESULTS

- The decrease in operating income compared to 2014 is due primarily to lower revenues from share of profit from associated companies.
    - The 75% share of profit from Norfininvest AS (owner of 12.2% share in Equity Bank Ltd) is -91,5 MNOK due to a currency loss.
    - Higher interest revenues as Norfund's loan portfolio has increased through 2014-2015, but also the strong USD against NOK has influenced the revenue in NOK.
    - The 2014 accounts for share of profit from associated companies include profit from 40% share in the former SN Power Invest AS up to June and 50% share of the profit in SN Power AS from June to December (the former SN Power Invest AS was reorganised in June 2014). The 2015 profits from SN Power were impacted negatively by dryer than normal conditions in the Philippines, Laos and Zambia
- As a knowledge-based enterprise, most of our operating costs are personnel-related. Other costs include office rent, fees for external services, and travel. In addition other costs include early stage costs accrued in developing projects to a stage where an investment decision can be made.
- The strengthening of the USD against the Norwegian Kroner (+18,5% through 2015) has had a positive effect on the value of many of the loans Norfund has provided to banks and other financial institutions (exchange rate effects portfolio).
- The total value of the write-downs for some of the companies and funds in our portfolio was slightly lower in 2015 compared to 2014. The figure is affected by the strengthening of the USD against Norwegian Kroner. The write-downs are at a level that can be expected in a high-risk fund such as Norfund.
- Bank deposits amounted to 1 billion NOK at the end of 2015. On average, the deposits where lower compared to 2014 due to higher disbursements to investments. The level of income from interest was lower because of lower interest rates on the bank deposits. Net financial items include a currency gain effect on the bank deposit in USD.

EVALUATION OF NORFUND 2015

"The Norwegian Investment Fund for Developing Countries (Norfund) is the single most important tool for Norwegian support to Private Sector Development. This evaluation of Norfund was initiated to better understand its role as an instrument of Norwegian development assistance policy, by assessing Norfund's contribution to the growth of sustainable enterprises through documenting its development outcomes"

Tale Kvalvaag, Director, Evaluation Department, Norad, February 2015

In February 2015, an external evaluation on Norfund was published. The conclusions were overall positive. The report stated that Norfund has been successful in fulfilling its mandate and that Norfund's work – the instrument, thematic and sectoral focuses - generally match Norwegian development policy. It highlighted that Norfund has been successful in its active ownership, has an efficient project cycle and that Norfund's investments often have been additional and have leveraged capital.

The evaluation was commissioned by the Norwegian Agency for Development Co-Operation (Norad) and conducted by Gaia Consulting Ltd. It was done in the period from February 2014 – January 2015 with the aim to evaluate Norfund's role as an instrument of Norwegian development assistance policy in the period 2007-2013.

RECOMMENDATIONS

The evaluation report did not reveal any significant reasons to introduce major changes to the current operations, and stated that the existing flexible governance model should not be changed. However, a more systematic framework for assessing, tracking or reporting on additionality was recommended, as well as further development of the monitoring and reporting of Norfund's development effects. The report stated that Norfund's investments to a large degree are additional and have leveraged capital, but that measuring leverage and additionality in a more systematic manner can help Norfund to understand and develop its impacts and show-case its achievements in line with its mandate.

"In our rapidly changing world traditional development aid is being increasingly questioned. [..] Private sector is the powerhouse of development. We can learn valuable lessons from Development Finance Institutions when seeking better and more effective ways to harness the private sector for more equitable and sustainable development",

Pasi Rinne, Gaia Consulting Ltd.

OVERSEAS FINANCIAL CENTERS

As a part of the evaluation, the evaluator also reviewed the role of Overseas Financial Centers (OFCs) in Norfund's operations, including measures taken by the fund to address challenges like potential tax evasion, money laundering or other unethical conduct. The report found that, compared to other EDFI members, Norfund has a positive record in terms of transparency and reporting on OFCs. Norfund's internal OFC guidelines are clear and in line with other international standards such as the EDFI guidelines and OECD recommendations, meaning that Norfund investments cannot be associated with harmful practices. The evaluation also found that Norfund has actively influenced the selection of OFC in order to comply with its OFC guidelines. The evaluation found that decisions on investment jurisdiction and domicile are implemented in line with established guidelines, and that the main reason for investing through OFCs is that other shareholders and investors have required this for their investment and to secure Norfund's exit.

FOLLOW UP

Valuable inputs and recommendations from the Gaia evaluation report were brought into the strategy process for the revised Strategy 2016 - 2020. Norfund is now following up the recommendations, including presenting a report on Norfund's contribution to development later this year. ■

OTHER RECOMMENDATIONS RELATED TO NORFUND'S OPERATIONS AND PROCESSES:

- Norfund should improve the measurement and reporting of ESG results
- Norfund should ensure that sufficient resources are made available for active ownership, outcomes of which should also be reported more systematically.
- Norfund should consider developing more integrated and standardized financial risk management practices

REPORT ON OPERATIONS

BUSINESS AREAS

Year 2015

CLEAN ENERGY

– Infrastructure for economic development

DEVELOPMENT RATIONALE

A reliable and stable electricity supply is crucial to economic and social development. In least developed countries (LDCs), small- and medium-sized enterprises (SMEs) are particularly vulnerable to power outages and shortages. Unreliable and unstable supplies can cause substantial losses to income and damage to electrical equipment, and using petrol or diesel generators can be expensive.

Most LDCs have considerable domestic hydro, wind, solar and gas resources. Utilising these can help them to be less dependent on energy imports and to meet the rising energy demand.

INVESTMENT NEEDS

Substantial investments are needed to meet the rising demand for electricity and to expand supplies. The processes involved are capital intensive: large amounts of money are needed upfront, and this magnifies the risks associated with investments.

Almost all independent power projects in developing countries are public-private partnerships. The power sector remains dominated by state-owned utilities which are often the only purchaser of independent power.

These utilities are a credit risk given their often vulnerable financial status, and the pressures they face to keep electricity prices low. Additional project risks, and the long pay-back times of investments, mean that commercial capital in this sector is scarce.

NORFUND'S STRATEGY

While hydropower has dominated the energy-portfolio until recently, solar and wind energy have become more competitive and account for an increasing portion of the portfolio.

Norfund's strategy is to invest with – or via – industrial partners. In the hydropower sector, we have continued our partnership with Statkraft in a 50/50 joint venture with SN Power. Approximately 250 MWp of solar power has been built with Scatec Solar, and further growth is expected. In 2014, Norfund acquired a 30% stake in Globeleq, one of Africa's leading independent power companies, with the aim to build 5.000 MW of generating capacity in Africa within the next ten years. Cashflows within these three key platforms are significant and will be re-invested. Norfund is also prioritising small-scale hydropower and off-grid solutions and expects to establish new partnerships in both in 2016 and beyond.

INVESTMENTS AND RESULTS

Clean energy is the single largest component of Norfund's portfolio and 2015 saw the completion of five new renewable energy plants. All are now operational. The amount of electricity generated by these projects in 2015 is equivalent to the annual consumption of 25 million people in these markets.

HIGHLIGHTS 2015

The process from initial project identification to first financial close and, ultimately, to commercial operation is complex, time-consuming and high risk in the energy sector. Multi-disciplinary approaches are needed when developing and building power plants.

Success depends on the ability to combine technical, commercial, legal and social skills. The time it takes to construct energy plants is typically 2-3 years (shorter for solar plants), but the processes involved before construction can be long and costly. Consultation and interaction must take place with authorities and with the communities affected, but doing so may cause delays or prevent projects being developed.

In 2015, the following projects became commercially operational:

→ **168 MW hydropower energy in Peru.** The 'Cheves' plant was initiated by SN Power and transferred to Statkraft International Hydropower. The plant was under construction for several years and is expected to provide 838 GWh per year to Peru's national grid. It is one of only a few large-scale hydropower plants built in the country in recent years.

→ **60 MW hydropower energy in Panama.** 'Bajo Frio' is the result of a partnership between Agua Imara (a SN Power subsidiary) and the local Panamanian company Credicorp Group. The plant will provide 243 GWh per year to the national grid and can, potentially, be supplemented by a second plant immediately downstream.

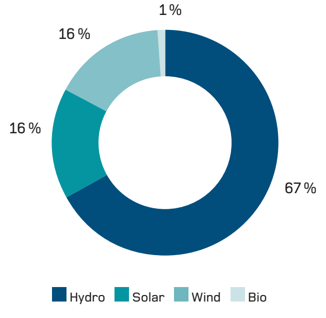
→ **4 MW biogas energy in South Africa.** 'Bio2Watt' is one of the first projects in South Africa to produce power on a substantial scale from the digestion of organic waste. It also represents the first commercial model in which a power plant sells electricity to an end-user (BMW) by transporting power across third party networks. The Bio2Watt project aims to supply BMW with approximately 35 GWh per annum.

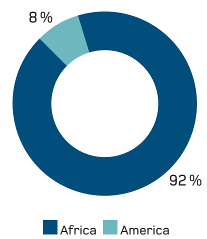
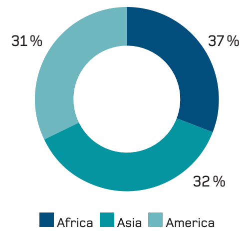
→ **59 MWp solar energy in Honduras.** The 'Agua Fria' plant has been built in partnership with Scatec Solar and the local company PEMSA. The project forms part of Honduras' programme to expand the nation's solar capacity and will deliver 103 GWh per annum to the grid.

→ **53 MW wind energy in Guatemala.** The 'San Antonio' plant is a local initiative which received a loan from Norfund. After successfully completing the installation, the company was able to replace Norfund's risk capital with long-term debt from local banks. This illustrates one of the roles that development finance can play in facilitating the participation of local capital markets through our higher acceptance of risk.

In addition, another 480 MW of construction was completed in 2015 with Norfund participation in the loan syndication institution ICCF.

340 MW COMPLETED IN 2015



	INVESTMENTS IN 2015	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO Clean energy accounts for approximately half of Norfund's portfolio. The equity share of the total clean energy portfolio is 95 %	328 MILLION NOK COMMITTED	7,442 MILLION NOK COMMITTED
REGIONS Norfund is prioritising investment in countries classified as LDCs and countries in Sub-Saharan Africa. The restructuring of SN Power is part of Norfund's efforts to reallocate capital from midle-income countries to low-income countries. Our partnership with Scatec Solar and the acquisition of Globeleq are important steps towards building our power portfolio in Africa.		

RESULTS IN 2015

JOBS
Energy projects create direct jobs in the operational phase, but most of the posts are temporary and occur during the construction period. Approximately half of the jobs created by Norfund's investments in 2015, for example, were construction-related. Improving the supply of electricity contributes significantly to wider job growth by reducing a major constraint to enterprise growth.

5,400
JOBS IN PORTFOLIO COMPANIES

TAXES
Private energy companies contribute to government revenues by paying corporate income taxes, value added taxes, and other fees. The amount of taxes and fees transferred to governments increases when projects become operational and start generating profits.

2000
MNOK IN TAXES PAID

ELECTRICITY
The companies in Norfund's energy portfolio have installed a total power capacity of 4,800 MW. Another 600 MW (approximately) is currently under construction. The amount of electricity generated by these projects in 2015 was equivalent to the annual consumption of 25 million people in these markets.

18.5 TWH
ELECTRICITY PRODUCED

EMISSIONS REDUCED
In many developing countries, electricity production relies heavily on coal and oil. Electricity generated from renewable sources, in contrast, can help to reduce CO_2 emissions by displacing fossil fuels. Last year, 63 per cent of the electricity generated by Norfund's investments came from renewable sources.

7.4 MILLION
TONNES OF CO_2 AVOIDED

Investment	Country/ region	Invest-ment year	Sector	Instru-ment	Nor-fund owner share	Domicile	Investee currency	Original Committed (MNOK)
Rwimi EP Co Ltd	Uganda	2015	Hydropower	Loans		Uganda	USD	34.4
Globeleq Africa Ltd	Africa	2014	Energy	Equity	30 %	Guernsey	USD	2008.4
Renewable Energy Holdings Ltd	South Africa	2014	Hydropower	Loans		South Africa	ZAR	22.2
Gigawatt Global Rwanda Ltd	Rwanda	2014	Solar power	Equity	13 %	Rwanda	USD	17.7
Kinangop Wind Park Ltd	Kenya	2013	Wind power	Equity	19 %	British Virgin Islands	USD	94.3
KLP Norfund Investments AS	Global	2013	Investment funds	Equity	*50 %*	Norway	NOK	213.4
Lake Turkana Wind Park Ltd	Kenya	2013	Wind power	Equity	6 %	Kenya	NOK	96.0
PRODERSSA (Agua Fria)	Honduras	2013	Solar power	Equity	15%	Honduras	NOK	53.3
Simacel 160 Pty Ltd (Dreunberg)	South Africa	2013	Solar power	Equity	8 %	South Africa	NOK	23.7
Simacel 155 Pty Ltd (Linde)	South Africa	2013	Solar power	Equity	8 %	South Africa	NOK	11.9
Los Prados[1]	Honduras	2013	Solar power	Equity	15 %	Honduras	NOK	43.7
Gigawatt Global Rwanda Ltd	Rwanda	2013	Solar power	Equity	15 %	Rwanda	NOK	3.1
Lake Turkana Wind Park Ltd	Kenya	2013	Wind power	Guarantee	6 %	Kenya	EUR	13.8
SN Power AS	Global	2013	Hydropower	Equity	50 %	Norway	USD	2129.8
Scatec Solar Kalkbult RF	South Africa	2012	Solar power	Equity	35 %	South Africa	ZAR	72.3
Bronkhortspruit Biogas Plant Pty Ltd	South Africa	2011	Biomass energy	Equity	11 %	South Africa	ZAR	8.7
Nam Sim Power Company Ltd	Laos	2011	Hydropower	Loans		Laos	USD	32.0
Interact Climate Change Facility	Global	2010	Energy	Loans		Luxembourg	EUR	121.4
E & Co	Global	2009	Energy	Loans		Delaware	USD	18.9
Statkraft IH Invest AS	Global	2002	Hydropower & wind power	Equity	18 %	Norway	USD	2606.6

[1] *Comprising five companies: Fotovoltaica Los Prados SA; Fotovoltaica Sureña S.A.; Generaciones Energeticas S.A.; Foto Sol S.A.; Energías Solares S.A.*

Impact Investments								
Scatec Egypt PDF	*Egypt*	*2015*	*Solar power*	*See note 2*			*USD*	*52.9*
Scatec Mocuba PDF	*Mozambique*	*2015*	*Solar power*	*See note 2*			*USD*	*7.9*
Scatec SA Round 4 PDF	*South Africa*	*2015*	*Solar power*	*See note 2*			*USD*	*22*
Scatec Rumuruti PDF	*Kenya*	*2015*	*Solar power*	*See note 2*			*USD*	*8.2*
BioWatt Cape Dairy PDF	*South Africa*	*2014*	*Biomass*	*Loans*		*South Africa*	*ZAR*	*4.9*
Kikagati HPP PDF	*Uganda*	*2012*	*Hydropower*	*Equity and Loans*	*30 %*	*Uganda*	*USD*	*10.2*
Nsongezi Hydropwer Project PDF	*Uganda*	*2012*	*Hydropower*	*Equity and Loans*	*30 %*	*Uganda*	*USD*	*3.4*
Hydel Hydropower PDF	*Kenya*	*2011*	*Hydropower*	*Loans*		*Kenya*	*USD*	*8.4*

[2] *Cost sharing agreements for project development with Scatec Solar AS.*

Lake Turkana Wind Power will provide 310 MW clean energy to Kenya

WIND POWER IN AFRICA

The Lake Turkana Wind Power project in Kenya will be the largest wind power plant in Africa and provide as much as 20% of Kenya's annual energy needs.

The Lake Turkana Wind Power (LTWP) project aims to increase and stabilize the supply of electricity in Kenya by providing 310MW of reliable, low-cost wind power to the national grid. The €620 million wind farm project will be the largest single private investment ever made in the country.

The site, covering 40,000 acres (162 km2), is located in Loyangalani District in Marsabit West County – a dry, remote, and historically marginalised area in north-eastern Kenya – with unique wind resources for a wind power plant.

"A typical windfarm would have a 25–35% utilisation capacity. Lake Turkana will have an impressive 62% utilisation capacity" says Mugo Kibati, Chairman of the LTWP.

The LTWP project includes the construction of 365 wind turbines (each with a capacity of 850 kW), an associated overhead electric grid collection system, and a high voltage substation. A 204 km-long road to link the area to the nearest paved road is being built, as well as an access road network in and around the site for construction, operational work, and maintenance.

"This area was almost completely forgotten," says Stakwel Yurenimo, a local community leader who is a liaison between the local population and the project team. "In addition to generating wind power, the roads that the project is constructing will open up the place and bring in development. Children here will have different options from the ones their fathers and grandfathers had."

To export the wind farm's energy from the plant to the outskirts of Nairobi, the Kenya Electricity Transmission Company Ltd. (Ketraco) is building a double circuit transmission line, approximately 400kms in length. The 400 kV high voltage line will connect the larger Northern Kenya region to the grid network, and facilitate the development of other wind, solar and geothermal projects.

"This ground-breaking project will contribute to meeting Kenya's growth ambitions, reduce dependence on imported fuel, and save 16 million tonnes of CO_2 emissions, compared to a fossil fuel-fired power plant", says Mark Davis, Head of Norfund's Clean Energy Department.

The LTWP Investor Group consists of KP&P Africa B.V., Aldwych International, Vestas Wind Systems A/S, the Finnish and Danish DFIs (Finnfund and IFU), and Norfund. In 2015, Google announced that it will invest Sh4 billion (US$40 million) in the project. Among the project's lenders are the African Development Bank, the European Investment Bank and the Dutch and German DFIs (FMO and DEB).

FINANCIAL INSTITUTIONS

– The key to business development

DEVELOPMENT RATIONALE

Access to capital via loan and equity investments is crucial to economic growth and to establishing and developing businesses.

Loans and saving facilities can also help to reduce the vulnerability of individual households. But in developing countries, businesses and people often lack access to basic financial services such as bank accounts, insurance, and credit facilities.

INVESTMENT NEEDS

Banks and microfinance institutions depend on debt in order to extend loans to their customers. These financial service providers need capital to develop products and increase their market reach.

They also need to make costly but crucial capital investments, for example in IT systems, which must be of high quality, as well as effective, well managed, and underpinned by good security.

NORFUND'S STRATEGY

Norfund supplies capital to small- and medium-sized enterprises (SMEs) by investing in banks, microfinance providers, and other financial institutions. We invest mostly in locally owned financial institutions that have good growth potential and are suited to designing and delivering these valuable services.

Our investments in banks target medium-sized and large institutions which focus on SMEs, the retail market, and clients that have not previously had access to financial services. Our investments in non-bank financial institutions are concentrated on those providing services such as leasing, factoring and lending to SMEs.

INVESTMENTS AND RESULTS

Norfund has built a strong portfolio of investments in financial institutions over the last ten years. In 2015, we made five new investments and increased our stake in several existing ones. Norfund gives priority to equity investments ahead of lending and offers long-term financing to financial institutions that target SMEs and the retail market. Lending is used primarily as a means of establishing long-term strategic relations.

HIGHLIGHTS 2015

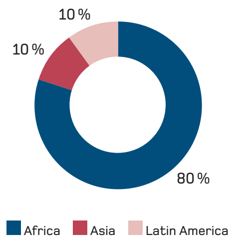
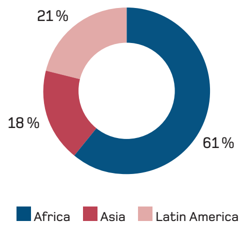
Purchasing a 12.2 % stake in Kenya's second largest bank: Norfund and NorFinance AS purchased a 12.2% stake in Equity Group Holdings Ltd. ('Equity bank'), a Kenyan bank with previously unbanked individuals and SMEs as its main customer segments. This investment reflects our desire to create efficient, scalable banks that provide cost effective services. (See page 51).

Increased commitment to the Norwegian Microfinance Initiative (NMI): The NMI is a strategic alliance between Norfund, Ferd, DnB/Vital, Storebrand and KLP, and is Norfund's most important channel for microfinance. NMI Global and NMI Frontier, the previous two funds, are fully invested and are showing positive returns. In 2015, we increased our commitment to NMI Fund III by 10 million USD. We have also initiated a dialogue with IFU – the Danish Investment Fund for developing countries – with the aim to build NMI to become a leading Nordic microfinance platform.

Strengthening microfinance services in Myanmar: The demand for microfinance and the need to build sustainable and credible microfinance institutions have increased rapidly in Myanmar as the country emerges from decades of isolation. Norfund invested in three microfinance institutions in Myanmar in 2015: a 40% stake in Advans MFI Myanmar Company Limited, a 25% stake in Myanmar Finance International Limited, and the existing loan to Proximity Designs was extended.

Investing equity in a Central American leasing company: Arrend is a Central American company which leases vehicles, specialized equipment, and machinery to SMEs, mostly in the agricultural, commercial, construction, and service sectors. Norfund´s equity injection and senior debt is supporting Arrend's business expansion, and is aligned with our strategy to invest in non-bank financial institutions that are dedicated to serving SMEs.

Enabling long-term SME financing in El Salvador: Banco Promerica supports micro, small- and medium-sized businesses in El Salvador. Norfund's loan will bring much needed long-term financing to the area. Without this support, Banco Promerica El Salvador would only have been able to continue providing short-term financing for the customers' long-term productive asset investments.

	INVESTMENTS IN 2015	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO Norfund has invested directly in 44 financial institutions, ranging from regional bank groups and funds that invest in banks to local microfinance institutions. Financial institutions now accounts for 28% of Norfunds total portfolio.	1,489 MNOK COMMITTED	4,279 MNOKCOMMITTED
REGIONS Investments in financial institutions are of high priority for Norfund on all three continents. The major investment in Equity Bank Kenya in 2015 has increased the portfolios representation in Africa. New investments in LDCs in Asia were also a focus area for Norfund in 2015, though with smaller values.		

	RESULTS
JOBS The direct employment effects of investments in the financial sector are high: these institutions employ a large number of people, 38 per cent of whom are women – a large share relative to other sectors. The indirect effects of investments are even more significant. Providing access to loans enables enterprises to grow and to create new jobs.	187,000 JOBS IN FINANCIAL INSTITUTIONS IN 2015
TAXES Most of the financial institutions in Norfund's portfolio make good profits and pay significant taxes to local and national governments. Many of their loan customers are small companies. Over time, and with the help of access to finance, many of these small companies will grow and also pay more taxes.	3,100 MNOK IN TAXES PAID IN 2015
LOANS At the end of 2015, the financial institutions in Norfund's portfolio had a combined loan book of 494 billion NOK. Microfinance institutions in the portfolio of NMI accounted for 31 million of the number of loans provided.	37 MILLION LOANS PROVIDED TO CLIENTS
DEPOSITS Bank accounts provide safe and easy access to funds, encourage savings, and facilitate participation in the modern economy.	32 MILLION BANK ACCOUNTS HELD BY CLIENTS

FINANCIAL INSTITUTIONS

Investment	Country/ region	Norfund investment year	Sector most detailed	Instrument	Norfund owner share	Domicile	Investee currency	Original Committed (MNOK)
Advans MFI Myanmar Company Limited	Myanmar	2015	Microfinance	Equity	40 %	Myanmar	MMK	10.2
ARREND Central America	America	2015	Other financial services	Equity and Loans	22 %	Guatemala	USD	60.1
Banco Promerica El Salvador	El Salvador	2015	Banking	Loans		El Salvador	USD	86.8
Myanmar Finance International Limited	Myanmar	2015	Microfinance	Equity	25 %	Myanmar	USD	12.4
Acleda Bank Lao Ltd.	Laos	2014	Banking	Loans		Laos	LAK	56
BANCO INDUSTRIAL SALVADOR	El Salvador	2014	Banking	Loans		El Salvador	USD	74.2
Confianza	America	2014	Microfinance	Equity		El Salvador	USD	16
Focus Financial Services - debt	Zambia	2014	Other financial services	Loans		Zambia	ZMW	48.3
Housing Finance Company Limited (debt)	Kenya	2014	Banking	Loans		Kenya	KES	71.3
LAFISE NICARAGUA	Nicaragua	2014	Banking	Loans		Nicaragua	USD	69.7
Equity Bank (via Norfininvest)	Africa	2014	Banking	Equity	12.2 %	Kenya	NOK	1 177.9
Trustco (Debt)	Namibia	2014	Microfinance	Loans		Namibia	ZAR	55.2
Alios Finance Zambia	Zambia	2013	Other financial services	Loans		Zambia	USD	30.6
Amret II (USD)	Cambodia	2013	Microfinance	Loans		Cambodia	USD	21.9
FDL	Nicaragua	2013	Microfinance	Loans		Nicaragua	USD	18.1
Ficohsa Gua	Guatemala	2013	Banking	Loans		Guatemala	USD	17.9
First Finance Plc.	Cambodia	2013	Microfinance	Equity and Loans	15 %	Cambodia	USD	35.5
LOCFUND II	America	2013	Microfinance	Funds	27 %	Delaware	USD	53.9
NMBZ Holdings Limited	Zimbabwe	2013	Banking	Equity and Loans	9 %	Zimbabwe	USD	36.9
Norfinance AS	Africa	2013	Financial services	Equity	50 %	Norway	NOK	419.9
DFCU Limited	Uganda	2014	Financial services	Equity		Uganda	UGX	82.5
Socremo	Mozambique	2014	Microfinance	Equity		Mozambique	MZN	16.1
Equity Bank (via Norfininvest)	Africa	2015	Banking	Equity		Kenya	NOK	188.8
Prasac Microfinance Institution	Cambodia	2013	Microfinance	Loans		Cambodia	USD	59.6
Proximity Designs	Myanmar	2013	Microfinance	Loans		Myanmar	MMK	12.1
Alios Finance Tanzania Ltd	Tanzania	2012	Other financial services	Loans		Tanzania	USD	27.8
Ficohsa	Honduras	2012	Other financial services	Loans		Honduras	USD	72.7
African Banking Corporation Zambia	Zambia	2011	Banking	Loans		Zambia	USD	29.3
Desyfin	Costa Rica	2011	Other financial services	Equity and Loans	23 %	Costa Rica	USD	63.2
HEFF	America	2011	Microfinance	Funds	33 %	Delaware	USD	40.5
Norsad	Africa	2011	Other financial services	Equity	11 %	Botswana	USD	56.8
Prospero	America	2011	Microfinance	Funds	22 %	Cayman Islands	USD	32.1
Sacombank Leasing Limited	Vietnam	2011	Other financial services	Loans		Vietnam	USD	27.5
Techcombank	Vietnam	2011	Banking	Loans		Vietnam	USD	87.1
Brac Bank	Bangladesh	2010	Banking	Equity and Loans		Bangladesh	BDT	122.2
Real People Investment PTY	Africa	2009	Microfinance	Equity	16 %	South Africa	ZAR	311.1
Sathapana	Cambodia	2008	Microfinance	Loans		Cambodia	USD	41.9
AfriCap Microfinance Investment C	Africa	2007	Microfinance	Funds	7 %	Mauritius	USD	17.6
Hattha Kaksekar Ltd (HKL)	Cambodia	2007	Microfinance	Equity and Loans	21 %	Cambodia	USD	100.7
Banco Terra	Mozambique	2006	Other financial services	Equity	6 %	Mozambique	MZN	100.7
CIFI	America	2004	Other financial services	Equity and Loans	32 %	Panama	USD	252.5
DFCU Limited	Uganda	2004	Other financial services	Loans		Uganda	UGX	54.7
LAAD	America	2004	Other financial services	Loans		Panama	USD	117.6

Impact Investments								
NMI Fund III	*Global*	*2013*	*Microfinance*	*Funds*	*26 %*	*Norway*	*NOK*	*132.9*
Proximity Designs	*Myanmar*	*2013*	*Microfinance*	*Loans*		*Myanmar*	*MMK*	*12.1*
NMI Frontier Fund	*Global*	*2008*	*Microfinance*	*Funds*	*45 %*	*Norway*	*NOK*	*108*
NMI Global Fund	*Global*	*2008*	*Microfinance*	*Funds*	*45 %*	*Norway*	*NOK*	*162*
NMI Portfolio Manager AS	*Global*	*2008*	*Microfinance*	*Equity*	*50 %*	*Norway*	*NOK*	*58.4*

Equity Bank has more than 10 million customers

BANKING THE UNBANKED

Equity Bank is Kenya's second-largest bank and has more than 10 million customers. The bank is the leading inclusive bank in Africa, and operates in Uganda, South Sudan, Rwanda, Tanzania and Democratic Republic of Congo (DRC). Its main customer segments are unbanked individuals, micro enterprises and SMEs – those typically described as as being at the "bottom of the pyramid".

Equity Bank aims to transform the lives and livelihoods of people in East Africa socially and economically by providing modern and inclusive financial services. The bank is one of the few banks globally that has succeeded in developing a scalable business model for efficient, high quality service delivery to the mass market in a developing country. Equity Bank has a strong focus on women and youth, and provides adapted products and training programmes for both groups, including financial literacy training and entrepreneurship programs. Women are on the bank's Board of Directors and in its top management team.

The organisation is a leader in financial innovation and was the first Kenyan bank to introduce EMV[1] compliant ATM cards. It has also played a leading role in championing agency banking in Kenya and continues to demystify banking by taking financial services to the door steps of citizens in Kenya, Uganda, Rwanda, Tanzania, South Sudan, and the Democratic Republic of Congo. In 2015, it launched a new mobile payment and banking platform for its customers , providing easier access to also small loans.

> "The unveiling of this new mobile platform is part of our 30-year journey of promoting financial inclusion. The company aims to increase the number of Kenyans with access to banking services to 90 percent and above", says Dr. James Mwangi, Equity Bank Group's CEO.

Delivering quality financial services to a large market is capital intensive, and scale is therefore important to banks wishing to improve their efficiency, ensure the quality of their products, and deliver affordable financial solutions. Equity Bank is one of the few players globally that has grown to a level where they can carry the costs of developing high quality innovative banking services to the mass market in a developing country. ■

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[1] *EMV stands for Europay, MasterCard and Visa and is a global standard for cards equipped with computer chips and the technology used to authenticate chip-card transactions.*

FOOD AND AGRIBUSINESS

DEVELOPMENT RATIONALE

The agricultural sector is vital to eradicating hunger and poverty: it is highly labour intensive and is one of the largest sources of employment in developing countries.

Agricultural and food industries also help to facilitate local economic growth and development by utilising local resources, creating business opportunities for small-scale enterprises, and generating tax and export revenues.

INVESTMENT NEEDS

Farming in developing countries is often characterised by low productivity, low income levels, and a lack of access to capital and markets.

The capital required to increase efficiency and productivity can be provided by long-term investors. However, investors face high investment risks, including currency fluctuations, a lack of infrastructure, and a lack of experienced managerial capacity.

External shocks such as droughts, floods and diseases are additional risks that can be worsened by climate change. Development finance institutions willing to take high risks are therefore essential in this sector.

NORFUND'S STRATEGY

Norfund plans to build a substantial portfolio in Africa's agricultural sector, including investments in aquaculture. The majority of our target companies are medium-sized enterprises operating in local and/or export markets.

We invest in crop processing to increase productivity and local value creation, and to help smallholder farmers gain better market access for their produce. We invest, too, in other parts of the value chain where investments are greatly needed, such as logistics and distribution.

We work with partners, agricultural funds, and NGOs that have interests aligned with those of Norfund.

INVESTMENTS AND RESULTS

Drought and plant diseases made 2015 a challenging year for agribusiness in many areas of Sub-Saharan Africa. In most of our investment countries, currency depreciations and frequent power outages also negatively affected local operations and companies' results.

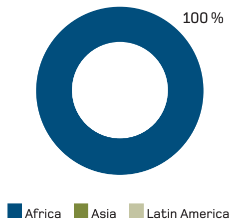
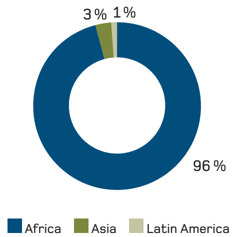
In such harsh business climates, investments from development finance institutions such as Norfund are extremely important. We made two new investments in 2015, and increased our stake in several existing food and agribusiness investments. Our agribusiness team continues to offer expertise in managing these complex investments, helping to ensure that environmental and social risks can be identified and mitigated.

HIGHLIGHTS 2015

Freight in Time
– strengthening the logistics sector in East Africa
Well-functioning logistics is essential to the success of vegetable and horticulture exports from Africa. Norfund has invested 84 mill NOK in the form of equity and a loan in the East African freight and logistics company, Freight in Time (FiT). FiT was initially the freight and logistics arm of Sunripe and Serengeti Fresh, a company partly owned by Norfund. In addition to contributing to a more efficient logistics sector, this investment will also support 300 jobs in FiT and a significant number of indirect jobs through outsourced road hauling services, taxes, and skills development. (see also page 57)

Investments in large-scale agriculture in Zambia
Agrivision Africa is a vertically integrated agribusiness company operating in Southern Africa's local and regional markets. Norfund made its first investment in the company in 2011 and concluded a new equity investment of 8 million in 2015 to optimise and expand Agrivision's operations. In addition to continuing its large scale production of wheat, soya and maize, Agrivision will invest in supply chain optimisation to increase storage facilities, acquire a trucking fleet, and improve efficiency at their mill.

Supporting tilapia farming
and fish feed production in Southern Africa
African Century Foods (ACF), one of Norfund's investee companies, and Nutreco's subsidiary, Skretting, have entered into a joint venture for the production, sale, and distribution of tilapia feed. The joint venture will facilitate the construction and operation of the first dedicated aquaculture feed plant in Zambia. Aquaculture is expanding rapidly in sub-Saharan Africa. This will reduce the regional dependency on imports and help to develop a sustainable domestic fish farming industry. The lack of reliable high quality fish feed has been a barrier to the development of the aquaculture sector in the region, and the fish feed plant will be of great importance to the industry and to ensuring future food security.

	INVESTMENTS IN 2015	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO At the end of 2015, this portfolio included 25 companies, of which two were new in 2015. The portfolio also includes 8 companies from the tourism sector from investments in previous years.	325 **MNOK COMMITTED**	1,646 **MNOK COMMITTED**
REGIONS Norfund decided some years ago that investments in food and agribusiness will be done in Africa only. Norfund's staff in Maputo and in Nairobi play key roles in identifying and monitoring these projects		

RESULTS

JOBS
The significant employment benefits of agribusiness and tourism are central to the rationale for our investments in these sectors. The majority of agribusinesses are in rural areas, where unemployment is particularly high. One of Norfund's investees, European Financing Partners, a co-financing mechanism with investments in a variety of sectors stands for a large share – 32,000 – of the jobs in the portfolio.

48,000
JOBS IN PORTFOLIO COMPANIES IN 2015

TAXES
A large share of the taxes paid by the sector came from the companies in the portfolio of European Financing Partners (NOK 1,300 million). We anticipate that the agribusinesses in our portfolio will generate more taxable income in the years ahead as production reaches stable levels, and processing and distribution facilities are built.

1,600
MNOK TAXES PAID IN 2015

ASSOCIATED SMALLHOLDER FARMERS
Enabling local small-scale farmers to deliver produce to larger businesses can be beneficial to both local communities and companies. Norfund works actively to support associated small-holder farmers, and four of our agribusiness investments have such engagements in the form of out grower contracts or other types of community cooperation.

12,000
SMALLHOLDER FARMERS LINKED WITH PORTFOLIO COMPANIES

FOOD PRODUCTION
Investments in agribusiness can help to improve food security by increasing the availability of produce in local markets. In 2015, the companies in Norfund's portfolio produced 58,000 tonnes grain, 38,000 tonnes fruits and vegetables, 10,000 tonnes beans and 19,000 tonnes fish and chicken feeds.

125,000
TONNES OF FOOD PRODUCED IN 2015

Investment*	Country	Investment year	Sector	Instrument	Norfund owner share	Domicile	Investee Currency	Original committed (MNOK)
African Century Real Estates Ltd.	Mozam-bique	2015	Construction	Equity and Loans	14 %	Mauritius	USD	131.8
Freight in Time	Africa	2015	Logistics	Equity and Loans	24 %	Mauritius	USD	88.1
African Century Infrastructure Services Ltd.	Tanzania	2014	Other services	Equity and Loans	20 %	Mauritius	USD	60.0
Vertical Agro (Sunripe & Serengeti Fresh)	Africa	2014	Crop and ani-mal production	Equity		Mauritius	USD	39.3
African Century Foods Ltd.	Africa	2013	Aquaculture	Equity	29 %	Mauritius	USD	101.2
ASILIA (African Spirit Group Limited)	Africa	2013	Tourism	Equity	19 %	Mauritius	USD	30.7
UAP Properties Limited	South Sudan	2013	Real estate	Loans		South Sudan	USD	34.5
Chayton Atlas Investments	Zambia	2012	Agriculture	Equity	24 %	Mauritius	USD	161.6
Yara fertiliser terminal Dar	Tanzania	2012	Chemicals	Loans		Tanzania	USD	36.6
TPS Dar es Salaam	Tanzania	2011	Tourism	Equity and Loans	29 %	Kenya	USD	55.6
Agrica	Tanzania	2010	Agriculture	Equity and Loans	28 %	Guernsey	USD	107.6
TPS Rwanda	Rwanda	2010	Tourism	Equity and Loans	11 %	Rwanda	RWF	36.3
Africado Ltd.	Tanzania	2009	Agriculture	Equity and Loans	40 %	Mauritius	EUR	20.7
Green Resources USD	Tanzania	2009	Forestry	Equity and Loans		Norway	USD	134.3
Casquip Starch	Swaziland	2008	Agriculture	Equity and Loans	29 %	Swaziland	SZL	42.6
Matanuska Africa	Mozam-bique	2008	Agriculture	Equity and Loans	33 %	Mauritius	USD	178.7
TPS Pakistan	Pakistan	2007	Tourism	Equity	5 %	Pakistan	USD	21.2
European Financing Partners SA[1]	Global	2006	Investment funds	Equity and Loans	7.6 %	None	EUR	174.0
Afrinord Hotel Investments	Africa	2005	Tourism	Equity and Loans	20 %	Denmark	EUR	51.4
Kabul Serena Hotel	Afghanistan	2005	Tourism	Equity	17 %	Afghanistan	USD	33.8

Impact investments								
Across Forest AS	*Nicaragua*	*2012*	*Forestry*	*Loans*	*0 %*	*Norway*	*NOK*	*1.8*
GLAD Ltd	*Uganda*	*2012*	*Agriculture*	*Loans*	*0 %*	*Uganda*	*USD*	*4.9*
Kinyeti Capital Ltd	*South Sudan*	*2012*	*Financial services*	*Equity*	*49 %*	*South Sudan*	*USD*	*22.1*
Basecamp Explorer Kenya Ltd	*Kenya*	*2010*	*Tourism*	*Equity and Loans*	*40 %*	*Kenya*	*NOK*	*12.9*

[1] Norfund has granted loans through the EFP co-financing scheme to 18 enterprises (domicile in parentheses): Olkaria III (Caymen Island), Cement du Sahel (Senegal), Precision Air (Tanzania), Equity Bank (Kenya), Maputo Hospital (Mozambique), Rabai Power (Kenya), Zambeef (Zambia), PTA Bank (Kenya), AFL (Nigeria), Jamaica Public Services (Jamaica), Co-operative Bank (Kenya), Indor. Eleme Fertilizer (Nigeria), ETG (Mauritius), AFC (Nigeria), Bharti Airtel (ACP regional), NMB Tanzania (Tanzania), Fidelity Bank (Ghana), Chase Bank (Kenya), Stanbic Bank (Nigeria) and Mobisol (Germany, operations in Tanzania). EFP is subject to the jurisdiction in Luxembourg.

**This portfolio also includes some legacy investments in other sectors, mainly tourism*

Global trade in fruit and vegetables provides opportunities for many African countries.

FRESH FRUIT AND VEGETABLES FROM EAST AFRICA TO EUROPE

THE ANNUAL GLOBAL trade in fruit and vegetables is worth approximately 1,000 billion NOK – and the demand is increasing. This provides opportunities for African countries that so far only have a small share of this global market.

Serengeti Fresh is a medium-sized company in Arusha, Tanzania. It exports fresh green beans, peas and other vegetables to the European market, and its clients include some of Europe's largest retailers including Tesco, Carrefour and Lidl. Organic vegetables account for an increasing share of the company's business. Norfund has invested 38,7 MNOK in Vertical Agro, the holding company that owns Serengeti Fresh.

'We were the first company that started exporting vegetables from this part of Tanzania', says the CEO of Serengeti Fresh, Zia Ali.

In addition to growing vegetables, the company buys vegetables from several hundred small farmers in the region and from a few larger farms. It thereby provides increased income for these local farmers.

Serengeti Fresh also generates local jobs in packaging and logistics. Every week, 120 employees in Serengeti Fresh, most of whom are women, pack 20 to 30 tonnes of vegetables. All produce is packed the same day it is harvested to ensure quality and freshness.

The success of this export industry depends, however, on efficient air transport for fresh produce, and efficient sea transport for temperature controlled produce. Lack of infrastructure is therefore one of the major obstacles to increasing vegetable and horticulture exports from Africa.

To contribute to filling this gap, Norfund made an investment in 2015 in the East African logistics company Freight in Time (FiT). The company provides a full range of logistics services, such as sea- and air- transport, import brokerage services, warehousing and distribution. The company already has a large regional reach. It has an office network in 8 countries in the East African region, including South Sudan, Ethiopia and Djibouti. The company is expanding its supply chain logistics, with an emphasis on temperature controlled warehousing and distribution for third parties.

"To undertake the envisaged expansion, FiT needed to partner with a long term investor that also could contribute with professional competency and non-financial support. Norfund is exactly the kind of investor we needed", says Mr Shamit Shah, Managing Director of FiT.

The agriculture and food industry is a priority area for Norfund's investments in Africa. To spread investment risk and contribute to developing the full agricultural value chain, Norfund has decided to include a wider scope of the agriculture value chain in the portfolio. The investment in Freight in Time was the first investment made in logistics.

SME FUNDS

– Growing and Strengthening Small- and Medium-Sized Enterprises

DEVELOPMENT RATIONALE

Small and medium-sized enterprises (SMEs) contribute substantially to industrial development and to economic diversification and growth in developing countries. They help satisfy local demand for services, offer local employment, and provide larger firms with inputs and services.

Growth in the SME sector is often hampered by a lack of access to capital and by poorly developed and excessively bureaucratic business environments, challenging regulatory environments, and difficulties in enforcing legal contracts.

INVESTMENT NEEDS

SMEs frequently suffer from insufficient access to financing, particularly compared to larger enterprises.

Local commercial banks often perceive SMEs as being too 'risky' to qualify for traditional loans. Yet, SMEs are also often too large to qualify for support from micro-finance programmes. Investing in SME funds through local fund managers contribute to building and developing local businesses: local managers can provide SME entrepreneurs with access to risk capital, as well as advice and support.

NORFUND'S STRATEGY

Norfund invests in private equity and venture capital funds that target SMEs in need of early phase or growth capital. Our investments in SME funds are important because they help us to reach more enterprises than we could on our own. We invest in funds in which our participation can have a significant additional effect.

The investments in the target market must offer something distinctly different to what is currently available or target unserved sections of the market. Norfund always seeks to be an active owner and places particular importance on how the portfolio of fund investments is managed.

INVESTMENTS AND RESULTS

Norfund seeks to build and grow sustainable and profitable companies through its SME Fund portfolio. Investments are made through a network of 21 SME Fund managers with local presence and with the expertise needed to ensure that Norfund reaches as many SMEs as possible. In 2015, investments were made in 79 new SMEs, and 63 SMEs were exited. When Norfund invests in new SME Funds, the funds typically have 4-5 years to identify and invest their capital in local businesses. Norfund closely monitors the SME Funds' investment and divestment activities.

HIGHLIGHTS 2015

Strengthening SME Funds in Africa
Norfund invested equity of 6 million USD in Business Partners International East Africa (BPI EA), and 15 million USD in the GroFin Small and Growing Businesses Fund in 2015. These investments will contribute to increasing access to risk capital for SMEs in Africa (see page 63).

Providing capital to SMEs in the poorest countries in South East Asia
In 2015, Norfund invested USD 10 million in the Cambodia-Laos Myanmar Development Fund II (CLMDF II). This fund will contribute to increasing access to capital for SMEs in these three least developed countries (LDCs), and particular attention is being given to early phase opportunities. The CLMDF II succeeds the Cambodia-Laos Development Fund to which Norfund committed USD 4 million in 2009. Investing in this successor fund is a priority for Norfund as we believe it will be more effective and is more resource-efficient.

Financing small businesses in South Sudan
Kinyeti Venture Capital Limited is a small investment company in South Sudan established jointly by Norfund and Swedfund in 2012. Since it began, Kinyeti has provided critical funding to 10 small businesses operating within the areas of infrastructure, health, industry and trading. Although the political and economic situation in South Sudan remains very challenging, Kinyeti's results so far are encouraging. In 2015, the company began the process of raising additional capital from a new investor to finance more small businesses and create more jobs in the country.

International Clinical Laboratories – a successful SME
Ascent Rift Valley Fund is a Norfund investee that chose to invest in International Clinical Laboratories (ICL), an Ethiopian SME. ICL is a leading medical laboratory which has more than 240 health care centers throughout Ethiopia. ICL was one of three deals that Ascent closed in East Africa in 2015 and has significant growth potential.

	INVESTMENTS IN 2015	TOTAL PORTFOLIO
INVESTMENTS AND PORTFOLIO There are 36 active SME funds in Norfund's portfolio. 60 % of our total SME Fund portfolio are investments in Africa, while 22 % are in Asia and 18% in Latin America.	253 **MNOK COMMITTED**	1,759 **MNOK COMMITTED**
INVESTEE COMPANY PORTFOLIO The strategic and financial effectiveness of our funds relies first and foremost on the characteristics and performance of their underlying investments, the SMEs. In 2015, the SME Funds in Norfund's portfolion made investments in 79 new SMEs and 63 SMEs were exited.	79 **NEW SME INVESTMENTS**	660 **SME INVESTMENTS IN TOTAL PORTFOLIO**

RESULTS

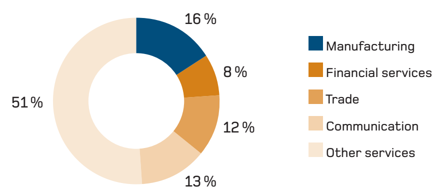
JOBS
SMEs have significant employment effects. We find that a large proportion of employees – 36 per cent - are women. As Norfund is funding primarily growth capital, our investments contribute to new jobs.

141,000
JOBS IN SMES IN 2015

TAXES
The investee companies pay local taxes and other local fees. Many of the funds are registered in third party countries. This is to ensure fair and equal legal treatment of all parties, and not for internal profit transfers or tax avoidance. Norfund follows guidelines given by the Norwegian Ministry of Foreign Affairs on the use of third party domiciles.

1,900
MILLION NOK TAXES PAID IN 2015

PORTFOLIO DIVERSITY
Investing in a broad network of local managers enables the fund to reach out to a much higher number of SMEs than through direct investments. The SME funds portfolio is broadly diversified across several sectors.



LDC AND AFRICA
The new investments in 2015 were primarily in East and Southern Africa (88%), reflecting our ongoing geographical focus on Africa. 53% of all new SME investees were in LDCs.

53 %
SHARE OF NEW SME INVESTEES IN LDCS IN 2015

SME FUNDS

Investment	Country/ region	Invest-ment year	Investment focus	Norfund owner share	Domicile	Investee currency	Original Committed (MNOK)
BPI East Africa LLC	Africa	2015	SME	17 %	Mauritius	USD	52.9
Cambodia Laos Myanmar Development Fund II	Asia & Pacific	2015	SME	23 %	Singapore	USD	88.0
GroFin SGB Fund Limited Partnership	Africa	2015	SME	19 %	Mauritius	USD	131.4
CASEIF III	America	2014	SME	35 %	Canada	USD	86.5
Ascent Rift Valley Fund Ltd	Africa	2013	SME	13 %	Mauritius	USD	86.3
Novastar Ventures East Africa Fund	Africa	2013	Venture capital	13 %	Mauritius	USD	83.5
CORECO	America	2012	SME	19 %	Delaware	USD	78.6
Africa Health Fund (Aureos)	Africa	2011	Health	9 %	South Africa	USD	69.3
Vantage Mezzanine Fund II	Africa	2011	Mezzanine finance	5 %	South Africa	ZAR	68.9
Agri-Vie	Africa	2010	Agriculture	9 %	South Africa	ZAR	54.9
Aureos South-East Asia Fund II	Asia & Pacific	2010	Investment funds	2 %	Canada	USD	35.8
Frontier Fund	Bangladesh	2010	SME	11 %	Cayman Islands	USD	62.6
Cambodia-Laos Development Fund	Cambodia	2009	SME	20 %	Luxem-bourg	USD	26.2
Evolution One Fund	Africa	2009	Clean Technol-ogy	7 %	South Africa	ZAR	34.6
Aureos Africa Fund	Africa	2008	SME	11 %	Mauritius	USD	248.8
GroFin Africa Fund	Africa	2008	SME	9 %	Mauritius	USD	95.8
SEAF Blue Waters Growth Fund	Vietnam	2008	SME	20 %	Cayman Islands	USD	33.2
Adenia Capital Ltd II	Africa	2007	SME	13 %	Mauritius	EUR	41.4
Aureos Latin America Fund (ALAF)	America	2007	SME	71 %	Canada	USD	139.1
CASEIF II	America	2007	SME	14 %	Panama	USD	24.9
Horizon Equity Partners Fund III	South Africa	2007	SME	9 %	South Africa	ZAR	18.9
Aureos CA Growth Fund (EMERGE)	America	2006	SME	14 %	Mauritius	USD	19.0
Aureos South Asia Fund (Holdings)	Asia & Pacific	2006	SME	24 %	Mauritius	USD	110.9
APIDC Biotech Fund	India	2005	Biotechnology	8 %	Mauritius	USD	16.7
China Environment Fund 2004	China	2005	SME	10 %	Cayman Islands	USD	18.4
Aureos South-East Asia Fund	Asia & Pacific	2004	SME	29 %	Mauritius	USD	120.1
Aureos East Africa Fund	Africa	2003	SME	20 %	Mauritius	USD	48.5
Aureos Southern Africa Fund	Africa	2003	SME	25 %	Mauritius	USD	68.4
Aureos West Africa Fund	Africa	2003	SME	26 %	Mauritius	USD	97.0
SEAF Sichuan Small Investment Fund	China	2000	SME	13 %	Delaware	USD	19.9
Lafise Investment Management	Bahamas	1999	Fund manager	20 %	Bahamas	USD	0.02
Impact investments							
Voxtra East Africa Agribusiness Ini	*Africa*	*2011*	*Agriculture*	*30 %*	*Norway*	*NOK*	*33.1*
Fanisi Venture Capital Fund	*Africa*	*2009*	*Investment funds*	*34 %*	*Luxem-bourg*	*USD*	*101.9*
Fanisi Venture Management Company	*Africa*	*2009*	*Investment funds*	*50 %*	*Luxem-bourg*	*USD*	*2.2*
Fundo de Investimento Privado-Angol	*Angola*	*2009*	*Investment funds*	*26 %*	*Luxem-bourg*	*USD*	*66.2*
Angola Capital Partners LLC	*Angola*	*2009*	*Investment funds*	*48 %*	*Delaware*	*USD*	*1.4*

SMEs contribute to industrial development and economic growth in developing countries.

MAKING CAPITAL ACCESSIBLE FOR SMALL- AND MEDIUM-SIZED COMPANIES

Entrepreneurs and business owners who want to start or to grow small- and medium-sized enterprises (SMEs) in emerging markets face many challenges. It is often crucial to find committed partners who can provide finance structured according to the needs of their business. To improve the chances of success, access to experienced business support services and networks are also required.

GroFin and Business Partners International are prominent providers of risk finance solutions in the emerging markets of Africa. Both companies support SME entrepreneurs by offering a combination of appropriate risk capital and tailored business support, as well as an in-depth knowledge of the challenges facing businesses. They thereby help to grow SMEs and to create and sustain jobs in several African countries.

"Our mission is to serve the underserved entrepreneurs in the small and growing business sector with risk capital and business support, helping them to realize their full business potential and deliver quantifiable social and economic development impact," says Jurie Willemse, CEO at GroFin.

The SME-fund GroFin has shown that the application of disciplined commercial principles provides sustainable solutions. Since it began in 2004, the company has helped to sustain over 18,000 jobs across 12 African and Middle Eastern countries in which it operates.

Business Partners launched a new East Africa investment platform in 2015 that is designed to improve access to risk capital for SMEs in Kenya, Rwanda and Uganda. Access to finance is listed as a major impediment to SME growth in these three countries. Business Partners aims not only to support SMEs in the principal economic zones of each country: up to 40% of its investments will support SMEs in rural areas, where access to finance is even more limited.

"SMEs will play a critical role in the economic growth that is expected on the African continent. The finance that we will offer will contribute towards supporting this growth and job creation in Africa," says Mark Paper, Chief Operating Officer at Business Partners .

Investing in SME funds reaches a larger number of enterprises than single investors could reach on their own. To date, Norfund has invested a total of 30 MUSD in GroFin, and 75 MUSD in Business Partners.

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