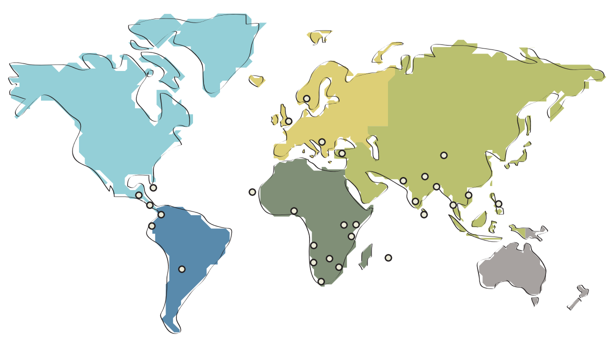
ANNUAL REPORT 04

Norfund's objective is to *reduce poverty* by *investing knowledge and risk capital* in profitable enterprises in developing countries. This *creates capital and jobs,* and provides the basis for sustainable economic growth. Norfund invests in *partnership* with private-sector players, and encourages *collaboration* between international financial investors. Good partners and an active local presence and follow-up are *essential elements for success.*



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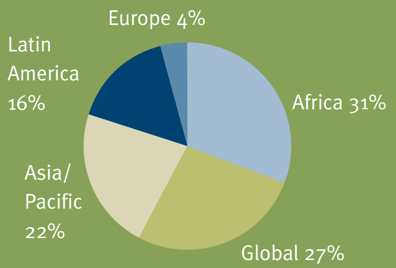
KEY FIGURES

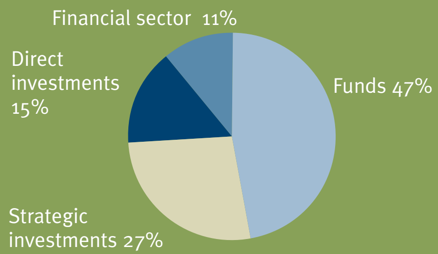
NOK million	**2004**	2003	2002	2001	2000
Profit/(loss)	**(9.2)**	47.7	36	27	3
Capital supplied by owner	**485**	485	395	225	150
Capital base (31 Dec)[1)]	**2 361**	1 905	1 400	1 010	543
Employees (31 Dec)	**23**	23	21	17	10

[1] *Norfund's book equity at 31 December 2004 of NOK 2 229 million, plus the estimated value of the loan portfolio transferred from Norad on 1 January 2001.*

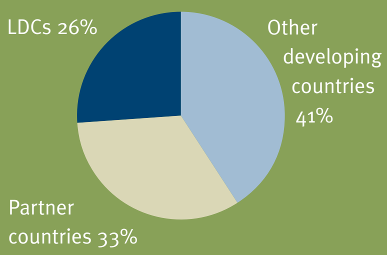
Investment by region

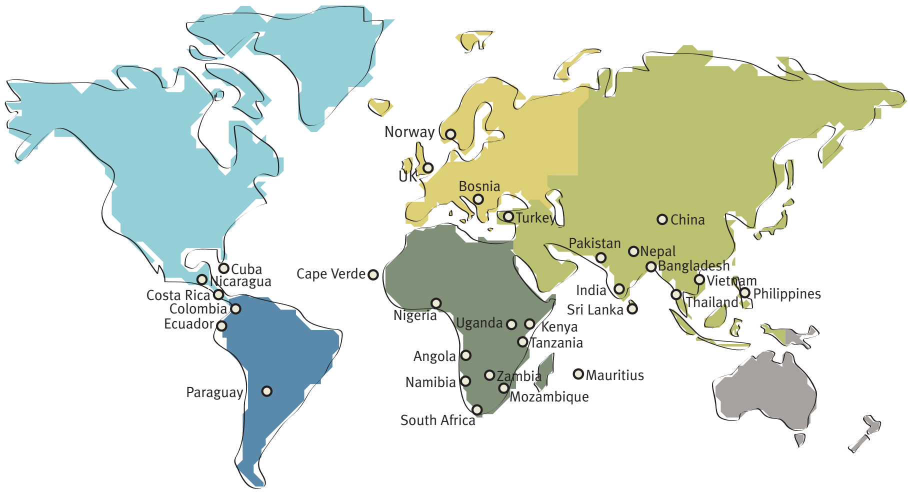


Investment by category



Investment by least developed countries (LDCs), Norway's other partner countries and other developing countries





A global player

Many developing countries are making progress and becoming integrated in the world economy in a way which allows them to exploit their comparative advantages and benefit from technological advances. This process depends on a well-functioning private sector and access to risk capital. As a partner and investor, Norfund cooperates with developing countries to help them participate in this development. It seeks to optimise its results through partnership and co-financing with other investors.

Norfund in brief

The Norwegian Investment Fund for Developing Countries (Norfund) was established by the Norwegian Storting (parliament) in 1997. It is organised as hybrid state-owned company established by law, with limited liability. The board of directors is appointed by the King in Council, and is responsible for directing the activities of the fund. Norfund's capital is provided over the developmental aid budget and forms an integrated part of Norway's development cooperation. It concentrates on priority partner countries for Norwegian development cooperation, and aims to make a third of its investments in the least-developed countries (LDCs). At 31 December 2004, Norfund's assets totalled NOK 2 361 million – including the estimated value of the loan portfolio transferred from the Norwegian Directorate for Development Cooperation (Norad) in 2001. NOK 485 million in new capital will be received in 2005.

BUSINESS AREAS:
Strategic investments

Norfund is part-owner of fund management companies Aureos Capital Ltd, Angola Capital Partners and Lafise Investment Management (LIM). Their job is to bring together investment capital from a number of players, including Norfund, and invest it in the individual funds run by the companies. Through its interest in Statkraft Norfund Power Invest AS (SN Power), Norfund contributes to constructing, modernising and operating hydropower facilities in developing countries.

Funds and direct investments

Norfund's investments are made either indirectly by investing in local equity funds or directly together with a Norwegian or local partner, and with Norfund as an active owner.

Financial institutions

Norfund gives loans to, and invests equity in, banks and financial institutions, including microfinancing bodies, in Norfund's defined markets. The company is also responsible for the portfolio of loans taken over from Norad in 2001.

Cooperation as a working tool

It is a long way from Norway to the developing countries in which we invest. Acquiring sufficient familiarity and local knowledge to be able to select the best projects and monitor them in a responsible manner is a challenge. We have opted for cooperation, partnerships and active use of networks as our way of working. Our goal is to create development through profitable investment, which calls for investment partners. That makes capital spending through locally-rooted funds a core activity.

Our job is to create more work > Just as in our part of the world, the key to economic growth in developing countries lies in a viable and profitable private sector which stands on its own feet, with healthy enterprises that give people work. This creates spin-offs and generates tax revenues and jobs. So access to risk capital, offered on commercial terms, is a significant requirement for economic progress in developing countries. But such funding is not enough on its own – it must be backed by knowledge of local conditions and by a local follow-up which ensures that investments are made where the best opportunities exist for results. So we give great weight to finding investment partners who have precisely that expertise and presence and – perhaps most importantly of all – who wants to accept the same risks and have the same targets for yield as we do. Only by establishing such joint ventures can we achieve the optimum effect from our partnership philosophy.

Cooperation yields results > We established our own fund management company, Aureos Capital Limited, in 2002 together with Britain's CDC/Actis. Aureos identifies and follows up projects locally, and acts as a coordinator on the donor and investor side. Through Aureos, we currently manage more than NOK 2.4 billion. NOK 1.8 billion of this amount has been provided by investors other than us. Our effect as a catalyst is accordingly substantial.

In 2004, Aureos turned its attention to south Asia. Combined with its substantial commitment in Africa and Latin America, the development of the Asia fund has given the company a position as one of the leading capital

Strategies for cooperation

*

Secure and develop distribution channels
Norfund is part of an international network which gives it access to a large number of distribution channels. By channelling capital to funds and lending institutions in its priority markets, the company can cover a broader area and have a greater development impact than by operating alone. Norfund also helps to establish and develop new distribution channels, primarily through its holding in the Aureos fund management company.

*

Conclude joint ventures
Norfund cooperates with various partners in joint ventures. Combining its assets, expertise and network with the right collaborators achieves major synergies. A good example is the SN Power joint venture with Statkraft. The combination of Norfund's experience of investing in developing countries with Statkraft's hydropower know-how has created a credible and reputable player in an international development context.

*

Role as catalyst
Although Norfund is a relatively small player in development cooperation, it exerts a considerable degree of influence. That reflects not least its strategic partnership with Actis in Aureos. The latter is one of the market leaders in

management teams directed at small and medium-sized enterprises (SMEs) in developing countries.

Another important area of collaboration for us is the energy sector. Energy plays a crucial role for development, but is in short supply in the poorest parts of the world. One of the biggest challenges of our time is to produce enough clean energy in these countries. By combining the hydropower expertise of Statkraft with our investment know-how and international network, we can achieve far more through SN Power than would have been possible for the two of us separately. Our role as both owner and active investor in Aureos and SN Power allows us to exert a unique degree of influence over where the funds should be applied. Both companies also form important elements in our large and expanding network, which will provide great opportunities for Norwegian business in coming years.

Development impact > Although our investment activities are pursued on commercial terms, financial yield alone is not a sufficient indicator of our success. Our goal is that all the investments we make yield a positive return on a triple bottom line, where both social and environmental impacts of our operations are also measured. But determining the financial yield from a project is easy – it is far harder to gauge the effects on the environment and social conditions. During 2004, we developed – and have begun the pilot testing of – a new tool for measuring the total development impact of our investments. This has been created on the basis of experience from a number of our partners, and was implemented from 1 January 2005. It will eventually give us an ever better overall picture of the results which our funds help to create.

Although most of our investments are still in an early phase, 2004 showed even more clearly what we can achieve through cooperation. We will carry that experience with us into 2005.

Per Emil Lindøe
Managing director, Norfund

capital management for the SME sector. Through its strategic partnerships, Norfund functions as a catalyst for attracting capital from other investors to promote business activities in developing countries. In addition to contributing in this way to generating far greater funds than it can supply directly, Norfund exercises great influence over the way this money is used.

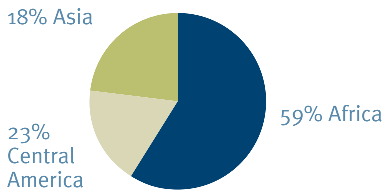
AUREOS:
Indirect investment – direct influence

Location of existing Aureos offices.

Its stake in Aureos and investments in the company's funds provide Norfund with an efficient way of channelling capital to enterprises in developing countries.

A classic challenge for any institutional investor involves ensuring that its capital is invested in the right companies, and that these develop as intended. This issue becomes particularly relevant when investing in distant markets. One solution is to channel money through funds administered by management companies with high levels of professional investment expertise and local knowledge. Norfund's involvement in Aureos is an example of this approach, and plays a key role in the company's operations.

AUREOS INVESTMENT CAPITAL BY REGION



Distributed model

Owned 50-50 by Norfund and Britain's Actis, fund management company Aureos specialises in providing investment capital for SMEs in developing countries. Its head office is in London, while operational activities are pursued through management subsidiaries in the countries or regions where Aureos is active. In Africa, for instance, the company has established three regional management subsidiaries for east, west and south. Each is responsible for managing its own fund. These regional companies are staffed by highly-educated people with relevant business experience. Their common denominator is a combination of specialist expertise with very good knowledge of local conditions, which is crucial for success. Aureos has similar regional management companies in Asia and Latin America.

Manager and investor

In addition to being co-owner of the management company, Norfund invests in the various Aureos funds together with other public and private sector investors – national and international. This makes Norfund both manager and investor, allowing it to follow the capital flow right through the recipient companies via the network represented by Aureos. Norfund's staff have close and continuous contact with management teams both in London and locally, and influence the investments made by the funds through participation in their advisory committees together with co-investors. In this way, Aureos serves as Norfund's agent and as an important instrument in the work of

stimulating business progress in developing countries. Norfund's presence in many countries is accordingly substantially greater than its capital base would suggest. That strengthens its efforts to promote development and reduce poverty.

Valuable network

Aureos has developed substantial expertise and experience through its local activities, together with a steadily expanding network. Norfund also has access to this network through its active ownership of Aureos. The value of such access can hardly be over-exaggerated, and it could also benefit Norwegian companies which have or are considering activities in the relevant countries. Norfund gives great weight to systematic transfer and institutionalisation of the expertise being built up in Aureos.

AUREOS IN AFRICA

Most of the world's poorest countries belong to the African continent, primarily south of the Sahara. These countries suffer from a great shortage of risk capital and business expertise, and several of them are priority partners for Norwegian development cooperation. Aureos established three regional African funds in June 2003, with their principal focus on a total of nine countries, and has roughly NOK 900 million available through these for investment in the African SME sector. These funds have a time frame of eight to 10 years and are currently in an early investment phase. The number of investments will therefore increase sharply in coming years.

Fund investments – some examples

Since its creation in 1997, the Uganda Microfinance Union has established itself as one of the country's leading suppliers of financial services to small entrepreneurs and low-income individuals. With an investment of USD 2 million and a 30 per cent equity interest, Aureos is contributing actively to further growth and professionalisation of this operation.

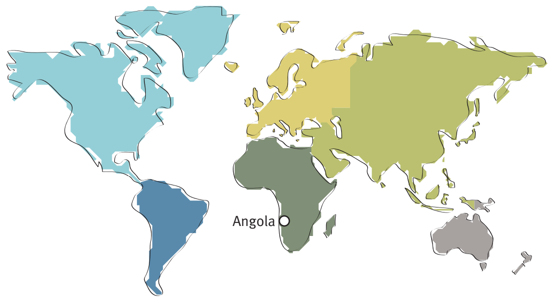
Tofo (Pty) Ltd in South Africa contributes to better utilisation of the country's mobile phone network by purchasing spare capacity from the big operators in order to offer services to a large network of local telephone agents, who make mobile telephony available to end users who cannot afford their own phone. With an Aureos investment of ZAR 15 million and a 30 per cent equity holding, the company is well placed for continued growth.

Portland Paints and Products Nigeria Ltd manufactures and sells good-quality paint products. In February 2004, Aureos supported a management buy-out of the majority of the shares in the company from a major industrial group. That significantly strengthened the prospects for purposeful continued development of the business and its associated jobs.

East Africa fund
Main focus: Kenya, Tanzania and Uganda
Size: USD 40 million
Status: Three investments, totalling USD 9.3 million

Southern Africa fund
Main focus: Mozambique, Zambia and South Africa
Size: USD 50 million
Status: One investment of USD 2.5 million

West Africa fund
Main focus: Nigeria, Ghana and Senegal
Size: USD 50 million
Status: Five investments totalling USD 14.5 million



Angola Capital Partners:
Historic commitment in Angola

Despite being very rich in natural resources, Angola ranks as one of the world's poorest countries. Many years of civil war have left the country impoverished, with a serious shortage of risk capital for SMEs.

Norfund joined forces in 2004 with two local partners to launch the Angola Capital Partners (ACP) management company. This was based on the Aureos model, with Norfund as the driving force behind its creation. ACP launched Fundo de Investimento Privado Angola (FIPA) in September as the country's first commercial investment fund.

Long-term commitment
Southern Africa is an important priority area for Norfund, as demonstrated by its dedicated and long-term commitment to Angola. With a gross domestic product of USD 331 per capita, this country is one of the poorest on the continent and is a key cooperation partner for Norway. FIPA will be very significant for Angola's economy and for the development of local businesses. The goal of Norfund's involvement is primarily to boost investment in the country's land-based private sector. In a wider context, stimulating the SME sector in Angola will contribute over time to securing stability and provide opportunities to rebuild the country after several decades of war. Much of the SME segment operates today in the "black" market. By encouraging a consolidation and development of industries and individual companies, the fund will also contribute to greater observance of regulations and payment of taxes – itself crucial for further social development.

Aureos manages more than USD
380 million
in 16 funds

Review of operations:

Norfund's operations are divided into three business areas: strategic investments, funds and direct investments, and financial institutions. Details concerning its activities in these areas are provided below.

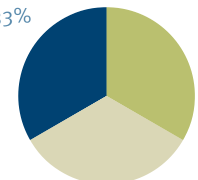
Strategic investments
Norfund's largest and most important investment in fund management is Aureos Capital Ltd, owned 50-50 with Britain's Actis. At 31 December, Aureos had about USD 380 million under management in 16 local and regional funds in Africa, Latin America and south and south-east Asia. Norfund is also part-owner of Angola Capital Partners (ACP) and Lafise Investment Management (LIM) in Nicaragua.

Norfund also owns 50 per cent of Statkraft Norfund Power Invest AS (SN Power). The object of this company is to invest in, own, develop and operate hydropower stations in developing countries. It continued its long-standing commitment to Latin America in 2004 as well as entering the Indian and African power markets.

Fund management > Contributing to the development of local capital markets is important for Norfund. Helping to develop competent local

Local partners and active ownership
To succeed with this type of project, Norfund depends on local partners of a certain size and with concurrent interests. Its partners in ACP are BAI – one of Angola's largest banks – and state oil company Sonangol. Both are commercial players who regard ACP as an important instrument for their own and Angola's development. They can also provide a significant proportion of the local capital. Norfund's active ownership in the fund will help to ensure that recipient companies behave in accordance with Norfund requirements and ethical guidelines. Strict standards are accordingly set for transparency and company management. Norfund has zero tolerance of corruption, and recipient companies undertake to observe International Labour Organisation (ILO) conventions.

ACP OWNERSHIP MODEL



fund teams through a commitment to fund management accordingly forms a key part of its strategy. Launched in 2003, the Aureos funds for western and southern Africa were finally closed in the summer of 2004. Total assets under management in the three regional Africa funds now come to USD 140 million. Aureos also created a new local fund in south-east Asia during 2004, to focus on the SME market in Thailand, the Philippines, Indonesia and the Mekong region – Vietnam, Cambodia and Laos. This fund was established with USD 40 million in October, and is due to reach USD 100 million by October 2005. Aureos is also planning a new south Asia fund to cover Sri Lanka, India and Bangladesh, expected to reach a capitalisation of USD 70 million during 2005. As a first step, Aureos created an interim fund of NOK 10 million for Sri Lanka in order to build expertise and exploit business opportunities in the area until the regional fund is launched.

Aureos was established in 2001 together with CDC Capital Partners, and broke even for the first time in 2004. The earliest funds are fully invested and have entered the portfolio sell-off phase. Aureos has now succeeded in raising new funds to ensure that it has a critical mass under management which provides

the basis for profitable operation. A reorganisation of CDC in 2004 led to all management activities being demerged into a partly-privatised company, Actis LLP, which took over the CDC shares in Aureos. As a result, Aureos is now owned 50-50 by Norfund and Actis, while CDC acts as a pure investment company.

Extensive experience reaped through Aureos allowed Norfund to act as the prime mover in the creation of Angola Capital Partners (ACP) in 2004. This company is owned one-third each by Norfund, Angola's Banco Africano de Investimentos (BAI) and national oil company Sonangol. In September, ACP launched the first investment fund in Angolan history – FIPA.

FIPA

will stimulate the private sector in one of Africa's poorest countries

Norfund also owns 20 per cent of Lafise Investment Management (LIM) in Nicaragua, which was launched in 1999 in cooperation with the Latin American financial institution Lafise. It ranked as the first fund management company in which Norfund played an active role.

Energy > SN Power completed its second full operating year at 31 December 2004. The company has made satisfactory progress and created a good project organisation with a total of roughly 20 staff in Norway. Active project development characterised 2004, in line with SN Power's strategy of holding a balanced portfolio both between various parts of the world and between existing facilities and greenfield projects.

SN Power entered the Indian hydropower market in October together with the LNJ Bhilwara group, its partner in operating the private Malana Power Company in Himachal Pradesh. The pair have launched the development of a new run-of-river power station in the same area. Total investment in these facilities is around USD 300 million.

The Ugandan authorities gave SN Power a licence in November to develop four mini power stations as part of the Energy for Rural Transformation development programme. This aims to offer 400 000 households access to electricity supplies over the next 10 years. In addition, SN Power is seeking to form a public-private partnership

SN Power:
Cooperation confers weight

Through its holding in Statkraft Norfund Power Invest AS (SN Power), Norfund contributes to developing, modernising and operating hydropower stations in several of the world's poorest countries.

More than 30 per cent of the world's population lack access to electricity supplies, and this proportion is steadily growing. Providing energy for more than two billion people without having a dramatic negative impact on the environment represents a major challenge. Hydropower is a clean and renewable energy source, and Norway has acquired unique expertise in this field. Combining Norfund's investment expertise and international network with Statkraft's hydropower know-how in SN Power offers much greater opportunities to play an active and significant role in these countries than would have been possible separately, and allows Norwegian hydropower and environmental expertise to be utilised in a development context.

International weight

Many large international investors have pulled out of the energy market in developing countries because of the high risk involved. This makes it all the more important that players exist with the capital and expertise to make a positive contribution to developing the energy sector. Norfund's cooperation with Statkraft over SN Power has conferred weight and recognition internationally, and allows the company to help set the terms for the energy projects in which it becomes involved – including such aspects as their impact on the environment and local communities.

"Clean energy represents poor people's chance to escape from poverty"
– Kofi Annan

to rehabilitate, own and operate two existing stations in Mozambique which have very poor operational reliability.

Work was also pursued in 2004 on restructuring the business acquired in Peru during 2003. A period of extreme drought meant weak results for the first half of 2004, but this operation is now making satisfactory progress. SN Power is assessing development plans in Peru and has cultivated new project opportunities in Chile. Work is also under way to transfer Statkraft's holdings in two power stations, in Laos and Nepal respectively, to SN Power. In addition, the latter is pursuing projects in Sri Lanka, the Philippines and Indonesia.

Prospects for 2005 > Aureos will give great weight in 2005 to following up and safeguarding the pace of investment in existing funds, and to achieving profitable operation. Forming the new south Asia fund will also have a high priority. Angola Capital Partners will find 2005 a particularly important year, when the basis for its success is to be laid. Active ownership in SN Power will be continued, with the emphasis on helping the company to reach its goals in both new and existing projects.

Funds and direct investments

Investment activity in Norfund falls into two categories. The largest of these at present involves channelling capital through various funds and management companies in its priority markets towards recipients in the SME segment. Norfund also invests directly in portfolio companies in the same markets together with other investors and partners, primarily Norwegian.

Two new investment agreements were concluded in 2004 for Nicafish in Nicaragua and GrameenPhone in Bangladesh respectively. At 31 December, Norfund's portfolio comprised 13 direct investments (loans and equity capital) with a total market value of NOK 60-65 million. In volume terms, the bulk of these commitments are in seafood-related enterprises and technology.

Fund investments in 2004 were channelled through the Aureos funds. All in all, Norfund has concluded agreements to invest about NOK 750 million in 20 different funds. About 70 per cent of this amount is managed by Aureos.

SN Power in India and Uganda:
Power in progress

Electricity represents a crucial requirement for development, but is in short supply in poor countries like India and Uganda.

SN Power entered the Indian hydropower market in October 2004 in partnership with the LNJ Bhilwara group, and also obtained a government licence in November to develop four mini hydropower projects in Uganda.

India – a market with great potential
India's electricity shortfall is huge, and existing power supplies are both unstable and poorly developed. Much of today's output is generated by burning oil or gas. This has made India dependent on imports and very vulnerable to fluctuating petroleum prices on the international market. But the country also has a big potential for hydropower development, which makes it an attractive target for investment in such schemes. Together with the LNJ Bhilwara group, SN Power operates the private run-of-river Malana Power Company in Himachal Pradesh, and has begun work on developing the Allain Duhangan project – a new run-of-river generating facility in the same area. Plans call for construction of this power station to start in early 2005, with commercial operation expected to begin in 2008-09. The aim is for both ventures to be profitable and deliver electricity at competitive prices. Total investment in the two power stations is about USD 300 million.

Direct investment > Under an investment agreement concluded in 2004, Norfund will contribute USD 10 million towards a total of USD 60 million in loan capital for the GrameenPhone mobile telephony company in Bangladesh. Other members of the syndicate are the IFC and the Asian Development Bank (ADB). Reports document that GrameenPhone's business has major development effects, and the syndicated loan will help it to continue developing its infrastructure in this principal partner country for Norwegian development cooperation.

Norfund signed a loan agreement in December 2004 with Nicafish, which primarily delivers fresh fish to the USA. This company's future growth depends on expanding its processing capacity. The loan from Norfund provides it with the financing to acquire a processing plant which will allow it to offer a larger volume of processed products to US customers. That will mean a higher level of value creation in Nicaragua and boost the country's export revenues.

Investment in funds > During 2004, Norfund helped to ensure that the Aureos regional funds for western and southern Africa were finally established in line with capital target of USD 50 million each. Norfund has committed around USD 15 million to both funds, which made their first investments during 2004.

The new Aureos fund for south-east Asia was created in the autumn of

Good development effect
Run-of-river power stations deliver clean energy and make no major changes to the environment in the form of large reservoirs. Nobody in the local community will be compelled to move as a result of the Allain Duhangan project. The increase in electricity supplies will be very important for further development in the region, stimulating not only economic growth but also improving the overall quality of life. Power is needed, for instance, to provide efficient health services, treat water and conserve food.

New opportunities in Uganda
SN Power has expressed a desire to become involved in the African market, and secured a licence from the Ugandan authorities in 2004 to develop four mini power station projects. Uganda has been selected for a commitment because of its huge power shortage and because frame conditions are favourable for investment. Less than five per cent of the population has access to electricity. A great many people therefore depend on expensive and unstable solutions for the power they need. The electricity shortage also limits opportunities for establishing power-dependent industries and reduces the level of health services and other welfare measures.

Norwegian cooperation with Uganda
SN Power cooperates closely with Norplan, Alstom Norge and the Norwegian authorities in pursuing its mini power station projects in Uganda. The principal challenge is to ensure that electricity prices to the end user are not too high. This is difficult because other infrastructure, such as transmission capacity, must be developed and adds to project costs. SN Power is working towards an investment decision on two of the projects by the end of 2005.

2004, and concentrates primarily on the SME segment in the Philippines, Indonesia, Thailand and Vietnam. Including the parallel country funds, it should total USD 80-100 million when all the investors are in place. Norfund is contributing USD 20 million of this, increasing its presence in a market which is increasingly important for both local and Norwegian businesses.

Finansa, a Thailand-based management company, is in the final stages of raising a USD 20-30 million fund for Vietnam. Norfund is one of the partners in the latter, along with other European development banks. The fund's aim is to contribute actively to the privatisation process now under way in Vietnam. Finansa, which is both manager of and co-investor in the fund, is a listed financial institution in Thailand with broad experience of investment activity in south-east Asia. Norfund is planning to invest almost USD 5.4 million in the fund.

Business development in China has gathered pace. This is being felt indirectly through the SEAF fund in Sichaun province, where Norfund had earlier committed USD 3 million. After low activity for several years, this fund approved six new investment projects in 2004.

Norfund is one of the principal investors in CASEIF, a local investment fund in Nicaragua administered by the LIM management company.

USD
20 million
invested in Aureos' new south-east Asian fund

GrameenPhone:
Good business yields good development in Bangladesh

Norwegian business and development cooperation agencies played an important role in creating GrameenPhone, which has grown over seven years to become the leading mobile phone company in Bangladesh. It represents a very successful investment which has had a substantial impact on economic and social development in one of the world's poorest countries.

Telenor's leading role and active ownership, Norad's initial financing of NOK 75 million – partly administered by Norfund – and the latter's agreement to provide a loan of almost NOK 70 million in 2004 means that Norwegian business and development cooperation agencies have been key players in creating and operating GrameenPhone. This company currently has more than two million subscribers and 60 per cent of the market. But its development potential remains substantial in a country with more than 133 million inhabitants.

Substantial development impact
The telecommunications structure in Bangladesh is very underdeveloped, not least outside the main cities – where GrameenPhone, unlike most of its competitors, has also expanded its coverage. Telecommunications is a crucial factor in economic development, and this strategy ensures that the poorest people in rural areas can also have access to such services. It has also proved commercially successful for the company. As one of the country's largest taxpayers, GrameenPhone contributes substantial revenues to the government though taxes, licence fees and line rentals. During its seven-year life, the company has yielded close to NOK 2 billion in revenues for Bangladesh. In addition to its own employees, who total almost 1 500 people drawn from both genders and most of the country's minorities, well over 100 000 people make a living directly from Grameen-Phone. A large number of these are poor rural women in the Village Phone Programme.

Focus on corruption
Corruption in business life or in other arenas represents a major barrier to investment, economic growth and equitable distribution. Bangladesh is considered to be one of the world's most corrupt countries, and Norfund regards it as important to show that the best results are achieved precisely through transparent and honest business trans-actions. Norfund views the Telenor and Grameen-Phone guidelines in this area as good.

The latter is owned 20 per cent by Norfund. This fund has made good progress, and five of eight investments showed a profit in 2004. CASEIF has also completed negotiations on the sale of the Metrored fibre company with a gain to the fund of USD 1 million.

Five of eight
of CASEIF's investments showed a positive yield in 2004

The SEAF Balkan fund, to which Norfund committed USD 5 million in 2000, had its investment period extended by one year during 2004. Now running to July 2005, this allows the fund to invest further in the region. It realised several investments in 2004 with an acceptable yield.

Prospects for 2005 > Much of the work on direct investment will focus on continuing to develop the existing portfolio. This means that Norfund will sell out of some investments in order to concentrate primarily on projects with the biggest development potential. Active efforts will also be made to generate new direct investment together with Norwegian partners who have demonstrated the expertise and ability to succeed internationally in markets where Norfund is active.

Investment in funds will be mainly focused on new Aureos funds as well as certain industry-specific funds in select-

Each new telephone in a country like Bangladesh increases its GDP by USD 6 000

(Source: International Telecommunication Union, Geneva)

A telephone in every village

Put briefly, the Village Phone Programme involves lending poor rural women in Bangladesh the money to buy a mobile phone, which they rent out to their neighbours. This unique collaboration with the Grameen Bank microfinance institution has attracted great attention and recognition worldwide. More than 95 000 women belonged to this network in December 2004, giving over 70 million rural residents access to phones. The Village Phone Programme is a good example of the way good business can yield substantial economic and social development effects. On average, the village phones are used twice as much as mobiles in urban areas, and represent substantial revenues for the company. At the same time, the women secure an income from work which is double the national average for Bangladesh, as well as enhanced social status. And villages get access to telephone services for the first time.

ed markets. Another goal will be to continue developing cooperation with local Aureos funds through joint investment where this is interesting for both sides.

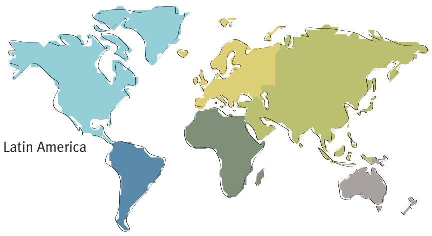
Financial institutions

This business area had its first full year of operation in 2004, when investment agreements totalling USD 13.6 million were concluded. These were concentrated in east African and Latin American countries, and broke down roughly 50-50 between equity capital and loans.

The business area is responsible for investment in and loans to banks and other financial institutions, including bodies offering microfinance. Norfund's aim is to help develop capital markets in developing countries and improve the availability of investment cash for the SME sector. Equity investments will normally involve boardroom participation for Norfund and the opportunity to make an active contribution to further development of the financial institution concerned. Managing the loan portfolio acquired from Norad in 2001 also falls under this business area.

Norfund made an equity investment of USD 2.6 million to acquire a 10 per cent holding in DFCU, a medium-sized commercial bank in Uganda which concentrates mainly on SMEs. The principal shareholder in DFCU is Norfund's UK counterpart CDC, LAAD:

Small loans in a large continent



Offering long-term loans to medium-sized companies allows the Latin American Agribusiness Development Corporation (LAAD) to encourage important industries which benefit many people. The LAAD has made good financial progress since it began operating in 1969. Its loan portfolio at 31 December 2004 totalled USD 154 million.

Norfund contributed USD 5 million to a USD 20 million loan made to the LAAD by Norfund's German counterpart, Deutsche Investitions und Entwicklungsgesellschaft (DEG).

The LAAD in brief
The LAAD is a private financial institution which contributes to economic and social development in Latin America by offering loans to medium-sized companies involved in agriculture, forestry, animal husbandry and fishing. Its competitive advantage lies in flexibility, local presence and a high level of expertise about the agribusiness sector. It also offers longer loans (four-six years) than can normally be obtained in the market and is known for its close and personal follow-up of clients. The LAAD plays an important role in further development of the agribusiness sector, a key sector for most Latin American countries. A central long-term strategy is to prioritise companies which concentrate on exports. Such sales increase foreign currency earnings while strengthening company expertise with production and processing, since this knowledge is crucial for meeting quality standards in developed markets.

The LAAD contributed to
2 257
new jobs in 2004

Rational and risk-reducing
The LAAD covers a whole continent and has a local organisation with great knowledge and long experience. It can therefore

35 years of development
The LAAD was established in 1969 in order to speed up investment in the Latin American agribusiness sector. Persistent political and economic instability had dried up access to capital for projects in this sector, and the US authorities and private companies saw the LAAD as a possible way to improve the position. Twelve of the world's leading agribusinesses and financial institutions contributed an initial capital of USD 2.4 million. During its lifetime, the LAAD has financed more than 850 projects and helped to create over 54 000 jobs in Latin America.

which owns 60 per cent. An equity investment of USD 5 million was also made to acquire about 10 per cent of CIFI, a financial institution which has specialised in offering long-term loans to private infrastructure projects in Latin America and the Caribbean. Other large shareholders are the Inter-American Investment Corporation (IIC), Caja Madrid, Spain's second-largest savings bank, and some Latin American commercial banks.

Norfund provided USD 5 million for the Latin American Agribusiness Development Corporation (LAAD) as part of a USD 20 million loan coordinated by Germany's Deutsche Investitions und Entwicklungsgesellschaft (DEG). Other participants in this loan are the Netherlands Development Finance Company (FMO) and the Norwegian State Church Endowment Fund. A loan of USD 3 million was also made to CariFin, a Cuban financing company owned by CDC and a domestic state-owned bank which lends to local companies.

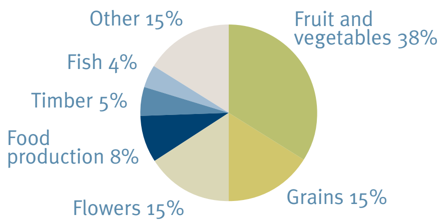
Loan portfolio > Norfund acquired Norad's portfolio of loans to companies with Norwegian ownership in developing countries on 1 January 2001. Transferred free of charge, this portfolio comprised 48 loans totalling NOK 402 million.

Four of these loans were repaid in full during 2004, and 32 are still

follow up borrowers in a completely different way than Norfund could have accomplished on its own. That reduces risk both for the LAAD and for its lenders and investors. It is very important for Norfund that the LAAD monitors environmental and social standards in a serious way. Cooperation with the company means not only that Norfund reaches out to larger groups but also that the development impact is increased.

Large network gives big opportunities
Norfund's loan involves a substantial exchange of experience between the company, the LAAD and the other players involved in this collaboration. That helps in turn to expand and strengthen Norfund's network considerably. In the longer term, this could give the company new investment opportunities and strengthen its ability to assist Norwegian enterprises to become involved in the Latin American agribusiness sector.

THE LAAD'S LOAN PORTFOLIO BY INDUSTRY



outstanding. A total of NOK 37 million was repaid on the loans. In addition came NOK 6 million in interest payments. This was higher than expected in relation to agreed payment schedules, primarily because payments were brought forward. Outstanding loans at 31 December 2004 totalled NOK 213 million.

Prospects for 2005 > A number of transactions are due to be implemented during the first half of 2005. Work is under way on microfinance investment projects in both Latin America and east Africa, and to complete a loan agreement with a financing company in Nicaragua which will also involve two other institutions.

Developing a good insight into the institutions in which Norfund invests is important. That includes a good understanding of the markets in which the institutions operate. A priority task in 2005 will be to follow up the investments made and participate actively in the further development of recipient institutions. Norfund will also continue its important and fruitful collaboration with similar development funds in other countries, many of which have substantial experience and relatively large portfolios in this area. Joint investment, cooperation and sharing of expertise increase the chances of achieving good results.

Norfund will contribute to sustainable development

Supporting business development allows Norfund to help create jobs and economic growth. Reducing poverty encourages positive social progress. At the same time, Norfund is concerned to ensure that social and economic advances are not made at the expense of the environment. It accordingly views economic growth in relation to social developments and economic awareness, and seeks to integrate these aspects in its investment decisions and daily operations.

Policy for environmental and social responsibility > Norfund has drawn up a policy on environmental and social responsibility which defines the principles it observes in this area. The policy specifies that all investment projects must accord with recognised international environmental and social standards, as well as national legislation and statutory regulations. One consequence for health, safety and the environment is that Norfund observes the guidelines issued by the International Finance Corporation/World Bank where these are more stringent than national requirements. The policy also states that Norfund will work to ensure that the health, safety and human rights of employees are honoured and protected. This means in part that the company observes the core ILO conventions on child labour, forced labour, discrimination and freedom to form trade unions. Norfund has zero tolerance of corruption. Another provision of the policy is that the company will require its partners to have systems and routines for managing the social and environmental aspects of a project.

7 400

employees in companies which received direct Norfund investments in 2004

Obedience to national legislation and statutory regulations is an absolute condition for investment by Norfund in an enterprise. However, the policy does not necessarily prevent Norfund from investing in companies which do not satisfy the strictest international environmental or social norms. Raising companies with an acceptable starting point to an international standard, as defined by the World Bank and others, represents a substantial development effect. That also applies to conditions relating to corporate governance. In such cases, an improvement programme forms a key element in the contract between a company and Norfund, with associated targets, action plans and budgets which are systematically monitored – usually through board representation.

Companies in the local funds in which Norfund invests had

40 000

employees in 2004

From principles to practice > Principles first take effect when they are translated into everyday practice and integrated in both formal and informal processes. During 2004, Norfund updated its routines for project assessment

and contract documentation and for supervision through the active ownership it exercises in the projects. A systematic enhancement of in-house expertise was also pursued, with HIV/Aids, anti-corruption, ethics, human rights and the core ILO conventions as key topics.

Norfund's operational guidelines for its investment activities have also been updated and applied to specific projects. One example is Nicafish in Nicaragua, where an audit was conducted in advance of the investment to identify social conditions at the company and assess their status in relation to such standards as the World Bank guidelines on health, safety and the environment.

A review of Norfund's investments in Central America was carried out during October in order to obtain an overview of the status and specific challenges facing each project, to define relevant requirements and to identify how their observance should be measured and reported back to Norfund. The strong focus on HIV/Aids was also maintained in every project, and Norfund joined Transparency International.

System for measuring development effects > Norfund wants as far as possible to specify and measure the various development effects attributable to its operations, such as job creation, enhanced expertise, technology and expertise transfer, and social and environmental improvements. This is a demanding task because many of the effects are indirect and difficult to quantify. Norfund has developed a tool for systematising such work, measuring programmes and allowing projects to be compared. Adapted from a system developed by DEG, Norfund's German counterpart, it will be used with all new direct investment from 2005. The aim is to develop performance indicators and tailor the system so that it can also be used for investments in financial institutions and funds.

Norfund's own environmental impact

Norfund's direct environmental impact relates primarily to business travel and consumption of paper.

Emissions of carbon dioxide from business travel totalled about 220 tonnes in 2004, when paper consumption averaged some 90 kilograms per employee. Other in-house environmental conditions which Norfund can try to influence relate to office waste and journeys to and from work.

Directors' report

Highlights of 2004

* New Aureos fund created for south-east Asia
* Angola Capital Partners founded
* Eight new investment agreements concluded
* Investment in financial institutions – a key business area for Norfund
* System developed to measure the development impact of direct investments
* Norfund joined Transparency International

Norfund's goal is to combat poverty by investing risk capital in viable business activities in developing countries. Profitable industrial and commercial growth creates employment, expertise and innovation. Through its investments, Norfund has encouraged a more formalised economy in many of the countries in which it operates. This is because jobs lay the basis for taxation to fund common services in such areas as health and education.

Many developing countries are making positive progress and becoming integrated in the world economy in a way which allows them to benefit from their competitive advantages and from technological progress. This requires a well-functioning private sector and access to risk capital. As a partner and investor, Norfund helps developing countries to participate in this process. It seeks to optimise results through partnership and co-financing with other investors.

Norfund's significant risk exposures mean that its activities call for a long-term perspective and are by their very nature sensitive to cyclical changes in the international economy. Contributions to local investment funds have an eight- to 10-year horizon. Returns on Norfund's placements accordingly lie some time off. At 31 December 2004, Norfund had committed NOK 1.6 billion to companies and investment funds (including joint ventures). Its investments are primarily located in the poorest African, Latin American and Asian countries.

Operations at Norfund are divided into three business areas: strategic investments, funds and direct investments, and financial institutions. These will represent Norfund's priorities for the future.

Strategic investments > Assets under management in Aureos exceeded USD 380 million at 31 December 2004. Activity in this management company has been substantial, with three African funds fully subscribed and two new funds created for Asia. Norfund's UK counterpart, CDC Group plc, transferred its holding in Aureos to Actis LLP in 2004 as part of a reorganisation of its operations. Aureos is now owned 50-50 by Norfund and Actis.

Statkraft Norfund Power Invest AS (SN Power) also expanded in 2004. In addition to operating power stations in Peru, Chile and Sri Lanka, it made a substantial investment in India and made a move towards the African electricity market. Aureos and SN Power are central and strategically-important elements in Norfund's business.

The company helped to establish a new Angolan fund management company during 2004 – Angola Capital Partners (ACP) – in partnership with state oil company Sonangol and Banco Africano de Investimentos (BAI). The latter is one of the country's largest banks. Fundo de Investimento Privado Angola (FIPA) was launched in September.

Funds and direct investment > Norfund signed a contract to invest in two new Aureos funds in 2004 – USD 5 million for the Aureos South Asia Interim Fund and USD 20 million for the Aureos South East Asia Fund

Grete Faremo

With a law degree from the University of Oslo, Ms Faremo is currently Microsoft's vice president for legal affairs and corporate communications in northern Europe. She was an executive vice president at Storebrand in 1997-2003, and has served as a minister in three separate governments – for development, 1990-92, justice, 1992-96, and petroleum and energy, 1996.

Arve Johnsen
Chairman of the Board

Mr Johnsen has chaired Norfund since 1997. He has served on a number of company boards since 1988, including as chair, and has conducted his own law practice since 1990. Mr Johnsen was with Norsk Hydro from 1961-71 and deputy industry minister in 1971-72, before serving as Statoil's first president and CEO from 1972-88.

Erik Århus

Mr Århus is a senior adviser at the Ministry of Foreign Affairs. He served earlier as secretary for the Norwegian delegation to the EU in Brussels, and is also a director of the European Bank for Reconstruction and Development in London.

Gunn Wenche Andersgaard

Ms Andersgaard is vice president for business development and innovation at Innovation Norway, a public agency established in January 2004 to promote innovation and internationalisation in the private sector. She was previously with the Norwegian Trade Council, where she held various positions from 1979.

Borger A Lenth

Mr Lenth is a lawyer affiliated with the Hjort DA law firm, and holds directorships in a number of Norwegian companies. These include Hydro, KLP, BNbank and Treschow-Fritzøe. He was previously chief executive of Christiania Bank, Eksportfinans and Norad, and served with the Ministry of International Development.

II. A contract was also signed to invest USD 7.5 million in Fundo de Investimento Privado Angola. The Aureos South Asia Interim Fund was created by CDC and Norfund as a precursor of the Aureos South Asia Fund II, which will be established during 2005.

As a further development of GrameenPhone, Norfund participated in a syndicated loan in 2004. Its share will be USD 10 million.

Financial institutions > The financial institutions business area had its first full operating year in 2004. A USD 5 million loan agreement was concluded with the Latin American Agribusiness Development Corporation (LAAD). Equity investments totalling USD 2.7 million and USD 5 million were made in DFCU – a medium-sized Ugandan bank – and Corporacion Interamericana para el Financiamento de Infrastructura (CIFI) respectively.

The portfolio of Norad loans to companies in developing countries transferred to Norfund in 2001 had NOK 212.8 million outstanding at 31 December 2004.

Tsunami disaster in Asia > Following the tsunami disaster in Asia, Norfund took an immediate initiative to investigate the need for microfinance activity and small risk loans to help rebuild business operations in the region. This work is currently under way in cooperation with Norad. The emphasis is on identifying specific needs for such financing as well as relevant partners such as microfinance companies, banks and other financial institutions. Work is initially concentrated on Sri Lanka, and draws on the local Aureos infrastructure, its network of contacts and Norfund's other contacts.

Norfund's development effects > Norfund seeks to maximise development effects and poverty reduction in several ways. First, it gives particular weight to investment in the least developed countries (LDCs) and in Africa. Norfund's goal is to have at least a third of its placements in LDCs. Another key focus is on small and medium-sized enterprises (SMEs), which are significant for economic growth and job creation. The priority given to sectors such as finance, renewable energy and microcredit also reflects a desire to achieve the highest possible development impact.

In addition, satisfying international standards for environmental protection, health and safety, and human rights is important, not least for long-term value creation by companies and their ability to compete internationally. Norfund paid particular attention in 2004 to integrating international environmental and social standards in its project assessments and during project lifecycles. This was followed up with company visits, with aspects such as HIV/Aids, corruption and corporate governance on the agenda.

A system for measuring development effects has been created for use with all new direct investments. This system takes account of such factors as jobs created, technology and knowledge transfer, training, the effect on female employment, and environmental and social conditions. Similar tools are being developed for investments in financial institutions and funds.

Norfund's direct investments accounted for roughly 7 400 jobs at 31 December 2004, including more than 4 200 at companies in the loan portfolio which were not included in the 2003 count. A total of 40 000 people worked in companies covered by the local funds in which Norfund has invested. These figures have been obtained from the various companies and funds involved. The underlying projects covered by Norfund's investments – particularly in financial institutions – will also represent a substantial number of jobs. In addition come positive spin-offs and further jobs at sub-contractors and other industries which benefit from increased investment in the area.

Corporate governance > Norfund will contribute risk capital for private enterprises in developing countries by taking direct and indirect equity positions in private companies. These markets are characterised in part by inadequate legislation on business management as well as widespread corruption. Issues relating to corporate governance accordingly occupy a key place for Norfund. Its in-house guidelines for investment decisions and monitoring are being improved, and this work will continue in 2005.

The environment > Environmental considerations and social considerations are given considerable weight in Norfund's investment mandate, and are important for maximising the development effect. Attention in 2004 focused on updating investment procedures to ensure that these are based on international environmental and social standards – primarily the environmental guidelines issued by the IFC and the World Bank as well as the core ILO conventions. Enhancing expertise in the organisation through in-house workshops, involvement in project assessments and follow-up of existing investments occupied a key place. Norfund cooperates closely with Aureos and SN Power to ensure that its ambitions in this area are applied to their underlying projects. The company's international network of related organisations is very important in efforts to strengthen environmental and social considerations in its investment activities.

Norfund's office activities do not affect the natural environment beyond what can be considered a normal level for the type of business it conducts. The biggest environmental impact relates to business travel and to a lesser extent to consumption of energy and paper, and generation of waste.

Human resources > Norfund had 23 employees at 31 December 2004, including three stationed abroad – one in Costa Rica and two in South Africa. They are monitoring investments and identifying project opportunities. The goal for 2005 is to increase capacity in areas were Norfund already has a presence by exploiting local resources in combination with foreign postings. Norfund will also continue to purchase external services as required.

The in-house working environment was satisfactory. A company medical service has been formed, with an assessment of the working environment and job satisfaction. Absence relating to illness in 2004 corresponded to 9.2 per cent of total working hours, or 402 work-days. Corrected for three people on long-term sick leave, such absence was 2.9 per cent. Measures to reduce sickness absence have been initiated. No personal injuries or damage to material assets were suffered by Norfund in 2004.

Equal opportunities > Equal opportunities for both genders represent an important element in Norfund's human resources policy. Creating jobs for women and safeguarding their rights is also a significant target with its investments.

The Norfund board comprises three men and two women, while the senior management consists of two women and five men. Women account for 39 per cent of the company's workforce. The average pay of female employees is 10 per cent lower than for Norfund as a whole. Women accounted for 43 per cent of applicants for jobs advertised in 2004. Three new staff were appointed in 2004, two women and one man.

Two employees left Norfund during the year.

Risk > Norfund's investments are made in developing countries where structures, markets and companies are characterised by a high level of risk. This is additional to normal commercial risks faced in the industrialised part of the world. Future returns depend on the ability to assess these risks before making an investment and to institute risk-reducing measures, and to handle the opportunities and risks encountered during the life of the investment.

Norfund operates in underdeveloped capital markets where investments must be expected to have a long time horizon and where exit opportunities are limited. To reduce financial risk, the portfolio is spread across a number of regions and countries.

A significant proportion of Norfund's investments are made through local funds, whose managements combine experience from developed capital markets with local knowledge. This combination is essential for ensuring expertise on and closeness to the key risk factors in such markets.

Investments by Norfund are largely in USD, but will also be in other currencies on some occasions. Since Norfund's base currency is the NOK, this means that its future returns will be heavily influenced by the exchange rate between the NOK and the USD or other relevant currency. The various investments are also subject to fluctuations between local currencies and the USD.

The company's currency strategy aims to safeguard the value of the invested portfolio by hedging about 50 per cent of its future cash flow in USD.

Norfund is exposed to interest rate risk through liquid assets placed with the Bank of Norway. Interest charges on loans to projects can also be affected by interest rate risk, depending on the level of such rates in each country. Loans to projects are usually tied to the variable London interbank offered rate (Libor) plus a margin. Norfund increased its commitment to lending in 2004, thereby reducing the risk presented by pure equity transactions. However, the risk posed by loans is also relatively high and closely related in character to that faced by equity in these markets.

Non-financial considerations, including environmental and social conditions as well as corruption, can pose both financial and reputational risk for Norfund. Work to establish good routines in these areas, both for project assessment and regular monitoring of investments, has a high priority.

Accounts > The board is of the opinion that the annual accounts at 31 December 2004 give a correct presentation of the company's financial position. At that date, Norfund had a capital base of NOK 2.3 billion, including the estimated value of the loan portfolio. A further NOK 485 million was allocated to the company in the central government budget for 2005, increasing its capital base to almost NOK 2.8 billion, including the estimated value of the loan portfolio. Exchange rates at 31 December 2004 have been applied in valuing Norfund's investments. Currency changes – particularly for the USD – reduced the value of its investments by NOK 30.6 million. Norfund's currency hedging yielded a gain of NOK 14.4 million, recorded as financial income. The net currency loss was accordingly NOK 16.3 million.

Norfund has positioned itself in recent years as a key player in the provision of risk capital for companies in developing countries. The needs of these recipients are not expected to lessen over the next few years. Its central strategic positions give Norfund a good basis for meeting its target of combating poverty by investing risk capital in viable business enterprises in developing countries.

The net loss after NOK 26.9 million in write-downs was NOK 9.2 million. In accordance with the instruction governing Norfund's operations, this loss has been covered from the surplus fund.

Going concern > The annual accounts are based on the assumption that the company is a going concern, in that the board can see no reason why this is not realistic.

Board of directors > Seven board meetings were held during 2004.

Oslo, 8 March 2005

Arve Johnsen
Chairman of the Board

Borger A Lenth
Deputy chair

Grete Faremo

Gunn Wenche Andersgaard

Erik Århus

Per Emil Lindøe
Managing director

Profit and loss account

(NOK 1 000)	NOTE	2004	2003
OPERATING INCOME	1,9	**49 295**	60 518
Operating expenses			
Payroll expenses	2	21 636	18 431
Depreciation tangible fixed assets	3	647	695
Currency regulation of project loans	8	13 622	2 001
Write-down of investment projects	8	26 929	38 650
Other operating expenses		23 937	16 088
Total operating expenses		**86 772**	75 866
OPERATING LOSS		**(37 477)**	(15 347)
Result from investment in joint ventures	4	(15 975)	9 666
Gain on sale of securities		0	0
Other interest received		31 095	47 695
Other financial income	13	17 700	11 065
Other financial expenses	13	4 532	5 347
Net financial items		**28 288**	63 079
NET PROFIT/(LOSS)		**(9 189)**	47 732
Transfers			
Transferred to surplus fund	11	0	47 732
Transferred from surplus fund	11	9 189	0
Total allocations		**(9 189)**	47 732

Balance sheet

(NOK 1 000)	NOTE	2004	2003
ASSETS			
Fixed assets			
Tangible fixed assets			
Operating equipment, fixtures, fittings, tools, etc	3	1 584	956
Total tangible fixed assets		1 584	956
Financial fixed assets			
Investments in joint ventures	4	468 008	485 925
Loans to joint ventures	4	6 039	0
Pension funds	2	2 456	2 570
Total financial fixed assets		476 503	488 495
Total assets		478 087	489 451
Current assets			
Accounts receivable			
Other accounts receivable	5	2 691	1 041
Loan portfolio	5	0	0
Total accounts receivable		2 691	1 041
Investments			
Loans to investment projects	6,8	125 731	55 524
Equity investments	7,8	248 347	127 451
Other market-based financial instruments	13	16 433	6 493
Total investments		390 512	189 468
Bank deposits, cash in hand and cash equivalents			
Liquid assets tied up in committed, sanctioned in principle and approved investments	7,10	702 856	592 299
Uncommitted liquid assets	7,10	760 849	502 537
Total bank deposits, cash in hand and cash equivalents		1 463 705	1 094 836
Total current assets		1 856 908	1 285 345
TOTAL ASSETS		2 334 994	1 774 796

Balance sheet

(NOK 1 000)	NOTE	2004	2003
EQUITY AND LIABILITIES			
Equity			
Called-up and fully-paid share capital			
Primary capital	11	1 521 250	1 180 000
Reserve capital	11	593 750	450 000
Total called-up and fully-paid share capital		**2 115 000**	**1 630 000**
Retained earnings			
Surplus fund	11	113 895	125 025
Total retained earnings		**113 895**	**125 025**
Total assets		**2 228 895**	**1 755 025**
Liabilities			
Other long-term liabilities			
Remaining long-term liabilities	15	0	1 370
Total other long-term liabilities		**0**	**1 370**
Current liabilities			
Accounts payable	15	565	511
Unpaid government charges and special taxes		2 092	1 735
Unused funds (trust fund)	12	21 358	14 131
Other current liabilities	15	82 084	2 024
Total current liabilities		**106 100**	**18 401**
Total liabilities		**106 100**	**19 771**
TOTAL EQUITY AND LIABILITIES		**2 334 994**	**1 774 796**

Oslo, 8 March 2005

Arve Johnsen
Chairman of the Board

Borger A Lenth
Deputy chair

Grete Faremo

Gunn Wenche Andersgaard

Erik Århus

Per Emil Lindøe
Managing director

Cash flow statement

(NOK 1 000)	NOTE	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		(9 189)	47 732
Loss/gain on sale of fixed assets		0	0
Ordinary depreciation	3	517	646
Write-down of fixed assets	3	130	50
Write-down of current assets	8	26 929	38 650
Changes in stocks, accounts receivable/payable		(689)	(389)
Differences in pension costs and payments to/from pension funds		114	903
Result using equity and proportionate consolidation methods		15 975	17 794
Effect of exchange rate changes		4 628	(5 395)
Items classified as investments or financing activities			
Changes in other accruals		79 632	508
Total cash flow from operational activities		**118 047**	**100 499**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments in tangible fixed assets	3	(1 275)	(317)
Proceeds from sale of shares/interests in other enterprises		0	43 368
Repaid proceeds from shares/interests recorded at cost price		8 105	17 003
Acquisition of shares/interests in other enterprises		(155 463)	(57 567)
Acquisition of other investments		(97 026)	(41 729)
Proceeds from sale of other investments		4 767	3 092
Net cash flow from investment activities		**(240 892)**	**(36 148)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new short-term loans	12	23 000	7 000
Repayment of long-term loans		0	0
Repayment of short-term loans		(16 286)	(4 372)
Increase in/repayment of equity		485 000	485 000
Net cash flow from financing activities		**491 715**	**487 628**
CHANGES IN EXCHANGE RATES, CASH AND CASH EQUIVALENTS			
Net change in cash and cash equivalents		368 870	551 979
Cash and cash equivalents at 1 Jan		**1 094 836**	**542 857**
Cash and cash equivalents at 31 Dec	10	**1 463 705**	**1 094 836**

Accounting principles

The accounts have been prepared in accordance with the provisions of the Norwegian Accounting Act. The most important accounting principles observed by Norfund are described below.

Principles for revenue recognition

Operating income includes dividends, gain on the sale of shares/interests in other companies, interest on loans made to other companies, directors' fees, other project income, gain on the sale of fixed assets, and payments of interest and principal on the loan portfolio.

Gain on the sale of shares/interests in other companies is recorded in the year the sale takes place. Interest is recorded as and when earned. Other proceeds from shares/interests are deducted from the book value, and are accordingly not recorded as income.

Payments from the investment portfolio are recorded when received (the cash principle).

When loans to development projects are classified as doubtful, interest relating to the doubtful commitment is no longer recorded as income. Interest not paid owing to a default is reversed.

Financial income and expenses

Interest on Norfund's liquidity reserve in the Bank of Norway, other Norwegian banks and certificates is recorded as financial income. Results from forward contracts for portfolio hedging which have fallen due are recorded in their entirety against other financial income or other financial expenses.

Pension commitments and expenses

The company has pension schemes classed as defined benefit plans, which entitle their members to defined future benefits. Pension expenses are treated in accordance with the Norwegian accounting standard for pension expenses. They are classified as ordinary operating expenses and presented as payroll expenses.

Joint ventures

Joint ventures are activities controlled jointly by Norfund and one or more of its partners. They are recorded in the accounts in accordance with the equity method. The company's share of income from a joint venture is presented as a separate item in the accounts. Similarly, equity investments are presented as a separate item on the asset side of the balance sheet. Investments in Aureos Capital Ltd and Statkraft Norfund Power Invest AS are entered as joint ventures in accordance with generally-accepted accounting principles. Where final figures are unavailable, estimates are used for the expected result. Accounts for Aureos are compiled in USD, and the average annual exchange rate is used when recording the share of this company's results. Balance sheet figures relating to Aureos are also adjusted to the exchange rate prevailing at 31 December. Such exchange rate adjustments are recorded directly against equity in Norfund. Interest received from Statkraft Norfund Power Invest AS is eliminated against interest expenses in that company. See also the note relating to joint ventures.

Equity investments

Norfund normally treats its investments in other companies as current assets. In other words, the equity method is not applied even though Norfund's equity interests provide it with considerable influence. This is because the purpose of the Fund's investments is to dispose of all or part of each commitment, normally after three to seven years as a rule. That accords with Norfund's objectives, and with the provisions of 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 specific assessment of each investment such that each investment is written down where this is considered necessary because of a permanent fall in value (specified loss provision). No general provision is made for losses. See the section below relating to the treatment of currency items.

Committed investments mean that an external obligation exists to pay a designated amount, while investments sanctioned in principle and approved mean that the board has resolved to approve an investment under certain conditions, although no contracts have been signed.

When concluding an investment agreement, Norfund often employs various instruments to reduce risk – such as options, conversion options and so forth.

Loans
Norfund manages two types of loans:
- loans relating to Norfund's equity investments and made by the company (project loans)
- loans to companies in developing countries acquired from Norad (loan portfolio)

Project loans are treated as current assets.

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

On the basis of the company's strategy, the loan portfolio acquired from Norad is classified as a current asset and recorded in the accounts at historical cost, which is NOK 0. Payments received from the loan scheme are therefore treated on a cash basis and recorded as income on receipt.

Known losses
Losses recognised as a result of bankruptcy, the winding-up of a company and the like, and losses on the sale of shares are recorded as known losses.

Currency items
Bank deposits and loans are recorded at the exchange rate prevailing on 31 December. Unrealised gains/losses are posted as operating income/other operating expenses respectively. The assessment of changes in the value of investments (see above) also includes an assessment of changes caused by exchange rate movements.

Bank deposits, cash in hand and cash equivalents
Bank deposits, cash in hand and cash equivalents also include certificates and the like.

Norfund has opted to identify how much of its liquid assets were tied up in investments committed, sanctioned in principle, and approved but unpaid at 31 December. This is shown in the balance sheet under liquid assets tied up in committed, sanctioned in principle and approved investments. The maximum amount has been recorded. Should investments not be made, this amount could be reduced. The remaining cash balance is shown as uncommitted liquid assets.

Current receivables
Current receivables are recorded at their estimated value and adjusted for irrecoverable items.

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

Equity
Norfund's equity is divided into primary, reserve and surplus capital. This division is made on the basis of the frame conditions for Norfund's activities, which specify that the Ministry of Foreign Affairs must be notified if the company's losses are so great that its primary capital is affected. Any net profit is added to surplus capital, while any net losses are deducted from this or from reserve capital if the former fund is insufficient to cover the net loss.

Related parties
Norfund defines Aureos Capital Ltd and Statkraft Norfund Power Invest AS as related parties.

Notes

01 SEGMENT INFORMATION

Segment information by business area:

Norfund has chosen to confine the presentation of segment information to profit and loss account items relating to its loan portfolio. This is because the latter differs from other investment activities and has a different risk profile.

(Figures in NOK 1 000)	2004			2003		
	NORFUND total	Loan portfolio*	NORFUND excl loan p	NORFUND total	Loan portfolio*	NORFUND excl loan p
Operating income	49 295	43 142	6 153	60 518	56 631	3 887
Operating expenses						
Payroll expenses	21 636	2 602	19 034	18 431	2 385	16 046
Depreciation of tangible fixed assets	647	82	565	695	90	605
Losses on sale of operating assets	0	0	0	0	0	0
Provision for loss on projects	26 929	0	26 929	38 650	0	38 650
Other operating expenses	37 560	2 575	34 985	18 090	2 076	16 014
Total operating expenses	86 772	5 259	81 513	75 866	4 552	71 314
Profit/(loss) from operations	(37 477)	37 883	(75 360)	(15 347)	52 079	(67 427)
Net financial items	28 288	0	28 288	63 079	(1)	63 080
Total profit/(loss)	(9 189)	37 883	(47 072)	47 732	52 079	(4 347)

*Income and expenses are partly directly attributable, and partly joint expenses allocated in accordance with a distribution formula based on the number of people employed.

Segment information by geographical region:

No significant accounting assets or liabilities relate to the loan portfolio.

(Figures in NOK 1 000)	Africa	Asia	Latin America	Europe	Global	Write-downs	Total
Balance sheet							
Equity investments	165 479	92 939	102 766	33 435	800	(147 072)	248 347
Loans to investments	14 814	52 077	67 266	2 297	650	(11 374)	125 731
Total balance sheet	180 293	145 017	170 033	35 732	1 450	(158 446)	374 078
Operating income	9 916	34 646	4 481	250	3		49 295

02 PAYROLL EXPENSES

Pay and other payroll expenses

(Figures in NOK 1 000)	2004	2003
Pay	14 200	11 551
Directors' fees	380	470
Payroll taxes	2 640	2 347
Personnel insurance	323	289
Pension expenses	3 623	3 430
Other benefits	669	544
Payroll expenses refunded from trust fund	(200)	(200)
Total pay and other payroll expenses	**21 636**	**18 431**

Remuneration of senior personnel

(Figures in NOK 1 000)	Managing director	Chair
Pay/fees	1 115	120
Pension contributions	612	0
Other remuneration	21	0
Total	**1 748**	**120**

The managing director is not covered by any agreement to continue receiving pay after the termination of his employment beyond the ordinary three-month period of notice. The chair has no contract for remuneration after leaving office. Neither the managing director nor the chair have any bonus agreements.

The chair received NOK 80 000 for boardroom work on behalf of Norfund, plus NOK 40 000 for serving as chair of SN Power Invest AS during the first half of 2004. The deputy chair received a fee of NOK 70 000. Other directors received fees of NOK 50 000 each. Furthermore, the alternate directors received NOK 20 000 each.

NOK 527 297 was recorded for auditor's fees, of which NOK 411 898 was for auditing and related services and NOK 115 399 for other support from the auditor and collaborating companies (all figures include VAT).

Employees

The company had 23 employees at 31 December 2004. The average number of employees for the year was 22.

Pensions

Norfund has a pension scheme which provides the right to defined future benefits. The size of these benefits will depend primarily on the number of pension-earning years, the level of pay at retirement and National Insurance benefits. The full pension entitlement is based on 30 pension-earning years and amounts to 70 per cent of pay.

Senior employees have a supplementary pension plan in addition to the general scheme. This provides for cover above 12 times the National Insurance base rate as well as a retirement age of 65. It is funded through Nordea Liv.

These commitments are recorded in the balance sheet.

Pension expenses, pension funds and pension commitments have been calculated by the insurance company's actuary. Variances between the book value at 31 December of the previous year and the estimated value in the Natural Resources Systems Programme (NRSP) calculation at 1 January of the following year are entered directly in the profit and loss account. At 31 December 2004, 23 people were covered by the scheme.

Financial assumptions

	2004	2003
Discount rate	6.0%	7.0%
Expected return on pension funds	7.0%	8.0%
Pay regulation	4.0%	4.0%
Pension regulation	3.0%	3.0%
Adjustment to NI base rate	3.0%	3.0%
Turnover	9.0%	7.0%
Expected early retirement at age 62 (AFP)	0.0%	0.0%
Payroll tax	14.1%	14.1%

Net pension expenses for the period

(Figures in NOK 1000)	2004	2003
Net present value of pension accruals for the year		
Net present value of pension accruals at 1 January	2 144	1 667
Interest	469	343
Net present value of pension accruals	**2 613**	**2 011**
Interest cost of pension commitments		
Pension commitments at 1 January	7 812	4 907
Pensions paid	0	0
Average expected pension commitments	**7 812**	**4 907**
Discount rate	**6%**	**7%**
Interest paid	**469**	**343**
Expected return on pension funds		
Market value of pension funds at 1 January	8 968	6 387
Pensions paid	0	0
Payments received, including premiums	3 524	2 677
Expected return (%)	7%	8%
Expected return on pension funds	555	450
Amortisation of transfer effect	0	0
Amortisation or direct recording of variances	**1 097**	**1 526**
Net pension expenses	**3 623**	**3 430**

Pension commitments

(Figures in NOK 1 000)	2004	2003
Opening balance accrued pension commitments	7 812	4 907
+ Net present value of pension accruals for the year	2 613	2 011
+ Interest on accrued pension commitments	469	343
- Pensions paid	0	0
Closing balance accrued pension commitments	**10 893**	**7 261**
Opening balance pension funds	8 968	6 387
+ Expected return	555	450
+ Payments received for the year	3 524	2 677
- Pensions paid	0	0
Closing balance pension funds	**13 046**	**9 514**

Reconciliation of net pension commitments against book value

(Figures in NOK 1 000)	2004	2003
Closing balance pension funds	13 046	9 514
Closing balance accrued pension commitments	(10 893)	(7 261)
Closing balance net pension funds	**2 153**	**2 253**
Payroll tax	304	318
Closing balance net pension funds, incl payroll tax	**2 456**	**2 570**

03 TANGIBLE FIXED ASSETS

(Figures in NOK 1 000)	Operating equipment, fixtures and fittings, etc	Permanent office fixtures and fittings	Cars	Artworks	Total
Cost price, ordinary depreciation and write-downs					
Cost price at 1 Jan	3 452	273	0	67	3 792
+ acquisitions during the period	934	0	341	0	1 275
- disposals during the period	0	0	0	0	0
Cost price at 31 Dec	**4 386**	**273**	**341**	**67**	**5 067**
Accumulated ordinary depreciation at 1 Jan	2 735	51	0	0	2 785
+ ordinary depreciation for the period	464	40	13	0	517
- accum ordinary depreciation, operating assets sold	0	0	0	0	0
Accumulated ordinary depreciation at 31 Dec	3 199	91	13	0	3 303
Write-down of operating assets at 1 Jan	50	0	0	0	50
+ write-downs for the period	130	0	0	0	130
- accum depreciation, operating assets sold	0	0	0	0	0
Accum write-downs at 31 Dec	180	0	0	0	180
Book value for accounting purposes at 31 Dec	**1 007**	**182**	**328**	**67**	**1 584**

Operating equipment, fixtures and fittings and so forth are depreciated on a straight-line basis. The expected life of operating assets is three-four years. Office fixtures and fittings are depreciated over the life of the lease. Artworks are not depreciated. Cars are depreciated on a straight-line basis over eight years.

Operating assets not in use are written down to zero every year.

04 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	
Shareholding	50%	50%	
Voting share	50%	50%	
Information relating to the date of acquisition			
Acquisition cost	18 339	500 000	
Equity capitalised at date(s) of purchase (Norfund share)	18 339	500 000	
Excess/reduced value	0	0	
Goodwill	0	0	

cont.	Aureos Capital Ltd	Statkraft Norfund Power Invest AS	Total
Information relating to annual figures			
Opening balance	3 691	482 235	485 925
Capital received in 2004	0	0	0
Deducted non-amortised excess value	0	0	0
Deducted non-amortised goodwill	0	0	0
Share of annual profit/(loss)[1]	(178)	(15 769)	(15 947)
Netting of previous year's result	375	(404)	(29)
Other changes during the year, exchange rate adjustment, etc	(511)	(1 431)	(1 942)
Closing balance, 31 Dec 04	**3 377**	**464 631**	**468 008**

[1] Share of annual result is based on estimated figures.

In addition, a loan of USD 1 000 000 was made to Aureos in 2004 as an advance on a capital expansion. This expansion had not taken place at 31 December 2004.

The ministry is working on adjustments to the framework for Norfund's operations. See Proposition no 1 to the Storting (2004-2005) – the Finance Bill.

An agreement between Statkraft and Norfund regulates the opportunity to transfer Statkraft's interests in two Asian power utilities – HPL in Nepal and THPC in Laos – to SN Power. This transfer depends on the approval of third parties. In connection with implementing the agreement, Statkraft paid NOK 80 million to Norfund. Part or all of this amount could be recorded as income for Norfund. It has been recorded as a current liability in the accounts. The effect of these equity holdings on the profit and loss account and their value have not been included in the 2003 and 2004 figures consolidated by Norfund from SN Power's activities.

Key figures from SN Power's consolidated accounts

Profit and loss account

(Figures in NOK 1 000)	2004	2003
Operating income	150 887	21 277
Operating expenses	180 744	49 965
Operating loss	**(29 857)**	**(28 688)**
Net financial items	21 640	(13 963)
Ordinary loss before tax	(8 217)	(42 651)
Tax on ordinary loss	(23 321)	11 044
Ordinary loss	(31 538)	(31 607)
Net loss	**(31 538)**	**(31 607)**

Balance sheet

Assets

(Figures in NOK 1 000)	2004	2003
Intangible fixed assets	12 401	26 841
Tangible fixed assets	377 010	418 762
Financial fixed assets	132 453	9 064
Total fixed assets	**521 864**	**454 667**
Goods	1 797	3 932
Receivables	26 152	39 545
Investments	17 053	5 713
Cash and cash equivalents	731 351	830 923
Total current assets	**776 353**	**880 113**
Total assets	**1 298 217**	**1 334 780**

Equity and liabilities

(Figures in NOK 1 000)	2004	2003
Called-up and fully-paid share capital	1 000 000	1 000 000
Retained earnings	(70 738)	(35 682)
Total equity	**929 262**	**964 318**
Provisions	80 194	85 452
Other long-term liabilities	220 674	178 222
Current liabilities	68 087	106 788
Total liabilities	**368 955**	**370 462**
Total equity and liabilities	**1 298 217**	**1 334 780**

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

05 RECEIVABLES

Other receivables: all receivables fall due within one year.
The loan portfolio recorded under receivables was acquired from Norad without cost and has therefore been entered with a book value of NOK 0 in the accounts.

(Figures in NOK 1000)	Opening loan balance 1.1.04	Repayments received 1.1-31.12	Interest received 1.1-31.12	Depreciation during the year	Currency reg during the year	Closing loan blance 31.12.04
	250 161	36 986	6 156	0	(327)	212 848
Book value	0					0

Two loans are recorded in USD and are thus subject to currency regulation. The other loans are booked in NOK. Norfund has estimated the value of its loan portfolio at 31 December 2004 to be to NOK 132 million.

Outstanding accounts with joint ventures

(Figures in NOK 1000)	Other receivables 31.12.04	31.12.03
Joint ventures	0	450
Other	2 691	591
Total other receivables	**2 691**	**1 041**

06 LOANS TO COMPANIES IN THE INVESTMENT PORTFOLIO

Loans specified by country

(Figures in NOK 1000)	Number	Currency	Book value [1] (currency)	Book value [1] (NOK)	Interest received (NOK)
Bangladesh	1	USD	4 168	25 166	
Bosnia-Herzegovina	1	EUR	157	1 297	
Bosnia-Herzegovina	1	NOK	1 000	1 000	
Cuba	1	USD	3 000	18 116	
Ecuador	1	USD	39	238	
Global	1	NOK	650	650	
India	1	EUR	57	474	
Kenya	1	KES	7 000	549	
China	1	NOK	1 091	1 091	
China	4	USD	1 241	7 492	
China	1	CAD	31	155	
Nepal	1	NOK	2 700	2 700	
Nicaragua	1	USD	3 100	18 720	

cont.	Number	Currency	Book value [1] (currency)	Book value [1] (NOK)	Interest received (NOK)
Regional	2	USD	6 700	40 459	
Tanzania	1	NOK	4 000	4 000	
Turkey	1	NOK	15 000	15 000	
Total loans to companies				**137 105**	**4 441**
Provision for bad debts				(1 374)	
Book value, loans/total interest received				**125 731**	**4 441**
Committed investments in loans					**172 884**
Loans sanctioned in principle and approved					**23 602**
Loans committed, sanctioned in principle and approved (incl loans paid)					**196 486**

[1] Figures at 31 December 2004 and prior to any write-downs.

07 EQUITY INVESTMENTS

Equity investments in funds

(Figures in NOK 1 000)	Currency	Ownership stake	Committed investment (in currency)	Historical cost price[1] (in currency)	Committed investment (in NOK)	Historical cost price[1] (in NOK)
Horizonte	EUR	3.0%	465	324	3 817	2 656
Minco	USD	15.8%	840	840	6 793	6 793
FEDHA Fund	USD	11.5%	1 373	665	9 757	5 483
LACIF	USD	23.2%	800	800	6 107	6 107
CAIF	USD	3.8%	1 000	787	7 735	6 450
Msele Nedventures	ZAR	14.6%	12 000	12 000	15 900	15 900
African Infrastructure Fund	USD	1.2%	5 000	3 260	35 516	25 008
Indian Ocean II	USD	17.1%	3 000	1 827	23 235	16 151
SEAF Trans-Balkan Fund	USD	22.9%	5 000	2 740	36 162	22 513
CASEIF	USD	31.8%	5 000	2 982	35 605	23 420
Siam Investment Fund II	USD	8.7%	5 000	1 725	34 874	15 095
SEAF Sichuan SME Investment Fund	USD	13.3%	3 000	1 227	19 503	8 794
Horizon Tech Ventures	ZAR	18.1%	26 000	15 457	26 950	15 647
Aureos Central America Fund	USD	27.5%	10 000	3 819	64 093	26 766
Aureos East Africa Fund	USD	20.0%	8 000	1 991	50 441	14 155
Aureos West Africa Fund	USD	30.9%	15 425	5 352	97 286	36 462
Aureos Southern Africa Fund	USD	30.0%	15 000	1 564	91 568	10 435
Aureos South Asia Interim Fund[2]	USD	50.0%	5 000	1 683	30 427	10 398
Fundo de Investimento Privado-Angola	USD	33.3%	7 500	0	45 290	0
Aureos South East Asia Fund[3]	USD	44.0%	20 000	0	120 772	0
Total invested in funds					**761 830**	**268 234**
Committed investments in funds						**761 830**
Investments in funds sanctioned in principle and approved						**64 657**
Investments in funds committed, sanctioned in principle and approved						**826 487**

A committed investment means that a binding agreement has been concluded to make the investment. Investments sanctioned in principle and approved mean that an in-house decision has been taken to make the investment under certain conditions, but no contracts have been signed.

Conversion to NOK utilises the exchange rate at the time of payment for that part of the amount which has been paid. The exchange rate at 31 December 2004 is used for the unpaid component.

Equity investments in management companies

(Figures in NOK 1 000)	Currency	Ownership	Historical cost price[1] (in currency)	Historical cost price[1] (in NOK)
AMSCO	EUR	4.8%	240	1 837
Lafise Investment Management	USD	20.0%	2	17
Angola Capital Partners	USD	33.3%	0	0
Total invested in management companies				**1 855**
Committed investments in management companies				**2 761**
Investments in management companies sanctioned in principle and approved				**0**
Investments in management companies committed, sanctioned in principle and approved				**2 761**

Equity investments in companies

(Figures in NOK 1 000)	Currency	Ownership	Historical cost price[1] (in currency)	Historical cost price[1] (in NOK)
Palnorec	USD	27.6%	400	3 097
Sinor/Daiyoo	USD	35.5%	1 197	9 845
Norfish Blagaj	EUR	30.7%	1 021	8 266
Finarca	USD	18.0%	598	5 684
Genomar	NOK	8.1%	20 000	20 000
Future & Hope	NOK	36.9%	800	800
Pan Marine Qingdao	NOK	49.0%	18 490	18 490
Fjord Marine Tyrkia	NOK	14.3%	10 000	10 000
Pan Fish Shanghai	USD	27.5%	38	273
TC Trading	USD	27.5%	6	45
DFCU	UGS	10.1%	4 600 000	17 607
CIFI	USD	9.0%	5 000	31 225
Total invested in companies				**125 331**
Committed investments in companies				**125 348**
Investments in companies sanctioned in principle and approved				**84 299**
Investments in companies committed, sanctioned in principle and approved				**209 647**
Total book value of investments in funds, management companies and companies				395 419
Write-downs of investments at 31 Dec 04				(147 072)
Book value of investments				**248 347**

Investments committed, sanctioned in principle and approved, unpaid

(Figures in NOK 1 000)	2004	2003
Investments in funds sanctioned in principle, approved and committed	826 487	642 574
+ Investments in management companies sanctioned in principle, approved and committed	2 761	1 855
+ Investments in companies sanctioned in principle, approved and committed	209 647	175 484
+ Loans sanctioned in principle, approved and committed	196 486	85 997
= Total investments sanctioned in principle, approved and committed	**1 235 380**	**905 910**
- Total equity investments	395 419	248 062
- Total loans for equity investments	137 105	65 548
= Investments sanctioned in principle, approved and committed, unpaid	**702 856**	**592 299**

[1] Figures at 31 December 2004 and prior to any write-downs.
[2] The Aureos South Asia Interim Fund was created by CDC and Norfund as a precursor of the Aureos South Asia Fund II, which will be established during the first half of 2005 together with a number of investors. Through the interim facility, Norfund and CDC are jointly financing minority holdings in Sri Lankan companies. Norfund's share of each investment will accordingly be less than 25 per cent.
[3] The ASEAF is structured as a regional fund with separate national funds. The capital in the regional fund is currently divided equally between CDC and Norfund. Norfund's overall share will be reduced during the first half of 2005.

08 REALISED LOSSES AND WRITE-DOWNS

(Figures in NOK 1 000)	Write-downs at 1.1.04	Losses realised 2004	New write-downs 2004	Write-downs charged to trust fund 2004	Accumulated write-downs at 31.12.04
Write-downs on project loans	10 025	0	468	881	11 374
Write-downs on equity investments	120 611	0	26 461	0	147 072
Total	**130 636**	**0**	**26 929**	**881**	**158 446**

Write-downs charged to the profit and loss account comprise only new write-downs made in 2004.

Norfund hedged about 50 per cent of the value of its portfolio of investments in USD during 2003 and 2004. Exchange rate movements will yield income or possible expenses from portfolio hedging as a result of changes in the value of the forward contracts. The value of hedging transactions and the investment portfolio will change in opposite directions when exchange rates alter. Portfolio hedging accordingly has a smoothing effect on results. Norfund takes the view that income/expenses from portfolio hedging should accordingly be assessed in relation to write-downs and currency regulation. In accordance with generally-accepted accounting practice, these items have been recorded on different lines in the profit and loss account – write-down of investment projects, other operating expenses and other financial income/expenses respectively. The total of these items, designated below as net write-downs, expresses the actual write-down expense after taking account of currency hedging.

	2004	2003
Write-down of investment projects (see the write-down of investment projects line in profit and loss account)	26 929	38 650
Currency regulation of project loans (see the currency regulation of project loans line in profit and loss account)	13 622	2 001
Results recorded from portfolio hedging (see the other financial income/expenses lines in profit and loss account)	(14 416)	(7 601)
Net write-downs	**26 135**	**33 050**

Effect of exchange rate changes on results

	2004	2003
Write-downs because of exchange rate changes	17 079	13 000
Currency regulation of project loans (see the currency regulation of project loans line in profit and loss account)	13 622	2 001
Results recorded from portfolio hedging (see the other financial income/expenses lines in profit and loss account)	(14 416)	(7 601)
Net write-downs because of exchange rate changes	**16 285**	**7 400**

09 SHARE GAINS REALISED

	2004	2003
Receipts from sale of shares	-	43 368
Cost price, shares sold	-	(41 335)
Net gain/(loss), shares sold	**-**	**2 033**

No shares were sold in 2004.

10 BANK DEPOSITS, CASH IN HAND AND CASH EQUIVALENTS

NOK 592 299 000 and NOK 702 856 000 were sanctioned in principle, approved and committed but unpaid at 31 December 2003 and 31 December 2004 respectively. Uncommitted liquid assets include NOK 1 154 994 in the blocked tax withholding account. In addition, NOK 21 358 236 of the company's liquid assets are tied up in the trust funds. These assets can only be used in accordance with the terms of the trust funds.

11 CAPITAL MOVEMENTS

(Figures in NOK 1 000)	Primary capital	Capital in legal reserves	Surplus fund	Total equity
Capital at 1 Jan 04	1 180 000	450 000	125 025	1 755 025
Capital received in 2004	341 250	143 750		485 000
Equity adjustment joint venture recorded directly against equity			(1 942)	(1 942)
Net loss			(9 189)	(9 189)
Capital at 31 Dec 04	**1 521 250**	**593 750**	**113 895**	**2 228 895**

Capital in legal reserves can only be used to meet losses which cannot be covered from other reserves, excluding primary capital.

The company has received NOK 2 115 million in capital from the Norwegian government, including NOK 485 million paid in during 2004. Of the total capital received, NOK 260 million is earmarked for investments in the world's least developed countries and NOK 310 million for investments in the energy sector.

12 UNUSED FUNDS (TRUST FUND)

Norfund received NOK 23 million in “trust fund” capital in 2004, including NOK 15 million for restructuring the Norfish Blagaj project in Bosnia-Herzegovina. The trust fund is intended to cover costs above Norfund's normal operating expenses for measures designed to encourage increased investment in developing countries and to ensure that existing investments succeed. In addition, NOK 1.4 million previously recorded as a provision under long-term liabilities was transferred to the trust fund in 2004. The trust fund is treated as a current liability, and outgoing payments are included in Norfund's liquid assets. When costs are met from the trust fund, debt is reduced by the equivalent amount. A total of NOK 17.1 million in costs was charged to the trust fund in 2004. The remaining balance in the trust fund (remaining capital) amounts to NOK 21.4 million.

13 INFORMATION ABOUT FINANCIAL MARKET RISKS AND THE USE OF FINANCIAL INSTRUMENTS

Market and currency risks

Norfund's investments are undertaken in developing countries in which the country itself as well as its structures, markets and companies are subject to high risk. Future returns depend on the ability to manage the opportunities and risks faced during the investment period.

Investments by Norfund are largely in USD, but will also be in other currencies on some occasions. Since Norfund's base currency is the NOK, this means that its future returns will be heavily influenced by the exchange rate between the NOK and the USD or other relevant currency. The various investments are also subject to fluctuations between local currencies and the USD.

Norfund introduced a currency hedging strategy in December 2002. Adjusted in 2003, its main purpose is to safeguard the value of the investment portfolio. This is accomplished by hedging about 50 per cent of the future cash flow in USD.

Four currency forward contracts were entered into during 2004, and one fell due in USD. These are recorded in the profit and loss account under other financial income and other financial expenses respectively. Norfund had four outstanding forward contracts at 31 December 2004, which were capitalised as other market-based financial instruments.

Outstanding contracts at 31 Dec 04

Type of contract (figures in NOK/USD 1 000)	Counterparty	Purchase date	Maturity	Amount hedged (USD)	Forward rate	Value 31.12 (NOK)
Forward sale	Nordea	08.11.04	10.01.05	5 500	6.3600	1 769
Forward sale	Nordea	09.01.04	10.01.05	2 500	6.8920	2 134
Forward sale	DnBNOR	05.05.04	10.01.05	3 000	6.7460	2 123
Currency swap, sell USD against buy NOK	DnBNOR	09.01.04	10.01.05	12 000	6.9055	10 406
Total						**16 433**

Interest rate risk

Norfund's interest rate risk relates primarily to liquid assets placed in Norwegian banks. Interest on project loans may also be affected by interest rate risk, depending on the rate of interest charged on the various loans. Project loans are usually based on the variable Libor plus a margin. Norfund increased its commitment to loans during 2004.

Credit risk

Project loans are assessed at their estimated actual value. The risks associated with such loans are otherwise partially reflected in the terms applied to each loan. What Norfund defines as its loan portfolio presents no credit risk in accounting terms, since its value in the balance sheet is zero. Generally speaking, the risks associated with loans are regarded as relatively high and are to be considered more as an equity risk than as a traditional loan risk. Credit risk is not considered to be heavily concentrated because Norfund is diversified in terms of both industries and geographical areas.

Liquidity risk

Norfund has no interest-bearing debt. An attempt has been made to identify its liquidity risk by quantifying committed investments and specific projects in the planning phase in a single item.

14 COMMITMENTS

(Figures in NOK 1 000)	Lease duration	Annual rent
Premises at Munkedamsveien 45B	01.08.99 - 31.07.09	2 270

Norfund resolved in 2004 to establish a tender guarantee scheme in order to encourage increased financial cooperation and investment in developing countries. This scheme is administered by the Norwegian Guarantee Institute for Export Credit (GIEK). It could lead to expenses of up to NOK 13 million being charged to Norfund´s accounts over a three-year period.

15 DEBT

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

Current liabilities include a provision for a payment of NOK 80 million from Statkraft (see note 4).

A provision of NOK 1.4 million previously recorded under long-term liabilities has been transferred in 2004 to the trust fund.

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To NORFUND, a company under special law

AUDITOR'S REPORT FOR 2005

Respective Responsibilities of Directors and Auditors
We have audited the annual financial statements of NORFUND as of 31 December 2004, showing a loss of NOK 9 189 000. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. 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 2004, 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 coverage of the loss is consistent with the financial statements and comply with the law and regulations.

Oslo, 11 March 2005
KPMG AS

Tom Myhre
State Authorised Public Accountant

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

Management

Per Emil Lindøe
Managing director

Tone Wille
Director of investments, strategic joint ventures/deputy managing director

Christoffer Christensen-Røed
Director of investments, financial institutions

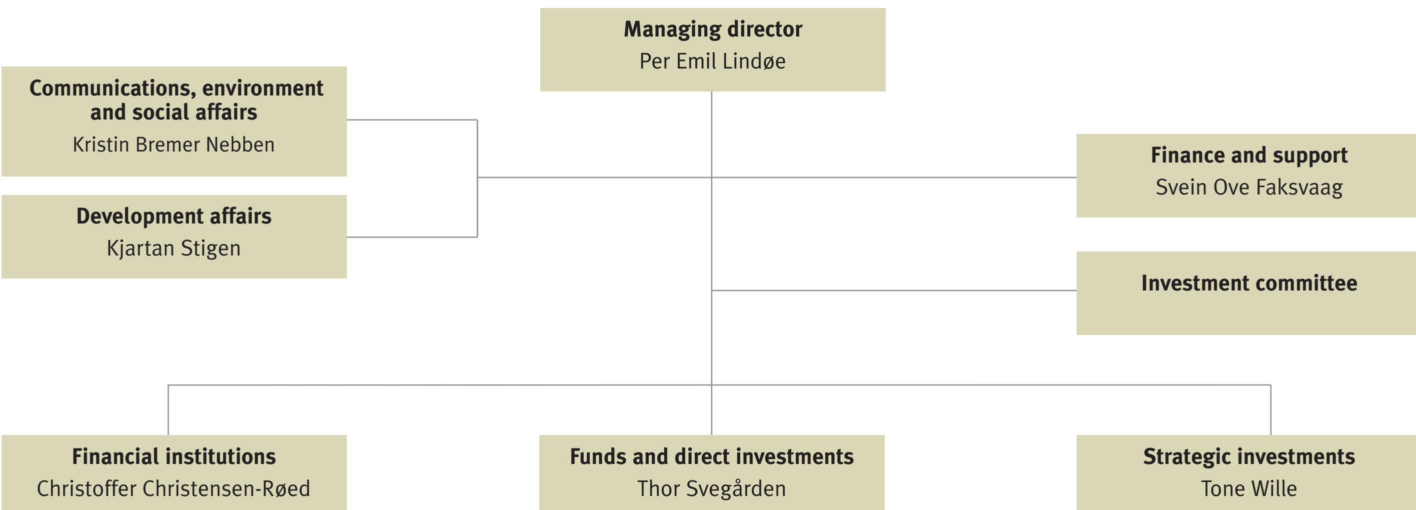
Thor Svegården
Director of investments, direct and funds

Svein Ove Faksvaag
Director of finance and support

Kjartan Stigen
Director of development affairs

Kristin Bremer Nebben
Director of communications, environmental and social affairs

Organisation chart



Further information on Norfund and contact details can be found on the web site at **www.norfund.no**

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