Annual report

[2003]

GIEK GARANTI-INSTITUTTET FOR EKSPORTKREDITT

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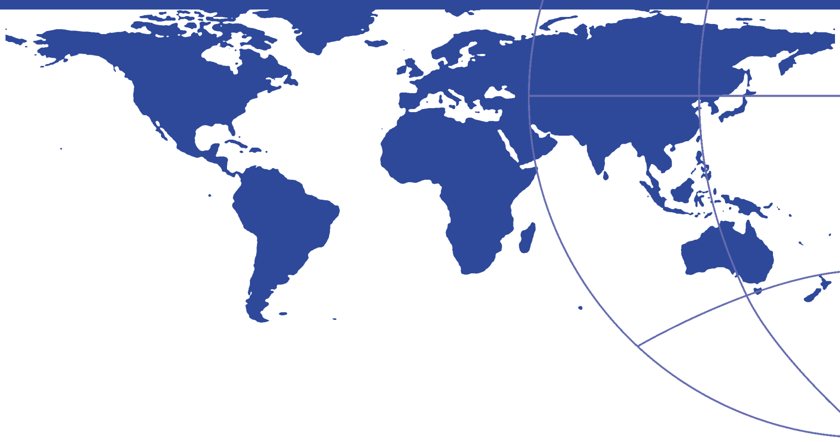

This is GIEK

GIEK's objective is the promotion of Norwegian exports and Norwegian investments abroad through the issuance of guarantees on behalf of the Norwegian State.

GIEK offers coverage of commercial and political risks of exports and coverage of political risks of international investments.

GIEK's guarantees are designed to be competitive with corresponding schemes in other countries.

GIEK guarantees are awarded in compliance with international agreements.

GIEK's activities are required to break even over time.

GIEK is a supplement to the private commercial assurance and guarantee market.

GIEK guarantees can cover risks from the contract offer through to receipt of payment.

GIEK has built up, over 75 years of operation, a solid fund of expertise in the professional assessment of commercial and political risk.

GIEK is a public enterprise with an independent board which has decision-making authority.

GIEK Kredittforsikring AS covers credits maturing at less than two years.

DET KONGELIGE
NÆRINGS- OG HANDELSDEPARTEMENT

Royal Ministry of Trade and Industry
The Minister

Garantiinstituttet for eksportkreditt
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Deres ref	Vår ref	Dato
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Congratulations on 75 years in the service of business

For over 75 years, Government export guarantees have been a key instrument in the promotion of Norwegian companies' exports and internationalisation.

From a total guarantee budget of NOK 15 million at the outset in 1929 GIEK now assists directly and indirectly with export contracts worth close on NOK 20 billion a year. The amounts involved demonstrate the evolution that has occurred in Norwegian economy and trade over the past 75 years.

Active participation in international trade has been one of the main pillars of Norwegian economy and welfare. The recognition of this fact has underpinned the nation's trade and industry policy for the entire period. At the same time Norwegian export guarantees have a history of innovative development: issuing guarantees for new products, backing commitments to far-away lands, or deploying new guarantee instruments – yet always retaining the flexibility to adapt to new realities.

GIEK has also been a prime mover in the international efforts to harmonise the assortment of terms and conditions offered by guarantee institutes. This harmonisation ensures a stable competitive platform and is a crucial factor in international trade.

For 75 years, GIEK and its forerunners have provided Norwegian exporters and financial institutions an attractive and dependable guarantee structure. I am convinced that GIEK will continue to play a central role in the imperative to protect Norwegian interests in our export markets.

Yours sincerely

Ansgar Gabrielsen

Stability crucial

2003 was a busy year at GIEK. Record numbers of new offers and guarantee liabilities were fielded at the same time as the entire organisation was embroiled in commissioning and testing our new accounting and business system. There was also a modest increase in defaults.

The war in Iraq has been a major factor in 2003. GIEK has been diligent in following developments there and has succeeded in promoting an open approach to most countries in the region. More than the usual numbers of projects were up for consideration in Middle East countries, yet the risk exposure in the region remains fairly modest.

We were pleased to see the continuing great popularity and usefulness of the guarantee and assurance instruments for Norwegian commercial ventures abroad. In an age of strong competition and a global economy, many Norwegian companies have successfully reorganised their activities. Some companies relocate production overseas, or team up with suppliers from low-cost countries, leaving the design, completion and sales as the major Norwegian contribution to such contracts. GIEK has taken this on board, adjusting to offerings that are more flexible. Many of our new guarantee projects, incidentally, are now for purely service exports.

With the lower interest and NOK exchange rate, it is reasonable to hope that exports will experience an upswing in the year ahead. GIEK's contribution in offering exporters equal terms with their international competitors, is on the one hand to exploit the freedoms which our frameworks and prudent operation permits, and on the other to work towards a sober and universally binding international rulebook.

The international regulations have indeed become more mandatory in recent years. We see, too, that ever more countries are setting up guarantee institutes similar to our own. In GIEK, we are keen to be positive to international cooperation in order to maintain a level competitive playing field.

Since the 1950s GIEK has been a member of the international federation of guarantee institutes, the Berne Union. Through this organisation, we help new institutes establish robust systems, and, no less significant, make sure that sound principles underlie their guarantee operations. In time, these institutions will work as partners in the sense that we share information, they will be involved as reassurance partners in multinational contracts, and some of them might also underwrite guarantees for imports from Norway. We are very pleased that the Berne Union has scheduled one of its two annual meetings in 2004 for Oslo, in May.

«The fact that so many nations are now establishing guarantee institutes only proves the worth of this type of instrument.»

The fact that so many nations are now establishing guarantee institutes only proves the worth of this type of instrument. It shows, too, that it is the most effective method of providing national industry with equal terms for funding and guarantees.

The organisation that has taken root in Norway, where GIEK is an independent public enterprise with an independent board of directors, assures the transparency of the government offerings. At the same time it insures against the intermingling of state support and any suspicion of cross-subsidies and favouritism.

GIEK has been delegated the authority to operate the state guarantee system. Operations over 75 years have been stable and steadfast and provided security and predictability for users. Although many export contracts take years to negotiate to conclusion, exporters have been able to rely on long-term consistency from the guarantee provider. Occasional losses and political upheavals should not be allowed to upset this consistency, which is of the utmost importance if our outward-looking companies are to harvest export success.

Erling Naper, Managing Director

Highlights in 2003

- Great increase in numbers of applications, offers and liabilities taken on, but decline in average volume of each project
- Increased premium income and reduced claims payments mean significantly improved profit figures
- Total outstanding guarantee liability was similar to last year
- Environmental guidelines were revised to accord with OECD treaties
- Loss provisions for commercial risk were expanded
- Indonesia and Pakistan commenced repayments and GIEK once again permitted new guarantees in Indonesia
- Space for new guarantees in Developing Country Scheme
- New integrated accounting and business system entered service on 1st January 2004
- Increasing popularity of investment guarantees
- Bjørn Kaldhol elected new chairman

Key figures for General Guarantee Scheme

	2003		2002		2001		2000	
During year	Cases	Value	Cases	Value	Cases	Value	Cases	Value
New applications	221	9 035	150	14 556	150	19 746	157	12 583
New offers	137	6 481	108	9 458	95	9 066	111	10 924
New liabilities covered	114	3 238	75	3 562	83	2 680	65	2 129
Premium income		137		110		116		93
Claims payments		79		95		47		55
Recoveries		9		3		9		8
Operating surplus / deficit		89		55,5		-78,1		-1,4
Annual surplus / deficit		110		61,7		-45,4		20,7
At year-end								
Outstanding offers	58	2 983	79	8 920	71	7 691	77	7 015
Outstanding guarantee liability	280	10 902	239	10 959	249	10 540	237	8 972
Outstanding receivables		288		229		155		106
Provisions for contingent liabilities		707		670		608		481

Committed to exports for 75 years

For 75 years, state guarantees have been a key instrument in support of Norwegian exports. Throughout the period, consumer goods have been the backbone of our exports, so that short-term customer credit guarantees have always been the predominant GIEK product.

1920s

1960s

1920s: Each year the Norwegian Storting would pass a resolution supporting the export of salted fish, herring and aluminium to the USSR.

1929: Russia Commission established to put guarantees on a more permanent footing. Exposure limit of NOK 15 million.

1930s: In 1934, the scheme was expanded to all countries and the name was changed to the National Export Credit Commission. Guaranteed exports continued to reach the USSR and now principally also Germany, Italy, Greece, Spain and Brazil. The scheme was only offered for short-term credits where the import country pledged a government guarantee.

1940s: During the war guarantees were issued on a special case authority only. After the war, the urgency of expanded frameworks was felt and in addition to fish, paper products, machinery and ships were also incorporated. In 1948, arrangements were made to cover insolvency and extended credit periods and a guarantee fund was set up.

1950s: In 1951 GIEK joined the Berne Union, an international federation of guarantee institutes. By the end of the decade the exposure limit had expanded to NOK 150 million and the guarantee fund to NOK 5.7 million.

1960s: The name GIEK was now introduced, in 1960. The reins of the institute were slackened and a council was formed with members from organisations with an interest in exports.

The Norwegian State export guarantee system has roots going back to the Great War of 1914-18. In 1929, the Ministry of Trade set up a special permanent commission with its own Trade Minister – the Eastern European Office of Trade – to administer and issue guarantees. The purpose of these guarantees was primarily to reduce unemployment and prevent reductions in manpower, especially in the fisheries. Starting in 1934, the scheme was expanded to embrace all countries.

Export activities have altered almost beyond recognition since then. Even though fish and fishery products have been key exports in Norway throughout the period, fisheries as an export industry has totally changed. Today aquaculture and fish-farming equipment are our main segment. Other industries, like furniture, pleasure craft and textiles, have also had their day in the GIEK guarantee portfolios. Now there is little left of these industries in our books. Ship exports have been a vital export sector throughout the period, yet we now underwrite fewer policies for fishing vessel contracts. Most of our exposure in shipping is now on special-use offshore ships.

GIEK guarantee products assumed their modern shape shortly after the war and have changed little since. The main products remain coverage of payment capacity and the debtor's payment performance. The principles whereby the exporter (or finance house) carries a level of own risk and accumulated premium income is ploughed back to cover future losses remain in place. Other stable factors have been the opportunity to receive cover for loans in foreign currency and coverage of inputs of foreign origin, subject to certain limits.

Throughout these three-quarters of a century, GIEK has enjoyed a relatively free position, being permitted to define for itself what constitutes prudent risk. A notable exception was the Ship Export Campaign of the 1970s where political forces took the helm. The backlash in the aftermath was a severe blow to exporters needing guarantee offerings. In 1994, GIEK stepped onto a new platform as a public enterprise working to a net budget. Historically this may seem to be a restoration. In fact, the guiding principles for the reorganisation still apply. There seems at this time to be a broad political acceptance that this is now the right organisational embodiment for the State's export guarantee operations.

The limit expanded to NOK 1 billion and a special Developing Countries Scheme was devised for exports and investments in the Third World. Exports of services were now also eligible and guarantees were made towards overseas banks.

1970s: Great interest in safeguarding equal competition rules by means of international cooperation, although a proposal for a common Nordic guarantee institute failed. Oil crisis and dollar crisis triggered the establishment of the exchange rate guarantee scheme in 1975. To combat a slowing economy, the «Ship Export Campaign» was founded which included interest support guarantees. The Ship Export Committee and two other government-appointed committees pushed the guarantee cases through. Defaults and claims payments escalated as the decade drew to a close.

1980s: Ship Export Campaign and debt crises in Poland and Mexico meant heavy disbursements. GIEK was forced to sue Norwegian companies to recover losses under the SEC. The guarantee fund dried up and GIEK had to go to the Treasury for a loan. Terms were severely tightened. The State would provide simple guarantees and only cover 50 per cent. The premiums were dictated by royal decree. Manpower was significantly expanded, not least to tackle the mass of recovery cases.

1990s: Pressure from the export community led to a recommendation to reorganise. The Storting waived its

recourse claims and GIEK could conclude legal recovery from a series of export companies. The proportionality rule for risk division and ban on ship financing was repealed, and the independent board of directors was instituted. Exposure limits were expanded, and the CIS/ Baltic States schemes were established following political liberation in Eastern Europe. Recovery efforts were highly successful and the Institute's debts to the State were repaid. Heavily Indebted Poor Countries (HIPCs) and lands in economic crisis were offered debt relief.

2001: Initiatives from the EU and EEA resulted in a split off of customer credit guarantees in a separate company, GIEK Kredittforsikring AS.

Insurance and criteria for funding

GIEK's range of guarantee products ensure payment when selling to a country abroad. The guarantees also often provide one of the criteria subject to which Norwegian and international banks will provide needed funding. All OECD countries and many others have similar guarantee institutes in their service. Collectively they guarantee exports worth 500 billion US dollars every year. The schemes offered to Norwegian companies by GIEK provide as good terms and conditions as those enjoyed by competitors abroad. Credit guarantees with a maturity of two years or less are now handled by GIEK Kredittforsikring AS, a fully owned corporate subsidiary of GIEK.

On the behalf of the Norwegian State, GIEK administers a pair of guarantee schemes: the General Guarantee Scheme, which is the most popular offering, and the Developing Country Scheme, which deals with risks involved in dealings with specific developing countries. Both schemes offer six categories of guarantee: Buyer's Credit, Supplier's Credit, Pre-shipment, Investment, Letter of Credit, and Bond. Other specially adapted guarantees can also be offered.

BUYER'S CREDIT GUARANTEE

The Buyer's Credit Guarantee is GIEK's most in-demand product designed to safeguard repayment of a loan given to an overseas company to purchase Norwegian goods or services.

The guarantee covers repayments and interest and may be denominated in NOK, an acceptable international settlement currency, or local currency. This type of guarantee is particularly appropriate for longer tenors and is often a necessary condition of Norwegian and international bank involvement in loan funding of an export contract.

In order for such a guarantee to be offered, the sale and loan conditions must comply with the OECD «Consensus» conditions. These regulate the level of cash payment, maturity time, repayment plan, etc. The guarantee may be to cover commercial risk (risk of loss due to bankruptcy or insolvency of the buyer) and/or political risk (risk of non-settlement due to government intervention, hostilities, confiscation, etc and losses from sale to a government agency).

GIEK can cover up to 90 per cent of the credit amount for commercial risk and up to 100 per cent of the credit amount for political risk. Normally the exporter will file the application whilst the guarantee is written to the lender directly. The guarantee only covers credit periods after delivery.

SUPPLIER'S CREDIT GUARANTEE

GIEK's Supplier's Credit Guarantee secures repayment of credits given by the supplier to an overseas buyer. It covers credits that the exporter gives and loans that a financing house gives in return for the exporter's payment claims (invoices) on the buyer.

The guarantee can cover up to 90 per cent of the credit amount for commercial risk and 100 per cent for political risk. Guarantees are only available for credit periods after delivery. The currency, sales and credit conditions are the same as for the Buyer's Credit Guarantee and the offering is mostly used for credits maturing at 2–5 years or involving relatively small amounts.

CONTRACT GUARANTEE

The Contract Guarantee seeks to provide security against losses that may arise during the production period, such as if the buyer files for bankruptcy. The Contract Guarantee is especially aimed at long production periods and tailormade products. In case of breach, the exporter will often be left with a product that he cannot sell. The guarantee covers both his commercial and political risks for such a breach of contract. The maximum risk amount that GIEK will cover is the net costs arising due to the export contract prior to the buyer's contract breach. GIEK can cover up to 90 per cent of the commercial risk and normally up to 95 per cent of the political risk.

LETTER OF CREDIT GUARANTEE

The Letter of Credit Guarantee covers the non-fulfilment of a LC contract. The guarantee is mainly seen as a risk moderator for the exporter's banking associate.

INVESTMENT GUARANTEE

The Investment Guarantee covers the political risk that Norwegian investments and assets abroad may be subject to. The guarantee can also underwrite loans associated with such investments. The cover includes such factors as loss due to hostilities, currency restrictions and other government intervention – including boycott decisions by the Norwegian government. GIEK can also cover contract breach by other governments and public agencies in the host country. An investment guarantee may be issued to the investor or the lender.

BOND GUARANTEE

GIEK's Bond Guarantee covers the international buyer's risk when making a purchase from a Norwegian supplier. It is available as a bid guarantee, upfront payment guarantee, or performance guarantee. Normally it is pledged in the form of a bank guarantee (bond) in the name of the buyer and GIEK will assist the bank with up to 50 per cent of the risk. A bond guarantee is appropriate for instance if a ship is constructed in Norway on behalf of an overseas shipping company. The guarantee provides security to the buyer for the upfront payments and that the product will fulfil its contractual requirements. If the buyer calls on the bond, the bank and GIEK have recourse to the exporter. GIEK also offers a separate guarantee against unfair calling on bonds.

CONTRACT GUARANTEE: Nexans Norway negotiated a large contract for power cables for Saudi-Arabia in 2003. The order was secured by a contract guarantee from GIEK in part due to the extended production time.

Risks covered by GIEK export guarantees:

- Risk of credit sales
- Risk of financing buyer
- Risk of contract breach before delivery
- Risk related to bidding, upfront payment, and payment requirements pledged by Norwegian supplier to overseas buyer
- Risk that buyer invokes guarantees unfairly
- Risk of foreign component in Norwegian export contract
- Risk of subcontracts in a transnational project
- Risk of outfitting contracts for ships and drilling vessels built abroad
- Risk of long-term funding of ships and drilling vessels for Norway-registered owners when supplied to ships for foreign trade or mobile rigs.

GIEK KREDITTFORSIKRING AS – Short-term credit guarantees

Customer credits maturing at two years or less are covered by GIEK Kredittforsikring AS («GK»), a wholly owned subsidiary of GIEK. The subsidiary operates in a transparent, commercial market according to the rules laid down in the European Economic Area agreement.

GK principally works to secure claims on overseas buyers. Subject to certain conditions, claims are also secured on Norwegian buyers who figure in the export company's portfolio. GK can also cover pre-delivery risks, which are the costs accruing prior to delivery, provided the total risk period (production period plus credit period) does not exceed two years. The cover will insure maximum 90 per cent of the claim in question.

GK will cover risks in the most well-off OECD countries («marketable risk») and also in other countries («non-marketable risk»). The latter is reassured in GIEK whilst other risks is reassured in the private market. GK has operated in its present form as a commercial corporation since 2001 and reported a total guarantee volume of NOK 9.5 billion in 2003, up 13 per cent from the previous year. GK underwrites sales from more than 200 export companies with the focus on fish, paper and metals. A key object at GK is to provide risk cover for small and medium sized export businesses and more than 80 per cent of the customers are SMBs.

Roughly 80 per cent of guaranteed sales are made to the most well-off OECD countries, with Germany, Britain, Italy and France the main takers. In the category «non-marketable risk», Turkey and Poland were the major markets for GK guarantees in 2003.

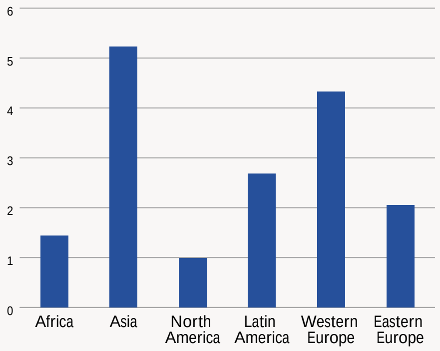
Liabilities largest in Asia

Altogether, GIEK underwrote export contracts worth NOK 8.5 billion in 2003. New policies in Romania, Malaysia and Turkey were the main contributors, whilst Qatar, Mexico and Vietnam attracted the most new offers.

By year's end, GIEK had taken on liabilities (including offers) of NOK 16.7 billion. The largest commitments occur in Norway, then Turkey and Indonesia. Measured according to market area, Asia represents the largest guarantee commitment. The reason we find Norway among the receiving countries is that GIEK can guarantee for deliveries of ships and ship gear for Norwegian buyers if the vessel is destined for foreign trade or offshore operations. In Asia GIEK's commitments are most extensive in Indonesia and China. Western Europe ranks next due to the heavy exposure in Norway and Turkey, which now attracts a great deal of Norwegian capital goods export. Following in sequence come Latin America, Eastern Europe and Africa. In Latin America, the greatest exposure is in Mexico and the Dominican Republic, whereas closer to home Romania and Russia provide the major markets in Eastern Europe. Africa's Tunisia and Equatorial Guinea are the two leading markets on that continent where guarantees come under the GIEK General Scheme. Indeed, more than 90 per cent of GIEK guarantees come under the General Scheme, where ships and shipboard equipment are the dominant fields measured by value, followed by telecom components and power generation systems.

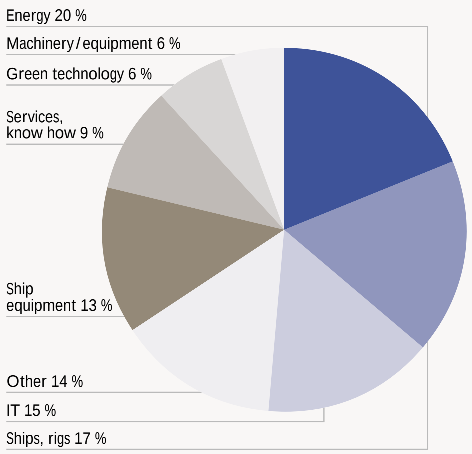
Most in Asia

NOK billion



Asia is the largest market for GIEK customers. Ship contracts for Norwegian owners, performance bond guarantees for international customers of Norwegian companies, and contracts in Turkey are part of the picture for Western Europe.

Great range



GIEK guarantees are employed in most industries. «Services, knowhow» and «Energy» are increasing most rapidly.

Guarantees led to increased contract value

Helped by GIEK guarantees, Rolls-Royce Marine, based in Longva near Ålesund, was able to land two ship equipment contracts in Turkey together worth NOK 50-55 million. The guarantees were the key to securing such large contracts, insists Børge Nogva, Vice President Sales in Rolls-Royce Marine.

«If we hadn't been able to offer long-term financing of these contracts we could only have supplied a few separate products. Instead, we have signed up for massive system deliveries of engines, propellers, thrusters, deck machinery and automation systems,» comments Nogva. «In Turkey we talk directly to the shipowners and thanks to the funding we achieve a far closer association than if we simply acted as suppliers of individual products,» he explains.

Nogva insists that there is a great strength in being able to offer system deliveries and financing in a package. «This is something that has been used far too little by ourselves and other ship equipment suppliers,» he confides. Incidentally, he describes Turkey as the best market for shipping equipment in Europe. Turkish shipyards have expanded enormously in recent years and 40 per cent of all new small tankers are built there. Ever more newbuildings are also being fabricated for international owners at Turkish yards.

SYSTEM DELIVERIES: Financing with GIEK guarantees facilitated large contracts for shipboard equipment systems to Turkey from Rolls-Royce Marine.

State backing brings down loan costs

GIEK guarantees are State-backed. This means that banks and other financial institutions need not set aside capital for loans guaranteed by GIEK. A GIEK guarantee can thus help make for a cheaper loan than non-State underwriting. This even holds true for top rated customers. In some cases, the result more than compensates for the guarantee costs.

The reason for the difference is found in the international rules for risk weighting of loans, which more than 100 nations have adopted in their national legislation. The weighting indicates how much of the equity and other subordinated loan capital banks must put behind each loan to different categories of borrower. The system means that the Norwegian State has a weight of 0 per cent, banks have 20 per cent, and industrial companies have 100 per cent.

Norwegian financial legislation requires 8 per cent subordinated capital to be set aside for each loan. For a loan of NOK 10 million to an industrial company, this means NOK 800,000 in reserve. If the loan on the other hand is guaranteed by GIEK, no reserve is required. New rules for risk weighting will be introduced from 31st December 2006. The new rules will continue to weight government-backed loans at 0 per cent.

Selling fish-farming equipment with GIEK guarantees in Chile

FISH-FARMING TECHNOLOGY: Towing a feed barge supplied by AKVAsmart in Region XI in the far south of Chile.

More than half the turnover in AKVAsmart, with its head offices in Bryne in Norway, went to Chile in 2003. During the year, the company sold fish-farming systems worth NOK 50-60 million on the Chilean market. A large part of the sale was supplied with GIEK-guaranteed loan funding of the buyer.

According to Financial Director Morten Nærland in AKVAsmart: «In many cases it is absolutely crucial to provide such funding. Any outsider targeting this market has to offer more than good products.» In addition, as he also points out, it is difficult to qualify for long-term financing locally in Chile, which means that good funding solutions from Norway help make AKVAsmart more competitive.

AKVAsmart supplies pellets dispensers and monitoring systems including software for planning and control of fish production.

A considerable part of the sale is for new installations that are being constructed in remote, unpopulated regions in the far south of Chile. Here there is no infrastructure and all personnel and materials must be brought in by boat. Therefore huge floating industrial installations are being built twice or four-times the size of Norway's largest counterparts. At the same time, they are deploying the very latest in systems for automation and efficient production, which will bring profits despite the huge distances to the market and the supply bases.

All technology and all main products supplied by AKVAsmart have been developed and produced in Norway. The associated steel and concrete structures are largely produced in Chile.

BRIDGE IN IRAN: A Norwegian engineering contractor, Dr. Ing. A. Aas-Jakobsen AS in Oslo has performed the building and geotechnical engineering of a 1400 metre bridge across the Oromieh salt lake in Iran. The contract with a value of NOK 14 million is covered by a contract guarantee and supplier credit guarantee from GIEK. Simultaneously performance bond guarantees provide the buyer with a guarantee for upfront payment and completion payment. GIEK also covers any unwarranted drawings on them.

The white crust in the foreground and on the bridge pillars is salt precipitated by the extremely salty water in the inland sea.

Increasing use of guarantees for services exports

Over the past five years, GIEK has experienced steady but dynamic growth in guarantees for services and knowhow. Credit sales of services are now a natural choice for many services export contracts. A case in point is when the service is part of a larger project and particularly when the buyer's only revenues are in the future.

Exports of services count for about one-fourth of Norway's total exports. The proportion is less to European customers, but counts for almost half of exports to North America. Shipping services account for about 40 per cent of the total services exports. The figures have been stable for the past few years or so.

The statistics will often underestimate the value of service exports. It may be a matter of convenience whether, for instance, training is part of the main contract or treated separately. Design and engineering are often also baked into the delivery mix. In connection with specialised deliverables for complex installations, the value of the services component can provide a major part of the purchase price.

Flexibility of subcontract

At the same time, we see many contracts containing components from a spread of countries. It is not unusual for hardware to emanate from a low-income country and the software – the service element – to come from Norway. These significant subtleties are not done justice in the traditional export statistics and present GIEK with a challenge in seeing that guarantees do indeed promote Norwegian exports. In many cases, it is crucial that GIEK exercises flexibility to permit subcontracts from other countries in the contracts we underwrite. Often it is essential for the exporter to be able to present his offer as a package and have the long-term financing already in place.

National content critical

GIEK's policy calls for an institution that is accommodating and also service-minded in respect of customers who have expatriated parts of their production or use foreign subcontractors. On the other hand, it is also vital to ensure that the guarantee beneficiary actually generates value in Norway.

DELIVERIES FOR SEVERAL COUNTRIES IN ONE GUARANTEE

GIEK has signed reassurance contracts with a series of other countries' guarantee institutes. Through this interaction, one individual institute can underwrite a guarantee for the entire contract.

The guarantee institutes then divide the liability between themselves according to how much of the deliverable originates in each country. This allows the exporter to relate to a single institute and single policy, a simplification that many exporters have learned to appreciate and exploit.

These inter-institute accords show just how far conditions and premiums have been harmonised among international guarantors and how much mutual trust flows between the various national guarantee institutes.

FIRST: GIEK was the first guarantee institute to accept a long-term risk on a Vietnamese bank.

Nominated «Deal of the Year»

A lender guarantee provided by GIEK in 2003 for export to Vietnam has been named «Deal of the Year» and «Best Deal of 2003» by leading journals ProjectFinance and Global Trade Review.

The guarantee was given in connection with a NOK 250 million contract awarded to Jacobsen Electro, Hokksund, in Vietnam.

The contract amount was payable with 30 per cent up-front, the remainder being financed with a long-term loan in French Sociéte Générale. A Vietnamese bank, Agribank, guaranteed for the buyer and the total loan was covered by a guarantee from GIEK. According to the magazines, this made GIEK the first international institute to take on a long-term risk in a Vietnamese bank.

The contract itself is for the supply of a 39 MW diesel powerplant for Vietnam's leading shipbuilder, Vinanshin. «The guarantee from GIEK was a condition for landing this order,» says Andreas Engebretsen, Managing Director.

ProjectFinance is adamant that Vietnam's trade with the outside world is rapidly growing and that the financing setup for this contract helps open the market for manufacturers of machinery and other investment objects. The periodical calls the GIEK guarantee a «real milestone» in this market.

Assistance by association

GIEK can also promote Norwegian exports without taking on guarantee risk. Sometimes it can be sufficient to get the ear of a new customer by having an offer from GIEK. The delivery of power station machinery worth NOK 175 million from Jacobsen Electro in Hokksund to Equatorial Guinea is one such example.

«The guarantee promise from GIEK was a real door-opener for us into this market,» explains MD Andreas Engebretsen of Jacobsen Electro. «It helped persuade the customer that we had the necessary means to accomplish such a project,» he insists. When deciding on the type of contract it later turned out that the customer preferred cash payment, so in this case no guarantee was called for.

Developing Country Scheme can accept higher risk

The Developing Country Scheme covers credits in developing countries where the risk is deemed too high for a guarantee under the GIEK General Guarantee Scheme. The higher risk to GIEK is covered by a special loss account.

Certain criteria have been established for a guarantee to be considered under the DCS. In the first place, certain credit ratings must be in place for the buyer. Secondly, the export must be destined for one of the lower middle-income countries, or a low-income country. Lastly, the developmental impacts must be approved, an assessment made by Norad, the Norwegian Agency for Development Cooperation.

The scheme has an exposure limit of NOK 1.5 billion. This amount has largely been used to the full in recent years. In 2003, capacity in the scheme was freed up and a large number of new applications came in. Now capacity is again fully booked.

Developing Country Scheme
Total liability in NOK 1000s

Albania	**183 129**
Ghana	**152 902**
Nepal	**149 648**
Kenya	**128 437**
Bolivia	**122 121**
Macedonia	**78 993**
Uganda	**63 618**
Angola	**61 945**
Honduras	**57 269**

American soldiers in Baghdad.

Political risk – a professional assessment

Recent years' events on the world stage demonstrate a need for a risk assessment of markets outside Europe that is as great as ever before. For 20 years GIEK has built up extensive expertise in assessing political risk.

Political risk assessment must be based in the great majority of cases on knowledge about each country's national and regional economic, political and civil structures. This type of insight, coupled with «country understanding», and experience from comparative country analyses, forms the basis for GIEK's guarantee cover policies and guarantee premiums. The focus of this work is not simply to avoid loss, but also to be sure that companies do not get bogged down in sticky markets.

Nil on the books in Iraq

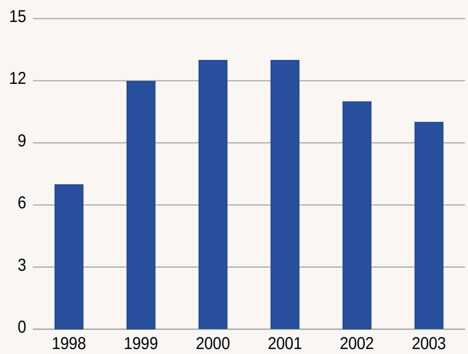
Our risk assessment of Iraq serves as an example of this function. In the 1980s, GIEK was well informed about conditions in Iraq and experience from the region. As a result, guarantees were closed off at an earlier date than most guarantee institutes. By that action, Norwegian exporters and ourselves steered clear of the sometimes-massive losses suffered by other countries. As of the present GIEK has nil outstandings in Iraq and this is doubtless an excellent position from which to start guarantees anew.

The rebuilding of Iraq will be a very extensive undertaking. Not only production capacity, but also political, economic and civil institutions must be rebuilt. The process will also be a long one. At present, we rate the risk unacceptable for two reasons. Firstly, we cannot know how well the rebuilding will succeed, in particular for the political institutions. Secondly, we cannot know if Iraq will survive as a united and coherent state.

If and when GIEK reopens for new guarantees in Iraq, it is likely therefore that the guarantees will be concentrated around short-term credits. Security in the country's oil production could perhaps make the risk more acceptable.

Claims payments under Developing Country Scheme

NOK millions

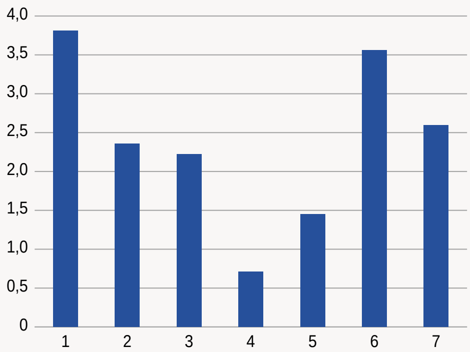


Claims payments in 2003 largely went to defaults in Pakistan and Zimbabwe. Pakistan is now paying promptly under its rescheduling agreement.

Classification by risk profile

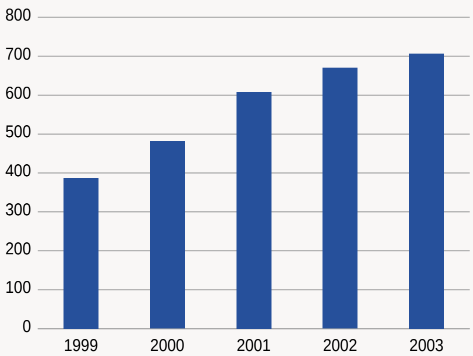
GIEK takes on political risks in countries with different risk profiles. Each country's capacity and willingness to stand by its payment obligations over the upcoming 5-10 years is analysed. Both political and economic factors are comprehensively assessed. GIEK's analysts also take part in an OECD ranking group that assesses long-term political risk.

Offers and liabilities according to country groups
NOK millions



GIEK classify countries according to the OECD country risk rating. Country group 1 represents the lowest risk and group 7 the highest risk.

Provisions for guarantee liabilities
NOK millions



Loss provisions increased due to changes in the guarantee liabilities and a certain increase in the risk level of the portfolio.

The OECD classifies political risk into seven different country groupings, where group 1 is low risk, and groups 6 and 7 are high risk. See diagram on left. In processing applications for guarantees in countries with a limited political risk (group 3 or better), GIEK relies wholly on the country assessments made in the OECD.

Independent assessments

For countries where risks are greater, a more exhaustive and independent assessment is made, particularly for the non-creditworthy nations and countries where we have little repayment experience. Through the Berne Union and Nordic cooperation, we also enjoy ample access to information about the actions of other guarantee institutes.

Fixed procedures

The international country classification also provides the basis for our quarterly portfolio review. When a classification is altered, the provisioning is automatically adjusted using set procedures. GIEK's contingent loss provisions are measured on this basis, including provisions for non-performing loans. The ratio of loss provision (anticipated loss) and outstanding liability on current guarantee policies therefore reflects the trend of risk level to which we are exposed on current policies. The General Guarantee Scheme currently has anticipated losses of 6.7 per cent of guaranteed liability. This is a best-judgement figure, which naturally includes a lot of uncertainty.

Increased loss provisions

The risk level in the portfolio has escalated slightly over the past six years. During the beginning of the period, a number of countries were downgraded following the Asian crisis. With the notable exception of Indonesia this rating change did not last more than 2-3 years. In the end of the period commercial risks heightened since a few problem cases resulted in a fairly large increase in anticipated losses. The heightening of general risk level occurred fairly steadily.

Classification by environmental impact

With the aim to create a uniform playing field of competition, the OECD countries have constructed an international rulebook for export credits and export guarantees. Thanks to the endeavours of the OECD Export Credits Group, one of the initiatives is new rules for minimum premiums and rules limiting the use of interest rate subsidies. Within the OECD, a concensus has also emerged on new environmental guidelines and it is in accordance with these that GIEK revised its project environmental guidelines in 2003.

The new rules mean that all guarantee cases are now categorised into one of three categories – A, B or C – intended to describe their environmental impact. The environment concept has also been expanded to include population relocation and the impacts on vulnerable groups, ethnic groups and cultural heritage.

Category A involves cases that potentially can cause significant negative eco-impact. Category B is cases where the negative impacts can normally be eliminated or minimised by complying with stipulated conditions. All cases involving small or positive eco-impact are given category C classification.

When evaluating a case that may be category A, GIEK will rely on the examples listed in Annex 1 of the OECD's new eco-guidelines, called «Common Approaches». This list is identical with that used by the European Bank for Reconstruction and Development, EBRD. Major hydropower developments are an example of category A, and in such cases GIEK will demand a full Environmental Impact Assessment (EIA) by an accepted independent consultant. GIEK will also require the assessment to be published by the guarantee applicant.

Category B would include deliveries of fishing vessels, for instance. Applications in this category will be assessed on a case-by-case basis and clients must expect that GIEK will set conditions requiring alleviating measures to be taken.

Category C is where most goods and services fall, provided they are not for use in large and contentious projects. Basically they include exports of input factors, raw materials, consumer goods and semi-manufactures, ships other than fishing vessels, ship gear and communication technology systems.

GIEK will join with the Ministry of Industry in actively contributing to design of the OECD environmental guidelines so that even greater consistency can be achieved in enforcement between the different guarantee institutes. GIEK is also required to file an annual report with the OECD reviewing its environmental

Toehold in China thanks to GIEK guarantees

China has in a very short time become a key market for Kolbotn-based Malthe Winje AS. In 2001-2003, this Norwegian company supplied equipment and engineering services for two municipal purification plants worth NOK 64 million in total. Both contracts were first covered by contract guarantees, subsequently by loan guarantees from GIEK. These deliveries consist largely of specialised electrical and automation products plus subcontracts from various Norwegian and overseas manufacturers. «We therefore view the contract guarantees as necessary security for our outlay until delivery occurs,» comments Terje Larssen, Location Manager for Malthe Winje's operations in China. He notes also that both contracts were funded using mixed credits, with the GIEK guarantees comprising an integral and necessary part in the total financing package. «With these deliveries we have established excellent reference plants in China and we are now preparing tenders for several similar installations. We have also set up our own office in the Chinese market,» Larsson concludes.

GOOD REFERENCE: The order for this municipal purification plant in Suzhou in China was secured by GIEK guarantees.

REOPENED: Repayments on Indonesia's debts to GIEK are now coming in on time and consequently new guarantees to the country were permitted in 2003.

Loss prevention and debt recovery

GIEK works actively to prevent losses on risk ventures. As in previous years problems occurred on a number of cases in 2003. In many of them, however, solutions were worked out that obviated the need to pay out claims. In other cases, the risk of loss remains high and GIEK was therefore forced to make rather extensive contingency provisions in 2003.

During the period, claims to the tune of almost NOK 79 million were paid out in a year that concluded NOK 16 million below the 2002 figure, when claims payouts were rather high.

Most of the claims paid out in 2003 originated in Indonesia, Pakistan and Zimbabwe. In the first two cases, deals have been struck for repayment and both countries are paying up punctually so we expect to recover almost everything. On the other hand, Zimbabwe is not performing at all. The political situation in the country is unyielding and the very size of the growing indebtedness may prove impossible to handle for any new regime that takes power in the future. In such a case, it is not improbable that some of the country's debts will be written off.

Negotiations for restructuring and relieving debts to nation states are worked out in the Paris Club of creditors, where the Ministry of Foreign Affairs decides on cases on Norway's behalf. GIEK provides technical expertise at these talks since essentially all the Norwegian claims are rooted in GIEK-guaranteed loan contracts. Whenever such debts are written off GIEK expects to receive compensation.

Large claims on old debts

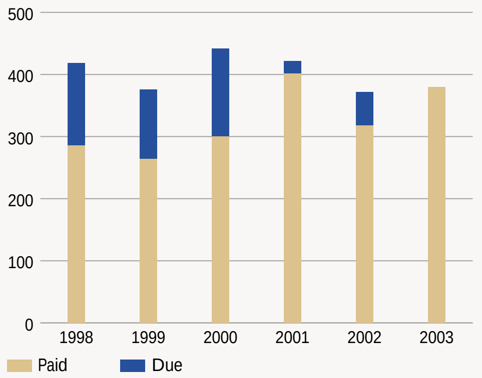
Over the years, considerable claims have accumulated in GIEK's name. All told, GIEK manages claims nominally worth NOK 4.8 billion, most of which derive from old – now inactive – guarantee schemes. Under the present schemes, GIEK is owed accounts worth NOK 288 million from the General Guarantees Scheme and 57 million from the Developing Country Scheme.

To date claims worth NOK 1.6 billion have been written off by Norway under the Debt Plan 2000 arrangement. Eleven countries have benefited from debt relief, some of them by almost 100 per cent of their outstanding account. It is vital that debt relief takes place in close consultation with other creditors so as to avoid other creditors being the prime beneficiaries of the Norwegian debt relief. International cooperation on relief to the Heavily Indebted Poor Countries (HIPC) is coordinated by the IMF. Countries receiving such debt relief must commit to a reform package and specific social measures, among other requirements.

More debt relief

During 2003, the Paris Club reached a new consensual arrangement, which in principle opens for debt relief to countries that do not qualify as HIPCs. This is known as the Evian Approach. What the ultimate consequences of these revisions will be on GIEK's activities remains highly unclear.

Payments under debt relief accords – all GIEK schemes
NOK millions



All claims in these debt agreements were paid in 2003. In addition, similar outstanding claims from 2002 were discharged in 2003. One result of the debt agreements was the relieving of debts to HIPCs last year. In addition to these agreements, GIEK also has old claims worth NOK 220 million on three countries who have not been servicing any part of the debt for many years.

Report of the Board of Directors 2003

GIEK's principal aim is to promote Norwegian exports and Norwegian investments abroad by issuing guarantees. To a great extent, GIEK successfully achieved its objectives. In the opinion of the Board, the framework within which GIEK operates is well suited on the whole to the international competitive situation.

The Directors are pleased with both the great interest shown for GIEK's products and the overall guarantee activities. There has been a marked increase in Norwegian exporters' demand for GIEK's services, and the number of applications has risen sharply. This goes to show that Norwegian exporters need to finance and cover the risk on their sales abroad, and that GIEK can provide competitive products in an international context.

At the beginning of 2003, exporting companies were faced with considerable uncertainty, with the war in Iraq, a continuing strong Norwegian currency and slack demand in many key markets. This situation changed markedly as the year progressed, with a decline in both the interest rate and the kroner rate, combined with the first signs of an economic recovery, notably in the US and Asia. Overall for the year, Norwegian exports in 2003 corresponded to those in 2002.

Altogether, GIEK and GIEK Kredittforsikring AS assisted with exports worth some NOK 18 billion in 2003, about half of which were provided on short-term credit.

The total liability, including offers and policies under all schemes, was NOK 16.7 billion at year-end, down by 7.1 billion compared to 2002. This decline was partly a result of a fall in the dollar rate, but in particular the non-realisation of several very large offers towards the end of the year. The vast majority of the contracts GIEK covers are denominated in US dollars.

International co-operation is a prerequisite for GIEK's operations. For there to be fair and transparent international competition, guarantee operations must be conducted to a set of generally accepted common rules. In light of this, GIEK has continued its active co-operation in relevant international fora, most notably in the OECD Export Credit Group, the Berne Union and the Paris Club, as well as in other international fora related to export guarantees. In line with OECD guidelines, GIEK introduced new environmental reporting rules in 2003.

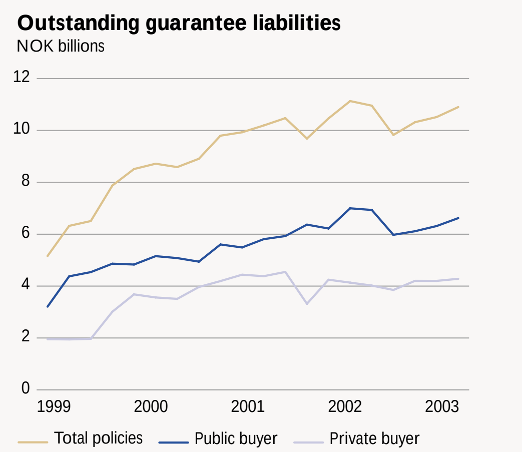
Framework conditions

The Norwegian government policy on debt forgiveness is set out in the document Debt Plan 2000. Under this, debts will be cancelled when the debtor country has entered into an agreement with the so-called Paris Club. Some countries achieve 100 per cent debt relief, and are thereby given an opportunity to re-establish relations with suppliers and financial institutions. Recently, debt cancellation in the Paris Club has increasingly taken the form of foreign aid and less emphasis has been given to the creditors' interests. The authorities are presently working on an expanded Debt Plan, which reflects this shift. If this plan includes debts covered by GIEK's operative schemes, it will be important for GIEK's guarantee activities that the financing of this relief is clear from the outset. As previously, the Board's position remains that GIEK should receive compensation for any debt cancellation dictated by the authorities.

In cases involving commercial risk, GIEK is required to share the risk with partners in the private financing market. Major international banks are playing an increasingly important role in this respect, both for the Norwegian companies and for GIEK.

After consultations with the Ministry of Trade and Industry, GIEK has explored the possibility of outsourcing the GIEK administration to Eksportfinans. Following due consideration, where issues regarding conflicts of interest were particularly important, the Government found that outsourcing of this kind was not desirable.

The Board has proposed to the Government that the organisation's scope of coverage be expanded so as to allow the financing of fixed installations in the North Sea to be



The total guarantee liability was roughly the same in 2003 as in 2002.

backed by GIEK guarantees. So far, this has not been granted.

GIEK currently offers two operative guarantee schemes, following the winding up of the CIS/ Baltic States scheme on 31st December 2002. These are the General Guarantee Scheme and the Developing Countries Scheme.

General Guarantee Scheme

The annual profit for the General Scheme was NOK 110 million, an improvement of NOK 48 million on 2002. The operating profit improved by NOK 33 million, largely due to higher premium income. Financial income increased as a result of a reduction in exchange rate losses, despite a fall in interest rates. The Board is satisfied with the profit for the year.

The number of new applications under the General Scheme rose sharply with a more modest increase in volume. The average volume of individual applications was in other words smaller.

The reduction in average volume is mainly due to the decline in the export of Norwegian ships. The Board's view is that the sharp rise in the number of applications shows that GIEK's products are competitive in the market place. As the number of applications increased, so did the number of offers given, but here again the average volume per contract was lower.

Total offers amounted to NOK 6.4 billion compared with NOK 8 billion in 2002.

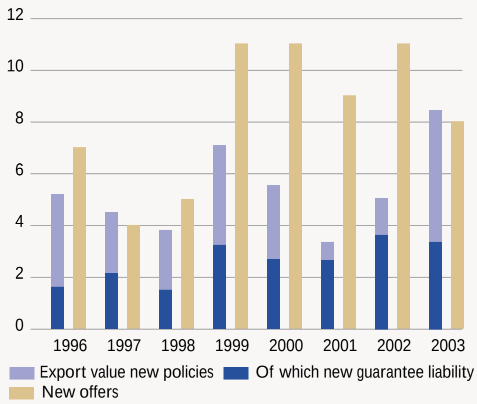
At year-end, a number of very large offers had failed to materialise and therefore the volume of outstanding offers at year-end was much smaller than at the end of 2002. However, many other offers were converted into policies. A total of 114 policies were issued, 52 per cent up from 2002. The average commitment per new policy decreased, reflecting the same trends in applications and offers. The many new policies contributed to a considerable increase in premium revenues for the year.

The total outstanding liability on current policies was NOK 10.9 billion at year-end, which corresponds to the 2002 level.

With the lower volume of offers, the overall exposure of policies issued and offers made was reduced in 2003. The Board would like to point out that large fluctuations in offers have been experienced in previous years too. A small number of large projects can quickly alter the total exposure of GIEK's engagements.

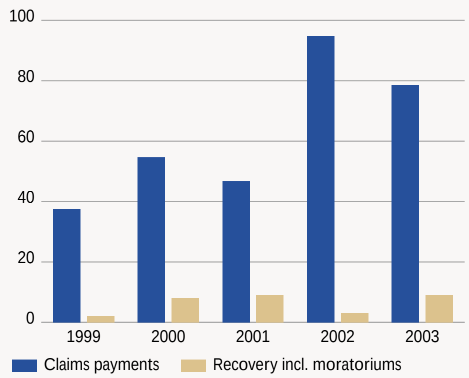
Provisions for guarantee liablities were upgraded in 2003, in particular for commercial risk. Among other things, large provisions were made for a telecom project in Mexico, which has defaulted. GIEK has been building up provisions against losses for the General Scheme since 1994, when the scheme was founded without capital. The fund is shown on the balance sheet as the sum of equity plus provision for guarantee liabilities. The fund expanded from NOK 709 million at 31st December 2002 to NOK 857 million one year later. The equity remained positive throughout the year and by year-end stood at NOK 150 million, 110 million up on the previous year. The loss provision fund represents 7.3 per cent of out-

Export value of new offers and new policies
NOK billions



Guarantee offers were issued for NOK 8 billion in 2003, against 11 billion in 2002. The export value of policies issued in 2003 was NOK 8.5 billion, of which GIEK's liability was 3.4 billion.

Claims payments and recovery on General Scheme
NOK millions



Claims payments declined from 2002 to 2003. Repayments from Indonesia and Pakistan also contributed to a marked increase in recoveries.

standing liabilities. In the Board's opinion, this is a sufficient level of reserves.

The disbursements on claims in 2003 were largely due to political risk in three countries: Indonesia, Pakistan and Zimbabwe. In the case of the first two, international debt relief agreements, known as moratorium agreements, have been signed, and both countries are paying in accordance with the revised repayment plan. This meant that in 2003 new guarantees could be offered for contracts in Indonesia. In the case of Zimbabwe the prospects are uncertain and GIEK currently anticipates some level of loss on its engagements there. The Board will emphasise recovery efforts and close monitoring of early defaults to stem serious losses.

The loss provisions fund described above is denominated in NOK.. On the other hand much of the credit volume covered by GIEK is denominated in US dollars. Any change in these exchange rates can have a disruptive impact on the level of GIEK's liability. The Board is of the opinion that this currency risk should be reduced. They also foresee a move towards more euro-denominated guarantees. For this reason, GIEK in 2003 sought permission to establish a currency account to hedge exchange rate exposure.

Developing Country Scheme

The Developing Country Scheme (DCS) returned an NOK 23 million operating profit in 2003 and an NOK 30 million profit for the year.

The guarantee exposure for the DCS of NOK 1.5 billion has been laid down by the Storting. This limit has been fully committed in recent years, making GIEK unable to accept new applications for major projects under this scheme. However, the cancellation of a large hydroelectric power project in Uganda freed up some capacity in the summer of 2003, and a large number of new applications could be processed.

GIEK received 16 applications during the autumn of 2003 and five new cases have been finalised.

The application volume is now so high that room cannot be found for all projects under the exposure limit. The Board is of the opinion that an expansion of the limit could be accepted and the additional loss provision fund should receive an infusion of new funds as assumed when the scheme was established.

The additional loss provision fund for the DCS, which originally stood at NOK 300 million, stood at 277 million at year-end. Drawings from the fund ran to NOK 9 million during the year. The fund is kept off the balance sheet and without it the equity is negative. Based on the strong interest in the Developing Countries Scheme, GIEK submitted a proposal to incorporate the CIS/ Baltic States limit and the retained premium revenues, but the proposal was not adopted.

CIS/ Baltic States Scheme

The Commonwealth of Independent States and Baltic States Scheme returned an operating profit of NOK 12 million and an annual profit for the year of NOK 20 million in 2003.

The scheme was wound up on 31st December 2002. One year later the collective guarantee liability on unclosed contracts amounted to NOK 393 million. The reason to wind up the scheme was the improved risk in Russia. No claims have been made this year. The claims compensation of NOK 8.3 million shown in the accounts reflects recovery costs and adjustments in provisions.

In connection with the closing of the scheme, the Ministry of Trade and Industry opted to transfer NOK 88 million to the Treasury in 2004. Any claims exceeding the residual liquidity will thus have to be paid from the Treasury.

Old portfolio

The Old Portfolio returned an overall operating profit in 2003 of NOK 368 million. The annual profit was NOK 23 million, following the transfer of NOK 340 million to the Treasury.

The Old Portfolio consists of several defunct schemes under which no more guarantees are issued. The operations under these schemes are largely confined to collecting outstanding claims through the Paris Club, where GIEK assists the Ministry of Foreign Affairs in negotiations. These schemes manage claims totalling NOK 4.3 billion. The claims volume is declining due to repayments and cancellation of debt according to the Government's Debt Plan 2000. Transfers to the Treasury are therefore set to decline.

The conditions governing the debt relief agreements are complex and subject to continual change and represent a not insignificant burden on the administration.

GIEK Kredittforsikring AS

The wholly owned subsidiary of GIEK, GIEK Kredittforsikring AS (GK), offers credit insurance for maturities of less than two years. It guarantees claims on international and Norwegian buyers and operates on a commercial basis in the market. It is a limited company whose principal object is to offer risk cover to small and medium sized export businesses. SME's made up more than 80 per cent of customer volume in 2003. This level remains stable.

GIEK'S BOARD OF DIRECTORS: From the left: Bjørn Kaldhol, Chairman, Rita Lekang, Sandra Riise, Thor Listau, Gisèle Marchand, Marianne Kartum and Otto Søberg.

The number of credit insurers in the Norwegian market fell from four to three during the year. The Directors note that GK thereby becomes an even more essential instrument in securing competition in this market.

GIEK Kredittforsikring AS more than doubled its operating profit in 2003 to NOK 16.5 million. The profit for the year was NOK 2.67 million, 2 million of which was declared in dividend. The results of this, the third year of operations, are deemed satisfactory.

In 2003, there were improvements in the economic environment faced by Norwegian exporters. GK's guarantee volume increased by 13 per cent and compensation claims dropped considerably during the year and are now at a normal level.

The risks outside the OECD market – so called «non-marketable» risks – were reinsured by GIEK. This insurance produced some NOK 8 million in revenues to GIEK and NOK 5.9 million in net claims payments.

Organisation

Following the end of their respective terms of office, Harald Arnkværn retired as Chairman and Anne-Britt Evensen Norum retired as Vice-Chairman on 31st March 2003. Director Atle Brynestad left the Board on the same date, also at the end of his term of office.

Bjørn Kaldhol was re-elected and appointed new Chairman of the Board. Marianne Kartum, Gisèle Marchand and Otto Søberg were appointed as new Directors for terms ending on 31st December 2006. Four of the Boards seven members are women.

The Board met eleven times in 2003.

At year-end, GIEK had 38 staff members, 19 women and 19 men, totalling 37.2 full-time positions.

Absence due to illness was 7.4 per cent in 2003, including three instances of long-term sick leave. If these long-term cases are ignored, the absence due to illness was 4.0 per cent.

GIEK is always seeking to protect the environment both in its own operations and when assessing guarantee enquiries. In 2003 GIEK's Environmental Rule Book was upgraded with a new set of rules designed to comply with the OECD's new environmental guidelines. All guarantee cases are given a category to reflect the anticipated impact of the project on the environment.

The total administrative expenses and operational costs amounted to NOK 33.4 million in 2003, which was NOK 0.6 million more than in 2002. These costs are within budget. The Board notes that the final cost of the new processing, budget and accounting system will be charged to the 2004 accounts. The system came on line on New Year's day 2004, following three years of demanding development. Considerable delays were encountered with commissioning, though with only minor cost repercussions. The Board recognises the dedicated efforts of personnel over a long period of time to get the new system in place.

Future prospects

The Board is determined that GIEK's principal focus will continue to be the provision of effective instruments to ensure that Norwegian companies receive competitive offers for risk cover and for the financing of their export projects.

Globalisation and expatriation are changing the face of Norwegian export businesses. New financing solutions and transnational projects make new demands on GIEK's capacity and ability to adjust. The Board's strategy is to focus on core activities, strengthen GIEK's role as a dependable and flexible partner for companies and banks, and increase the efforts to spread knowledge about GIEK's offerings to potential users.

31st December 2003

Oslo, 18th March 2004

Bjørn Kaldhol (Chairman) Marianne Kartum Rita Lekang

Thor Listau Gisèle Marchand Sandra Riise Otto Søberg

INCOME STATEMENT

(NOK 1000s)	Note	General Guarantee Scheme 2003	General Guarantee Scheme 2002	Old Portfolio 2003	Old Portfolio 2002	CIS/ Baltic States 2003	CIS/ Baltic States 2002	Developing Countries Scheme 2003	Developing Countries Scheme 2002
Operating income									
Accrued premium	1	**136 818**	110 420	**13 568**	16 241	**11 909**	15 361	**3 984**	4 697
Income moratorium agreements	4	**60 528**	73 403	**216 915**	604 188	**1 931**	3 302	**7 458**	18 057
Net recovery (excl moratoriums)		**3 410**	2 958	**-30**	9 604	**-1 138**	-1 900	**-**	-
Net other income		**5**	1 512	**-**	2	**-**	-	**-**	-
Total operating income		**200 761**	188 293	**230 453**	630 033	**12 702**	16 765	**11 442**	22 755
Operating costs									
Accrued claims expenses	2	**-92 087**	-87 278	**130 985**	-193 460	**-8 388**	9 410	**-11 066**	-7 301
Change in provisions for guarantee liabilities	6	**-5 491**	-33 124	**14 078**	-31 078	**9 570**	56 240	**24 697**	17 766
Administrative expenses	7	**-14 682**	-12 409	**-7 923**	-8 582	**-2 030**	-3 076	**-2 297**	-2 600
Total operating costs		**-112 260**	-132 811	**137 140**	-233 120	**-848**	62 574	**11 334**	7 865
Operating profit/ loss		**88 501**	55 482	**367 593**	396 913	**11 854**	79 339	**22 776**	30 619
Interest income		**25 258**	35 732	**23 443**	40 738	**6 792**	8 735	**152**	156
Realized exchange rate gains/loss		**1 047**	-338	**-113**	422	**36**	-78	**-508**	-44
Exchange rate gains/ loss moratoriums	3	**-4 585**	-29 177	**-28 447**	-348 208	**-2 882**	-24 076	**-1 608**	-14 733
Other financial items		**1 991**	1 981	**-4**	-9	**-**	-2	**-**	-1
Total financial items		**23 711**	8 198	**-5 121**	-307 058	**3 946**	-15 421	**-1 964**	-14 622
Public subsidies/ transfer to State	8	**-2 000**	-2 000	**-339 600**	-405 400	**4 671**	17 895	**9 000**	11 341
Profit/ loss for year		**110 212**	61 680	**22 872**	-315 544	**20 471**	81 813	**29 812**	27 338

BALANCE SHEET

(NOK 1000s)	Note	General Guarantee Scheme 2003	General Guarantee Scheme 2002	Old Portfolio 2003	Old Portfolio 2002	CIS/ Baltic States 2003	CIS/ Baltic States 2002	Developing Countries Scheme 2003	Developing Countries Scheme 2002
Financial assets									
Shares in GK A/S	9	**35 000**	35 000	**-**	-	**-**	-	**-**	-
Cash in hand, bank deposits, postal giro		**647 057**	557 555	**725 549**	739 332	**156 720**	153 040	**558**	1 884
Total financial assets		**682 057**	592 555	**725 549**	739 332	**156 720**	153 040	**558**	1 884
Foreign receivables									
Debtors, claims payment	2	**109 430**	99 849	**556 047**	627 326	**49 742**	49 762	**961**	941
Claims provision (receivables)	2	**-66 907**	-65 741	**-282 692**	-334 479	**-49 742**	-49 762	**-355**	-346
Debtors, moratorium agreements	4	**178 827**	128 853	**3 778 072**	4 228 568	**78 971**	85 391	**56 015**	52 252
Claims provision (moratoriums)	2	**-47 587**	-34 963	**-524 775**	-636 454	**-8 687**	-12 809	**-16 804**	-15 676
Valued receivables		**173 763**	127 998	**3 526 652**	3 884 961	**70 284**	72 582	**39 817**	37 171
Receivables, Norwegian exporters		**302**	-9 626	**-**	-7	**-**	-	**-**	-
Other receivables		**1 972**	-743	**-1 596**	7	**-**	140	**-**	-
Total assets		**858 094**	710 184	**4 250 605**	4 624 293	**227 004**	225 762	**40 375**	39 055
Equity									
Equity at 1st Jan		**39 767**	-21 913	**2 243 951**	2 559 495	**189 885**	108 073	**-59 852**	-87 190
Profit/ loss for the year		**110 212**	61 680	**22 872**	-315 544	**20 471**	81 812	**29 812**	27 338
Total equity	10	**149 979**	39 767	**2 266 823**	2 243 951	**210 356**	189 885	**-30 040**	-59 852
Provision for guarantee liabilities	6	**707 337**	669 569	**142 682**	160 244	**16 648**	35 877	**70 415**	98 897
Liabilities									
Debt plan, remainder to offset	5	**-**	-	**1 841 100**	2 220 098	**-**	-	**-**	-
Other liabilities		**778**	848	**-**	-	**-**	-	**-**	10
Total liabilities		**778**	848	**1 841 100**	2 220 098	**-**	-	**-**	10
Total equity and liability		**858 094**	710 184	**4 250 605**	4 624 293	**227 004**	225 762	**40 375**	39 055

31st December 2003

Oslo, 18th March 2004

Bjørn Kaldhol (Chairman) Marianne Kartum Rita Lekång

Thor Listau Gisèle Marchand Sandra Riise Otto Søberg

ACCOUNTING PRINCIPLES AND NOTES TO THE ACCOUNTS

THE ACCOUNTS PRESENT GIEK'S FOUR BUSINESS AREAS

GIEK has no accounts in foreign currency and does not keep currency accounts. All currency transactions are converted into Norwegian kroner on the transaction date. Currency receivables under moratorium agreements are valued at the current exchange rate.

Income and expenses are recorded as they are earned or incurred with the exception of administrative expenses, which are recorded on a cash basis. Future losses on receivables and guarantee liabilities are estimated and a provision recorded in the income statement. The method used for calculating provisions is described in the notes to the individual provision. Partial compensation is assumed for debt cancellations decided by the Ministry.

In preparation for the new computerised accounting system, certain adjustments were made to the accounts structure in the year. The main changes were moratorium income and compensation costs. In these accounts, the corresponding figures for 2002 have been adjusted to provide a valid comparison with the new structure for 2003.

NOTE 1 PREMIUMS

Income relating to several accounting periods is accrued in relation to the remaining guarantee liability, which gives proportionately more income when the guarantee is new and the liability highest. Currency variations between invoicing and payment of premiums form part of the premium income.

NOTE 2 CLAIMS EXPENSES AND PROVISIONS

When paying a claim, GIEK takes over the exporter's claim against the debtor. This receivable is recorded on the balance sheet.

The claims provision corresponds to the portion of the claim that is assumed to be unrecoverable when the accounts are closed. Standard rates for groups of countries and reasons for claims are used in calculating the potential loss on the total receivables portfolio. Any change in receivables and claims provisions from the previous period is recorded as a claims expense. Changes occur when GIEK:

- makes payments and achieves recovery under both old and new guarantees
- writes off receivables
- transfers receivables to moratorium agreements
- is exposed to currency fluctuations
- changes its evaluation of the loss potential for specific guarantees or generally in relation to countries/ groups of countries.

Provisions for known non-performance and claims which have been received but not yet paid are included as part of the provision for guarantee liabilities. See note 5.

NOTE 3 UNREALISED CURRENCY GAINS AND LOSSES ON MORATORIUM RECEIVABLES

Some of the moratorium receivables are in USD and CHF. Receivables are posted at their day rate value. Changes in the value of receivables owing to currency fluctuations are recorded as an unrealised currency gain or loss. Realised currency gains/losses are recorded as income from moratorium agreements. See note 4.

NOTE 4 INCOME AND CLAIMS UNDER MORATORIUM AGREEMENTS

Moratorium agreements represent debt repayment agreements with 21 countries achieved through international creditor collaboration in the Paris Club. These receivables result from claims payments arising from political risk. The principal in new agreements is recorded in its entirety as income upon conclusion of the agreement, with the exception of forward items, which are taken to income at the claims date. The income is otherwise affected by changes in current agreements, such as accrued contract interest, consolidation of agreements, debt cancellation, realised currency gains/losses, floating interest rates and payment of penalty interest on overdue payments.

Claims provisions are made for that portion of the moratorium receivables which is assumed to be unrecoverable when the accounts were closed. The method for estimating the loss is described in note 2, and the change in provision is recorded as a claims expense. GIEK has assumed that the government will provide a partial refund of any debt cancellation that it requires. For the Old Portfolio, such refunds are normally set off against the Debt Plan. See note 5.

NOTE 5 DEBT PLAN

The Storting adopted the Norwegian Debt Plan in December 1998 together with the central government budget for 1999. Under this plan, GIEK's receivables from certain countries can be cancelled without new appropriations by setting them off against a certain amount appearing as a debt towards the government in the balance sheet.

The Debt Plan was utilised as follows in 2003 (NOK 1000):

	Old General Scheme	Old Special Scheme
Remaining Debt Plan limit at 1st January	975.055	1.245.043
Adjustment of Debt Plan limit		-51.300
Corrected debt relief, Guinea from Dec 2002	+31.501	
Debt relief for Senegal		-26.669
Debt relief for Benin		-204.810
Debt relief for Gambia	-65.357	
Debt relief for Ghana	-58.578	
Debt relief for Dem Rep Congo	-3.785	
Remaining Debt Plan limit at 31st December	971.270	869.830

NOTE 6 PROVISION FOR GUARANTEE LIABILITIES

This provision is intended to cover future losses on all outstanding guarantee liabilities, and corresponds to estimated losses, which are derived using a special calculation method. The latter is based on standard rates, which vary according to the remaining credit period, type of purchaser and country risk group. The last of these is based on the OECD's country classification system. Changes in the provision reflect both changes in guarantee liabilities and periodic risk reassessment of countries/individual guarantees.

Traditional claim provision for known non-performance that has yet to be covered by compensation is included in this provision. No provisions are made for offers. All guarantee liabilities in foreign currencies are translated into NOK at the exchange rate stipulated in the Storting's budget resolution for the fiscal year, which is adopted in November of the preceding year.

The provision comprises prepaid premiums and provisions made in the income statement. The effect of these items on the general scheme is illustrated in the table below, in NOK thousands:

General Scheme	2003	2002	Change
Prepaid premiums at 31st December	354.947	322.670	32.277
Increase in provisions in the income statement this year	5.491	33.124	-27.633
Accumulated increase in the income statement previous years	346.899	313.775	33.124
Provision in the balance sheet at 31st December	707.337	669.569	37.768

NOTE 7 SHARE OF ADMINISTRATIVE EXPENSES

Administrative expenses paid by GIEK are allocated to the business distribution formula set annually, which is intended to reflect the areas and other schemes it administers in accordance with an underlying workload.

NOTE 8 PUBLIC SUBSIDIES AND TRANSFERS TO THE GOVERNMENT

The General Guarantee Scheme forwards dividend received from subsidiary GIEK Kredittforsikring AS of NOK 2 million to the Ministry of Trade and Industry.

The Old Portfolio annually pays the government a sum specified by the Storting. Since 1999 the accumulated amount thus paid is NOK 2 763 million.

NOTE 9 SHARES IN GIEK KREDITTFORSIKRING AS

GIEK has held shares in the wholly owned GIEK Kredittforsikring AS (GK) since 1st January 2001. These are valued at NOK 35 million, which corresponds to GK's equity when the company was formed. Since the shares did not represent any cost to the General Guarantee Scheme, the amount was posted as equity contribution in 2001.

Company	GIEK Kredittforsikring AS
Number of shares	15.000
Nominal value	1.000
Book value 31st December 2003	35.000.000
Ownership share	100%

NOTE 10 EQUITY

Equity comprises the accumulated profit/loss, including transfers to and from the Treasury. The Developing Countries Scheme also has a loss fund of NOK 286 million (originally 300 million), which is administered and accounted for by the Ministry of Trade and Industry.

Developing Countries key figures

NOK 1000s	Developing Country Scheme	
During year	2003	2002
New applications	877 200	76 400
New offers	490 200	219 400
New liabilities covered	2 800	10 700
Premium income	3 984	4 697
Claims payments	11 066	7 301
Operating surplus	22 776	30 619
Surplus for the year	29 812	27 338
At year-end		
Outstanding offers	490 200	782 100
Outstanding guarantee liability	545 900	741 100
Provisions for contingent liabilities	70 415	98 897
Outstanding receivables	56 976	53 193
Claims provisions on receivables	17 159	16 022

Old Portfolios key figures

NOK 1000s	Old General Scheme	Old Schemes	CIS/ Baltic States States 1994-1998	SUS/Baltikum 1999–2002
During year 2003				
Premium income	13 542	26 776	6 977	4 932
Interest income	19 243	4 200	2 141	152
Income moratorium agreements	144 166	72 749	1 931	0
Exchange rate gains/loss on moratorium agreements	8 448	20 112	2 904	-59
Accrued claims expenses	15 181	-146 166	8 388	0
Administration expenses	4 261	3 662	711	1 320
Operating profit	151 861	215 732	6 964	4 890
Transfer to Government	280 000	59 600	0	-4 671
At year-end				
Outstanding guarantee liability				
Provisions for contingent liabilities	141 607	1 074	5 138	11 510
Outstanding claims	2 489 976	1 844 142	128 713	0
Claims provisions on receivables	284 322	523 144	58 429	0

Board of Directors

Bjørn Kaldhol, Chairman
Former Managing Director in Troms Fylkes Dampskibselskap, TFDS. Chairman in the University Hospital in Northern Norway HF. Various board positions in Norwegian companies and institutions.

Marianne Kartum
Solicitor practising with Attorneys Vogt & Wiig Trondheim AS.

Rita Lekang
Trades Union Congress Secretary, Norwegian Federation of Trade Unions (LO). Various board positions including investment house Odin Forvaltning AS.

Thor Listau
Organisation Director in Cermaq. Minister of Fisheries (1981–1985). Member of Stortinget (Parliament) 1973–1985.

Gisèle Marchand
Managing Director Norwegian State Pensions Fund and former Managing Director Bates advertising group. Various leadership positions in Den norske Bank. Sits on board of forestry management company Norske Skog.

Sandra Riise
Managing Director Norwegian Association of Registered Accountants. Former department head with Andenes municipal district.

Otto Søberg
Runs own consulting firm, former Vice-Managing Director Bravida, Norwegian Telecom's installation division. Also leading positions in heavy engineering company Kværner.

Management

Managing Director
Erling Naper

Deputy Managing Director
Edvard Stang

Guarantee Department
Department Manager Øyvind Ajer
Assessment of risk for specific contracts, exporter's capacity to implement, marketing and technology factors, and value of securities placed.

International relations, strategy and development
Department Manager Johan E. Mowinckel
Strategy, international cooperation, banking and country risk assessment, information and board secretariat.

Economy and Administration Department
Department Manager Inger Johanne Bjørnstad
Personnel, budget, accounts, moratoriums and general administration.

Legal Department
Department Manager Lully C. Heje
Claims, recoveries, development of policy terms, documentation, contract signature, depository, legal advisory services.

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