

# NORFUND Annual Report 1998

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## **NORFUND IN BRIEF**

- Norfund invests in profitable private enterprises in developing countries and promotes business development in these markets
- Norfund supports the realisation of viable commercial projects which balance social, environmental and economic considerations
- Norfund is a professional organisation which contributes to the success of its co-investors by providing risk capital and expertise

Norfund – the Norwegian Investment Fund for Developing Countries – was established in May 1997. All the Fund's capital is provided by the Norwegian State. Norfund is a separate legal entity with limited liability. The Board of Directors, which is appointed by the Norwegian Government, has full responsibility for the management of the Fund. The Fund is subject to the control of the Office of the Auditor General.

## **TWO INVESTMENT STRATEGIES**

**Norfund bases the majority of its activities on two investment strategies; direct investments and participation in local investment funds. The purpose of both strategies is to encourage profitable industrial and commercial development in developing countries. Direct investments are made in cooperation with Norwegian enterprises in all countries which qualify for Norfund participation. Norfund also invests in local investment funds in a number of selected countries. Both instruments are necessary for the development of a profitable private sector in developing countries.**

### **DIRECT INVESTMENTS**

Direct investments are made jointly with Norwegian companies, often in cooperation with a local partner.

#### **Active partner**

Norfund provides capital, relevant networks and expertise and can make an active contribution to the success of projects. Norfund may invest in the establishment of new businesses, expansion projects and re-financing projects. Norfund may invest in most industries and business areas.

#### **Maximum and minimum amounts**

Norfund usually supplies equity capital. The maximum amount Norfund may invest is equivalent to the amount the Norwegian sponsor invests in the project. Norfund's contribution is normally at least NOK 4 million.

#### **Profitability**

Norfund requires a well-documented business plan before considering an investment. Those responsible for the project must be able to demonstrate that it has good profit potential and that co-investors have relevant expertise. Norfund requires the projects in which it participates to conform to high environmental and human rights standards.

## LOCAL INVESTMENT FUNDS

Norfund invests in local investment funds in developing countries or selected regions. These investments are often made in cooperation with other institutional investors, such as the CDC, IFC, IDB or private financial institutions. So far, Norfund has invested in funds in Bosnia, Tanzania and Mozambique. We are currently considering investing in funds in South Africa, Zimbabwe, Angola and Central America. These funds invest in local enterprises and normally provide equity capital.

## PROFESSIONAL MANAGEMENT

Norfund has high standards regarding the professionalism of the fund management company, the potential flow of projects, the profit potential and the development effect before making a decision to invest in a fund.

## MINIMUM AMOUNTS

Norfund's investment in this type of fund will normally be between NOK 20 million and NOK 40 million. The amount each fund invests in local enterprises varies, but it is normally lower than Norfund's own limit of NOK 4 million.

## DIRECT CONTACT

Norwegian companies wishing to establish operations in local markets are free to apply directly to local funds. These funds have their own investment policies, which include requirements relating to project quality, profitability and expertise.

## PROJECT PHASES

### PROJECT IDENTIFICATION

- A Norwegian company applies to Norfund for funds, or Norfund contacts companies that may have interesting projects
- The applicant should submit a brief description of the project (2-5 pages) to Norfund
- Norfund is mainly interested in projects for which the Fund can contribute NOK 3-4 million or more in equity capital
- There is normally a local partner in the country concerned
- Norfund may participate in the establishment of new businesses, expansion projects and re-financing projects

### SCREENING

- Meeting with the Norwegian partner
- A rough evaluation of the project is carried out, with focus on:
  - Business concept
  - Profitability
  - Expertise
  - Long-term viability
- The project must contribute towards the creation of value in the country concerned
- Norfund only invests in countries with a per capita GNP of less than USD 3,000

### INVESTMENT STUDY

- Review of the detailed investment plan
- Meetings with the Norwegian operational project management
- Review and adjustment of the premises for the project

- If necessary, a new feasibility study is carried out
- Joint evaluation of the project
- Meeting with partners in the country concerned

#### NEGOTIATIONS AND CONTRACTS

- Reach agreement on roles
- Agree on distribution of shares
- Clarify the constitution of the Board of Directors
- Agree on an investment schedule
- Prepare and approve a letter of intent
- Due diligence
- Signing the contract

#### IMPLEMENTATION AND OPERATION

- Transfer of capital
- Norfund normally participates actively at Board level
- Norfund uses its network to channel the necessary resources and expertise to the project
- Evaluation of expansion possibilities
- Focus on creating growth and increasing the value of the investment

#### EXIT

- Norfund generally withdraws when the project is self-supporting and able to finance further growth, normally after a period of 3-7 years
- It may be appropriate to agree to sell an interest to a Norwegian partner or others
- Evaluation of the exercise of options, listing on the stock exchange, etc

#### **PROFITABLE AND VIABLE ENTERPRISES**

**When Norfund provides capital and expertise for the establishment of commercial enterprises in developing countries, the focus is on profitability. Profitable enterprises create jobs, generate tax revenues, and provide a basis for growth and new investment. The growth of viable enterprises in poor countries will lead to long-term progress and prosperity. Norfund's task is to be a professional promoter of this type of business development. We wish to be on an equal footing with our partners and share in their risks and their profits. At the same time, we wish to play a professional role and actively contribute to the success of the projects in which we are involved.**

It is the lack of private risk capital in developing countries that justifies Norfund's existence. That is why we primarily concentrate on equity capital with respect to both direct investments and investments in local investment funds. We also use other financial instruments to the degree this is desirable and necessary in order to facilitate a transaction.

The Fund is based on commercial principles, and this must be reflected in our own organisation. Professional expertise in the field of project development and experience from markets in developing countries are prerequisites for success. We must be able to

assist in all phases of the development and establishment of a project, and also in the exercise of our function as a shareholder.

International, national and institutional parameters affect Norfund's operations, but our sphere of activity does not include general development assistance.

Our approach to projects must be efficient and customer-oriented. The critical factors for success must be identified at an early stage, and the necessary contacts in our national and international network must be established quickly. We focus on ensuring that our customers and partners regard us as a business partner who contributes towards the development of profitable projects.

*Per Emil Lindøe.* Managing Director. Degree in business administration from the Norwegian School of Management (BI), Oslo. Extensive experience of international business development, including at Det Norske Veritas. Has lived and worked for ten years in England, Kenya, Zimbabwe and southern Sudan.

*Thorbjørn Johan Gaarder.* Responsible for investment funds. MBA from the International Institute for Management Development (IMD) in Switzerland. Solicitor, qualified in England and Norway. Has headed financial businesses in several countries; England, Denmark and Brazil. Experience as Corporate Legal Counsel at Hydro Aluminium and from private practice.

*Mehraz Rafat.* Responsible for direct investments. Degree in business administration from the Norwegian School of Economics and Business Administration (NHH) in Bergen. International experience from the consultancy firm McKinsey & Co. Has worked for seven years on strategic and organisational development in Europe, Latin America, South Africa and the US

## EXAMPLES OF NORFUND INVESTMENTS

### PALM OIL PRODUCTION IN ECUADOR

**The Kristiansand-based company Norpalm is an example of how even fairly small Norwegian companies can invest successfully in developing countries. Through its subsidiary, Palnorec (Palmera Noruega Ecuatoriana), Norpalm has succeeded in introducing new Norwegian separator technology which reduces pollution from palm oil production and at the same time increases the amount of oil extracted from raw materials and thereby productivity.**

#### Introducing modern, environmentally sound technology into a traditional industry

Norpalm has established the company Palnorec in Santa Domingo, Ecuador. This fertile region has traditionally had a thriving palm oil industry, so in principle it is a major challenge for a Norwegian company to compete in this market. However, Norpalm has joined forces with local partners who have a great deal of expertise and a network in this sector. This expertise, combined with the new technology that has been introduced, provides good opportunities for profitable production, since the company can produce more oil per unit of fruit than its competitors. At the same time,

emissions and environmental costs are reduced. As well as developing the company, Norpalm seeks to improve housing and sanitary conditions for its employees and their families. "Although profitability is important, we also want to contribute to the welfare of our employees at the social level," says Andreas Kolaas, Managing Director of Norpalm. Ecuador is Norpalm's pilot country, and the company envisages further investments in palm oil in other countries where it is possible to utilise the new technology. The next step will probably be in Africa.

Palnorec was Norfund's first direct investment and is an example of a fairly small Norwegian company that dares to take an untraditional approach.

## PROFITABLE CHICKEN AND EGG PRODUCTION IN TANZANIA

**Norfund has invested USD 1.5 million in Fedha, a venture capital fund in Tanzania which invests in small and medium-sized local enterprises. The fund is managed by the Commonwealth Development Corporation (CDC). In 1998, Fedha invested in the leading Tanzanian chicken and egg producer, Tanzania Breeders and Feedmills Ltd. (Tanbreed). Tanbreed's chickens are fed on a protein-rich mixture which can be manufactured quickly and easily. The main ingredients are normally locally produced maize or soya beans. This in turn stimulates local industry and generates further growth and employment.**

### Improvements dependent on risk capital

Tanbreed was established in 1992 by a German entrepreneur who sold his company to local investors in 1998. At this time there was a pressing need to improve the production plant. Due to a lack of capital, the new management contacted Fedha shortly after it took over. This resulted in a comprehensive improvement programme that included rehabilitating the hatcheries and chicken farms. The programme has contributed to substantial improvements in terms of the number of hatchable eggs and the mortality rate of the chickens. The rehabilitation process is expected to lead to significant improvements in productivity and profitability for the company.

### Focus on hygiene and the environment

Chicken production must be based on strict environmental and hygienic standards. Tanbreed has therefore introduced a special programme for hygiene quality assurance in all links of the production chain. For example, people who enter the hatchery are now required to shower and change into overalls and boots. The ventilation system in the hatchery has been improved, and the various departments have been better isolated so that any bacteria from waste do not infect the chickens.

With its 30 million inhabitants, Tanzania is one of the poorest countries in the world. There is a pressing need for efficient and safe production of nutritious food.

## **REPORT OF THE BOARD OF DIRECTORS 1998**

### **NORFUND'S FIRST FULL YEAR OF OPERATIONS**

- A new organisation with expertise in the field of international business development is evolving.
- The process of establishing broad cooperation with Norwegian, Nordic and international partners is well under way.
- There is a growing demand for Norfund's products.
- The first investment projects have been implemented.

1998 was Norfund's first full year of operations. On the basis of the Act relating to Norfund, the Board of Directors and the management have defined the Fund's objectives and developed its key strategies. The process of establishing procedures and investment criteria has taken place in parallel with the introduction of Norfund's products and services for business and industry, cooperating organisations and public authorities. Representatives of the Fund have taken part in presentations and contact meetings with Norwegian companies and local enterprises in Angola, Mozambique, South Africa, Tanzania, Zimbabwe and Uganda. Abroad, this has taken place in cooperation with Norwegian embassies.

We have established a good cooperative relationship with the Department for Industrial Cooperation at the Norwegian Agency for Development Cooperation (NORAD) and with Norfund's sister organisations in the Nordic countries, the UK and the rest of Europe. Good contacts have also been established with the International Finance Corporation (IFC) and the Inter-American Investment Corporation (IIC). In May, NORFUND arranged a seminar in Oslo on the theme of cooperation on investments in local equity funds. The seminar was opened by State Secretary Leiv Lunde and was attended by delegates from all our Nordic sister organisations, the CDC and the IFC.

At the end of the year, Norfund had five employees. There has been emphasis on finding staff with broad experience of international business development. Expert advice and services have also been purchased from external sources. The organisation will be further strengthened in 1999.

The demand for Norfund's services is growing rapidly. At the end of 1998, the Board had approved in principle projects totalling NOK 127 million, of which 55% involve direct investments in cooperation with Norwegian companies and 45% involve investments in local investment funds. We are pleased to point out that almost half the total amount is being invested in southern Africa.

### **DIRECT INVESTMENTS IN JOINT VENTURES WITH NORWEGIAN COMPANIES**

Eight direct investment projects were processed in 1998.

In 1998, Norfund approved in principle eight projects in which Norwegian companies are participating. The first disbursement was made in December.

One of Norfund's major challenges is to increase the flow of proposals for profitable projects which can be implemented in cooperation with Norwegian companies. In the course of the year, Norfund has actively marketed the Fund's products and services, targeting Norwegian enterprises. This effort will be further intensified in 1999. In this connection, we have established constructive cooperation with the Confederation of Norwegian Business and Industry (NHO) and other business organisations.

There will also be continued emphasis on building up our own organisation in order to enable Norfund to provide high quality services. Norfund must be an attractive partner for Norwegian companies that require our products and services.

## INVESTMENTS IN LOCAL INVESTMENT FUNDS

Investments in three local investment funds were approved in 1998.

In the course of 1998, Norfund completed negotiations on investments in three local investment funds, in Bosnia, Mozambique and Tanzania respectively. The final negotiations on our participation in a fourth fund will be completed at the beginning of 1999. Preparatory work has been done in connection with investments in four other funds in Africa and Latin America.

Our British sister organisation, the Commonwealth Development Corporation (CDC), is the main sponsor and majority shareholder in the companies that manage the MINCO fund in Mozambique and the FEDHA fund in Tanzania.

In Bosnia, cooperation has been established with the IFC, the EBRD and some of our European sister organisations.

Norfund is a member of the Boards of Directors of these funds and is thereby able to influence their individual investment strategies. The funds are important contributors to the efforts of many developing countries to build up a broadly based, efficient financial sector. Norfund's objective is to participate actively in the management of such funds in order to ensure even closer follow-up of investments. This will also increase Norfund's knowledge of local markets, which will be important in connection with our efforts to attract Norwegian investments to developing countries.

## ENVIRONMENTAL AND SOCIAL ASPECTS

A balance between economic development, social responsibility and protection of the environment is a prerequisite for sustainable development. The evaluation of questions associated with these issues is an integral part of Norfund's activities.

A separate document has been published which outlines Norfund's policies regarding the environmental dimension, social conditions and human rights.

## ACCOUNTS

At the end of 1998, Norfund's assets totalled NOK 231 million. At the beginning of 1999, the Fund's capital base was increased by a further NOK 150 million to NOK 381 million. As may be seen in the policy document "Strategy for private sector development in the South", the Government clearly wishes to continue to build up Norfund's capital base in the years ahead.



The surplus for the year, NOK 4,422,118, has been transferred to Norfund's surplus reserve.

Information concerning remuneration for the Board of Directors, the auditors and the Managing Director is provided in Note 7 to the accounts.

#### THE BOARD OF DIRECTORS

Six board meetings were held in 1998. Aud Kolberg left the Board in June 1998 and was replaced by Erik Århus.

Oslo, 23 February 1999

Arve Johnsen *Chairman*

Gunn Wenche Andersgaard

Borger A. Lenth

Sigrun Møgedal

Erik Århus

Per Emil Lindøe *Managing Director*

## PROFIT AND LOSS ACCOUNT

(NOK 1000)	Note	1998	1997
<b>OPERATING INCOME AND COSTS</b>			
Other operating income		-36 767	0
Total operating income		-36 767	0
Salaries and social costs		1 986 092	218 926
Other operating costs		2 075 277	175 120
Ordinary depreciation	4	111 043	4 216
Total operating costs		4 172 412	398 261
<b>Operating profit/loss</b>		<b>4 135 645</b>	<b>398 261</b>
<b>FINANCIAL INCOME AND COSTS</b>			
Financial income		-8 562 691	-1 836 953
Financial costs		4 928	327
<b>Net financial items</b>		<b>-8 557 763</b>	<b>-1 836 626</b>
Extraordinary income and costs		0	0
<b>PROFIT/LOSS FOR THE YEAR</b>		<b>-4 422 118</b>	<b>-1 438 365</b>
<b>APPLICATION OF SURPLUS</b>			
Transferred to surplus reserve		4 422 118	1 438 365
Total application of surplus		4 422 118	1 438 365

## BALANCE SHEET

(NOK 1000)	Note	31 Dec. 98	31 Dec. 97
<b>ASSETS</b>			
<i>Current assets</i>			
Cash/bank deposits	2	219 658 193	51 657 470
Equity investments, funds	3	9 938 961	0
Equity investments, companies	3	3 097 110	0
Receivables		61 096	0
<b>Total current assets</b>		<b>232 755 360</b>	<b>51 657 470</b>
<i>Long-term assets</i>			
Fixed assets	4	290 331	340 000
<b>Total long-term assets</b>		<b>290 331</b>	<b>340 000</b>
<b>TOTAL ASSETS</b>		<b>233 045 691</b>	<b>51 997 470</b>
<b>DEBT AND FUND CAPITAL</b>			
<i>Short-term debt</i>			
Unpaid taxes, holiday pay, etc.		491 815	177 676
Other short-term debt		216 093	381 430
<b>Total short-term debt</b>		<b>707 908</b>	<b>559 106</b>
<i>Long-term debt</i>			
Other long-term debt		1 477 300	0
<b>Total long-term debt</b>		<b>1 477 300</b>	<b>0</b>
<i>Fund capital</i>			
Primary capital	5	168 750 000	37 500 000
Statutory reserve	5	56 250 000	12 500 000
Surplus reserve	5	5 860 483	1 438 365
<b>Total fund capital</b>		<b>230 860 483</b>	<b>51 438 365</b>
<b>TOTAL DEBT AND FUND CAPITAL</b>		<b>233 045 691</b>	<b>51 997 470</b>

## CASH FLOW STATEMENT

(NOK 1.000)	1998	1997
<b>CASH FLOW FROM/TO OPERATIONS</b>		
Profit/loss for the year	4 422	1 438
Ordinary depreciation	111	4
Tax payable	0	0
Cash flow from operations 1998	4 533	1 442
Increase short-term payables	149	559
Increase short-term receivables	-61	
<b>Net change in cash flow from operations (A)</b>	<b>4 621</b>	<b>2 001</b>
<b>CASH FLOW FROM/TO INVESTMENTS</b>		
Investments in fixed assets	-61	-344
Investments in projects	-13 036	0
<b>Net change in cash flow from investments (B)</b>	<b>-13 097</b>	<b>-344</b>
<b>CASH FLOW FROM/TO FINANCING</b>		
Paid up fund capital	175 000	50 000
Increase long-term debt	1 477	0
<b>Net change in cash flow from financing (C)</b>	<b>176 477</b>	<b>50 000</b>
<b>NET CHANGE IN CASH FLOW FOR THE YEAR (A+B+C)</b>		
	168 001	51 657
Cash and bank deposits 1.1	51 657	0
Cash and bank deposits 31.12	219 658	51 657

## NOTES

### NOTE 1 – ACCOUNTING PRINCIPLES

The accounts have been prepared according to principles that are generally accepted in Norway. The most important accounting principles applied by the Fund are described below.

#### *Income recognition*

Operating income includes dividends, gains on the sale of shares/interests in other companies, and interest income from loans to other companies. Other operating income includes gains on the sale of fixed assets.

Gains on the sale of shares/interests in other companies are taken to income in the year in which the sale takes place. Interest is taken to income on an accruals basis.

If a project is classified as non-performing, any interest relating to the potentially loss-making project is no longer taken to income, and any accrued but unpaid interest is written back.

#### *Shares/interests in companies*

The Fund does not record shares/interests in investee companies according to the equity method of accounting because the purpose of the Fund's investments is to sell all or parts of each investment after structuring and development have been completed.

This is in accordance with Norfund's mandate and is regarded as being in accordance with good accounting practice. Good accounting practice is based on the premise that such investments are temporary by nature and should therefore be recorded as current assets.

Shareholdings in other companies are regarded as current assets. These items are valued at the lower of cost and market value on the basis of an individual evaluation of each investment, and such that provisions are made against individual investments if this is deemed necessary due to a permanent diminution of value. See also the note on foreign currency translation below.

#### *Loans, loan losses*

Loans are also recorded as current assets and valued at the lower of nominal value and the amount deemed recoverable. See also the description of the criteria applied in order to arrive at the amount of the loan deemed recoverable.

#### *Loans in default*

A project is deemed to be in default at the latest 90 days after the borrower has failed to pay an instalment or interest due. Projects subject to bankruptcy or similar proceedings are also defined as being in default. All loans in default are assessed in order to determine the amount of the provision to be made.

#### *Specific loss provisions*

Since the Fund's lending is limited, the only loss provisions made are those related to individual projects. Consequently, no general loss provisions are made.

Specific loss provisions are made in cases where the debtor is considered unlikely to meet his obligations, and the collateral is insufficient to cover the loan if realised. When assessing the probability of loss, there is also emphasis on the borrower's general financial situation.

All projects are reviewed in order to assess the need for loss provisions. The Fund has not classified its loans according to risk.

#### *Realised losses*

Losses on a project are realised and recorded in the accounts in cases where the project has entered into bankruptcy or similar proceedings, or in cases where the Fund has abandoned the project.

#### *Receivables*

Receivables are recorded at their estimated value and irrecoverable items are deducted.

#### *Foreign currency translation*

When evaluating investments in foreign companies, it is assumed that any decline in the value of the currency will be offset by an increase in the underlying value of the investment. If this is not the case, the adjusted value of the investment is specified in a note.

#### *Fund capital*

The Fund's capital is divided into primary capital, statutory reserve and surplus reserve. This division has been made pursuant to the Fund's mandate, whereby the Fund must report to the Ministry if the Fund's loss is such that its primary capital is reduced. The surplus for the year is added to the surplus reserve, while corresponding deficits are deducted from the surplus reserve, or from the statutory reserve if the former is insufficient to cover the deficit for the year.

#### *Fixed assets*

Fixed assets are recorded at cost less depreciation based on the estimated remaining economic lifetime of the asset concerned.

#### *Financial income and costs*

Income from interest on the Fund's primary capital deposited in the Central Bank of Norway is recorded as financial income. Similarly, interest costs related to the Fund's borrowing are recorded as financial costs.

#### NOTE 2 – CASH AND BANK DEPOSITS

Of the company's total bank deposits, NOK 79 767 is deposited in a blocked tax account.

NOTE 3 –EQUITY INVESTMENTS IN INVESTMENT FUNDS AND COMPANIES

<b>Equity investments in investment funds</b>		Book value (in the currency concerned)	Investment commitment (in the currency concerned)	Book value ( NOK )
	Currency			
Horizonte Bosnia-Herzegovina Enterprise Fund, Bosnia	NLG	204 950	1 024 800	774 711
Mozambique Investment Company Ltd. (MINCO), Mozambique	USD	600 000	3 000 000	4 627 200
Fedha Fund Ltd., Tanzania	USD	600 000	1 500 000	4 537 050
<b>Total investments in funds</b>				<b>9 938 961</b>
 <b>Equity investments in companies</b>				
Palmera Noruega Ecuatoriana S.A, Ecuador	USD	400 000	400 000	3 097 110
 <b>Total investments</b>				 <b>13 036 071</b>

No provisions have been made against any investments.

NOTE 4 – FIXED ASSETS

	Machinery, equipment and vehicles
Cost price and ordinary depreciation	
Cost price 01.01	344 216
+ additions during the year	61 374
- disposals during the year	0
Cost price 31.12	405 590
Accumulated ordinary depreciation 01.01	4 216
+ ordinary depreciation for the year	111 043
- accumulated ordinary depreciation for assets sold	0
Accumulated ordinary depreciation 31.12	115 259
<b>Book value 31.12</b>	<b>290 331</b>
Ordinary depreciation	30 %

Investments and sales (sale price) of fixed assets

(NOK 1000)	1997		1998	
	Investments	Sales	Investments	Sales
Machines, equipment and vehicles	344	0	61	0
<b>Total</b>	<b>344</b>	<b>0</b>	<b>61</b>	<b>0</b>

NOTE 5 – MOVEMENTS OF CAPITAL

	Primary- capital	Statutory reserve	Surplus reserve	Total capital
Primary capital 1 jan 1998	37 500 000	12 500 000	1 438 365	51 438 365
Additions to capital	131 250 000	43 750 000		175 000 000
Surplus for the year	168 750 000	56 250 000	4 422 118	4 422 118
			5 843 081	230 860 483

NOTE 6 – RENTAL CONTRACTS

	Rental period	Annual rent
Premises in Dronning Maudsgt.15	1997-2001	NOK 225 000

NOTE 7 – REMUNERATION FOR NORFUND'S DIRECTORS AND AUDITORS

Remuneration for the Board of Directors totalled NOK 326,263 in 1998, of which NOK 131,250 was related to 1997. The auditors' fee was NOK 43,000, of which NOK 26,600 was related to consultancy services.

The Managing Director received NOK 643,443 in salary and remuneration in 1998.

NOTE 8 – ADDITION OF CAPITAL

The Fund received NOK 225 million in additional capital from the Norwegian State, of which NOK 50 million was disbursed in 1997 and NOK 175 million was disbursed in March 1998.



## **AUDITORS' REPORT FOR 1998**

We have audited the annual report and accounts of Norfund for the 1998 accounting year, which show a surplus for the year of NOK 4,422,118. The annual report and accounts, which consist of the annual report, profit and loss account, balance sheet, cash flow statement and notes, are the responsibility of the Board of Directors of the Fund and its Managing Director.

Our responsibility is to examine the Fund's annual report and accounts and the conduct of its affairs.

We have conducted our audit in accordance with applicable laws, regulations and generally accepted auditing standards. We have performed the auditing procedures we considered necessary to determine that the annual accounts are free of material errors or omissions. We have examined selected parts of the accounting material supporting the financial statements and assessed the accounting principles applied, the accounting estimates made by the management, and the content and presentation of the annual accounts. To the extent required by generally accepted auditing standards, we have reviewed the Fund's asset management and internal controls.

In our view, the annual accounts have been prepared in conformity with the provisions of the Accounting Act and present fairly the Fund's financial position as of 31 December 1998 and the results of its operations in the financial year in accordance with generally accepted accounting principles.

Oslo, 23 February 1999  
KPMG as

Tom Myhre  
State-authorized Public Accountant (Norway)

## **PRINCIPLES FOR ENVIRONMENTAL AND SOCIAL RESPONSIBILITY**

Sustainable development is dependent on a balance between economic considerations, social responsibility and environmental protection. Environmental concerns and social conditions are integral elements of Norfund's efforts to invest in profitable business enterprises in developing countries. Norfund seeks to exert a positive influence on investment projects.

Our investment projects must comply with recognised international environmental and social standards, and with national legislation and regulations.

We will strive to ensure that the health, safety and human rights of employees are valued and protected.

We aim to highlight and enhance the positive social and environmental consequences of our investment projects.

We seek to identify any negative social and environmental consequences of our investment projects and contribute towards mitigating any adverse effects.

We require our partners to implement appropriate procedures to deal competently with the social and environmental aspects of their projects. These issues must be considered prior to an investment decision.

Norfund will develop and improve its expertise relating to the evaluation and monitoring of the social and environmental aspects of investment projects. Norfund's operational guidelines must ensure that the social and environmental dimensions are considered at all stages of a project. Norfund will report openly on the results of its efforts in this area.

## **INTERNATIONAL NETWORK**

One of Norfund's most important contributions to the success of projects will be its links with an international network of institutions with relevant know-how and expertise relating to commercial development in developing countries.

Particularly in connection with our participation in local investment funds, Norfund works closely with institutions such as:

The International Finance Corporation (IFC),  
The Commonwealth Development Corporation (CDC),  
The Inter-American Development Bank (IDB).

The European Investment Bank (EIB) is also active in the areas in which we operate. The same applies to our Scandinavian sister organisations.

Norfund is in regular contact with public authorities and export credit agencies in partner countries. Moreover, we strongly emphasise the importance of ensuring good relations with private commercial institutions in these countries. This particularly applies to the various financial institutions which, with their knowledge of local conditions, are important contributors to the financing of projects or the structuring of transactions.

Norfund also has close contacts with Norwegian and international consultants, institutions and companies which provide necessary support functions for projects, such as:

- Legal services,
- Know-how related to specific commercial sectors, and
- Expertise in evaluating environmental and social issues.

The quality of information and advice is extremely important in assessing the risk involved in a project - and thus its successful implementation.

### **Contact Norfund:**

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