NORFUND

ANNUAL REPORT 2003

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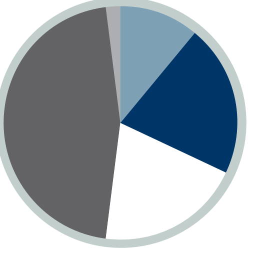
Objectives

Viable businesses create employment and generate capital. This is how Norfund seeds economic growth that combats poverty.

Norfund – the Norwegian Investment Fund for Developing Countries – was established by the Norwegian Parliament (the Storting) in 1997. The Fund was set up under special legislation with its own board which is responsible for administering the Fund. Norfund is also an integral part of Norwegian development cooperation and receives capital via the foreign aid budget. As at 31 December 2003, Norfund's total assets amounted to approx. NOK 1.9 billion, including the estimated value of a loan portfolio which was transferred from NORAD (the Norwegian Agency for Development Cooperation) in 2001. An additional NOK 485 million in fresh capital will be injected to Norfund in 2004.

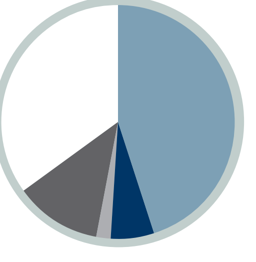
It is Norfund's objective to reduce poverty by investing risk capital in profitable businesses in developing countries.

Investments by region
Including all investments approved by Norfund's board



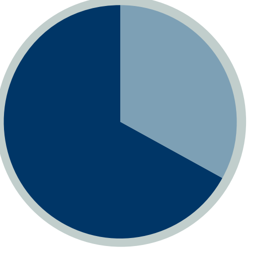
- Europe 11%
- Latin America 21%
- Asia and the Pacific 20%
- Africa 46%
- Global, minus SN Power 2%

Investments by category
Including all investments approved by Norfund's board



- Funds 45%
- Financial Institutions 6%
- Microfinance 2%
- Direct investments 12%
- Strategic investments 35%

Investments by LDCs (least developed countries)
Including all investments approved by Norfund's board



- LDCs 33%
- Non-LDCs 67% (excluding SN Power)

Highlights in 2003

- Three regional funds for Africa set up under the Fund's jointly-owned company Aureos Capital Ltd.
- 11 new projects approved in principle
- Two investment exits carried out successfully
- Agreement with the local bank Banco Africano de Investimentos (BAI) relating to cooperation in Angola
- Financial Institutions was established as a separate business area
- Increased focus on environmental and social responsibilities
- Favourable external evaluation of Norfund as a development instrument

Key figures

(NOK Million)	2003	2002	2001	2000	1999
Profit	47.7	36	27	3	10
Capital supplied by owners	485	395	225	150	150
Capital base (31.12.)[1]	1 905	1 400	1 010	543	391
No. of employees (31.12.)	23	21	17	10	8

[1] *Norfund's book equity as at 31.12.03 amounted to NOK 1,755 million, plus the estimated value of the loan portfolio transferred from NORAD on 1.1.01.*

Experience and strategies

It has always been a good idea to draw on the experience of others, and this is something that Norfund has done in full measure. However, history has shown that it is also important to learn from one's own mistakes and achievements! Norfund has been operating for 6 years and is thus a relatively new organisation. During this period we have made decisions which we are very pleased with, but we have also made some which we could have done without! That's life in the investment business.

We have acquired knowledge from the international arena which has been vital to the development of Norfund's strategy. Those countries that have lain the groundwork for reducing poverty by promoting economic growth have all committed themselves to the following three main areas:

- **The adaptation and renewal of financial framework conditions**
- **Increasing expertise**
- **Private sector development**

Having a viable private sector is conditional on establishing businesses that exploit the competitive advantages of a country and link these with investors who employ knowledge and capital to create assets. Capital has a price. Free capital or subsidised capital creates an uneven competitive situation, which results in the unfortunate use of resources and erroneous decisions. Risks are something that investors are used to dealing with, and they need to be upheld against the likelihood of achieving a return. Those countries that have paved the way for attracting investments on a commercial basis have achieved the greatest economic successes, and these countries are also best placed to take advantage of increased development cooperation. At the same time, this needs to go hand in hand with macroeconomic policy and a system of management which helps to produce rational financial decisions.

Norfund's strategy is based on this wisdom. By employing knowledge and capital in tandem with private businesses it is our aim to help spread the risk and engage in active ownership in order to develop profitable companies. Our annual report provides many examples of how we do this. Norfund is interested in finding the right balance between risk and anticipated returns, which will result in as many viable businesses as possible in developing countries. We shall walk along the risk frontier and thus achieve additionality. This is something which is clearly reflected in the focus that Norfund has placed on the world's least developed countries (LDCs). Through Aureos Capital, our joint venture with CDC relating to the administration of local equity funds, we have acquired a local presence which ensures the transfer of expertise and close follow-up of all our investments. Norfund is also engaged in the development, purchase and running of hydroelectric power projects through SN Power Invest – a company which we and Statkraft own on a 50/50 basis.

We place our networks, expertise and risk capital at the disposal of Norwegian trade and industry and other partners with ambitions in those markets in which Norfund undertakes investments!

Per Emil Lindøe
Managing Director, Norfund

By employing knowledge and capital in tandem with private businesses it is our aim to help spread the risk and engage in active ownership in order to develop profitable companies.

DIRECTORS' REPORT

Highlights in 2003

- **Three regional funds for Africa set up under the Fund's jointly-owned company Aureos Capital Ltd.**
- **11 new projects approved in principle**
- **Two investment exits carried out successfully**
- **Agreement with the local bank Banco Africano de Investimentos (BAI) relating to cooperation in Angola**
- **Financial Institutions was established as a separate business area**
- **Increased focus on environmental and social responsibilities**
- **Favourable external evaluation of Norfund as a development instrument**

Norfund's activities

It is Norfund's objective to reduce poverty by investing risk capital in viable business ventures in developing countries. This will help to generate both income and employment and will create the necessary economic base for these countries to make their own investments in health and education. These investments are made either directly in local companies in conjunction with an industrial partner, or indirectly through investment funds which are set up and run locally in the individual countries or regions concerned. In addition to these two main strategies (direct and fund-based investments), Norfund's own business areas also include the finance sector, fund management and energy. As at 31 December 2003, Norfund had committed NOK 1.2 billion to investments in companies and investment funds. Through its jointly-owned company Aureos Capital Ltd. (in which Norfund has a 50% stake), Norfund manages 16 different investment funds with assets totalling NOK 2 billion, of which NOK 1.7 billion is provided by other investors. In this way Norfund serves as a catalyst for attracting capital from other investors for the development of businesses in developing countries. In addition to its investment portfolio, Norfund has a portfolio of loans granted to companies in developing countries, which was transferred from NORAD in 2001. As at 31 December 2003, this portfolio contained outstanding loans valued at NOK 250.2 million. As at 31 December 2003, 33% of Norfund's projects involved the world's least developed countries (LDCs) and concerted efforts are being made to identify as many investment projects as possible in LDCs.

Norfund's activities need to be seen in a long-term perspective and they are, by virtue of their very nature, sensitive to fluctuations in international trade cycles. This is especially evident in the substantial investments we make in local investment funds with a timescale of 8-10 years. Norfund's investments are not therefore expected to yield returns in the near future. Norfund's mandate as an equity investor in developing countries means that the Fund is heavily exposed to risk.

Direct investments

At the end of the year, Norfund's direct investment portfolio comprised 12 different investments and one further investment which has been approved in principle although no agreement has yet been signed. In 2003, a new direct investment was made in Fjord Marin Tyrkia, a fish farming company which produces white fish for sale on the European market. Norfund has invested NOK 25 million in this project. Norfund also granted a NOK 3 million loan in order to purchase ownership stakes in Butwal Power Company (BPC), which runs several hydro-electric power stations in Nepal. In connection with the reorganisation of the fish farming company Pan Marine Qingdao in China, Norfund acquired ownership stakes in two smaller companies engaged in the fish processing industry. In 2003, Norfund also made two small investments in companies in its Indian and Tanzanian loan portfolios, originally transferred from NORAD.

Norfund provides risk capital, commercial and financial expertise and a sound network of representatives, and it is able to provide unique opportunities for Norwegian companies that are interested in setting up commercial operations in developing countries. Norfund has a free hand in selecting investment partners, but wishes to prioritise investment partnerships with Norwegian companies.

Investments in local investment funds

The establishment of local investment funds increases the amount of risk capital available for local companies and builds up local financial and business expertise. A local presence with capital and management expertise is therefore essential for creating viable companies in these markets. At the end of the year, Norfund had invested in a total of 16 investment funds and has a further two investments which have been approved in principle. Norfund also has two investments in fund management companies. In total, Norfund has invested indirectly in 127 enterprises through local funds.

Microfinance and small enterprises

Many companies in developing countries are very small and experience problems in acquiring capital. Such companies require other alternatives and different follow-ups to larger businesses. Microfinance is an efficient tool that can be used to provide even the smallest businesses with risk capital. In 2003, Norfund's commitment to small companies involved making an investment in Micro Kenya, a company which provides commercial loans to private individuals and small

Arve Johnsen

Borger A. Lenth

companies in Kenya and Uganda. Prior to this, Norfund had invested in LA-CIF, and in 2003 a further investment was approved in principle.

Financial Institutions

During the autumn of 2003, Financial Institutions was established as a separate business area at Norfund. Through the provision of equity and loans to local/regional banks and financial institutions, Norfund's commitment is expected to help in improving the efficiency of the capital markets in developing countries and to support Norfund's other activities in the same markets. These capital markets are usually very under-developed and often not accessible to small and medium-sized businesses. Leasing is another tool which can help to provide small companies with new opportunities, and Norfund has already made some investments in this area. Joint venture agreements with local banks are important for increasing investments. In 2003, Norfund undertook an additional investment in the leasing company Finarca in Nicaragua. Three investments were also approved in principle in 2003.

Aureos Capital

In 2003, Norfund continued to work on developing the fund management company Aureos Capital, which was established in partnership with CDC Capital Partners in 2001. Aureos has 13 fund management companies in Africa, Asia and Latin America and 81 employees, 8 of whom are based in London. As at 31 December 2003, the company managed approx. NOK 2 billion through 16 investment funds. These funds have invested in a total of 150 local, private companies. They have now sold their interests in almost half of these, which means that they are currently investing in around 80 local companies. Aureos makes it easier for Norfund to invest in the world's least developed countries through the extended network provided by its local offices. During 2003, Aureos established three new regional funds in eastern Africa, western Africa and southern Africa respectively, involving total assets of approx. NOK 750 million.

SN Power (Statkraft Norfund Power Invest AS)

Developments are conditional on energy, and the UN has estimated that around 2 billion people in developing countries are without access to electricity. In 2003, Norfund, in partnership with Statkraft, established the investment company Statkraft Norfund Power Invest AS in order to purchase, develop and run hydroelectric power projects in developing countries. This company has a capital base of NOK 1 billion, 50% of which has been provided by Norfund. The plan is to develop the company to become a strong international player in these markets. SN Power combines Statkraft's technical expertise with Norfund's investment and development expertise. The company will participate in the development, modernisation and operation of hydroelectric power stations in developing countries. SN Power provides Norwegian businesses with increased opportunities in the international energy sector for the supply of services and equipment, etc. In 2003, the company invested approx. NOK 110 million in two hydroelectric power companies in Peru, Cahua S.A. and Energia Pacasmayo S.R.L. SN Power has also purchased an ownership stake in the small hydropower plant Nividhu Ltd. in Sri Lanka.

Loan portfolio

With effect from 1 January 2001, Norfund acquired NORAD's portfolio of loans to companies in developing countries. This portfolio was transferred free of charge and consisted of 48 loans valued at a total of NOK 402 million. During 2003, four loans were repaid in full, so that the portfolio now comprises 37 loans. Loan repayments in 2003 amounted to NOK 48.7 million, plus interest payments of NOK 7.9 million were received. The value of outstanding loans as at 31 December 2003 was NOK 250.2 million. As regards agreed repayment schedules in 2003, the payment of instalments and interest was higher than originally expected, primarily due to advance loan repayments. Norfund places top priority on following up vulnerable companies and has been conducive in refinancing some contracts (cf. direct investments).

Realisation of investments

In 2003, Norfund withdrew from


Grete Faremo


Erik Århus


Gunn Wenche Andersgaard

two investments which were showing positive returns: Scancement in Bangladesh and Nividhu in Sri Lanka. The latter was sold to SN Power, which following its establishment in 2002 is engaged primarily in managing Norfund's investments in the energy sector.

Project Angola

In January 2003, Norfund set up an office in Luanda in order to assess the opportunities available for making equity investments in Angola, and to prepare for the establishment of a local investment fund. Norfund is aiming to set up an investment fund and management company in Angola in partnership with Banco Africano de Investimentos (BAI). Norfund has earmarked USD 7.5 million for investments to be made through this fund. Norfund's commitment in Angola has sparked off additional investments from other investors to the benefit of the local community.

Norfund's development effects

Norfund's investments in developing countries are designed to help reduce poverty by promoting economic growth and development. Norfund is continuously engaged in ensuring that its investments comply with international standards relating to the environment, working environment and human rights. At the same time, some simple indicators have been established in order to measure the effects of such developments. In 2003, work was initiated in order to develop Norfund's own measurement tools. This will enable Norfund to prepare systematic descriptions and reports on a broader range of its development effects.

At the end of 2003, approx. 2,500 jobs had been created as a result of Norfund's direct investments. Around 33,000 employees work for those companies which have been invested in by the funds in which Norfund is co-investor. In addition to this comes the knock-on effects which occur when subcontractors and other businesses benefit from increased investments in the area. Norfund is continuing to promote increased awareness of the HIV/AIDS epidemic in those companies in which it has invested in accordance with its policy on this issue.

The environment

Environmental considerations and social conditions form an integral part of the work being undertaken by Norfund in respect of making investments in profitable business activities in developing countries. All investments are designed to comply with national and international legislation and rules relating to the outer environment and the working environment. In addition to making a financial profit, Norfund is also engaged in reinforcing the positive social and environmental effects of its investments and ensuring that these are evident.

Norfund has recently improved its capacity in this area in order to boost the organisation's expertise and ensure closer follow-up of the social and environmental effects of its investments. Close cooperation with Aureos and SN Power has been established in order to exploit the synergies which exist and to ensure that Norfund's ambitions in this area will also apply to underlying projects. Norfund is also collaborating with specialists on environmental and social conditions at its international sister organisations. An internal review has been planned in order to ensure that environmental and social conditions are looked after in an efficient manner, including those that exist in the Fund's new business areas.

Norfund's office activities do not affect the external environment over and above that which is considered to be normal in respect of the type of activities undertaken by the Fund. The greatest impact on the environment resulting from our business activities concerns business trips and, to a lesser extent, energy and paper consumption and waste.

Personnel and organisation

At the end of the year, Norfund had 23 employees, 35% of whom were women. As at 31 December 2003, Norfund had three employees working abroad, one in London as the Managing Director at Aureos Capital's head office, one in Costa Rica to follow up investments in Latin America and one in South Africa to follow up investments and identify project opportunities in southern Africa. The aim for 2004 is to increase capacity in areas where Norfund is already represented by combining the use of local resources with posting employees abroad. Norfund will also continue to purchase services and outside expertise as required.

Norfund's internal working environment is good. A company health service and measures designed to evaluate the working environment and the well-being of employees have been established. Total absence from work due to illness amounted to 2.3% (85.5 days) of total working hours in 2003. No personal injuries or damage to any of Norfund's equipment occurred in 2003.

Gender equality

Norfund considers equal status and equal opportunities for both genders to be important. The company believes that expertise and the ability to contribute towards fulfilling the company's visions are more important than whether or not the person concerned is a man or a woman.

The board is composed of three men and two women, while the management group consists of one woman and five men.

The average salary for women is 16% lower than the company average. The difference reflects the age and expertise profile of the company's employees.

The percentage of female applicants for jobs which were advertised in 2003 was 9%.

Two women and two men were absent on maternity/paternity leave during the year. Three others were also away on leave during the whole year. The company allows its employees full rights in respect of maternity/paternity leave, etc., and both women and men are encouraged to take advantage of these opportunities. When the percentage of women applying for jobs has been low, extra consideration has been given to female applicants. Apart from this, Norfund has not implemented any extraordinary measures designed to promote equal status.

Equality of status and women's rights in particular form an integral part of Norfund's investment assessments.

Evaluation of Norfund

In 2003, the Norwegian Ministry of Foreign Affairs presented an external evaluation of Norfund. This evaluation establishes that the Fund is a relevant instrument for channelling aid funds in order to promote business development in developing countries. The evaluation emphasises that it is encouraging to see that the Fund has helped to establish and develop organisations such as Aureos and SN Power. When planning Norfund's activities, the Fund's board has taken into account the views and suggestions for improvement that were contained in the evaluation.

Accounts

In the opinion of the board, the annual accounts present a correct description of the company's position as at 31 December 2003. At the end of 2003, Norfund's capital base stood at NOK 1.9 billion, including the estimated value of its loan portfolio. 2003 has been characterised by an unstable world economy. Although the stock markets have experienced a period of recovery, it has been difficult to find good projects in the market segments that exist in the markets in which Norfund operates. This situation is expected to continue during 2004. Current exchange rates and an unstable world economy have been taken into account when assessing the value of our investment portfolio as at 31 December 2003. Norfund has prepared a separate currency hedging strategy designed to reduce the effect that fluctuations in exchange rates are having on the company's profits.

In the 2004 national budget, Norfund has been allocated additional capital of NOK 485 million. This will increase the company's capital base to approx. NOK 2.4 billion (including the estimated value of its loan portfolio). Norfund has not committed itself to investments exceeding the company's capital base.

The Fund's profit for the year amounted to NOK 47.7 million after write-downs of NOK 38.7 million. In accordance with directives issued to the Norwegian Investment Fund for Developing Countries (Norfund), this surplus has been transferred to Norfund's surplus account.

Going concern

The annual accounts are based on the assumption that the Fund is a going concern.

Board of Directors

Six board meetings were held in 2003.

Oslo, 3 March 2004

Arve Johnsen
Chairman of the Board

Borger A. Lenth
Deputy Chairman

Gunn Wenche Andersgaard

Grete Faremo

Erik Århus

Per Emil Lindøe
Managing Director

PROFIT AND LOSS ACCOUNT

	(Figures in NOK 1,000)	Note	2003	2002
Operating income		**1,9**	**60 518**	**56 051**
	Operating expenses			
	Wages and salaries	2	18 431	14 869
	Depreciation, tangible fixed assets	3	695	782
	Write-down of investment projects	8	38 650	33 809
	Other operating expenses	15	18 090	21 639
	Total operating expenses		**75 866**	**71 099**
Operating loss			**-15 347**	**-15 048**
	Result from investment in joint ventures	4	9 666	-11 925
	Other interest received		47 695	59 124
	Other financial income	13	11 065	8 365
	Other financial expenses	13	5 347	4 962
	Financial result		**63 079**	**50 601**
Profit for the year			**47 732**	**35 553**
	Transfers			
	Transferred to surplus fund	11	47 732	35 553
	Total disposals		**47 732**	**35 553**

BALANCE SHEET

(Figures in NOK 1,000)		Note	2003	2002
Assets				
Fixed assets				
	Tangible fixed assets			
	Operating equipment, fixtures, fittings, tools, etc..	3	956	1 335
	Total tangible fixed assets		**956**	**1 335**
	Fixed asset investments			
	Investments in joint ventures	4	485 925	106 801
	Loans to joint ventures	4	0	400 000
	Pension funds	2	2 570	3 430
	Total fixed asset investments		**488 495**	**510 231**
	Total assets		**489 451**	**511 566**
Current assets				
	Accounts receivable			
	Other accounts receivable	5	1 041	1 372
	Loan portfolio	5	0	0
	Total accounts receivable		**1 041**	**1 372**
	Investments			
	Loans to investment projects	6,8	55 524	18 935
	Equity investments	7,8	127 451	167 992
	Other market-based financial instruments	13	6 493	0
	Total investments		**189 468**	**186 927**
	Bank deposits, cash in hand and cash equivalents			
	Liquid assets tied up in investments, committed, cleared in principle and approved	7,10	592 299	576 810
	Other liquidity	7,10	502 537	-33 952
	Total cash at bank and in hand, etc.		**1 094 836**	**542 857**
	Total current assets		**1 285 345**	**731 155**
	Total assets		**1 774 796**	**1 242 721**

BALANCE SHEET

(Figures in NOK 1,000)	Note	2003	2002
Equity and liabilities			
Equity			
Called-up and fully paid share capital			
Primary capital	11	1 180 000	858 750
Reserve capital	11	450 000	286 250
Total called-up and fully paid share capital		**1 630 000**	**1 145 000**
Retained earnings			
Surplus fund	11	125 025	80 376
Total retained earnings		**125 025**	**80 376**
Total assets		**1 755 025**	**1 225 376**
Liabilities			
Other long-term liabilities			
Remaining long-term liabilities	16	1 370	1 370
Total other long-term liabilities		**1 370**	**1 370**
Current liabilities			
Accounts payable	16	511	831
Unpaid government charges and special taxes		1 735	1 821
Unused funds (Trust Fund)	12	14 131	11 553
Other current liabilities	16	2 024	1 770
Total current liabilities		**18 401**	**15 975**
Total liabilities		**19 771**	**17 345**
Total equity and liabilities		**1 774 796**	**1 242 721**

Oslo, 3 March 2004

Arve Johnsen
Chairman of the Board

Borger A Lenth
Deputy Chairman

Gunn Wenche Andersgaard

Grete Faremo

Erik Århus

Per Emil Lindøe
Managing Director

CASH FLOW STATEMENT

Cash flow from operating activities

	Note	2003	2002
Profit before tax		47 732	35 553
Profit/loss on sale of fixed assets		0	13
Ordinary depreciation	3	646	782
Write-down of fixed assets	3	50	0
Write-down of current assets	8	38 650	33 809
Changes in stocks, accounts receivable/payable		-389	135
Differences in pension costs and amounts paid into and out of pension scheme		903	-2 799
Profit when the equity and proportionate consolidation methods are applied		17 794	11 925
Effect of changes in exchange rates		-5 395	4 790
Items classified as investments or financing activities		0	0
Changes in other accruals		508	361
Total cash flow from operational activities		**100 499**	**84 568**

Cash flow from investment activities

	Note	2003	2002
Investments in tangible fixed assets	3	-317	-1 036
Proceeds from sale of investments in shares and joint venture		43 368	183
Repaid proceeds from shares/units entered at cost price		17 003	8 654
Acquisition of shares/units in other enterprises		-57 567	-159 248
Acquisition of other investments		-41 729	-418 489
Proceeds from sale of other investments		3 092	2 335
Net cash flow from investment activities		**-36 148**	**-567 602**

Cash flow from financing activities

	Note	2003	2002
Proceeds from issuance of current liabilities	12	7 000	7 000
Repayment of long-term loans		0	0
Repayment of short-term loans		-4 372	-5 299
Increase in/repayment of equity		485 000	395 000
Net cash flow from financing activities		**487 628**	**396 701**
Net changes in cash and cash equivalents		551 979	-86 332
Cash and cash equivalents as at 01.01		**542 857**	**629 189**
Cash and cash equivalents as at 31.12	10	**1 094 836**	**542 857**

NOTES

Accounting principles

The accounts have been prepared in accordance with the rules laid down in the Norwegian Accounting Act. The most important accounting principles followed by the Fund are described below.

Principles for revenue recognition

Operating revenues include dividends, gains on the sale of shares/ownership interests in other companies, income from interest on loans granted to other companies, directors' remunerations, other project income, gains on the sale of fixed assets, interest and principal repayments from the loan portfolio.

Gains from the sale of shares/ownership interests in other companies are taken to income in the year the sale takes place. Interest is taken to income as and when it is earned. Other proceeds from shares/ownership interests are deducted from the book value and are thus not taken to income.

Payments from the investment portfolio are taken to income at the time payment is received (cash principle).

When loans to development projects are classified as doubtful commitments, posting of income from interest relating to the doubtful commitment is stopped, and the default unpaid interest is reversed.

Financial income and expenses

Income from interest on the Fund's liquidity reserve held with Norges Bank (the central bank of Norway), other Norwegian banks and the cash unit trust are entered as financial revenues. Income from completed futures contracts which have been entered into in order to hedge the portfolio is entered in its entirety against Other financial income and Other financial expences respectively. As regards futures contracts which have been entered into in order to hedge the cash flow, the difference compared to the hedged amount is entered against Other financial income/expenses.

Pension commitments and expenses

The company has a pension scheme that entitles its members to defined future benefits, called defined benefit plans. Accounting of pension expenses takes place in accordance with the Norwegian Accounting Standard, Pension Expenses. Pension expenses are classified as ordinary operating costs and are presented together with Wages/salaries and other benefits.

Joint ventures

Joint ventures refer to activities jointly controlled by Norfund and one or more of its partner companies. Joint ventures are entered in the accounts in accordance with equity accounting principles. The company's share of income from a jointly controlled activity is presented as a separate item in the accounts. In the same manner, ownership interests are presented as a separate asset item on the balance sheet. Investments in Aureos Capital Ltd. and Statkraft Norfund Power Invest AS are entered as jointly controlled operations in accordance with accepted accounting principles. Where final figures are unavailable, estimates are used for the expected income. The accounts of Aureos are drawn up in US dollars, and the average annual exchange rate is used when entering this company's share of profits on the accounts. The balance sheet figures relating to Aureos are also adjusted to comply with the exchange rate which applies as at 31 December. Such exchange rate adjustments are entered directly against equity in Norfund. As regards Statkraft Norfund Power Invest AS, the interest received from the company is eliminated against other interest paid by Statkraft Norfund Power Invest AS. See also the note relating to joint ventures.

Equity investments

Normally the Fund treats its investments in other companies as current assets, i.e. the equity method is not used, even though the Fund's ownership interests provide Norfund with considerable influence. This is because the purpose of the Fund's investments is to dispose of the whole or part of individual investments after 3-7 years as a rule. This is in accordance with Norfund's objectives and is in line with the rules laid down in the Accounting Act and generally accepted accounting principles. Under generally accepted accounting principles, such investments by their very nature are temporary and should therefore be included under current assets.

Equity investments in companies are valued at the lower of cost and market value based on a concrete assessment of each investment such that individual investments are written down where this is considered necessary because of a permanent fall in value (specified loss provisions). No general provisions for losses are made. See also the section relating to the treatment of currency below.

During 2003, Norfund employed hedge accounting in respect of some of its projects. The requirements stipulated in accordance with good accounting principles have been adhered to in this respect. However, Norfund has opted to change its currency hedging strategy, and this means that hedge accounting will not be employed in 2004.

"Committed investments" means that an external obligation exists to pay a designated amount, while "investments cleared in principle and approved" means that a board decision has been made to approve an investment under certain conditions although no agreements have been entered into.

When entering into investment agreements, Norfund often employs various instruments such as options, conversion options, etc, in order to reduce the risks involved.

Loans
Norfund manages two types of loan:
- Loans in connection with Norfund's equity investments, paid by Norfund (project loans)
- Loans to companies in developing countries, taken over from NORAD (loan portfolio)

Loans (to projects) are treated as being current assets.

Loans are valued at the lower of face value and their anticipated final amount.

Based on the company's strategy, the loan portfolio overtaken from NORAD is classified as a current asset, and posted in the accounts at historical cost, NOK 0. Payments received from the loan scheme therefore follow the cash principle and are taken to income at the time of payment.

Write-offs
Losses incurred on commitments which have been written off as a result of bankruptcy, a company going into liquidation, etc., and losses incurred from the sale of shares, are entered as write-offs.

Currency items
Cash at bank and loans are entered at the exchange rate which applies at the end of the accounting year. Unrealised gains/losses are posted as operating revenue/other operating expenses. Assessments of value changes in investments resulting from changes in currency exchange rates are also included in the assessment of the equity changes (see above).

Cash at bank, cash in hand and cash equivalents
Cash at bank, cash in hand and cash equivalents also include cash unit trusts, etc.

Norfund has chosen to show how much of its liquidity, which is tied up in investments through investments that have been approved in principle and approved as at 31 December, has not been paid out. This has been entered in the balance sheet as "Liquid assets tied up in investments, committed, cleared in principle and approved." The maximum amount has been employed. In the event of investments being withdrawn, the amount may be reduced. The remaining cash balance is called "Other liquid assets".

Short-term receivables
Short-term receivables are posted at their expected value and adjusted for irrecoverable items.

Tangible fixed assets
Tangible fixed assets are entered at cost price reduced by operational depreciation based on the economic life of the fixed asset in question.

Equity
Norfund's equity is divided into primary capital, reserve capital and surplus capital. The distribution is undertaken on the basis of framework conditions for Norfund's activities by notifying the Ministry of Foreign Affairs if Norfund's losses are great enough to affect its primary capital. The profit for the year is added to the surplus capital, while any losses are deducted from this or the reserve capital if the funds contained in the former fund are inadequate to cover the loss for the year.

Close partners
Norfund defines Aureos Capital Ltd. and Statkraft Norfund Power Invest AS as close partners.

Note 1 Segment information

(Figures in NOK 1,000)

Segment information by area of activity:

With regards to segment information, Norfund has chosen only to select and provide information on profit items connected to its loan portfolio. This is because the loan portfolio is different from other investment activities and entails a different risk profile.

	2003			2002		
	NORFUND total	Loan portfolio*	NORFUND excl. loan portfolio	NORFUND total	Loan portfolio*	NORFUND excl. loan portfolio
Operating income	**60 518**	**56 631**	**3 887**	**56 051**	**54 232**	**1 819**
Operating expenses						
Wages/salaries and personnel expenses	18 431	2 385	16 046	14 869	1 844	13 025
Depreciation of tangible fixed assets	695	90	605	782	92	690
Losses on sale of operating assets	0	0	0	13	2	11
Write-downs on investment projects	38 650	0	38 650	33 809	0	33 809
Other operating expenses	18 090	2 076	16 014	21 627	1 958	19 669
Total operating expenses	**75 866**	**4 552**	**71 314**	**71 099**	**3 896**	**67 203**
Profit/loss from operations	**-15 347**	**52 079**	**-67 427**	**-15 048**	**50 336**	**-65 384**
Financial income	63 079	-1	63 080	50 601	4	50 597
Total profit/loss	**47 732**	**52 079**	**-4 347**	**35 553**	**50 340**	**-14 787**

*Revenue and expenses are partly directly attributable, partly joint expenses that are distributed according to a distribution formula fixed on the basis of the number of persons employed.

Geographical distribution of segment information:

There are no significant accounts-related balance sheet values connected to the loan portfolio, either as assets or liabilities.

	Africa	Asia	Latin America	Europe	Global	Write-downs	Total
Balance							
Equity investments	94 731	72 005	47 427	33 099	486 725	-120 611	613 376
Loan to equity investments	5 752	27 854	28 966	2 326	650	-10 025	55 523
Total balance	**100 483**	**99 859**	**76 393**	**35 426**	**487 375**	**-130 636**	**668 900**
Operating income	**12 977**	**35 632**	**11 417**	**250**	**242**		**60 518**

Note 2 Wages and salaries

Wages/salaries and other personnel expenses

(Figures in NOK 1,000)

	2003	2002
Wages and salaries	11 551	10 118
Board remunerations	470	340
Employer's National Insurance contributions	2 347	1 786
Personnel insurance	289	242
Pension expenses	3 430	1 964
Other benefits	544	620
Refunded personnel expenses from Trust Fund	-200	-200
Total wages/salaries and other personnel expenses	**18 431**	**14 869**

Remunerations paid to management

(Figures in NOK 1,000)	Managing Director	Chairman of the Board
Salaries/remunerations	1 067	185
Contributions to pension commitments	514	0
Other benefits	16	0
Total	**1 597**	**185**

The Managing Director has no contract for salary after termination of employment beyond the ordinary notice period of three months. The Chairman of the Board has no contract for salary after termination of employment. Neither the Managing Director nor the Chairman of the Board have bonus scheme agreements.

The Chairman of the Board has received NOK 80,000 for the board work he has undertaken on behalf of Norfund. He has also received NOK 80,000 in remuneration for his appointment as Chairman of the Board of SN Power Invest AS and NOK 25,000 in remuneration for his board appointment with Aureos.

The auditors' fee has been carried to expenses to the tune of NOK 469,935, of which NOK 336,040 is for auditing and related services, and NOK 133,895 is for other auditing undertaken by the auditor and joint venture companies (all figures include VAT).

Number of employees

The company had 23 employees at the end of 2003. The average number of employees over the year has been 22.

Pensions

Pension commitments for employees are covered by a group pension insurance policy. This commitment has been entered in the balance sheet.

Pension expenses, pension funds and pension commitments have been calculated by the insurance company's actuary. The difference between the book value as at 31 December of the previous year and the estimated value in the Natural Resources Systems Programme (NRSP) calculation as at 1 January of the following year is entered directly in the profit and loss account. As at 31 December 2003, 21 people were covered by the scheme.

Financial assumptions

	2003	2002
Discount rate	7.0%	7.0%
Expected return on pension funds	8.0%	8.0%
Wage adjustment	4.0%	4.0%
Pension adjustment	3.0%	3.0%
Adjustment to the National Insurance basic amount	3,0 %	3,0 %
Turnover	7,0 %	7,0 %
Expected retirement on AFP (early retirement pension from age 62)	0,0 %	0,0 %
Employers' National Insurance contribution	14,1 %	14,1 %

Net pension expenses for the period
(Figures in NOK 1,000)

	2003	2002
Present value of pension accruals for the year		
Present value of pension accruals as at 1 January	1 667	1 496
Interest	343	182
Present value of pension accruals	**2 011**	**1 678**
Interest cost of pension commitments		
Pension commitments as at the beginning of the year	4 907	2 598
Pensions paid out	0	0
Average, expected pension commitments	**4 907**	**2 598**
Discount rate	**7%**	**7%**
Interest paid	**343**	**182**
Expected return on pension funds		
Market value of pension funds at the beginning of the year	6 387	2 760
Pensions paid out	0	0
Payments received, including premiums	2 677	4 416
Expected return (%)	**8%**	**8%**
Expected return on pension funds	**450**	**287**
Amortisation of transfer effect	**0**	**0**
Amortisation or direct entry of deviation in results	**1 526**	**391**
Net pension expenses	**3 430**	**1 964**

Pension commitments
(Figures in NOK 1,000)

OB accrued pension commitments	4 907	2 598
+ Present value of pension accruals for the year	2 011	1 678
+ Interest on accrued pension commitments	343	182
- Pensions paid out	0	0
CB accrued pension commitments	**7 261**	**4 457**
CB pension funds	6 387	2 760
+ Expected return	450	287
+ Payments received for the year	2 677	4 416
- Pensions paid out	0	0
CB Pension funds	**9 514**	**7 463**

Reconciliation of net pension commitments against entered
(Figures in NOK 1,000)

CB pension funds	9 514	7 463
CB accrued pension commitments	-7 261	-4 457
CB net pension funds	**2 253**	**3 006**
Employers' National Insurance contribution	318	424
CB net pension funds, incl. employer's NI contribution	**2 570**	**3 430**

Note 3Tangible fixed assets

(Figures in NOK 1,000)	Operating equipment, fixtures and fittings, etc	Permanent office fixtures and fittings	Art	Total
Cost price, ordinary depreciation and write-downs				
Cost price as at 1 January	3 226	182	67	3 475
+ acquisitions during the period	227	90	0	317
- disposals during the period	0	0	0	0
Cost price at end of period	**3 453**	**272**	**67**	**3 792**
Acc. ordinary depreciation as at 1 January	2 126	14	0	2 140
+ ordinary depreciation for the period	609	37	0	645
- acc. ordinary depreciation, sold operating assets	0	0	0	0
Acc. ordinary depreciation at end of period	2 735	51	0	2 785
Write-down of operating assets	50	0	0	50
Book value for accounting purposes at end of period	**668**	**222**	**67**	**956**

Operating equipment, fixtures and fittings, etc. are depreciated in accordance with the straight-line method. The expected life of operating assets is 3-4 years. Permanent office fixtures and fittings are depreciated over the currency of the rental period. Art is not depreciated.

Operating assets which were not used were written down to 0 in 2003. No previous write-downs have been made in respect of operating assets.

Note 4 Investments in joint ventures

(*Figures in NOK 1,000)*	Aureos Capital Ltd	Statkraft Norfund Power Invest AS	Total
Formal information:			
Date of acquisition.	30.06.01	27.06.02	
Registered office	Mauritius	Oslo	
Ownership stake	50 %	50 %	
Voting share	50 %	50 %	
Information relating to the date of acquisition:			
Acquisition cost	18 339	100 000	
Equity entered in balance sheet on date of purchase (our share)	18 339	100 000	
Excess value/shortfall	0	0	
Goodwill	0	0	
Information relating to annual figures:			
Opening balance, 1.1.03	9 605	97 197	106 801
Capital inflow, 30.10.03 and 31.12.031	0	400 000	400 000
Deducted, non-amortised excess value	0	0	
Deducted, non-amortised goodwill	0	0	
Share of annual profit (+/-)2	-2832	-14962	
Accrued interest received		27460	
Entered from investments in joint ventures	-2 832	12 498	9 666
Interest received	0	-27 460	-27 460
Other changes during the year, exchange rate adjustment, Auero			
	-3 082	0	-3 082
Closing balance, 31 December 2003	**3 691**	**482 235**	**485 925**

1) Convertible loans to Statkraft Norfund Power Invest AS amounting to NOK 400 million and paid out in 2002, were converted to shares in 2003.

2) Share of annual profits is based on estimated figures.
The agreement between Statkraft and Norfund relating to SN Power regulates the transfer of Statkraft's interests in two power companies in Asia, HPL in Nepal and THPC in Laos, to SN Power. This transfer process has not yet been completed and will be concluded in 2004. The effects of these ownership stakes on profits and their value have not been included in the 2002 and 2003 figures which Norfund has consolidated from SN Power's activities.

The annual accounts for these joint ventures are available from Norfund on request.

Note 5 Receivables

The loan portfolio, entered under receivables, was taken over from NORAD without payment and has therefore been entered with a book value of NOK 0 in the accounts.

(Figures in NOK 1,000)	**Opening loan balance 01.01.03**	**Investment recieved 01.01.-31.12.**	**Interest recieved 01.01.-31.12.**	**Depreciation during the year**	**Exchange reg. during the year**	**Closing loan balance 31.12.03**
	300 983	48 693	7 928	1 326	-803	250 161
Book value	0					

Two loans are entered in USD and are thus subject to exchange regulation. The other loans are booked in NOK. Norfund has estimated that the value of its loan portfolio as at 31.12.03 amounted to NOK 150 million.

Accounts with joint ventures

	Other receivables 31.12.03	**31.12.02**
Joint ventures	450	58
Other	591	1 314
Total other receivables	**1 041**	**1 372**

Note 6 Loans to companies in the investment portfolio

(Figures in NOK 1,000)	**Currency**	**Book Value [1] (currency)**	**Book Value [1] (NOK)**	**Interest received (NOK)**
Finarca	USD	2 600	17 355	825
Sinor Invest	USD	1 064	7 099	0
Norfish Blagaj	EUR	157	1 326	0
Palmera Noruega Ecuatoriana	USD	39	263	0
Sinor Invest	USD	118	787	0
Future & Hope	NOK	650	650	63
LA-CIF	USD	1 700	11 348	350
Interkraft Nepal AS	NOK	3 000	3 000	133
Norfish Blagaj	NOK	1 000	1 000	0
Fjord Marin Tyrkia	NOK	15 000	15 000	0
Treefarms AS	NOK	4 000	4 000	0
Safa Marine Industries Ltd	EUR	63	531	27
Micro Kenya	KES	20 000	1 752	0
Pan Marine Qingdao AS	NOK	1 091	1 091	0
Pan Fish Shanghai	USD	31	205	0
Pan Marine Qingdao Ltd	USD	0	3	0
TC Trading	CAD	31	138	0
Carifin	USD	0	0	0
Total loans to companies			**65 548**	**1 398**
Provisions for bad debts, loans, 31.12.03			-10 025	
Book value, loans/total interest received			**55 524**	**1 398**
Loans committed, cleared in principle and approved (incl. disbursed loans)				**85 997**

1) Figures as at 31.12.03 and prior to any write-downs

Note 7 Equity investments

Equity investments in funds (Figures in NOK 1,000)	Currency	Ownership stake	Contractual investment (in currency)	Historical cost price[1] (in currency)	Contractual investment (in NOK)	Historical cost price[1] (in NOK)	Dividend recieved (in NOK)
Horizonte	EUR	3.0%	465	324	3 843	2 656	0
Minco	USD	15.8%	840	840	6 793	6 793	0
FEDHA Fund	USD	11.5%	1 373	689	10 212	5 649	0
LA-CIF	USD	23.2%	800	800	6 107	6 107	0
CAIF	USD	3.8%	1 000	787	7 871	6 450	0
Msele Nedventures	ZAR	14.6%	12 000	12 000	15 900	15 900	0
African Infrastructure Fund	USD	1.2%	5 000	2 112	36 814	17 534	0
Indian Ocean II	USD	17.0%	3 000	1 827	23 981	16 151	0
SEAF Trans-Balkan Fund	USD	22.9%	5 000	2 675	37 693	22 177	0
CASEIF	USD	31.8%	5 000	2 141	36 829	17 743	0
Siam Investment Fund II	USD	8.7%	5 000	742	36 897	8 474	0
SEAF Sichuan SME Investment Fund	USD	13.3%	3 000	593	20 944	4 879	0
Horizon Tech Ventures	ZAR	18.1%	26 000	13 990	25 914	13 871	0
Aureos Central American Fund	USD	27.5%	10 000	1 122	67 590	8 329	0
Aureos East Africa Fund	USD	20.0%	8 000	1 679	54 294	12 098	0
Aureos West Africa Fund	USD	40.0%	10 000	365	66 874	2 560	0
Aureos Southern Africa Fund	USD	28.2%	12 000	330	80 233	2 338	0
Total invested in funds					**538 787**	**169 708**	**0**

Contractual investments in funds	**538 787**
Investments in funds, cleared in principle and approved	**103 788**
Investments in funds, committed, cleared in principle and approved	**642 574**

By committed we mean that a binding contract on investments has been entered into. When an investment is approved or cleared in principle, it means that an internal decision has been taken to make an investment under certain conditions, but that a contract has not been entered into.

As regards conversion to NOK, the exchange rate at the time of payment is utilised for the part of the amount that has been paid. For the part that has not been paid, the exchange rate as at 31.12.2003 is used.

Equity investments in management companies (Figures in NOK 1,000)	Currency	Ownership stake (in currency)	Historical cost price[1] (in NOK)	Historical cost price[1] (in NOK)	Dividend recieved
AMSCO	EUR	4.0%	240	1 837	0
Lafise Investment Management	USD	20.0%	2	17	0
Total invested in management companies				**1 855**	**0**

Contractual investments in management companies	**1 855**
Investments in management companies, cleared in principle and approved	**0**
Investments in management companies, committed, cleared in principle and approved	**1 855**

Equity investments in companies

(Figures in NOK 1,000)	Currency	Ownership stake	Historical cost price[1] (in currency)	Historical cost price[1] (in NOK)	Dividend recieved (in NOK)
Palnorec	USD	27.6%	400	3 097	0
Sinor/Daiyoo	USD	35.5%	1 197	9 845	0
Norfish Blagaj	EUR	30.7%	1 021	8 266	0
Finarca	USD	18.0%	598	5 684	0
GenoMar	NOK	8.1%	20 000	20 000	0
Future & Hope	NOK	36.9%	800	800	0
Pan Marine Qingdao	NOK	49.0%	18 490	18 490	0
Fjord Marine	NOK	14.3%	10 000	10 000	0
Pan Fish Shanghai	USD	27.5%	38	273	0
TC Trading	USD	27.5%	6	45	0
Total investments in companies				**76 499**	**0**

Contractual investments in companies	**76 731**
Investments in companies, cleared in principle and approved	**98 753**
Investments in companies, committed, cleared in principle and approved	**175 484**

Total book investments in funds, management companies and companies	248 062
Write-downs of investments as at 31.12.03	-120 611
Book value of investments	**127 451**

Cleared in principle, approved and contractual investments, not paid	**2003**	**2002**
Cleared in principle, approved and contractual investments in funds	642 574	590 618
+ Cleared in principle, approved and contractual investments in management companies	1 855	1 855
+ Cleared in principle, approved and contractual investments in companies	175 484	230 145
+ Cleared in principle, approved and committed loans	85 997	33 105
= Total cleared in principle, approved and contractual investments [2]	**905 910**	**855 722**
- Total equity investments	248 062	250 899
- Total loans to equity investments	65 548	28 013
= Cleared in principle, approved and contractual investments, not paid	**592 299**	**576 810**

[1]) Figures as at 31 December 2003 and prior to any write-downs
[2]) Additional capital injections in SN Power are not included.

Note 8 Realised losses and write-downs

(Figures in NOK 1,000)	Write-downs as at 1.1.03	Realisation of losses, 2003	New write-downs 2003	Accmumulated write-downs as at 31.12.03
Provisions for losses on project loans	9 078	0	947	10 025
Provisions for losses on equity investments	82 908	0	37 703	120 611
Total	**91 986**	**0**	**38 650**	**130 636**

Booked provisions for losses just consist of new write-downs in 2003.

Note 9 Realised share profits

(Figures in NOK 1,000)	**2003**	**2002**
Sales sum, sold shares	43 368	183
Cost price, sold shares	-41 335	-770
Profit/loss (-) for the year, sold shares	**2 033**	**-588**

Shares sold in 2003 were not written down at the time of disposal.

Note 10 Cash at bank, cash in hand and cash equivalents

As at 31 December 2002 and 31 December 2003, NOK 576,810,000 and NOK 592,299,000 respectively were cleared in principle, approved and committed, but not paid. The remaining liquid assets include the balance of the blocked tax deduction account to the tune of NOK 1,050,750. In addition, NOK 14,251,220 of the company's liquid assets are tied up in the Trust Funds. These assets can only be used in accordance with the guidelines set up for the Trust Funds.

Note 11 Capital movements

(Figures in NOK 1,000)	**Primary capital**	**Capital in legal reserves**	**Surplus fund**	**Total equity**
Capital as at 1.1.03	858 750	286 250	80 376	1 225 376
Correction of capital distribution, 2002[1]	-20 000	20 000		0
Capital inflow, 2003	341 250	143 750		485 000
Exchange rate adjustment of capitalised amounts, Aureos			-3 082	-3 082
Annual surplus			47 732	47 732
Capital, 31.12.03	**1 180 000**	**450 000**	**125 025**	**1 755 025**

1) A correction has been made to the previously registered distribution of inflow for 2002 between primary capital and capital in legal reserves in accordance with the Ministry's guidelines relating to the distribution of capital transfers made during the same year.

Reserve capital may only be used for covering losses which cannot be covered by other fund reserves outside primary capital.

The company received NOK 1,630 million in capital from the State, of which NOK 485 million was received by Norfund in 2003. Of the total capital received, NOK 170 million was earmarked for investments in the world's least developed countries and NOK 200 million was earmarked for investments in the energy sector.

Note 12 Unused funds (Trust Fund)

In 2003, Norfund received NOK 7 million in so-called Trust Fund capital. The Trust Fund is intended to cover Norfund's costs, over and above normal operating costs, for measures designed to stimulate increased investments in developing countries and to ensure success for the investments made. The Trust Fund is treated as a current liability, and amounts paid are included in Norfund's liquid assets. The debt is reduced by the equivalent amount paid by the Trust Fund to cover costs. The Trust Funds paid a total of NOK 4.4 million to cover costs in 2003. The remaining balance in the Trust Funds (remaining capital) amounts to NOK 14.1 million.

Note 13 Information about financial market risks and the use of financial Instruments

Market and currency risks
Norfund's investments are undertaken in developing countries where the countries, structures, markets and companies are subject to high risks. Any future returns relate to the ability to handle those opportunities and risks which exist during the course of the investment period. As regards foreign currency investments, the currency-related flow of income will also often be in the same currency. In December 2002, Norfund introduced a currency hedging strategy, which was adjusted in 2003. The main purpose of currency strategies is to secure the value of investment portfolios. This is carried out by hedging future cash flow in part of the portfolio.

In 2003, 4 currency futures contracts were entered into, and 3 currency futures contracts were concluded, in USD. As at 31 December 2003, Norfund had one outstanding futures contract. This has been capitalised as other market-based financial instruments.

Interest risk
Norfund is primarily affected by interest risk through liquid assets which are placed in Norwegian banks. Interest on project loans may also be affected by interest risk, depending on the interest applied to the various loans.

Credit risk
Project loans are assessed at their estimated actual value. In addition, the risks associated with such loans are partially reflected in the conditions that apply to the individual loans concerned. What Norfund defines as its "loan portfolio" involves no accounts-related credit risks, since this has no book value. Generally speaking, the risks associated with loans are relatively high and by their very nature they should be considered more as equity risks than as traditional loan risks. The concentration of credit risks is not considered to be great due to the fact that Norfund is diversified as regards both its trading and geographical areas.

Liquidity risk
Norfund has no interest-bearing debts. An attempt has been made to show Norfund's liquidity risk by quantifying its contractual investments and its specific, planned projects under one item.

Note 14 Commitments

(Figures in NOK 1,000)	**Period covered by lease**	**Annual rent**
Premises in Munkedamsveien 45B	01.08.99-31.07.2009	2 027

Note 15 Merged items

Merged items in the profit and loss account:

	2003	**2002**
Losses incurred from the sale of operating assets	0	13
Other operating expenses	18 090	21 626
Total	**18 090**	**21 639**

Note 16 Debt

The company has no debts to joint ventures, or other closely related parties.

KPMG AS

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To NORFUND, a company under special law

AUDITOR'S REPORT FOR 2003

Respective Responsibilities of Directors and Auditors
We have audited the annual financial statements of NORFUND as of 31 December 2003, showing a profit of NOK 47,732,000. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. These financial statements and the Directors' report are the responsibility of the Fund's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion
We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards and practices, an audit also comprises a review of the management of the Fund's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion,
- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Fund as of 31 December 2003, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Fund's management has fulfilled its obligation in respect of registration and documentation of accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the profit is consistent with the financial statements and comply with the law and regulations.

Oslo, 3 March 2004
KPMG AS

Tom Myhre
State Authorised Public Accountant

Note: This translation of the Norwegian statutory Audit Report has been prepared for information purposes only

Norfund's business areas

DIRECT INVESTMENTS

FUND INVESTMENTS

MICROFINANCE

FINANCIAL INSTITUTIONS

Direct investments

ACTIVE PARTNER

Case history:

Restructuring of the Pan Marine Qingdao fish farm in China

DIRECT INVESTMENTS

Norfund's Direct Investments business area consists of commitments where Norfund places focus on both new operations with experienced partners and expansion investments in existing activities. Norfund is keen to invest together with Norwegian companies, but would also like to cooperate with other companies and development institutions. By engaging in board participation and exercising active ownership, Norfund seeks to promote the successful development of those companies in which it invests.

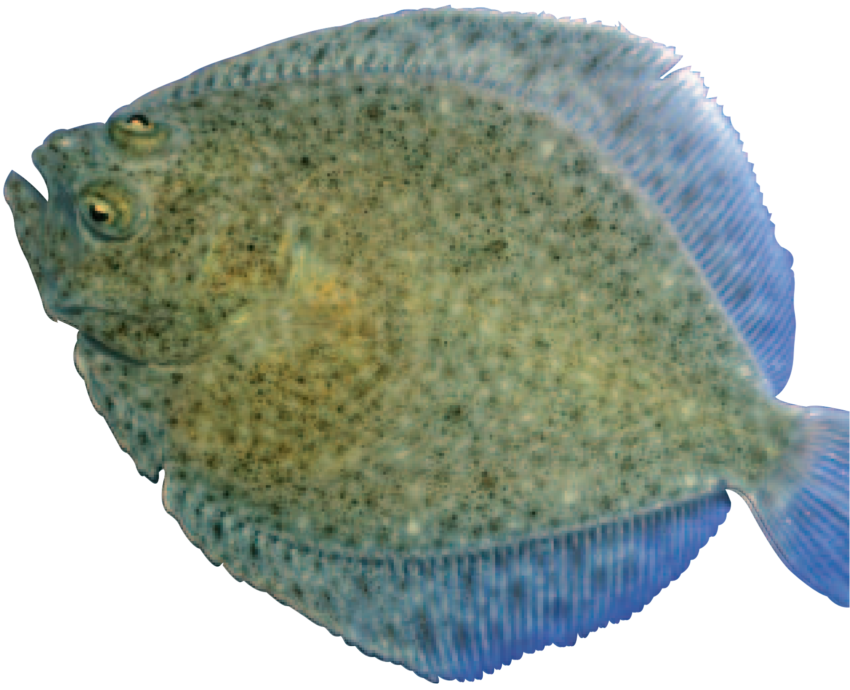
In its capacity as an active owner, one of Norfund's most important tasks is to help promote the growth and development of those companies in which it invests. As a financial participant, Norfund is basically supposed to take on a lesser ownership role, relying on partners with technological, market-related and operational expertise. However, sometimes external events occur which change the original assumptions, and which require intense attention and involvement in order for a project to succeed. One such example is Norfund's investment in Pan Marine Qingdao (PMQ). During the summer of 2002, Norfund entered into a partnership with the fish farming company Pan Marine and participated in funding a project in China relating to farming turbot. Norfund became involved in the project by injecting equity into the holding company, Pan Marine Qingdao AS, and received a 33.3% ownership stake and representation on the board of the company. Pan Marine, which was in turn controlled by its largest owner, Pan Fish, was the only other shareholder in PMQ, and it had an agreement making it responsible for the operation and management of the activities of the Chinese company. Due to financial problems at Pan Fish, the

"In its capacity as an active owner, one of Norfund's most important tasks is to promote the growth and development of those companies in which it invests."

strategic investment in white fish through Pan Marine was shelved. Pan Marine went into liquidation at the end of May 2003.

As a result of the liquidation of its industrial partner, Norfund had to make a decision about whether or not it wanted to maintain and continue running PMQ. After careful consideration of the situation, Norfund decided to continue its commitment to the project by finding structural solutions in collaboration with the former management of Pan Marine in Norway and China.

It was concluded that the PMQ project could not be isolated from Pan Marine's other activities in China, and a successful attempt was made to buy out all the company's operations in China and restructure the ownership of these companies. In connection with the restructuring of PMQ, the company's future operations needed to be secured by entering into new operating agreements and the injection of further capital. A share issue was undertaken, and at the same time a new loan was granted by Norfund. Restructuring operations were completed in September 2003. Norfund consequently now owns 49% of PMQ, while the remaining shares have been divided between the management of the company in Norway and China. Norfund's objective is to reduce its shareholding as soon as it is viable to do so.



Edible, farmed fish, represented here by a turbot, is one activity which has considerable potential in China.

By taking responsibility for the restructuring of PMQ, Norfund and the company's management have succeeded in strengthening this project in China. The most likely alternative would have been to wind down operations. Norfund is providing capital in order to secure the take-over and future operation of Pan Marine's other activities in China, which primarily consist of the company Pan Fish Shanghai Ltd. This is a sea food processing and distribution facility, and the company is still responsible for turbot sales, etc. Through its active role and formal board representation in these companies, Norfund will do its best to promote the success of the sea food projects in China.

DIRECT INVESTMENTS

(All figures in NOK 1,000)

BEFORE 2003	Country	Currency	Amount committed
Palnorec	Ecuador	USD	440
Sinor/Daiyoo	China	USD	2 379
Norfish Blagaj	Bosnia-Herzegovina	EUR	1 309
Genomar	Philippines	NOK	20 000
Future & Hope	Global	NOK	1 750
Pan Marine Qingdao	China	NOK	19 584
SNPI	Global	NOK	500 000
2003			
Fjord Marine Tyrkia	Turkey	NOK	25 000
Interkraft Nepal AS	Nepal	NOK	3 000
Safa Marine IndustriesLtd	India	EUR	94
Pan Fish Shanghai	China	USD	69
TC Trading	China	USD	27
Treefarms AS	Tanzania	NOK	4 000
WITHDRAWN FROM			
Maxi Vigas	Paraguay	USD	1 550
Jambo Roses	Uganda	USD	50
Jiffy Kenya AS	Kenya	NOK	3 000
Nividhu	Sri Lanka	LKR	10 800
Scancement	Bangladesh	USD	5 000

Fund Investments

STRENGTHENING LOCAL ENVIRONMENTS

Case history:

Aureos' East Africa Fund: medicine to combat poverty

FUND INVESTMENTS

By investing in equity funds, Norfund is keen to promote the formation of strong, competitive local administrative units which will be able to make investments in small and medium-sized local companies. Norfund's local partners identify and follow up investments in their capacity as active owners and help to promote the development of such companies by engaging in board work, strategic developments and securing good management of activities. Norfund and CDC Group Plc. jointly own the fund management company Aureos Capital Ltd., which manages 16 funds. In addition to injecting capital into the fund managed by Aureos, Norfund has also invested in a number of other funds. Fund managers represent a substantial local network and ensure that Norfund has a local presence in all its markets.

Shelys Pharmaceuticals Ltd. is Tanzania's leading pharmaceutical company and was the first company there to manufacture penicillin-based products.

During the summer of 2003, Norfund's jointly-owned company, Aureos Capital,established three regional investment funds in Africa. Just two months later the East Africa Fund (AEAF) was in a position to announce its first investment in the pharmaceutical company, Shelys Pharmaceuticals Ltd., followed by yet another investment before the year was over, this time in Safepak Ltd., which manufactures packaging. Shelys Pharmaceuticals Ltd. is Tanzania's leading pharmaceutical company and was the first company there to manufacture penicillin-based products. AEAF's investment in this company, amounting to USD 4 million, has made it possible for Shelys to undertake regional commitments, initially through its new, modern production line and the acquisition of Kenya's leading pharmaceutical company, BETA Healthcare International Ltd. It is thus able to retain its competitive abilities in the face of competition from the international pharmaceutical giants.

Due to the combination of Shelys' and BETA's pharmaceutical

products and their distribution channels, AEAF anticipates good synergic effects and strong growth. The plan is for the extended company – based in Dar-es-Salaam in Tanzania – to also become a key player in other parts of Africa. Raj Morjaria, a partner in the Aureos East Africa Fund, has stated that Shelys is a perfect initial investment, not just because the company is well run and profitable with good future prospects, but also because one of AEAF's main areas of focus is to inject capital and expertise into companies wishing to expand their operations across national boundaries. In addition to providing risk capital, AEAF is also providing expertise in respect of strategy, management and operations management, as well as a sound network. Aureos will help to ensure that Shelys' guidelines relating to health, safety and the environment are in line with the standards specified by the World Bank.

AEAF has also invested USD 2.9 million in Safepak Ltd., a leading manufacturer of packaging materials (polyethylene terephthalate) in Kenya. This investment is helping to extend and diversify the company's production capacity and forms part of its regional expansion strategy. The company purchases raw materials from South Africa and Malaysia. Its plastics can be recycled, but unfortunately no such recycling services are yet available in Kenya. Nevertheless, the company's health, safety and environment policy will be subject to ongoing review in accordance with those standards specified by Aureos and the World Bank.

Safepak enjoys a central location in Nairobi, and its customers include the largest food, drinks and pharmaceuticals manufacturers in Kenya and its neighbouring countries. In this highly competitive market, Safepak's design investment has proved to be successful. The company currently has approx. 70% of the market for plastic products of this type in Kenya.

DIRECT INVESTMENTS
(All figures in NOK 1,000)

BEFORE 2003	Country	Currency	Amount committed
Horizonte	Bosnia-Herzegovina	EUR	465
FEDHA Fund	Tanzania	USD	1 373
African Infrastructure Fund	Regional	USD	5 000
Indian Ocean II	Regional	USD	3 000
CAIF	Regional	USD	1 000
Msele Nedventures	South Africa	ZAR	12 000
SEAF Trans-Balkan	Regional	USD	5 000
CASEIF	Regional	USD	5 000
SEAF Sichuan SME Investment Fund	China	USD	3 000
Siam Investment Fund II	Thailand	USD	5 000
Horizon TechVentures	South Africa	ZAR	26 000
Aureos Central American Fund	Regional	USD	10 000
Minco	Mozambique	USD	840
2003			
Aureos East Africa Fund	Regional	USD	8 000
Aureos Southern Africa Fund	Regional	USD	12 000
Aureos West Africa Fund	Regional	USD	10 000

Through Aureos Capital, which is 50% owned by Norfund and 50% by CDC Group Plc. in England, USD 300 million is managed in 16 local investment funds. Some funds are currently undergoing an early investment phase (cf. the three new Africa funds), while others are in the process of reducing their investments. Such funds represent an efficient and rational way of channelling investment funds to companies in developing countries. These funds collect and distribute investment capital to countries such as Mozambique and Tanzania. The capital comes from most Western development funds and multilateral financial institutions such as IFC. The capital which is available to small and medium-sized companies in these countries will thus be greater than the capital which would have been available from the funds of individual countries. It is also easier for investors and the authorities in developing countries to relate to one player such as Aureos, rather than the investment funds in many different countries having to become involved in such countries.

Microfinance

FOR THE SMALLEST COMPANIES

Case history:

LA-CIF – a lender to the microfinance sector in Latin America

MICROFINANCE

Microfinance consists of bank services (loans and deposits) available for the smallest companies, many of which are individuals or small companies with up to 5 employees. There are a vast number of such companies in developing countries and impoverished population groups. They constitute an important part of local trade and industry and create a considerable number of jobs and provide substantial income for poor families. Norfund invests directly in commercial microfinance institutions (MFIs) or specialised funds. In this way Norfund helps to develop both jobs and new industry in small local communities.

LA-CIF (Latin American Challenge Investment Fund) achieves good results, showing a return on equity for 2003 of 15.6%. This fund grants loans to microfinance institutions (MFIs) and at the end of 2003 it had outstanding loans with 16 institutions in Latin America, divided between Nicaragua, El Salvador, Bolivia, Ecuador, Peru and the Dominican Republic.

It is important for LA-CIF's results that the Fund only has a few borrowers who are assessed very thoroughly and are followed up closely in monthly reports. Such borrowers are some of the best MFIs in the region and many of them are certified as microfinance institutions. LA-CIF is a trendsetter in the market, and a loan from the Fund is considered to represent a mark of quality. Access to expertise from LA-CIF's fund management company is also considered to be attractive.

Those MFIs which receive loans from LA-CIF then grant loans to small companies run by impoverished population groups which do not have collateral to acquire traditional bank loans.

LA-CIF is a trendsetter in the market, and a loan from the fund is considered to represent a mark of quality.

Typical customers receiving microfinance loans are individuals or small companies with up to 5 employees. They might be bakers, cobblers, local grocers, craft companies and various types of commercial enterprises, etc. Small and short-term loans to provide working capital or make investments in, for example, new machinery are essential if such companies are to be able to grow and, in many cases, to survive. Those MFIs supported by LA-CIF have as many as 500,000 borrowers from impoverished population groups.

Norfund, which plays an important role in the fund, is LA-CIF's largest shareholder with a 23% ownership stake. Norfund is represented on the board of the fund and is engaged in close dialogue with its management. Norfund has also been heavily involved in restructuring the fund in 2000/2001, during which time Norfund's representative served as the Chairman of the fund. This resulted in the replacement of a fund manager.

LA-CIF's current fund manager, Cyrano, had turned around the fund from being a loss-making enterprise when it was taken over in 2000, to being a fund which has achieved extremely goods results during the intervening years. Cyrano is currently engaged on launching two new funds: a mezzanine fund for Latin America and a global loan fund tailored to the same pattern as that which applies to LA-CIF.

MICROFINANCE
(All figures in NOK 1,000)

BEFORE 2003	Country	Currency	Committed amount
LA-CIF	Regional	USD	2 500
2003			
Micro Kenya	Kenya	KES	22 000

Financial Institutions

NICARAGUA

Case history:

Finarca – assists in the birth of small companies in Nicaragua

FINANCIAL INSTITUTIONS

Norfund's Financial Institutions business area comprises equity investments in and loans to financial institutions such as banks and finance companies, etc., and to microfinance institutions in those geographical areas specified in Norfund's strategy. Capital which is granted to such institutions in this manner is in turn channelled to a broad spectrum of borrowers in the respective market areas. Norfund therefore places priority on viable, professional financial institutions which have a potential for further development and which are engaged in activities that concord well with Norfund's own strategy.

Finarca is Nicaragua's largest leasing company and a pioneer in offering financing in order to promote growth in local companies. In a country with fluctuating economic framework conditions which involve huge risks, the company nevertheless manages to achieve a good return on its capital.

Finarca leases out production equipment to mostly small and medium-sized companies which are unable to obtain loans from the banks because they are not considered to be creditworthy or because they are unable to put up the collateral. Such equipment may include anything from bakery machines to fishing vessels. The leasing agreements normally cover a period of 2-4 years, and are worth between USD 10,000 and 300,000. For small companies the average is USD 23,000. Finarca has a total balance of NOK 110 million. In addition to equity, the company also has three loans from Citibank, IFC, Dutch FMO and the company's own shareholders. The company's main shareholder is a local company. The other shareholders are Interfin, which is Costa Rica's largest private bank, and Norfund, which has an 18% ownership stake.

3000 people are employed by those companies which use equipment funded by Finarca. Since 2001, Finarca has been partly operating as a bank. In addition to leasing out capital goods, the company is also able to receive deposits and provide short-term loans for working capital. Due to its change of status from a pure leasing company to a financing institution, Finarca is subject to regulation and inspection by the national bank inspection authority. The years 2000 and 2001 were difficult years for Nicaragua's financial sector, and two of the country's largest banks were declared technically bankrupt and were taken over by the bank inspection authority. Finarca, on the other hand, satisfies an obvious need in the market and has therefore been in a position to pursue its expansion plans. Lending increased by 89% in 2000, and by 43% in 2001.

Finarca is an example of a company which has managed to resolve some of the special credit requirements of small companies by employing relatively untraditional methods. At the same time Finarca is involved in filling an important role in the development of the credit market in Nicaragua.

Flexible start-up capital

Finarca in Nicaragua has succeeded because it is flexible. In the words of one of its customers: "We have a great relationship with Finarca. They tailor solutions for us and are much more flexible than the banks." Finarca provides loans to all sorts of companies, from dentists to restaurants and shoe factories. Just look at the small restaurant, Nika Pollo (which means "Nicaraguan chicken"), which has received a loan for USD 70,000. This will help them to expand and modernise the restaurant. It now has over 30 employees, who serve typical Nicaraguan dishes and food from Cuba and Colombia – the home countries of the owners. This mixed menu is so popular that other restaurants have copied it.

Competition is tough. Chicken restaurants are to be found everywhere, and the owners of Nika Pollo have therefore invested in kitchen equipment and personal service, with the slogan: "Whatever you want".

Finarca is an example of a company which has managed to resolve some of the special credit requirements of small companies by employing relatively untraditional methods.

FINANCIAL INSTITUTIONS

(All figures in NOK 1,000)

BEFORE 2003	Country	Currency	Committed amount
Finarca	Nicaragua	USD	4 100
2003			
CariFin	Cuba	USD	3 000

Development effects

One of the key premises for setting up Norfund is that investments in poor countries help to reduce poverty through economic growth and development. In this way Norfund contributes towards the work being undertaken to achieve several of its millennium targets. By providing small loans and acquiring ownership stakes in profitable, private companies, Norfund's investments help to mobilise the capital and knowledge necessary for creating jobs, fiscal revenue and the transfer of technology. By withdrawing from such companies after a few years and then reinvesting in new projects, Norfund is able to utilise "the same money several times" and thus achieve even greater development effects. It is easy to measure the financial return on Norfund's individual investments. The measurement of the social and environmental effects of investment projects is more demanding. Unlike financial information, there are no established frameworks which can be used for measuring such conditions. It may also be difficult to separate out the effects of Norfund's investments from other macroeconomic conditions which affect companies, local populations or the environment.

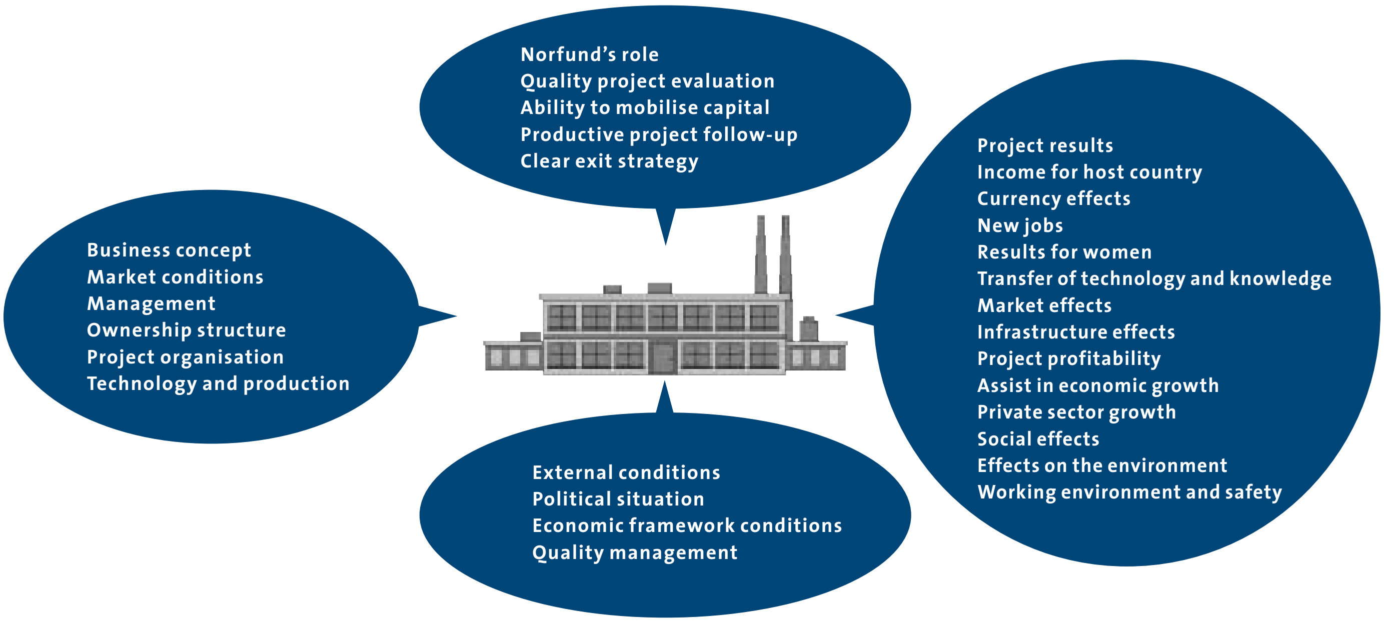
It is equally important to measure results on a triple bottom line in order to know how well we achieve our mandate as a development institution. The work undertaken by Norfund to maximise the development effects of the Fund's investments can therefore be divided into two phases. Firstly, we ensure that our investments comply with international standards relating to the environment, the working environment and human rights. This has been a natural area of focus during Norfund's development and investment phase. Secondly, Norfund is keen to develop measurement tools which would better enable it to describe and report development effects in a more systematic manner.

One of the first things Norfund did was to develop an environmental policy which also encompassed social and work-related issues. The principles which were adopted in this context involved basing all

Effects on employment:

Effects on employment:
At the end of 2003 there were 2,500 employees working for companies in which Norfund had made direct investments. There were 33,000 employees working for companies in which Norfund had made investments through local investment funds.

Assessment of investment projects



investments on internationally accepted standards, e.g. the ILO's core conventions. Another target is to identify opportunities for improving social or environmental conditions. For example, Norfund focuses on HIV/AIDS, which it sees as an important industrial challenge and it provides practical advice and tasks its investors and projects with obtaining a response from the companies involved. This is quite natural for Norfund, since one of its main objectives is to promote the development and welfare of the world's most impoverished countries.

The struggle against corruption is another focus area for Norfund. Corruption in trade and industry or other arenas presents a serious obstacle to investment, economic growth and fair distribution. It is important that we show that the best results can only be achieved by engaging in open and honest business transactions, even in countries which are perceived as being difficult or corrupt. We are convinced that the stipulation of strict requirements in respect of integrity and compliance with strict standards in trade and industry are long-term competitive advantages. This is also an important reason as to why Norfund is willing to make investments, along with Norwegian companies which are consistently known for their openness and integrity when engaging in business.

The next step for Norfund is to undertake more systematic measurements of the Fund's development effects. This includes analysing both the positive and any "adverse" effects of investments. How many jobs have been created, what sort of technology and knowledge have been transferred? Have investments in the form of taxes and duties helped the country in question to provide better education or health care? We need to know whether or not our investments are helping to improve conditions for women, since this usually produces a positive effect as regards reducing poverty. In order to boost the effects of our efforts, it is also important for us to know how much capital is catalysed due to Norfund's presence. Finally, we must try to establish whether or

not a project has an acceptable effect on ecosystems and the natural environment.

When planning a system designed to measure development effects, we discuss the experience acquired by our sister organisations and learn how they have quantified important development effects which are difficult to measure. The system which we are hoping to design will enable us to collect data about those circumstances that are most crucial to being able to maximise both returns and development effects. Norfund has always basically believed that it is only possible to maximise positive knock-on effects in impoverished countries by having permanently profitable companies. We also know that those projects which produce a poor yield in a social or environmental context are not usually successful from a financial point of view. The figure on page 33 illustrates some of the many conditions that have to be taken into account by such a measurement system. It is obvious that our system needs to be developed gradually and in a pragmatic manner.

In order to meet our overall objective of helping to achieve long-term added value for those companies which are financially, socially and environmentally sustainable, their development effects need to be broadly integrated into Norfund's value creation process. In practical terms this means that project quality must be defined over and above traditional return requirements. In turn this means that project managers must possess knowledge about both the environmental effects and the many social and socioeconomic conditions that are affected. As already mentioned, such knock-on effects need to be analysed and assessed as soon as possible when considering an investment. Finally, all effects must be followed up during the life of an investment in order to realise Norfund's ambitions for a more comprehensive external reporting.

The systematic measurement of development effects provides knowledge about those sectors and countries in which our investments can produce the greatest effects.

Micro Kenya

Norfund's investments in small companies in 2003 included an investment in Micro Kenya, a Kenyan company which provides unsecured loans on a commercial basis to private individuals and small companies in Kenya and Uganda.

This company satisfies a huge requirement because there are large numbers of people – particularly people on low incomes – who are unable to obtain loans from ordinary banks – even though they are solvent. Micro Kenya does not stipulate any conditions for the pupose of the loan, as long as the borrower is considered to be solvent. It has been shown that many people use their loans to set up some form of enterprise, build a house or cover the cost of their children's education. In countries where the public authorities are unable to ensure a good education or health service, access to such lending facilities is important and results in excellent direct development effects. This has become apparent following an in-depth study of Micro Kenya's loans which are funded by Norfund.

Effects of investments in developing countries

Many studies have been carried out on the various effects of foreign investments in developing countries, e.g. relating to the transfer of technology or knowledge such as modern management, etc.

Competent and responsible owners transfer knowledge about production processes, product quality, marketing and good working conditions to the companies they own. This produces a beneficial knock-on effect both upstream and downstream in the value creation process. Because local businesses copy or learn from such companies, such knowledge is spread far beyond the company in which Norfund has an ownership stake.

There may be several types of knock-on effects. For example, the establishment of a new company will indirectly result in the establishment of new providers of capital goods due to an increase in demand. This will in turn provide favourable conditions for growth for several local companies in the downstream market.
Nevertheless, several local factors will affect the extent to which a company stimulates the establishment of such a dynamic network. Local knowledge and capacity levels are essential, but institutional and political framework conditions are equally important.

This has become apparent in an economic dissertation carried out at the University of Bergen and for which Norfund funded the field work that was carried out in Kenya and Tanzania in 2003. The dissertation attempted to provide a deeper insight into the development effects that occur as a result of foreign ownership, in the form of boosting the innovative abilities of local companies. The maximisation of so-called "free" knock-on effects, or "spill-overs" as this is referred

to in the trade literature, is primarily a matter for the local companies and host nation. The extent to which a local economy manages to assimilate such knock-on effects is dependent on a number of factors, such as the ability to absorb and use new knowledge, as well as competitive and market conditions.

Energy for development

In 2003, Norfund continued to pursue its heavy involvement in the field of renewable energy by further developing its 50%-owned company Statkraft Norfund Power Invest AS.

This is justified by the development challenges posed by the fact that between 1.7 and 2 billion people do not have access to electricity and just as many have poor electricity services. In Africa only 10% of the population have access to electricity. Generally speaking the electricity generated in developing countries is both expensive and erratic, with frequent power cuts.
The reduction of poverty is conditional on economic growth. There is a clear connection between access to electricity and economic growth. Numerous examples exist of how electricity helps to promote human development and a better life. Access to electricity makes it possible to provide better social services in respect of health, education and communications.

One of the most important current causes of death and disease in developing countries is indoor air pollution caused by burning biofuels. Around 2 million people die each year from this; more than those who die from tuberculosis, HIV/AIDS and malaria. The collection of biofuels is also a very time-consuming business and means that women in particular have to spend up to several hours a day on obtaining wood and fuel. In some areas this also results in deforestation.

Electricity is not an end product, but a capital factor which increases people's quality of life and helps to promote economic growth. Access to electricity gives lighting, which makes it possible for children to study after nightfall. Electricity enables people to preserve food or store vaccines at hospitals. Access to electricity also provides quite different opportunities in respect

of the use of tools and other aids which are necessary in order to increase productivity in most sectors of society. Access to electricity makes it possible to drill for and transport pure water, something which results in substantial health benefits. At the summit on sustainable development held in Johannesburg in 2002, electricity was picked out as a priority means for reducing poverty. It is estimated that it will be necessary to invest almost 6 thousand billion US dollars in the electricity sector in developing countries over the next 30 years. It is thought that hydroelectric power would be able to cover a substantial percentage of the increase, which would be necessary in order to attain The Millennium Development Goals of poverty reduction. At the same time many large investors in the energy sector have pulled out of developing countries due to the high risks involved.

Global warming, which is partly attributable to emissions of fossil fuels, is considered to be one of the greatest threats to sustainable development. Climate changes are threatening the safety of food products, resulting in greater risks of flood, drought and other extreme climatic conditions and increasing incidences of malaria and other insect-borne diseases. Climate changes affect poor countries disproportionately hard. It is necessary to invest in renewable resources in order to achieve sustainable development in respect of electricity generation and in order to avoid emissions of greenhouse gasses. This is the reason why Norfund has opted to enter into partnership with Statkraft in order to develop Statkraft Norfund Power Invest. SNPI's business concept involved linking Statkraft's 100 years of experience in respect of the development of pure and environment-friendly hydroelectric power with Norfund's expertise in respect of private investments in developing countries. During the next few years, a number of investments are being planned which will satisfy the most stringent requirements in respect of environment-friendly and socially responsible hydroelectric power development. In its capacity as one of several large companies which will be investing in developing countries, SNPI thus constitutes an important contribution towards reducing poverty and improving the living conditions of people in impoverished countries.

Education is essential

Norfund has prepared an information kit for business development for sixth form colleges. Employees involved in three of Norfund's investments have been interviewed about their dreams and ideas.

A common opinion shared by these three employees is that income should be used to secure the education of children. Education is the top priority for Norwegian development cooperation work. This example shows how important work and an income are for the achievement of this target.

"I'm working for my daughter. I want her to have the chance to go to school," says Julia Aide Castro (22), a single mother in El Salvador. Julia is one of 800 people who work at the Godan lighting factory, which is one of Norfund's investments made via the CAIF fund.

Yang Yie works as a safety officer for Pan Marine Qingdao in China – one of Norfund's direct investments. When interviewed he said that: "It means a lot to us to have a better income ... Most of my savings will go towards our daughter's university education."

On the Gomba Horticultural Estate in Arusha in Tanzania, where Norfund has invested through the Fedha fund, Leah, the wife of one of the 650 employees says that it is very important that Daniel has a permanent job. The family of five can then plan for the future and know that they have enough money for their children's schooling and food for the whole family. The family's top priority is to ensure that their three children have an education and a good life.

"I'm working for my daughter. I want her to have the chance to go to school."

International network

Cooperation with other organisations is useful for the exchange of information and the joint-funding of good projects. It is also necessary to collaborate on framework conditions for investments in developing countries.

Norfund enjoys close contact with its European sister organisations and with organisations in the World Bank and the UN system. Close cooperation has been established with CDC Capital Partners through Aureos Capital. Norfund also has joint venture agreements with the International Finance Corporation (IFC) and NORSAD.

Norfund also cooperates with the Multilateral Investment Fund (MIF), the Inter-American Development Bank (IDB) and the European Investment Bank (EIB). Norfund is a member of the European Development Finance Institution (EDFI) and the European Private Equity and Venture Capital Association (EVCA). Norfund also has regular contact with the authorities in its partner countries and with Norwegian agencies such as NORAD (the Norwegian Agency for Development Cooperation), GIEK (the Guarantee Institute for Export Credits), and Innovation Norway.

CDC: CDC Capital Partners. British financial institution. Joint owner of Aureos Capital with Norfund. Invests risk capital in profitable activities in developing countries.

IFC: The International Finance Corporation is the private investment division of the World Bank group in Washington DC. IFC seeks to promote economic growth in the private sector in developing countries. IFC has approx. 170 member countries and provides loans and equity for joint financing in foreign and local capital.

IDB: The Inter-American Development Bank, Washington DC. Development bank providing long-term loans to various development projects in Latin America and the Caribbean, with particular emphasis on the social sector. The IIC, Inter-American Investment Corporation, and the MIF, Multilateral Investment Fund, are both subsidiaries of IDB.

SEAF: Small Enterprise Assistance Fund (SEAF) is an American fund management company based in Washington DC. SEAF specialises in undertaking profitable investments in small and medium-sized private enterprises (SMEs) in developing countries.

NORSAD: Loan institution owned jointly by SADC (Southern African Development Community) and the Nordic countries.

EDFI: European Development Finance Institutions is a group of development finance institutions in the EU.

EVCA: The European Private Equity and Venture Capital Association. An association representing European venture capitalists.

This is a translation of Norfund´s Annual report 2003 (Norfunds årsrapport 2003). In the event of any conflict in interpretation, the Norwegian original takes precedence.

It is Norfund's objective to reduce poverty by investing risk capital in profitable commercial activities in developing countries.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