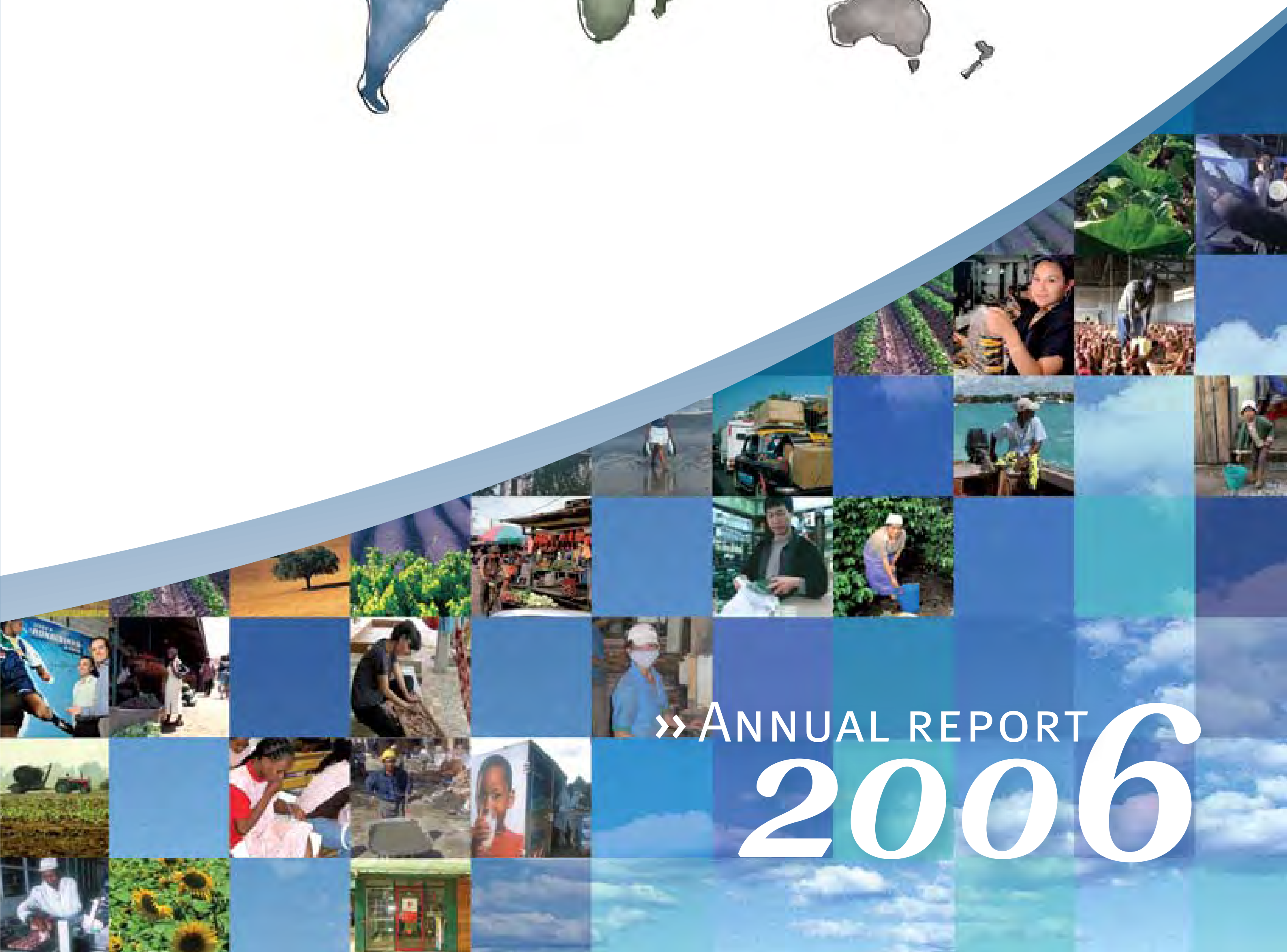
NORFUND



» Annual report 2006

Contents

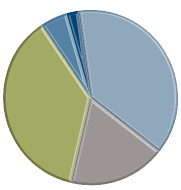
KEY FIGURES

Figures in NOK million	**2006**	2005	2004	2003	2002	2001	2000
Profit/(loss)	**17.7**	93.9	(9.2)	47.7	36	27	3
Capital supplied by owner	**495**	485	485	485	395	225	150
Capital base (31 Dec)[1]	**3372**	2 914	2 361	1 905	1 400	1 010	543
Employees (31 Dec)	**31**	26	23	23	21	17	10

[1] *Norfund's book equity at 31 December 2006 of NOK 3 299 million, plus the estimated value of the loan portfolio transferred from Norad on 1 January 2001. See note 6.*

Investment by region*

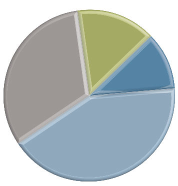
Asia & Pacific 37%
Africa 38%
Global 2%
America 18%
Europe 5%



* Excluding SN Power

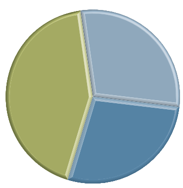
Investment by category

Direct investments 15%
Funds 42%
Financial institutions 11%
Strategic investments 32%



Investment by LDCs, Norway's other partner countries and other developing countries*

Least-developed countries (LDCS) 29%
Partner countries 28% *
Other developing countries 43%

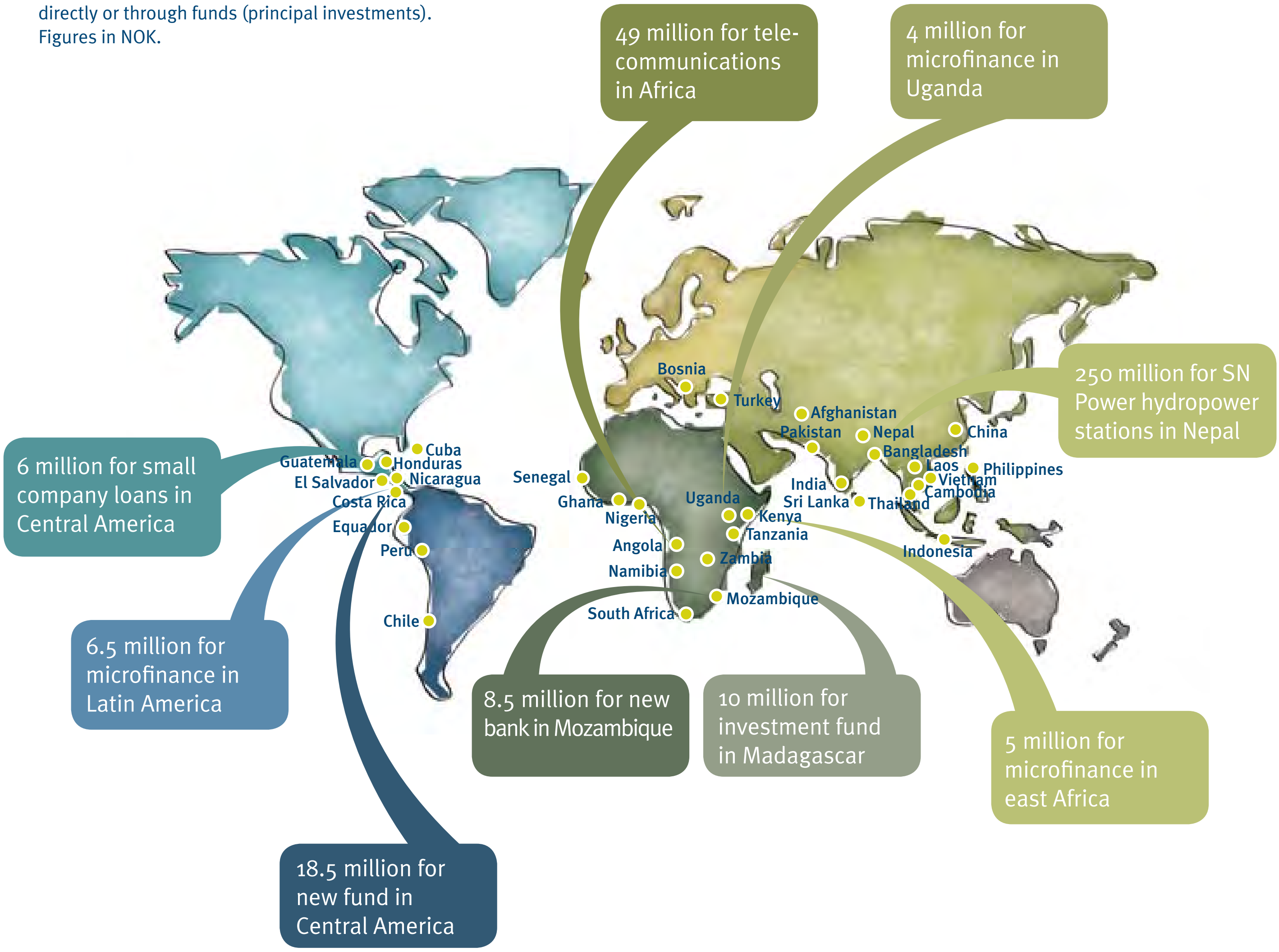


* Investments in nations which are both partner countries and LDCs are included only under LDCs.

Excluding SN Power

Norfund in 2006
new investment agreements

Countries in which Norfund has investments, either directly or through funds (principal investments). Figures in NOK.



A partner for business in developing countries

Businesses in developing countries can only make progress if they have access to risk capital. Norfund invests in and encourages cooperation on the development of profitable new activities which create jobs and reduce poverty. Through partnership, co-financing with other investors and an active local presence, the institution helps to create a vigorous business community.

Norfund in brief

The Norwegian Investment Fund for Developing Countries (Norfund) was created by the Storting (parliament) in 1997. Its job is to contribute, through investment capital, loans and guarantees, to the development of profitable and sustainable business activities in countries which otherwise lack access to commercial financing because of a high level of risk. Norfund is a hybrid state-owned company established by law with limited liability. Its capital is provided by appropriations over the government's development assistance budget, and its activities are conducted in accordance with the fundamental principles for Norwegian development cooperation. Its board of directors is appointed by the government.

Activities

Creating viable public and private sector jobs in developing countries is essential for achieving a lasting reduction in poverty. This can only happen in the private sector if the basis exists for making a positive return on capital invested. Norfund's objective is to contribute risk capital for investment as well as knowledge in order to enhance value creation in the private sector. Its attention is focused on those countries which have made least development progress, and where its capital will have the biggest effect.

Norfund's operations are divided into the following three business areas:

Energy and fund management

Norfund is co-owner of three fund management companies, which channel investment capital through a number of separate funds in Africa, Central America, and south and south-east Asia. The most important investment in fund management is Aureos Capital Ltd, directed at small and medium-sized enterprises (SMEs) in developing countries. This company was established in 2001 together with Britain's CDC.

In addition, Norfund owns 50 per cent of Statkraft Norfund Power Invest AS (SN Power). This company develops, modernises and operates hydropower facilities in developing countries, and has facilities in Peru, India, Nepal, the Philippines and Sri Lanka. Power stations are also under construction in Chile, Peru and India.

Funds and direct investment

Although Norfund does invest directly in individual enterprises, the bulk of its investment is channelled through fund management companies. As a co-owner of such enterprises, the institution contributes to raising capital from a large number of investors and thereby triggers far greater investment than it could achieve solely with its own assets. These funds provide the opportunity to reach a larger number of companies, trigger more capital from other investors and achieve a greater operational presence.

Financial institutions

Norfund invests in and makes loans to banks and financial institutions, including microfinance providers, in order to develop capital markets and give SMEs better access to capital. Norfund's commitment to financial institutions and banks in developing countries also gives ordinary people an opportunity. The loan portfolio transferred from the Norwegian Directorate for Development Cooperation (Norad) in 2001 forms part of this business area ■

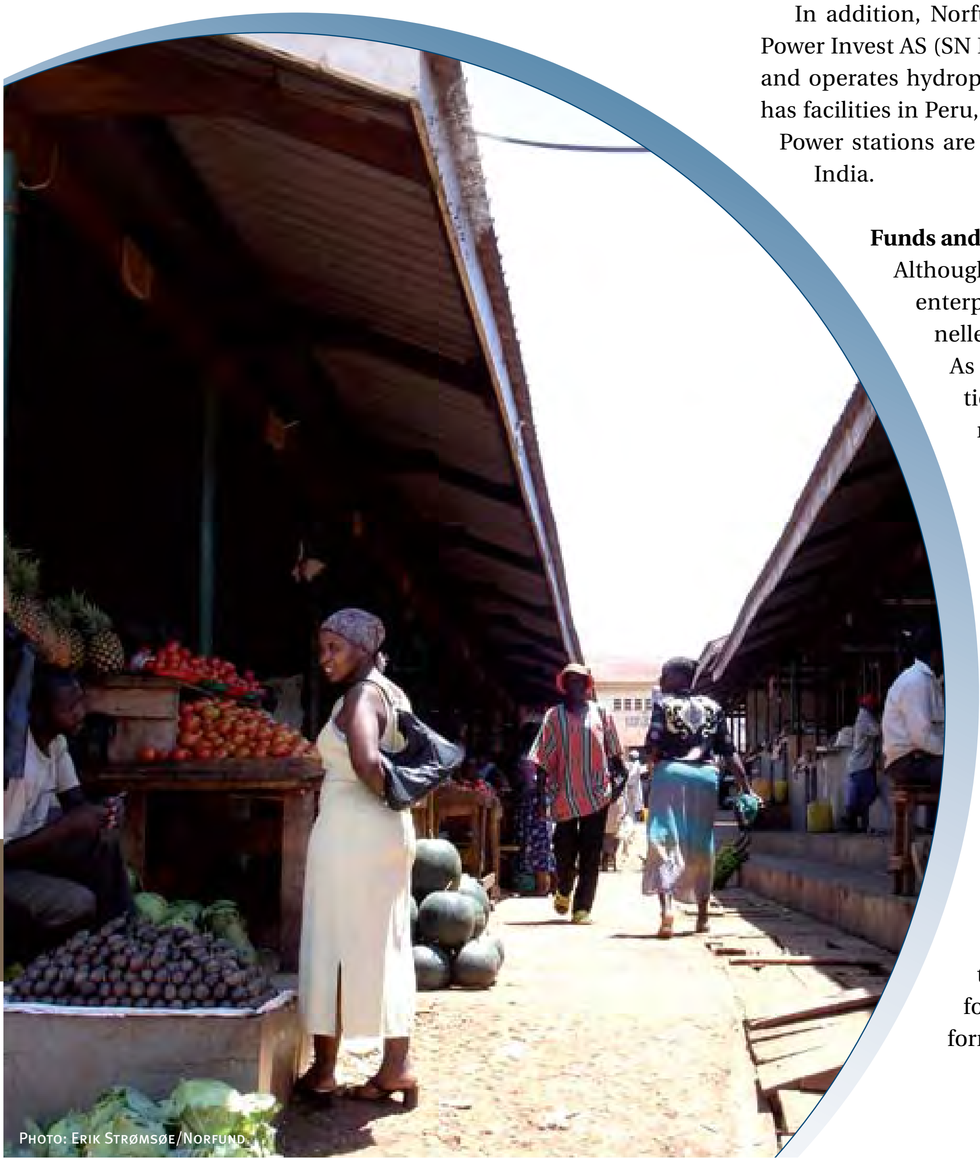


Photo: Erik Strømsøe/Norfund

Economic development builds peace

Norfund underwent a demanding internal restructuring during 2006. It attracted more negative attention than was desirable, and the challenge for the future will be to demonstrate the successes which the institution has helped to create. The problems have now been surmounted, and the strategy for future work is being planned together with the board.


Photo: Olav Erik Storm

As the most important Norwegian instrument for stimulating investment in developing countries, Norfund has a set of tools which can be deployed to help create profitable jobs in the poorest countries.

The well-deserved award of the Nobel Peace Prize to Muhammad Yunus and Grameen Bank for their efforts to promote economic and social development among the poor was an important declaration of support for microfinance. Norfund has had the pleasure of aiding the work done by Mr Yunus as a lender to GrameenPhone, the mobile phone company in the Grameen family.

In a wider perspective, the Peace Prize focused attention on the fact that social and economic development can help to ensure peace in developing countries. Micro Africa, Norfund's microfinance partner in Africa, has opened an office in southern Sudan, where creating small enterprises will be important in providing sorely-needed jobs and starting reconstruction.

Norfund is one of the biggest Norwegian players in the microfinance sector. Its goal is for microfinance enterprises to develop into sustainable and profitable financial institutions. Norfund's commitment to the financial sector in developing countries is broad-based. It aims for a range from micro to small, medium-sized and large enterprises, and societies with companies and employees who pay tax and strengthen the economic position of their governments.

Lending to local banks creates borrowing opportunities for ordinary people. Securing a loan to found a little company or expand a small enterprise is often difficult in developing nations. Norfund provides capital to banks and financial institutions in order to develop a banking sector which gives ordinary people an opportunity. An efficient financial system represents necessary infrastructure for creating a well-functioning society, in the same way that general access to education and health services is essential in democratic countries.

As in most of the least-developed countries (LDCs), Mozambique's banking services have an inadequate geographical distribution. Norfund has contributed 20 per cent of the share capital for a new bank in this southern African nation. It will be run like a normal commercial bank, but will concentrate on agriculture and on extending banking services to rural areas.

The informal economy is the only source of income for the majority of households in many poor countries, where the few enterprises in the formal economy are often overtaxed because they must shoulder the whole tax burden. Norfund's goal is that a greater number of independent entrepreneurs make the move into the formal sector, so that this vicious circle can be broken.

Norfund can be a prime mover for a more formalised economy because jobs create a basis for taxation. That can in turn be a key instrument for income equalisation and a commitment to developing the necessary infrastructure to serve social purposes. It also encourages new investment and growth – and thereby jobs.

An important consideration for Norfund is that the companies in which it invests observe international standards for health, safety and the environment at work. It ensures that labour rights are respected, and pays great attention to such conditions as corruption ■

Kjell Roland
Managing director

Business area operations in 2006

Operations at Norfund are divided into three business areas: energy and fund management, funds and direct investments, and financial institutions. Some activities in these areas during 2006 are presented below.

Energy and fund management

Contributing to the development of local owner communities and capital markets is a key goal for Norfund. Building up competent local funds through a commitment to active management accordingly represents an important part of its strategy. The institution's most important fund management investment is Aureos Capital Ltd, which is directed at small and medium-sized enterprises in developing countries. Founded jointly by Norfund and Britain's CDC in 2001, this company became part-owned by its employees in 2006. That is regarded as important if Aureos-managed funds are to attract other investors to a greater extent. The employees currently own 26.5 per cent of the company. FMO, Norfund's Dutch counterpart, also became an important partner in the Aureos collaboration in 2006. CDC, which transferred its shares to Actis LLP in 2004 as part of a restructuring, became a shareholder again at the same time.

At 31 December, about USD 320 million (NOK 2 billion) was under active management in 16 local and regional equity funds in Africa, Central America, and south and south-east Asia. Norfund is also involved in the management companies Angola Capital Partners (ACP) and Lafise Investment Management (LIM) in Nicaragua. The institution has a 50 per cent holding in Statkraft Norfund Power Invest AS (SN Power), which invests in, develops and operates hydropower facilities in new growth markets. SN Power had a equity of USD 288 million (NOK 1.8 billion) at 31 December 2006.

Fund management

Aureos' regional funds made satisfactory progress in 2006. The three funds covering eastern, western and southern Africa respectively, with a total capital under management of USD 152 million (NOK 950 million), developed by and large as planned. The ASEAF fund in south-east Asia has USD 65 million (NOK 406 million) to invest in small and medium-sized enterprises (SMEs) in Thailand, the Philippines, Indonesia and the Mekong region. After a slow start, investment activity also picked up in this fund. The ACAF fund in Central America has USD 40 million (NOK 245 million) under management and showed satisfactory results.

Aureos South Asia Fund II was established in February 2006, and has so far raised about USD 80 million (NOK 500 million). It covers Sri Lanka, India and Bangladesh.

Photo: Stein Morch

Norfund has invested in Costa Rica's second-largest coffee producer, Tostadora El Dorado, via the Aureos Central American Fund.

In addition, Aureos established its EMERGE Fund of USD 20 million in 2006 for small companies in Central America and funds in Malaysia, China and Papua New Guinea.

The Aureos Capital Ltd management company broke even in 2006. Its older funds, established in 1995-98, are fully invested and work on divesting the portfolio made satisfactory progress in 2006. That is regarded as important if Aureos-managed funds are to attract other investors to a greater extent.

In Central America, Norfund owns 20 per cent of LIM. This company was established in 1999 together with Latin American financial institution LAFISE. CASEIF, managed by LIM, has divested most of its investments and succeeded in attracting capital for its second-generation fund. This became operational on 1 January 2007.

Norfund was a prime mover in establishing ACP in 2004, which is owned one-third each by the institution, Angola's Banco Africano de Investimentos (BAI) and Angolan state oil company Sonangol. ACP launched Fundo de Investimentos Privados (FIPA) in 2004 as the first Angolan investment fund, but securing the necessary local approvals has presented greater challenges than expected. FIPA has accordingly been unable to begin its investment activity.

Energy

Activity was high at SN Power in 2006, and progress satisfactory. Its employees now total just under 20 at head office in Oslo and almost 200 internationally.

After its fourth full operating year, SN Power is now involved with power generation in five Asian and Latin American countries, and is developing projects in Africa. Nine hydropower stations totalling 268 megawatts are operational, with two more under construction for a combined planned capacity of 347 MW. SN Power received a further USD 40 million (NOK 252 million) during 2006 in connection with Statkraft's transfer of the Khimiti II facility in Nepal to the company.

In partnership with Australia's Pacific Hydro, SN Power is constructing the 155 MW La Higuera run-of-river power station in Chile. This facility is expected to be operational in the autumn of 2008. The project was registered during 2006 under the clean development mechanism, one of three "flexible mechanisms" in the Kyoto protocol. Preparations are being made to build several additional hydropower stations in the same area as La Higuera.

SN Power has five operational power stations totalling 115 MW in Peru through its ownership of Cahua SA. This company was certified to the ISO 9001 quality assurance and ISO 14001 environmental management standards in 2005. Work is also under way on developing several power stations in Peru.

A 49 per cent interest is held by SN Power in India's Malana Power Company (MPC), which operates the 86 MW Malana power station in

the north of the country and is building the 192 MW Allain Duhangan run-of-river facility in the same region. The combined investment in these two units is roughly USD 320 million (NOK 2 billion). This represents the largest investment so far by a foreign company in Indian hydropower.

Statkraft's 50.4 per cent stake in Himal Power Ltd, operator of the 60 MW Khimti power station which ranks as Nepal's first private-sector energy project, was transferred in 2006 to SN Power. The latter is working to develop new projects in Nepal, including ventures together with local partner Butwal Power Company Ltd (BPC).

The Nividhu utility in Sri Lanka, owned 30 per cent by SN Power, operates two small power stations with a combined output of 6.1 MW and is planning several similar facilities which can reduce dependence on oil-fired electricity generation.

SN Power also made its entry to the Philippines in 2006 by securing the 360 MW Magat hydropower station through the SN Aboitiz Power joint venture. The latter will take over Magat in April 2007. The Philippines is undergoing a privatisation process, and a successful restructuring of the energy sector is the key to reducing government debt and strengthening the national economy.

Prospects for 2007

On the basis of increased activity in most of its markets, Aureos is expected to make continued good progress during 2007. Good investment results are important in securing the basis for establishing new regional funds.

CASEIF II will be operational in early 2007. This fund has now raised USD 20 million, and is focused on the SME segment where CASEIF I achieved profitability.

SN Power is sticking to its strategy of a continued commitment to priority markets in Latin America, Asia and Africa, and expects to maintain a high level of activity in every region. Attention will be focused on improving the performance of operating companies, including enhanced efficiency at Magat.

The company is also focusing on the ongoing construction of Allain Duhangan, and on ensuring that development of the La Higuera project is progressing as planned

Funds and direct investments

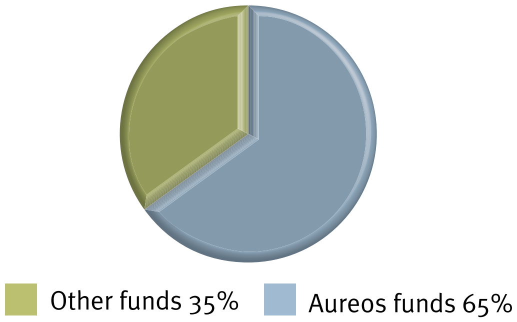
Norfund's investments are made both through direct capital injections in individual companies and through placements in investment funds with a specified duration. Working from a local office, these funds invest risk capital provided by Norfund and other investors in a number of different companies. Most of them operate regionally and are run by locally-based management companies which have detailed knowledge of local business conditions and the terms governing private investment activities. A common feature of the markets in which Norfund operates is that virtually all the companies there have poor access to risk capital. Norfund focuses on reaching out to SMEs, and the bulk of its capital is invested in such companies.

At 31 December 2006, Norfund had invested directly in 14 companies. The board had also approved a new direct investment to which Norfund has committed financially. The institution had capital under active management in 26 investment funds, including three approved by the board and committed in 2006 and one approved by the board in 2006 but committed in 2007. Norfund paid out a total of USD 38 million (NOK 237 million) in direct and fund investments during 2006, and received USD 17 million (NOK 108 million) from divestment of holdings, repayments, interest, dividends and fees.

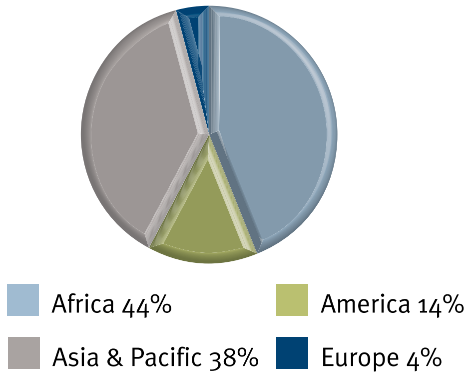
Fund investments

Fund activities remain an important part of Norfund's core business,

Committed capital to funds*



Committed capital to funds by region*



* Aureos funds and other funds in which Norfund has invested had provided capital to a total of 147 portfolio companies during 2006. Of these investments, 57 were through Aureos funds and the remaining 90 were spread over 12 other funds. Forty-six of the 147 investments were made in 2006. A geographic breakdown shows that 43 of the total were in Africa (16 new in 2006), 34 in Latin America (nine new), 46 in Asia (21 new), eight in China (five new) and 24 in the Balkans (none new).

as was confirmed by three new fund investments to which capital was committed in 2006.

Business Partners International Madagascar Investment Fund offers capital to small companies. It was established with a capital under management of EUR 9 million (NOK 70 million), of which Norfund's share was EUR 1 million (NOK 10 million). Other investors in the fund include the World Bank's International Finance Corporation (IFC) and the European Investment Bank (EIB). By 31 December, the fund had made one investment and had approved a further two which are expected to made in early 2007.

Aureos South Asia Fund (ASAF) is a new investment fund for India, Sri Lanka and Bangladesh, run by the Aureos management team in the region. With its attention focused on the SME segment, it has made three investments so far in India and Sri Lanka. Like other Aureos-managed funds, ASAF invests in a broad array of sectors. Individual investments will lie in USD 0.5-4 million range. ASAF is one of Norfund's largest fund investments, with a committed capital from the institution of USD 20 million, and represents an important continuation of its strategic cooperation with Aureos.

Photo/illustration: Elin Ersdal/Norfund

Norfund has a EUR 1 million share in the Business Partners International Madagascar Investment Fund, which offers capital to small companies and has EUR 8.5 million under management.

Norfund committed on 1 November 2006 to invest USD 3 million (NOK 19 million) in the new Aureos Central America Growth Fund (CAGF). Marketed as the EMERGE Fund, this was created at the initiative of the Multilateral Investment Fund (MIF) arm of the Inter-American Development Bank (IADB). Aureos in Central American won the contract from the MIF to manage the capital. Norfund's co-investors are the MIF with NOK USD 10 million and the CDC with USD 7 million. Although the fund is already operational, Aureos wants to attract more capital from additional investors in order to reach the ultimate target of USD 25 million (NOK 156 million) under management. EMERGE's principal product is a convertible loan of USD 0.5-1.5 million, made to small companies with fewer than 100 employees and an annual income below USD 5 million. It has historically proved difficult to achieve good sales of equity investments in Central America, and the idea is that EMERGE's convertible products will improve opportunities for divesting companies in the portfolio at a good price.

EUR 5 million (NOK 41 million) was committed by Norfund to an investment partnership with the other state-owned European development funds and the EIB. European Financing Partners (EFP) was originally established as a co-financing mechanism between development funds in the European Union countries in order to invest in the African, Caribbean and Pacific (ACP) countries. However, Norfund and Switzerland's SIFEM were invited to participate in 2005, while the existing partners committed additional capital. The EFP is not a fund in the traditional sense – it does not have a specified duration, for instance. The mechanism is nevertheless based to a great extent on typical fund structures for investment decisions and management. Norfund participates actively in all investment decisions.

In Norfund's existing portfolio of funds, the good progress being made by Horizon Techventures and the African Infrastructure Fund (AIF) is particularly noteworthy. These funds invest in technology companies and infrastructure projects respectively in African countries. They were among Norfund's earliest fund investments and are now yielding a good return to their investors. Horizon repaid a total of USD 2 million (NOK 12.8 million) to Norfund, of which USD 1.4 million (NOK 8.5 million) was pure profit. The corresponding figure for the AIF was USD 0.8 million (NOK 4.7 million) in profit. Both funds are set to yield a substantially better return to Norfund than was expected when the investment decision was made. At the same time, they are a good example of the way most private equity funds of specified duration operate in terms of results. The bulk of the invested capital and income benefits investors towards the end of the funds' lifetimes.

Direct investments

Little expansion occurred in direct investment during 2006, when the focus was on consolidating the existing portfolio and finding good solutions to several difficult placements. A number of Norfund's more recent direct investments are developing as planned, but commercial problems have been experienced for some time with other engagements – particularly in the aquaculture sector.

Fjord Marin Turkey had another year with major challenges, both operational and financial. The company, which is Turkey's second largest farmer of sea bass and sea bream, produced about 3 200 tonnes in 2006. Representing a decline from the year before, this reflected the failure of the fish to grow as expected. The company believes it has identified the reason for this. Capacity totals more than 10 000 tonnes, and the ambition is to increase output to roughly 5 3000 tonnes in 2007. A new managing director took office in the second half of 2006. The organisation was also strengthened late in the year for marketing/sales, human resources, procurement and logistics. A satisfactory market for sea bass and sea bream in terms of demand and prices is expected for 2007. However, the company is heavily indebted (more than 80 per cent current debt) and needs new capital and financial restructuring during 2007.

Norfund's only new direct investment during 2006 totalled USD 7.5 million (NOK 46.9 million) and took the form of a convertible

loan to Telecom Equity Partner Ltd (TEP). This enterprise owns 80 per cent of Telecom Management Partner AS (TMP), previously part of the Telenor group, and is a pure holding company in the telecommunications sector. It is owned by the TMP management, and also controls 39 per cent of the shares in PowerCom Ltd, which is due to launch Namibia's second mobile phone operator in early 2007. TEP also has ambitions to become a leading player with wireless broadband in selected African countries. TMP has long experience of leading telecoms operations in Africa and, in addition to the new businesses in which TEP owns interests, will undertake assignments for other operators.

Financial institutions and the loan portfolio

By investing in and lending to banks and financial institutions, Norfund contributes to strengthening capital markets in developing countries. The banks in turn offer financing to their customers – both business and personal. Financial institutions embrace banks, leasing companies and microfinancing enterprises. Microfinance received a great deal of attention in 2006, particularly after the Peace Prize award to Muhammad Yunus and Grameen Bank. This type of finance has proved particularly effective in reaching individuals and small businesspeople. Norfund has considerable ambitions in the microfinance sector, and wants to build up a substantial portfolio over the next few years.

Norfund pursues active management of its investments in financial institutions by taking directorships or contributing expertise to other decision-making bodies. In 2001, it took over Norad's portfolio of loans to companies with Norwegian ownership in developing countries. This comprised 48 loans totalling USD 64 million (NOK 402 million).

Financial institutions

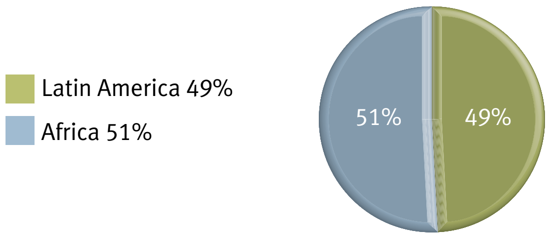
Norfund's investment in financial institutions totalled USD 22.7 million (NOK 141 million) at 31 December, including agreed but unpaid placements.

Mozambique has weak coverage for ordinary bank services. Norfund has accordingly resolved to contribute 20 per cent of the share capital up to USD 2 million (NOK 12.5 million) in a new bank for this country. A joint venture agreement with the other owners – Rabo Financial Institutions Development, Rabobank, Gapi SI and German bank group KfW – was signed in Oslo on 24 August 2006. The new bank is due to take over assets from the existing GAPI SARL, and will operate as a commercial bank but with a special focus on agriculture and on delivering bank services outside the main cities. It is expected to be in full operation by mid 2007.

Norfund contributed USD 0.78 million (NOK 4.9 million) to microfinance company Micro Africa Ltd (previously Micro Kenya Ltd), and has previously injected USD 0.96 million (NOK 6 million) into Uganda Micro Finance Ltd. These companies are due to merge as part of moves to create a regional microfinance institution in east Africa.

The merged company will offer individual loans averaging NOK 2 700 to borrowers in Uganda, Kenya, Rwanda and south Sudan, and currently has about 100 000 loan customers.

New investments in financial institutions, 2006



Loan portfolio

Six of the loans were terminated during 2006, and the portfolio now comprises 21 loans. USD 5.8 million (NOK 36 million) was repaid during 2006, with USD 0.7 million (NOK 4.4 million) received in interest. This is USD 2.8 million (NOK 17.6 million) more than expected under agreed repayment plans. At 31 December 2006, the outstanding loans totalled USD 17.4 million (NOK 109 million).

Prospects for 2007

Work is under way with new investment in south-east Asia and to complete placements in Uganda and Tanzania. One goal is that investment in LDCs will form an increasing proportion of Norfund's portfolio of financial institutions. Another ambition is to grow this portfolio up to 31 December 2007 ■

Gap widening
between rich and poor countries

Investment across national boundaries is also rising in developing countries, and accounted in 2005 for just over a third of global foreign investment. But the main trend is a widening gap. The least-developed countries (LDCs) are getting a steadily smaller proportion of capital spending, according to Unctad's World Investment Report for 2006.

Photo: Elin Ersdal/Norfund

Rich countries receive a growing proportion of direct investment across national boundaries. Foreign investment in 2005 totalled USD 916 billion (about NOK 5 700 billion), and 59 per cent of this spending went to 35 of the world's wealthiest countries. That gives an average of just over USD 15 billion for each of these nations.

The gap from the LDCs is wide, and growing. External investment in 34 of these poor countries was less than USD 100 million in 2005.

Growth – for some

Investment over national boundaries increased by 29 per cent from 2004 to 2005, and was 4.5 times larger than the figure for 15 years ago.

Almost half the total went to EU members. South, east and south-east Asia received about a fifth, with China andHongKongrepresenting a centre of gravity. North

Packing beans in Madagascar. A steadily declining proportion of cross-border investment goes to those countries which need it most. Africa received three per cent and Latin America 11 per cent of the world's total foreign investment in 2005.

America secured almost 15 per cent.

Africa also achieved an increase in absolute figures, with external investment up by 78 per cent from 2004. Latin America experienced a rise of just over three per cent. Viewed in a global context, however, the Unctad report shows that Africa received only a little more than three per cent of all direct cross-border investment, and Latin America 11 per cent.

A large proportion of the investment in Africa was devoted to resource extraction, particularly oil. Almost half was placed in six oil-producing nations – Algeria, Chad, Egypt, Equatorial Guinea, Nigeria and Sudan. Chinese investment, not least, is expanding fast in resource-rich African states.

Bright spots

Bright spots can also be found for developing countries. An important aspect is that companies in such nations invested more capital than ever abroad. A growing number of such enterprises are becoming large players regionally and even globally.

The bulk of transnational companies continue to be found within the EU-Japan-USA triangle. Eighty-five of the 100 largest were domiciled in these regions in 2004.

Five of the 100 were Asian, from Hong Kong, Malaysia, Singapore, South Korea and China.

A corresponding list of the 100 largest transnational companies in developing countries show that 77 had their head office in Asia, including 64 in Hong Kong, Taiwan, Singapore and China. The remaining 23 were divided fairly evenly between Africa and South America,

The emergence of large players from developing countries is also confirmed by the Fortune 500 survey, which included 19 such companies in 1990, 47 in 2005 and 57 in 2006. Most of these were Asian.

A permanent shift not only in the world economy but also as a development factor and in political terms could be created by the fact that a growing number of companies in developing countries and transitional economies now appear to be gaining ever more financial and industrial strength, and are also using this to expand in other developing nations. That provides both opportunities and challenges, and calls for dialogue between countries in the global south and between the global south and north ■

Challenge for rich countries to contribute to business activities in developing countries

"The steady decrease in the share of cross-border investment going to the poorest countries emphasises how important it is that we, as a rich nation, do our bit to create more business activity in such states," says Erik Solheim (right), Norway's minister of international development.

"Norfund represents an important government instrument here, both as a source of capital for business activities in developing countries and as an example to and possible partner for Norwegian companies which could be investing there."

Lasting improvements in developing countries depend to a very great extent on success in creating profitable business activities and durable jobs, Mr Solheim notes.

Norfund is one of 15 European development finance institutions which have collectively invested more than NOK 86 billion in roughly 3 000 business ventures in developing countries.

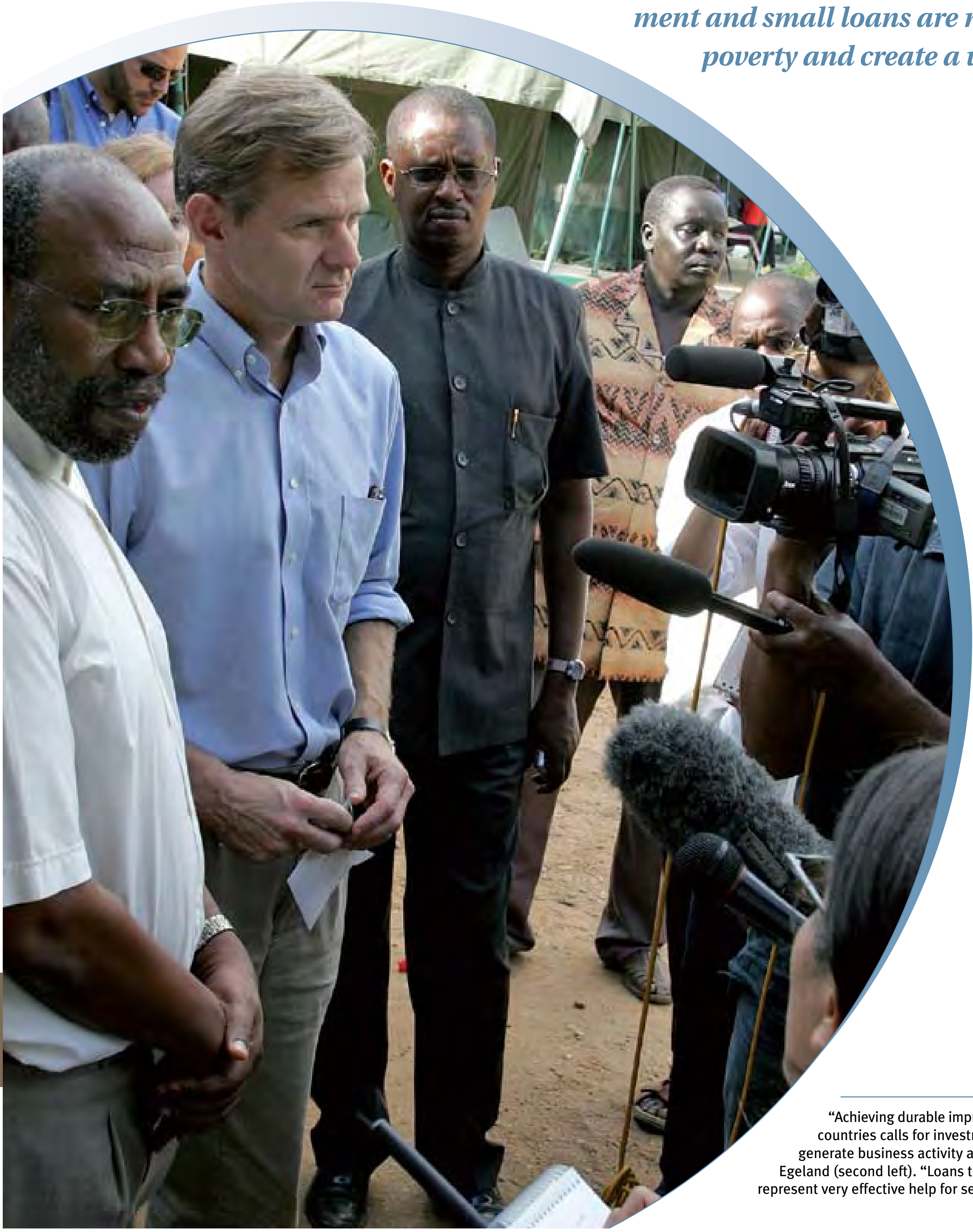
"The development effect is heavily dependent on the recipient country's ability not only to attract foreign capital but also to strengthen expertise in its business sector," Mr Solheim says.

"So it's important that we and other industrial countries contribute with effective tools to the development of new business activity. That includes both facilitating companies in our own country which want to establish operations in developing countries, and contributing capital in the form of equity investment and loans which can start up and develop business activities in these countries. Both Norad and a number of private institutions – within microcredit, for instance – represent important channels here."

Photo: UD

Investment and loans help people to fend for themselves

People are keen to support themselves, no matter how hopeless the conditions, says Jan Egeland, who served until recently as under-secretary-general for humanitarian affairs and emergency relief coordinator at the UN. "In addition to emergency relief and other development assistance, investment and small loans are needed to fight poverty and create a viable society."



"Achieving durable improvements in developing countries calls for investments and loans which generate business activity and jobs," says Jan Egeland (second left). "Loans to small companies represent very effective help for self-help."

Small-scale trading and enterprises flourish even under the worst conditions, as in Afghanistan or Somalia. Egeland sees this as confirmation of the human desire to fend for oneself and support one's family through honest toil.

Emergency relief and development assistance from the UN and individual states represent necessary fundamental help for people and communities in crisis, he says. To achieve lasting, basic improvements towards a self-reliant society, however, investment and loans are needed to help generate business activity and jobs.

"Both private investors and public investment funds like Norfund have important roles to play in this context," Egeland maintains.

Private investors normally avoid involvement in countries with unpredictable or undemocratic governments, inadequate legal and financial systems and extensive corruption. But refraining from investment in such societies excludes the people with the biggest need for finance, he points out.

"Activities which offer the prospect of a good return can always attract capital. Development investors like Norfund should put greater emphasis on financing enterprises which others avoid but which could yield a good social and economic return."

Loans to small companies can represent very effective help for self-help, and Egeland hopes they will become much more widespread. "Such loans can unleash huge changes. Even the most hopeless societies contain clever people who know what's possible and can function there. Collaboration with such players, and drawing on local experience, contribute to sensible investment."

"Emergency relief and development assistance from the UN and states represent necessary fundamental help for people and communities in crisis."

Coordinated

Egeland served as UN under-secretary general from 2003 to 31 December 2006, and coordinated the world community's emergency relief for people hit by natural disasters. These included the south Asian tsunami as well as famines and military conflicts in such states as Uganda, Sudan, Congo and most recently Lebanon.

As head of the UN Office for the Coordination of Humanitarian Affairs (OCHA), he has led an organisation with 1 200 employees in New York and Geneva and on assignment world-wide. It had a 2006 budget of USD 128 million.

Egeland was previously secretary general of the Norwegian Red Cross and state secretary (deputy minister) at the Ministry of Foreign Affairs. As a politician, he gained particular prominence for organising the "Oslo channel", the secret talks in the Norwegian capital in 1992-93 which yielded a pioneering agreement between the Palestinian and Israeli leaderships.

Time has named him as one of the 100 people who shape our world.

Food

In addition to acute emergency relief and long-term development assistance, Egeland says that priority must be given – particularly in Africa – to investment which can improve the security of food supplies.

"Africa can feed itself, and the more people who farm the land the better off they are," he notes.

Creating durable, profitable jobs is crucial in lifting people out of poverty. Asked whether a larger proportion of Norwegian development aid should be devoted to investment and loans, however, Egeland says that suggesting a contrast between aid and investment would be both unfortunate and a misunderstanding.

"Investment in the private sector is actually almost four times larger than official aid. We can't reduce emergency and development help in conditions where, for instance, average life expectancy in Africa is 47 and would have been 62 but for HIV/Aids. Another example is that 5 000 people now die every day from TB, which can be cured with cheap medicines. Investment must come in addition, and lift people out of poverty by creating returns from profitable, sustainable activities."

Crucial

He agrees that economic growth is an essential requirement and that the private sector represents a crucial driving force in lifting people out of poverty, subject to an acceptable level of economic and social equity.

"In other words, these are necessary but not sufficient. A prosperous private sector does not of itself provide better economic and social conditions for people outside the privileged classes. Combined with necessary precautions in the environmental and social spheres, however, the private sector can ensure economic growth and help to lift people out of poverty."

Norwegian investment in developing countries is important because it creates jobs, enhances productivity and strengthens the national and physical infrastructure, Egeland notes. That in turn raise the general standard of living.

"As the UN's emergency relief coordinator, I've been concerned to ensure investment which can help people who're in extremely difficulty conditions. That applies particularly to sub-Saharan Africa and southern Asia.

"Norfund is involved in microfinance and loans to small companies, and there's a big need for more of that. In addition, I'd give weight to investment which not only improves the quality of life but also lays the basis for sustainable economic growth, such as water supplies and hydropower."

He also sees opportunities for more effective collaboration between development investors, such as Norfund, and the UN's development bodies.

"UN agencies are often involved in the initial stages of projects which are meant to be taken forward by government and/or local private-sector players. Norfund and its partners could have a role here in clarifying finance and local ownership" ■

MICROFINANCE:

Retired couple with their own company

John (68) and Theresa (65) Kyazze are an impressive Ugandan husband-and-wife team. Despite being retired, they are making a contribution to the development both of their locality and of the Ugandan poultry industry with the help of a loan from Uganda Microfinance Ltd (UML). This is rather unusual in Ugandan society, since people of their age are regarded as elderly and would expect to be looked after by their children.

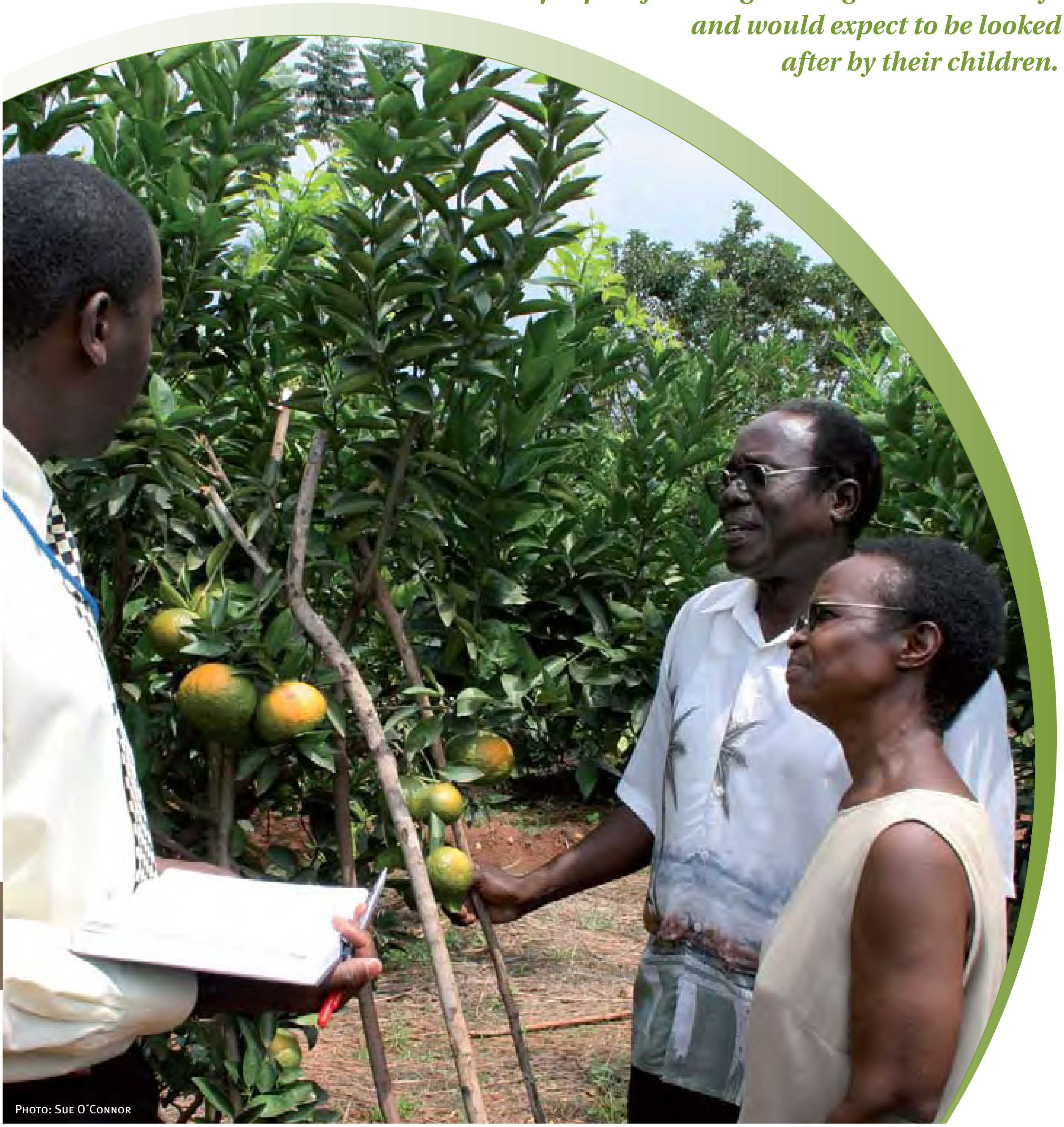


PHOTO: SUE O´CONNOR

Ms Kyazze previously worked for a volunteer organisation and John in telecommunications. They now have a seven-acre farm outside Kampala, the capital. Their newness to the poultry business and the modest size of Ms Kyazze's pension meant that their first application for a UML loan in 2004 was unsuccessful. The institution had many defaulters at that time, and so was being especially cautious.

But reconsideration of the Kyazzes' application meant that they received a six-month loan of about USD 250 in September 2004 to buy poultry feed. Uganda's high interest rates meant that they had to pay 48 per cent per annum on a declining balance, and monthly repayments were roughly USD 48.

But this first loan carried with it the prospect of more assistance should the funds be used successfully and the repayments made in timely fashion. So the Kyazzes were both pleased and relieved when repayments were completed, and celebrated by taking a tray of eggs to UML as a present. Transparency meant that no individual officer could accept the gift, so the manager decided that the eggs should be boiled and then shared amongst all the staff.

Bigger loans

The success and growth of the Kyazzes' business has been reflected in subsequent bigger loans – about USD 1 000 for 12 months in April 2005 to buy broiler chicks and feed, and another USD 1 500 for 12 months in April 2006 for purchasing layer chicks.

The three loans, combined with the couple's business acumen, have produced striking results.

"We now have 2 600 chickens," says Ms Kyazze. "To house the big increase, we've greatly expanded our three old chicken units and constructed a large new one. The loans transformed our farm for the better."

Success breeds success, she adds. The Kyazzes have diversified into pigs, cows and oranges. They are hoping to obtain further loans from UML to construct more chicken units and increase to 4 000 chickens. They also want to expand the piggery and orange groves, employ more staff, and involve some of their children in the business.

Assessment

Michael Gonzaga Sserubiri (29) is the credit officer at the local UML branch in contact with the Kyazzes, and the one who initially assessed their application. Joining UML in 2004, his degree in agriculture with a specialisation in extension work and subsequent UML in-service training make him well suited for this job.

A credit officer checks on the progress of a project, and Mr Sserubiri has observed that one visit to a client is particularly important.

"I must make an unscheduled visit within three weeks of the first loan to check whether the funds are being used in the agreed way," he explains. "If a client's repayments are on time, then subsequent visits can be less frequent. I try to make my visits business-like, with a social dimension. But I can't be too social, because a borrower might forget to pay back."

Mr Sserubiri has 200 clients, and has visited the Kyazzes four times. He offers advice on such areas as poultry vaccination, hygiene and disinfection, waste management – including the use of straw bedding, chicken droppings and pig urine and faeces as manure – and cultivation of fast-growing fruits such as oranges, for which the Kyazzes' soil is particularly suitable

Wider social impact

The couple's efforts have had a noticeably positive development effect on the local community. Eggs and chicken meat are a source of nutrition for Ugandans. And even cracked eggs are sold at a discount to sellers of a local omelette wrapped in a chapatti.

But a commercial poultry project also has all sorts of positive spin-offs. Income is generated in turn for the suppliers of feed, chicks, chicken vaccinations and so forth. And, although they have constructed their own rain-harvesting unit, the Kyazzes sometimes have to buy water at a local standpipe.

Before receiving their UML loans, the Kyazzes employed only two people on their farm. They can now employ another four – including Gerard Senfuka (25).

"I have a wife and three children aged seven, four and 36 months," he reports. "I must support them, and the wage I earn here helps a great deal," he observes, while checking the jerry cans of water for the 800 chickens in one of the new units ■

Text: Kevin O'Connor

Gerard Senfuka's job on the farm run by UML customers John and Theresa Kyazze helps him to support his wife and three children.

Photo: Sue O'Connor

Five women
beat the big bank boys

Investment managers are usually men, and often noted for their large egos. But the Vietnam Equity Fund is run by five local women – who seems to be achieving the best return in Norfund's whole fund portfolio. This fund is currently engaged in selling off most of its investments, and appears set to achieve a return of up to 300 per cent.

Photo: Fredrik Naumann/Samfoto

Two young women ride a moped through the streets of Ho Chi Minh City in Vietnam. Their country is enjoying breakneck industrial and economic development. Real incomes have grown by 7.3 per cent over the past decade, and the World Bank says that Vietnam could meet all the UN's millennium goals.

Nguyen Thi Thu Thuy, who heads the VEF's office in Ho Chi Minh City, has her own ideas about why the fund's management has become so woman-dominated.

"It may reflect the fact that we don't have such aggressive bonus systems and the like, but are relatively family-friendly," she says. "Most of us are mothers, and we take an understanding view when children are ill, for instance."

But she adds that the female dominance is unplanned. "We'd be happy to employ men as well."

Stable

Asked whether an all-woman team offers any advantages, Ms Thuy admits to having no idea. "We have a stable workforce and little staff turnover.

"But men are better at networking. We women don't want to go out so often to drink beer and cultivate contacts. I don't think that's had any significance for the fund so far, but we may eventually have to appoint a man to handle that side."

Mostly luck

She attributes 90 per cent of the fund's success to luck – something a man is unlikely to have done.

"The market in Vietnam has experienced huge growth. The VEF has benefited from buying interests in state-owned companies when they're part-privatised through auctions. The key then is to focus on the right companies and price our bids correctly."

Although the fund has not been an active owner, as originally envisaged by Norfund, it has built up important expertise in Vietnam's financial market through the all-woman team – as well as yielding a fantastic return.

Ms Thuy grew up in the USA after her parents fled Vietnam when she was two. She now runs the VEF jointly with Bui Thi Kim Oanh, head of the Hanoi office and part of the country's elite that was sent to study in eastern Europe in the 1980s.

But Ms Thuy maintains that these very different political backgrounds create no problem for their collaboration.

"We talk together many times a day, and reach all decisions jointly," she says. "We're very good friends. People in Vietnam are concerned with the future, not the past."

She concludes by noting that the Vietnam team is part of Finansa Fund Management, which is led from the head office in Bangkok, Thailand ■

"The market in Vietnam has experienced huge growth. The VEF has benefited from buying interests in state-owned companies when they're part-privatised through auctions. The key then is to focus on the right companies and price our bids correctly."

Nguyen Thi Thu Thuy, head of the Vietnam Equity Fund's office in Ho Chi Minh City.

Nguyen Thi Thu Thuy (far right) and Bui Thi Kim Oanh (second from right) lead the Vietnam Equity Fund, one of the biggest commercial successes in Norfund's fund portfolio.

PHOTO: ELIN ERSDAL/ NORFUND

More people buying their own home in El Salvador

A bloody civil war raged in El Salvador for 12 years. When the peace agreement was concluded in 1992, a number of major market economy reforms were implemented. Growth in gross domestic product was moderate after hostilities ceased, but has increased markedly since the US dollar became the national currency in 2001. It was around four per cent in 2006.

This economic expansion means in part that a larger proportion of the population can invest in their own homes built to a good standard. At the same time, a number of Salvadoreans resident abroad also want to buy a permanent place in the home country. As much as 15 per cent of annual GDP can be traced back to transfers from citizens who had to flee the country during the civil war or who have moved abroad for other reasons.

Avance Ingenieros SA is a leading housebuilder in El Salvador, specialising precisely in exiled Salvadoreans and other customers in the middle-income bracket. During recent years, it has benefited from the growth in demand for secure and comfortable homes, and offers reasonably-priced quality housing in gated communities.

Photo: Avance Ingenieros S.A/ACAF

Six housing developments were being pursued by Avance in 2006, and the company had almost 1 300 employees. Aureos Central America Fund (ACAF), owned ca. 27 per cent by Norfund on the basis of a USD 10 million capital injection, has invested a total of USD 8 million in Avance. ACAF has been an important source of support for the company since 2004, when the fund made its first investment of USD 1 million in equity and USD 3 million in loans.

The loan was repaid in May 2005. But Avance's capital requirements changed markedly in the same year, when Hurricane Stan hit El Salvador and several of the company's housing developments. In the wake of this devastation, ACAF has provided a new loan of USD 4 million where the cash flow is linked directly to specific building projects. The fund has also helped to put an acceptable capital structure in place for the company.

In practice, this means that ACAF and other creditors are allowing Avance to allocate costs related to Hurricane Stan over several years rather than expensing them all immediately in the accounts. That has allowed the company to maintain construction and sales in all its developments. while retaining the capacity to assess further attractive projects in El Salvador and neighbouring countries.

"Avance Ingenieros SA is a leading housebuilder in El Salvador for exiled Salvadoreans and other customers in the middle-income bracket"

Avance is an example of a company in a poor Latin American nation which has received indirect financing from Norfund and which is developing in line with expectations despite unforeseen challenges. ACAF will continue to be an active investor and supporter for the company, both as owner and creditor, and contribute to acceptable commercial operation in a country where demand for secure and solid privately-owned homes is rising. The fund's relationship with Avance is characterised by close monitoring and mutual understanding of the interests of all parties, and provides a good example of an engagement where a Norfund-supported management team contributes capital, network and knowledge of local business operations ■

Aureos Central America Fund (ACAF)

ACAF was established in 2002 as a fund for small and medium-sized enterprises in Central America. It was the first fund to be established by management company Aureos Capital Ltd, which is owned by Norfund and Britain's CDC.

The fund has about USD 40 million under management. Norfund is among the main investors, with a holding of ca. 27 per cent. The World Bank's IFC, CDC Capital Partners and SECO are among the others.

ACAF offers risk capital to SMEs in the region, investing USD 0.5-5 million in each project. Small family businesses with a big need for capital play an important role in the region's business community. Including Avance Ingenieros, the fund has invested a total of USD 29 million in coffee producer Café Dorado, advertising agencies Imagen Visible and ASA Poster, construction company CKP and aluminium works Alpan.

Aureos Central American Fund has invested in the Imagen Visible agency, which creates outdoor advertising in Guatemala.

PHOTO: STEIN MORCH

Fertilising coffee plants. ACAF has invested in Café Dorado in Costa Rica.

Development effects

Profitable companies which provide good places to work for their employees and have a positive impact on the local community are the goal of Norfund's activities. As a financial institution, it works actively to secure funding for good ideas and subsequently for responsible company operation. As a development investor, Norfund strives to concentrate on businesses which give positive spin-offs for both employees and local communities.

Photo: Telenor

Norfund has been a lender to GrameenPhone through the Norad loan portfolio since 2001. This mobile phone company is a good illustration of the way investing risk capital in businesses in development countries can not only be profitable but also promote positive progress.

Choice of sector and partner

The award of the 2006 Nobel Peace Prize to Grameen Bank and Professor Muhammad Yunus attracted fresh attention to GrameenPhone. Founded in 1996 and owned jointly by Grameen Bank and Norway's Telenor, this company sells mobile phone services to more than 10 million people in Bangladesh.

Ensuring that financing goes to businesses which promote development is a key issue in Norfund's investment decisions. Telecommunications represents one such sector. The environmental burden is small, and the services have substantial direct and indirect development effects. So participation by the private sector to ensure access to information and communication technology (ICT) has also been defined as one of the UN's millennium goals.

Reputation, experience and expertise are important considerations for Norfund in choosing partners. So is there attitude to responsible business opera-

tion. Partners Grameen Bank and Telenor are both companies which score high for these factors. They have jointly succeeded in developing GrameenPhone into a strong and professional company of great significance both for local communities in Bangladesh and for the country as a whole.

Measurement and follow-up

In monitoring its investments, Norfund makes use of a portfolio management systems which reflects the institution's dual role. Both value assessments and profitability considerations are covered, along with an analysis of development effects. Through dialogue with and reporting from the portfolio companies, investment managers at Norfund contribute to the emergence of viable and profitable companies and to ensuring that value creation at local level occurs in a sustainable manner.

"Through its Village Phone programme, GrameenPhone provides an income for more than 278 000 women"

Employment and jobs for women

Job creation is absolutely central to the work of combating poverty. More than 80 000 people work in companies in which Norfund has invested directly or through investment funds. GrameenPhone, for instance, has 4 316 employees. Roughly 650 of these are women, and the company has a policy on equal treatment of personnel. In addition come more than 100 000 people employed through sales, retailing and supplier activities for the company. Through its Village Phone programme, GrameenPhone provides an income for more than 278 000 women. With the aid of microcredit, these become owners of mobile phones and businesswomen through hiring out call time.

Taxation and technology transfer

The telecommunications industry has become very important to value creation in Bangladesh, and currently accounts for about one per cent of the country's GDP. GrameenPhone is also a substantial taxpayer, contributing almost NOK 480 million or more than 40 per cent of its profits to the Treasury. Tax payments from investment recipients represent an important development effect, and Norfund gives weight to registering the tax contribution less possible subsidies. Another key issue is whether knowledge, technology and experience are shared actively with local partners and employees. Norfund accordingly registers training activities and expertise development at investment recipients.

Development of the private sector

In addition to delivering telecommunication services to millions, GrameenPhone's success has prompted the establishment of competitors both nationally and locally. That in turn benefits customers. A great many links exist between the company and its suppliers, distributors and sales organisation. At the same time, access to telecom services gives rural residents new earnings opportunities and a better basis for making a living. Norfund's portfolio management system therefore documents whether an investment leads to increased competition and positive breadth in the industry structure.

Another question is whether an investment in a company will also prompt other firms to improve, and Norfund seeks to make investments which can have a demonstration effect of this kind. A professional HR function, a focus on HSE, high social and environmental standards, good corporate governance, anti-corruption awareness and an open reporting practice have been cornerstones in GrameenPhone's success. This has illustrated the competitive advantage of pursuing quality and responsible business operation to other companies.

A continuous process

Quantifying development effects is difficult but, taken together, the dimensions measured in Norfund's portfolio management system give an indication of whether an investment has a high, medium or low development effect. This is important both for ensuring the quality of each investment and for reaching the goals Norfund is required to meet. GrameenPhone's high score in the system primarily reflects the professionalism and quality of partners Telenor and Grameen Bank. However, Norfund's role is even more important in smaller investment recipients. Systematic and proactive work by Norfund could be crucial for ensuring that a company start-up proves sustainable and yields positive spin-offs ■

The telecommunications industry accounts for roughly one per cent of Bangladesh's GDP.

Photo: Telenor


Kristin Clemet


Stein Tønnesson


Mari Skjærstad


Borghild Holen


Karl-Christian Agerup


Tale Hungnes


Svein Tveitdal

All Photos: Nordstrandsfotografene/Andreas Bjørge

Norfund's board of directors

Kristin Clemet, chair, Oslo:
Born 1957, educated as a business economist. Director of Civita – Centre for Business and Society. Has long political experience, including service as minister for education and research from 2001-05, deputy director for the Confederation of Norwegian Enterprise (NHO) from 1998-2001, minister of labour and government administration from 1989-90 and a member of the Storting (parliament) from 1989-93. She also holds a number of other directorships, and has long experience of boardroom work.

Stein Tønnesson, director, Oslo:
Born 1953, PhD in history. Director of the International Peace Research Institute, Oslo (Prio). Has long research experience, with a particular focus on Asia. Former chair of the programme board for development paths in the global south at the Research Council of Norway. Boardroom experience includes Care Norway.

Mari Skjærstad, director, Hamar:
Born 1969, legal education. Skjærstad is a lawyer and partner with the Johnsrud, Sanderud & Skjærstad AS law firm, and has worked since 1995 as a commercial lawyer. Also a director of a number of other companies, including Mesta, Flytoget, Scana Industrier and Statskonsult.

Borghild Holen, director, Oslo:
Born 1995, educated as a business economist. Heads the international section of the international corporates and institutions division at the DnB Nor bank. Background from Eksportfinans, member of the North-South/development assistance commission, 1993-95, and former director of the Guarantee Institute for Export Credits (Giek).

Karl-Christian Agerup, director, Oslo:
Born 1962, MSc in management. Founder of and partner in Northzone Ventures. Long experience from the financial sector, including Hugin AS, McKinsey & Co and Milipore Corp. Boardroom experience from the Norwegian National Council for Children's and Young People's Organisations (LNU) and Schibsted ASA

Tale Hungnes, alternate director, Bergen:
Born 1978, MSc student in human rights, currently on maternity leave. Former head of Changemaker, the youth wing of Norwegian Church Aid. Has worked as a public affairs coordinator and press contact for Norwegian Church Aid, and has been a city councillor in Bergen. Member of the Church of Norway Council on Foreign Relations.

Svein Tveitdal, alternate director, Froland:
Born 1947, MSc in engineering. Senior adviser at Grid Arendal. Formerly head of Grid Arendal and divisional director at the UN Environmental Programme (UNEP) head office in Nairobi, Kenya. Chair, Asplan Foundation. Long boardroom experience from such bodies as the Agder Research Foundation, Blom ANS, Norway Mapping Group, Nordic Oil and Gas Consultants and Innovasjonsmiljø AS.styreerfaring fra blant annet Agderforskning, BLOM ANS, Norway Mapping Group, Nordic Oil and Gas Consultants, Innovasjonsmiljø A/S og andre.

Directors' report

ANNUAL ACCOUNTS

Norfund had a net profit of NOK 17.7 million for 2006, compared with NOK 93.9 million the year before. In accordance with the instruction governing its operations, this profit has been transferred to Norfund's surplus fund.

Operating income totalled NOK 76.1 million (2005: NOK 89.6 million).

Interest income amounted to NOK 54.3 million (2005: NOK 34.1 million), and derived from the fund's liquidity reserve deposited with the Bank of Norway and other Norwegian banks.

Changes in exchange rates, particularly for the USD, had a negative effect of NOK 36.2 million on results as against a positive effect of NOK 52.4 million in 2005. Norfund's currency hedging yielded an estimated gain of NOK 13.4 million, which is recorded under financial items. The net currency loss was accordingly NOK 22.8 million, compared with a gain of NOK 30.7 million in 2005. Norfund's investments have been valued at the exchange rates prevailing on 31 December 2006.

NOK 40.6 million (2005: NOK 64.5 million) of total operating income derived from the portfolio of loans taken over by Norfund from the Norwegian Agency for Development Cooperation (Norad) in 2001. This portfolio comprises loans to companies with Norwegian ownership in developing countries.

During 2006, Norfund sold out of two projects (invested equity) which yielded an overall loss of NOK 0.1 million. Reversal of previous write-downs yielded an accounting gain of NOK 1.3 million in 2006. The investment in La-Cif produced a return of about five per cent. Norfund recovered about half the amount invested in Palnorec, which had already been written down to zero. A loan was also repaid.

Operating expenses totalled NOK 135.3 million, including NOK 58.2 million in write-downs of investment projects and a currency loss of NOK 15.6 million.

Norfund had a capital base of NOK 3.4 billion at 31 December (2005: NOK 2.9 billion). The capital base is defined as equity capital plus the loan portfolio acquired from Norad.

The board is of the opinion that the annual accounts at 31 December 2006 give a true and fair presentation of the company's financial position.

NORFUND´S OPERATIONS

Norfund's goal is to combat poverty by investing risk capital in viable business activities in developing countries. Investments are made either directly in local companies together with industrial partners or indirectly through investment funds and financial institutions which are established and operated locally in a specific country or region.

Investing in profitable business activities helps to strengthen a country's development and has positive spin-offs for society. A well-functioning private sector and access to risk capital are important if developing countries are to be able to exploit their advantages and become optimally integrated in the world economy. As an equity capital investor in developing countries, Norfund has a substantial risk exposure, and its investments often have a long time frame. Placements in local investment funds have an eight- to 10-year frame. Return and development effects must therefore be measured over a corresponding length of time. At 31 December 2006, Norfund had committed USD 448 million (NOK 2.8 billion) in investments with companies and investment funds, including jointly-controlled operations. Norfund's investments are primarily located in the poorest countries of Africa, Asia and Latin America.

Operations at Norfund are divided into three business areas: energy and fund management, funds and direct investments, and financial institutions.

Energy and fund management

Norfund has a 36.75 per cent shareholding in Aureos Capital Ltd, which had a total capital at 31 December 2006 of about USD 461 million (NOK 2.9 billion). This was divided between 19 local and regional equity capital funds in Africa, Central America and south and south-east Asia.

Statkraft Norfund Power Invest AS (SN Power), owned 50 per cent by Norfund, invests in, develops and operates hydropower installations in developing countries. This company is now co-owner of nine hydropower stations with a combined generating capacity of 268 megawatts in Peru, Sri Lanka and India. Norfund committed in 2006 to invest a total of USD 40 million (NOK 250 mill.) in a Nepalese hydropower facility.

The institution also has small holdings in fund management companies Angola Capital Partners and Lafise Investment Management (Nicaragua).

Funds and direct investments

Agreement was reached by Norfund in 2006 on three new fund investments amounting collectively to about USD 25 million (NOK 155 million). In addition to investing EUR 1.2 million in Business Partners Madagascar and USD 3 million in Aureos Central America Growth Fund, the institution committed to invest USD 20 million in Aureos South Asia Fund. The last of these ranks as one of Norfund's largest fund investments, and also represents an important continuation of the strategic collaboration between it and Aureos.

The institution has also committed to invest EUR 5 million in the EFP investment collaboration with the other European state development funds and the European Investment Bank.

Where direct investment is concerned, the focus has been on consolidating the existing portfolio and on finding good solutions and closure for several difficult placements. The only new direct investment in 2006 was USD 7.5 million in the form of a convertible loan to Africa's Telecom Equity Partner Ltd.

Financial institutions

Agreements were concluded on two new investments totalling USD 2.2 million (NOK 13.6 million) in 2006. These include participation in the creation of a new bank in Mozambique. Norfund also invested in Micro Africa Ltd (formerly Micro Kenya Ltd). This microfinance company is to merge with Uganda Micro

Finance Ltd, in which the institution has also invested.

Total investment in financial institutions at 31 December was USD 23.5 million (NOK 147 million).

The portfolio of loans to companies in developing countries acquired from Norad had an estimated value of USD 11.5 million (NOK 72.7 million) at 31 December. This portfolio comprises 21 loans.

DEVELOPMENT EFFECTS

Norfund's principal focus is on achieving maximum development effect. The institution accordingly considers it important to invest as much as possible, and at least a third of all its placements, in the least-developed countries (LDCs). This proportion was 29 per cent at 31 December. A second key target is to reach small and medium-sized enterprises (SMEs) in developing countries, which are significant for economic growth and job creation. Priority is given to sectors such as financial institutions, renewable energy, new environmental technology and microfinance in order to achieve a direct development effect and the highest possible impact. 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.

All projects are regularly assessed in relation to key parameters such as the number of jobs created, tax revenues for the host country, contribution to market developments, training and technology transfer, quality of corporate governance – including work to combat corruption, the proportion of women employed, and social and environmental standards.

Investments by Norfund help to create or maintain employment. 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 which arise because sub-contractors and other industries benefit from increased investment in the area. These are important jobs in nations where the formal economy is relatively small. In poor countries, each job supports far more people than in west.

THE ENVIRONMENT

Environmental considerations and social conditions are given weight by Norfund. These are taken into account by incorporating international standards, such as the environmental guidelines issued by the IFC and the World Bank as well as the core ILO conventions, in the contracts for all new investments. Annual reporting is made in this area, and Norfund cooperates with its international network of related organisations to take care of these requirements in the best possible way.

The largest environmental burden caused by Norfund's own business activities relates to travel and paper consumption. Both in-house paper usage and carbon dioxide emissions from business travel were on a par with last year, even though the workforce has increased.

CORPORATE GOVERNANCE

Norfund contributes risk capital to private enterprises in developing countries by taking direct and indirect equity positions in privately-owned companies. A number of these nations are burdened in part by weak legislation on business conduct and corruption. Since these are key problems, Norfund has adopted principles for corporate governance.

Detailed investigations are carried out by the institution before an investment is made, and clear requirements are also set for partners and for business standards in the companies. In Norfund's markets, however, the position is that no matter how thorough its preparatory work or how good its regulations, irregularities will be experienced. Norfund's role in such cases is to raise such issues and work to prevent recurrences.

Thirteen board meetings were held in 2006. Norfund's entire board was replaced on 11 January 2007. The new directors are Kristin Clemet (chair), Stein Tønnesson, Mari Skjærstad, Karl-Christian Agerup and Borghild Holen. Alternate directors are Tale Hungnes and Svein Tveitdal.

HUMAN RESOURCES

Norfund's organisation was affected by unrest in 2006. A report commissioned by the then board from Ernst & Young revealed that the institution faced organisational challenges which called for action. A number of media reports reinforced a debate on personnel and organisational conditions in Norfund, and focused attention on various aspects of its foreign investments. The managing director indicated that he wished to be relieved, and Kjell Roland took over as Norfund's chief executive in September. The directors also tendered their resignation in December, which led to the appointment of a new board in January 2007.

Seven employees left Norfund during 2006, including three out of six members of the management team. The Chief Executive Officer moved to another position. The institution has made active efforts to recruit qualified personnel to ensure that the organisation has the necessary expertise.

A survey was carried out to assess the working environment, and further measures were adopted to strengthen this.

Norfund had 30 employees at 31 December 2006. The number of work-years for the period was 23. Seven people with a non-Norwegian background were employed in Norway, including three from developing countries. Three staff members were stationed abroad at 31 December, in Costa Rica, South Africa and Kenya respectively. One employee has been loaned to the local Aureos management company in Vietnam. In addition, Norfund shares a local employee in South Africa with its Danish counterpart, the IFU. Consultancy services corresponding to seven work-years were purchased during 2006 in connection with various assignments.

Sickness absence in 2006 was 9.4 per cent of total working hours, corresponding to 479 days, compared with 2.8 per cent the year before. No personal injuries nor damage to Norfund's material assets were suffered.

GENDER EQUALITY

Equal opportunities for both genders represent an important element in Norfund's human resources policy. One object for its investments is creating more jobs for women and ensuring equal rights. Particular opportunities for making good progress are offered in microfinance and small-enterprise financing.

The management team comprised one women and four men at 31 December. Females accounted for 33 per cent of the company's workforce. Three of the 11 people recruited during the year were women. No special measures for promoting equal opportunities have been instituted. The female proportion among the permanent directors was 60 per cent.

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 the commercial risks also associated with such investment in the industrialised part of the world. Future returns depend on the ability to:

- assess these risks before an investment is taken
- institute risk-reducing measures
- handle the opportunities and risks encountered during the life of the investment.

Norfund adopted principles and instructions for internal control in 2005 which will increase awareness and systematic risk management in the organisation. Ernst & Young has been engaged to provide the internal audit function.

Financial risk

Norfund operates in poorly-functioning capital markets where investments must be expected to have a long time frame and opportunities for sales are limited. The portfolio is spread across a number of regions and countries, which reduces the financial risk.

A substantial proportion of Norfund's investments in recent years have been made through local and regional funds, whose managements have both local knowledge and experience from developed capital markets. Access to such competence is important if Norfund is to manage risk in these markets in the best possible way.

Currency risk

Investments by Norfund are largely in USD, but will also be in other currencies in certain cases. Since Norfund keeps its accounts in NOK, its ongoing accounting profit will be heavily influenced by the exchange rate between the NOK and the USD or other relevant currencies.

Norfund has adopted a currency strategy which aims to safeguard the value of the invested portfolio by hedging about 50 per cent of its future cash flow in USD against the NOK.

The various funds and companies in which Norfund invests are also exposed to fluctuations between local currencies and the USD, for instance.

Interest rate risk

Norfund is also affected by interest rate risk through liquid assets placed with the Bank of Norway, in accordance with the instruction governing its operations. Interest charges on loans to projects can also be affected by interest rate risk, depending on the level of such rates on each loan. Loans to projects are usually tied to the variable London interbank offered rate (Libor) plus a margin. Like equity investments, the risk posed by loans in these markets is relatively high.

Non-financial factors

Non-financial considerations relate in part to environmental and social conditions and financial irregularities like swindles, tax evasion and corruption. Such conditions can pose both financial and developmental risk for Norfund, as well as affecting its reputation. These factors accordingly occupy a central place in Norfund's project assessment. An operationalisation of this assessment will continue.

Management of commercial risk

Norfund makes detailed analyses of all its projects, and experience shows that commercial aspects present by far the biggest risk. An investment goes through four different phases, and calls for attention at several levels.

- Initial application and evaluation phase: the goal here is to identify good projects through detailed analysis
- Investment phase: focus on achieving good investment terms
- Ownership: the goal in the third phase is to achieve results and develop asset value through active ownership
- Exit: Norfund normally exits from an investment after six to 10 years.

Norfund has good systems for project management and other functions. These lay the basis for keeping commercial risk at an acceptable level. An investment manual has also been developed, partly to define who is responsible for activities in the various phases. In addition, a number of check lists have been drawn up.

GOING CONCERN

The board confirms that the going concern assumption is realistic.

Since Norfund was created in 1997, it has exited from 15 projects representing a combined original investment of USD 19.5 million (NOK 121 million), with an overall loss of USD 9 million (NOK 56 million). Although the quality and breadth of the portfolio is different today, these outcomes illustrate the challenges involved in creating companies with long-term profitability in Norfund's markets.

PROSPECTS

Norfund has positioned itself as a central and respected player in the provision of risk capital for companies in developing countries. The need for such players is increasing, and the board sees a big potential for new investment. Establishing operations such as SN Power and Aureos, which attract both capital and positive attention, has been very significant for Norfund's development.

A follow-up working environment survey will be conducted in 2007, and further development of the organisation is under way. Many new employees with a background in the private and public sectors provide a good basis for the next few years. Norfund is working continuously on further development of its overall expertise.

Synnovate MMI has carried out a survey of Norfund's reputation. The findings and follow-up of this study will help to form the basis for communication strategy and reputation building in the future.

Norfund has created two highly interesting organisations in SN Power and Aureos Capital, who both attract capital and positive attention, and the board looks forward to being involved in identifying other exciting projects in Norfund's priority areas and in the sectors where it has special expertise.

Collaboration with related organisations in other countries can reduce project risk, while making it possible jointly to find good solutions and thereby achieve good results. A collective approach by the European countries to fighting poverty offers a big potential.

The board believes that Norfund, with its key strategic positions, has a good basis for being able to meet its target of combating poverty by investing risk capital in viable business activities in developing countries.

Oslo, 27 March 2007

Kristin Clemet
Chair

Karl-Christian Agerup
Deputy chair

Borghild Holen

Stein Tønnesson

Mari Kjærstad

Kjell Roland
Mangaing director

Profit and loss account

(Figures in NOK 1 000)	Note	2006	2005
OPERATING INCOME	1,10	**76 111**	**89 647**
Operating expenses			
Payroll expenses	2	32 708	24 554
Depreciation tangible fixed assets	4	467	565
Currency regulation of project loans	9	15 608	(16 067)
(Reversal of write-down)/write-down of investment projects	9	58 196	(25 368)
Other operating expenses	2,3	28 283	21 749
Total operating expenses		**135 261**	**5 433**
OPERATING PROFIT/(LOSS)		**(59 150)**	**84 214**
Profit/(loss) on investment in joint ventures	5	10 796	(4 461)
Gain on sale of securities		0	0
Other interest received		54 331	34 084
Other financial income	14	14 750	1 841
Other financial expenses	14	2 994	21 761
Net financial items		**76 883**	**9 703**
NET PROFIT		**17 732**	**93 916**
Transfers			
Transferred to surplus fund	12	17 732	93 916
Transferred from surplus fund	12	0	0
Total allocations		**17 732**	**93 916**

Balance sheet

(Figures in NOK 1 000)	Note	2006	2005
ASSETS			
Fixed assets			
Tangible fixed assets			
Operating equipment, fixtures, fittings, tools, etc	4	1 154	1 520
Total tangible fixed assets		**1 154**	**1 520**
Financial fixed assets			
Investments in associated and joint ventures	5	801 691	571 921
Loans to associated and joint ventures	6	9 383	5 077
Pension funds	2	0	1 350
Total financial fixed assets		**811 074**	**578 348**
TOTAL FIXED ASSETS		**812 228**	**579 868**
Current assets			
Accounts receivable			
Other accounts receivable	6	12 338	3 436
Loan portfolio	6	0	0
Total accounts receivable		**12 338**	**3 436**
Investments			
Loans to investment projects	7,9	177 505	202 579
Equity investments	7,9	414 521	353 561
Other market-based financial instruments	14	7 609	0
Total investments		**599 635**	**556 140**
Bank deposits, cash in hand and cash equivalents			
Liquid assets tied up in investments – committed, approved and sanctioned in principle	8,11	1 763 714	1 281 845
Uncommitted liquid assets	8,11	226 536	519 050
Total bank deposits, cash in hand and cash equivalents		**1 990 250**	**1 800 895**
Total current assets		**2 602 223**	**2 360 472**
TOTAL ASSETS		**3 414 451**	**2 940 340**

Balance sheet

(Figures in NOK 1 000)	Note	2006	2005
EQUITY AND LIABILITIES			
Equity			
Called-up and fully-paid share capital			
Primary capital	12	2 208 750	1 862 500
Reserve capital	12	886 250	737 500
Total called-up and fully-paid share capital		**3 095 000**	**2 600 000**
Retained earnings			
Surplus fund	12	203 978	216 185
Total retained earnings		**203 978**	**216 185**
TOTAL ASSETS		**3 298 978**	**2 816 185**
Liabilities			
Provisions			
Pension commitments	2	4 790	0
Total provisions		**4 790**	**0**
Other long-term liabilities			
Current liabilities			
Accounts payable		2 006	1 014
Unpaid government charges and special taxes		2 433	2 628
Unused funds	13	18 104	19 956
Other current liabilities	16	88 139	100 557
Total current liabilities		**110 682**	**124 155**
Total liabilities		**115 473**	**124 155**
TOTAL EQUITY AND LIABILITIES		**3 414 451**	**2 940 340**

Oslo, 27 March 2007

Kristin Clemet
Chair

Karl-Christian Agerup
Deputy chair

Borghild Holen

Stein Tønnesson

Mari Kjærstad

Kjell Roland
Mangaing director

Cash flow statement

(Figures in NOK 1 000)	Note	2006	2005
Cash flow from operating activities			
Profit before tax		17 732	93 916
Loss/gain on sale of fixed assets		104	0
Ordinary depreciation	4	467	565
Write-down of fixed assets	4	0	0
(Reversal of write-down)/write-down of investment projects	9	58 196	(25 368)
Differences in pension costs and payments to/from pension funds		6 140	(833)
Result using equity and proportionate consolidation methods	5	(10 796)	4 461
Effect of exchange rate changes		3 586	(7 577)
Changes in other accruals		(5 956)	18 712
Net cash flow from operational activities		**69 472**	**83 875**
Cash flow from investment activities			
Investments in tangible fixed assets	4	(351)	(501)
Proceeds from sale of tangible fixed assets	4	147	
Proceeds from sale of shares/interests in other enterprises	10	7 727	7 850
Repaid proceeds from shares/interests recorded at cost price		37 481	46 238
Acquisition of shares/interests in other enterprises		(411 409)	(232 125)
Loans for investment		(73 960)	(117 367)
Repayment of investment loans		77 329	54 756
Proceeds from sale of other investments		(10 229)	10 866
Net cash flow from investment activities		**(373 264)**	**(230 284)**
Cash flow from financing activities			
Proceeds from new short-term loans	13	9 000	9 000
Repayment of long-term loans		0	0
Repayment of short-term loans	13	(10 853)	(10 402)
Increase in/repayment of equity	12	495 000	485 000
Net cash flow from financing activities		**493 147**	**483 598**
Changes in exchange rates, cash and cash equivalents			
Net change in cash and cash equivalents		189 356	337 189
Cash and cash equivalents at 1 Jan		1 800 895	1 463 705
Cash and cash equivalents at 31 Dec	**11**	**1 990 250**	**1 800 895**

Financial statements

FINANCIAL STATEMENTS FOR NORFUND CONSIST OF THE FOLLOWING:

- profit and loss account
- balance sheet
- cash flow statement
- notes

The financial statements, which are prepared by the executive management and board of directors of the institution, must be read in conjunction with the director's report and the auditor's report.

Basic principles – assessment and classification – other issues
The financial statements are presented in compliance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles in effect at 31 December 2006. The financial statements give a true and fair view of assets and liabilities, financial standing and profit.

The financial statements have been prepared on the basis of fundamental principles governing historical cost accounting, comparability, continued operations, congruence and prudence. Transactions are recorded at their value at the time of the transaction. Income is recognised at the time of delivery of goods or services. Costs are expensed in the same period as the income to which they relate. Costs which cannot be directly related to income are expensed as incurred. Further comments on the various accounting principles are provided below. Where actual figures are not available at the time the accounts were closed, generally accepted accounting principles require management to make estimates and assumptions regarding the effect of these items on the profit and loss account and the balance sheet. Actual results could differ from these estimates.

Assets/liabilities related to current business activities and items which fall due within one year are classified as current assets/liabilities. Current assets/liabilities are recorded at the lower/higher of acquisition cost and fair value. The definition of fair value is the estimated future sales price reduced by expected sales costs. Other assets are classified as fixed assets. Fixed assets are entered in the accounts at historical cost, with deductions for depreciation. In the event of a decline in value which is not temporary, the fixed asset will be subject to a write-down.

Generally accepted accounting standards provide some exemptions to the basic assessment and valuation principles. Comments on these exemptions can be found in the respective notes to the accounts. When applying the basic accounting principles and disclosure of transactions and other items, the "substance over form" rule is applied. Contingent losses which are probable and quantifiable are charged to the profit and loss account. Figures are presented for geographical markets, since the geographical division of activities is of material importance to the users of the financial statements. Figures are reconciled with the institution's profit and loss account and balance sheet.

The most important accounting principles used 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 and other Norwegian banks 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.

Associated and joint ventures
Associated ventures are enterprises in which Norfund exercises substantial influence, but which is not a subsidiary or a joint venture. Joint ventures are activities controlled jointly by Norfund and one or more other companies. Associated and joint ventures are recorded in the accounts in accordance with the equity method. The institution's share of income from associated and joint ventures is presented as a separate item in the profit and loss account. 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 associated and joint ventures respectively in accordance with generally accepted accounting practice. 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.

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 institution's investments is to dispose of all or part of each commitment, normally after three-seven years. That accords with Norfund's object, and with the provisions of the Accounting Act and generally-accepted accounting practice. Under generally-accepted accounting practice, 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. These instruments are taken into account in the valuation of the individual investment.

Loans

Norfund manages two types of loans:

- loans relating to Norfund's equity investments and made by the institution (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 institution'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

Norfund has opted to identify how much of its liquid assets were tied up in investments committed, approved and sanctioned in principle but unpaid at 31 December 2006. This is shown in the balance sheet under liquid assets tied up in investments – committed, approved and sanctioned in principle. The maximum amount has been record. 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.

Leases

Rents paid under leases not recorded in the balance sheet are treated as an operating cost and allocated systematically over the whole term of the lease.

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 institution'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.

Close associates

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

Deferred tax and tax expense

Norfund is exempt from tax pursuant to a separate section in the Taxation Act

Cash flow statement

The cash flow statement is compiled using the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term investments with terms not exceeding three months which can be exchanged for cash immediately, and with no material exchange rate exposure.

Pension liability and costs

The company has a pension plan which entitles its members to defined future benefits, known as a defined benefit plan. The liability is calculated on a straight-line basis, taking into account assumptions regarding the number of years of employment, discount rate, future return on plan assets, future changes in salaries and pensions, the size of defined benefit contributions from the government, and actuarial assumptions regarding mortality, voluntary retirement and so on. Plan assets are stated at fair market values. Net pension liability comprises the gross pension liability less the fair value of plan assets. Net pension liabilities from underfunded pension schemes are included in the balance sheet as long-term interest-free debt, while overfunded schemes are included as long-term interest-free receivables if it is likely that the overfunding can be utilised.

The effect of changes in pension plans with retroactive effect not conditional on future earnings is recognised immediately in the profit and loss account.

Net pension cost, which consists of gross pension cost less estimated return on plan assets adjusted for the impact of changes in estimates and pension plans, is classified as an operating cost and presented in the payroll expenses item.

Notes

Note 1 - Segment information

Segment information by business area:

Norfund has chosen to confine the presentation of segment information to profit and loss 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)	2006			2005		
	NORFUND total	Loan portfolio*	NORFUND excl loan portfolio	NORFUND total	Loan portfolio*	NORFUND excl loan portfolio
OPERATING INCOME	**76 111**	**40 576**	**35 535**	**89 647**	**64 534**	**25 113**
Operating expenses						
Payroll expenses	32 708	1 887	30 821	24 554	1 371	23 183
Depreciation of tangible fixed assets	467	27	440	565	33	532
Loss on sale of operating assets	104	0	104	0	0	0
Provision for loss on projects	58 196	0	58 196	(25 368)	0	(25 368)
Other operating expenses	43 787	854	42 932	5 683	805	4 877
Total operating expenses	**135 262**	**2 768**	**132 493**	**5 433**	**2 209**	**3 224**
Profit/(loss) from operations	**(59 150)**	**37 808**	**(96 958)**	**84 214**	**62 324**	**21 889**
Net financial items	**76 883**	**0**	**76 883**	**9 703**	**0**	**9 703**
TOTAL PROFIT/(LOSS)	**17 732**	**37 808**	**-20 076**	**93 916**	**62 324**	**31 592**

* 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	188 540	202 810	60 935	35 308	71 091	(144 163)	414 521
Loans to investments	55 784	58 274	23 437	10 000	37 531	(7 521)	177 505
Total balance sheet	**244 325**	**261 084**	**84 372**	**45 308**	**108 621**	**(151 684)**	**592 026**
Operating income	**34 012**	**25 008**	**14 098**	**650**	**2 344**	**0**	**76 111**

Note 2 - Payroll expenses

Pay and other payroll expenses (Figures in NOK 1 000)	2006	2005
Pay	18 853	16 480
Directors' fees	525	317
Payroll taxes	2 741	2 736
Personnel insurance	366	350
Pension expenses	9 798	4 657
Other benefits	596	407
Payroll expenses refunded	(171)	(392)
Total pay and other payroll expenses	**32 708**	**24 554**

Remuneration of senior personnel (Figures in NOK 1 000)	Managing director	Chair
Pay/fees	1 305 099	120 000
Pension contributions	602 743	0
Other remuneration	52 778	0
Total	**1 960 620**	**120 000**

The company changed managing director during the year. The former managing director received NOK 1 332 179 in remuneration from 1 January-10 September, including NOK 844 872 in salary, NOK 467 630 in pension contribution and NOK 19 677 in other benefits. The new managing director received NOK 628 441 in remuneration from 11 September-31 December, including NOK 460 227 in salary, NOK 135 113 in pension contribution and NOK 33 101 in other benefits.

The managing director is not covered by any agreement to continue receiving pay after 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 has any bonus agreements.

The chair received NOK 120 000 for boardroom work on behalf of Norfund in 2006. The deputy chair received a fee of NOK 90 000. Other directors received fees of NOK 75 000 each for 2006, while the alternate directors received NOK 45 000 each.

NOK 920 454 was recorded for fees to the auditor and cooperating companies in 2006, of which NOK 844 829 related to legally-required auditing, NOK 51 875 for other attestation services, and NOK 23 750 for other non-auditing services. No fees were paid to the auditor for tax advice. All figures include VAT.

Employees

The institution had 31 employees at 31 December 2006. Work-years totalled 28.

Pensions

Norfund has a pension scheme covering all permanent employees. This 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.

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 2006, 30 people were covered by the scheme.

Financial assumptions		2006	2005
Discount rate		4.75%	5.5%
Expected return on pension funds		5.40%	6.5%
Pay regulation		4.50%	4.0%
Pension regulation		4.25%	3.0%
Adjustment to NI base rate		4.25%	3.0%
Turnover		9.00%	9.0%
Expected early retirement at age 62 (AFP)		0.00%	0.0%
Payroll tax		14.1%	14.1%
(Figures in NOK 1 000)		**2006**	**2005**
Net present value of pension earned in the period		3 909	3 183
Capital cost of previously earned pensions		1 183	878
Expected return on pension funds		(1 179)	(1 131)
Administrative costs		166	111
Recorded variances in estimates		5 144	1 040
Accrued payroll tax		575	575
Net pension expense for the year, incl payroll tax		**9 798**	**4 657**
Calculated pension liabilities	**Funded**	**2006**	**2005**
Estimated pension liabilities	29 844	29 844	19 875
Estimated pension funds	25 646	25 646	21 058
Net pension liabilities 31 Dec	**4 198**	**4 198**	**(1 183)**
Unrecorded variances in estimates	0	0	
Accrued payroll tax	592	592	(167)
Net pension liabilities 31 Dec	**4 790**	**4 790**	**(1 350)**
Reconciliation opening/closing balance			
Capitalised net pension liabilities 1 Jan incl payroll tax		(1 350)	
Net pension expense for the year incl payroll tax		9 798	
Pensions paid, early retirement/unfunded, incl payroll tax		0	
Investment in pension fund, etc, incl payroll tax		(3 658)	
Capitalised net pension commitment 1 Jan incl payroll tax		**4 790**	

Manager's placement of pension funds Nordea Liv's asset mix*	30.09.06
Property	17%
Shares	19%
Current bonds/certificates	25%
Long-term bonds	38%
Other current financial assets	0%
Other assets	1%
Total financial assets	**100%**

* Known values at calculation date.

Note 3 - Other operating costs

(Figures in NOK 1 000)	2006	2005
Seminars/conferences/expertise enhancement	938	609
Travel expenses	3 588	3 184
External assistance	13 206	8 677
Costs, tender guarantee scheme	1 987	2 682
Rent, incl shared costs	2 672	2 671
Advertising/printing	1 118	1 048
Other costs	4 773	2 878
Total operating costs	**28 283**	**21 749**

About NOK 5 million of operating costs for 2006 related to restructuring costs.

Note 4 - 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	4 888	273	341	67	5 569
+ acquisitions during the period	227	0	125	0	351
- disposals during the period	0	0	(341)	0	(341)
Cost price at 31 Dec	**5 115**	**273**	**125**	**67**	**5 580**
Accumulated ordinary depreciation at 1 Jan	3 673	131	64	0	3 868
+ ordinary depreciation for the period	398	40	29	0	467
- accum ordinary depreciation, operating assets sold	0	0	(89)	0	(89)
Accumulated ordinary depreciation at 31 Dec	4 070	171	5	0	4 246
Write-down of operating assets at 1 Jan	180	0	0	0	180
+ write-downs for the period	0	0	0	0	0
- 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	**865**	**102**	**121**	**67**	**1 154**

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.

Note 5 - Investments in associated and 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	36.75%	50%	
Voting share	36.75%	50%	
	(AV = associated venture)	(JV = joint venture)	
Information relating to the date of acquisition			
Acquisition cost	6 844	852 507	
Information relating to figures for the year			
Opening balance at 1 Jan 06	4 114	567 807	571 921
Capital received in 2006	0	252 507	252 507
Sold in 2006	(464)		(464)
Deducted non-amortised excess value	0	0	0
Deducted non-amortised goodwill	0	0	0
Capital repaid during the year	(3 128)		
Share of annual profit/(loss)[1]	46	10 750	10 796
Netting of previous year's result			0
Other changes during the year, exchange rate adjustment, etc	(189)	(29 750)	(29 940)
Closing balance, 31 Dec 06	**378**	**801 313**	**801 691**

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

Committed investments in associated and joint ventures[2]	**0**	**450 000**	**450 000**

[2] In addition to capital already invested in associated and joint ventures.

Settlement between Norfund and Statkraft

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. Under a settlement with Statkraft in 2004, Statkraft has paid NOK 80 million to Norfund, which has been recorded as a current liability in the accounts. Part or all of this amount could be recorded as income for Norfund. That depends on how the transfer of Statkraft's interests in HPL and THPC to SN Power will take place. The interests in HPL were transferred from Statkraft to SN Power in 2006, while THPC remains to be transferred. As a result, only HPL is consolidated in the SN Power accounts for 2006.

Key figures from SN Power Invest's consolidated accounts

Key figures from SN Power Invest's consolidated accounts show key figures from the accounts as well as the way Norfund's accounts would have looked with a consolidation, given that SN Power Invest represents a large part of Norfund's business.

Profit and loss account (Figures in NOK 1 000)	SN Power group		Norfund consolidated with SN Power (gross method[1])	
	2006	2005	2006	2005
Operating income	328 204	162 995	240 213	171 145
Operating expenses	252 465	178 718	261 494	94 792
Operating loss	**75 739**	**(15 723)**	**(21 281)**	**76 352**
Net financial items	-3 098	11 428	64 584	19 888
Ordinary profit/(loss) before tax	72 641	(4 295)	43 303	96 240
Tax on ordinary profit/(loss)	-8 738	(4 647)	(4 369)	(2 324)
Ordinary loss	63 903	(8 942)	38 934	93 916
Net profit/(loss)	**63 903**	**(8 942)**	**38 934**	**93 916**
Share minority SN Power Invest AS	42 403		21 202	
Share majority SN Power Invest AS	21 500		10 750	
Profit Norfund			17 732	
Balance sheet				
Assets	2006	2005	2006	2005
Intangible fixed assets	41 989	7 232	20 995	3 616
Tangible fixed assets	1 038 870	367 843	520 589	185 442
Financial fixed assets	657 722	545 374	338 244	283 228
Total fixed assets	**1 738 581**	**920 449**	**879 827**	**472 286**
Goods	5 119	5 224	2 560	2 612
Receivables	108 599	52 950	66 638	29 911
Investments	3 570	0	601 420	556 140
Cash and cash equivalents	756 281	532 231	2 368 391	2 067 011
Total current assets	**873 569**	**590 405**	**3 039 008**	**2 655 674**
Total assets	**2 612 150**	**1 510 854**	**3 918 835**	**3 127 960**
Equity and liabilities	2006	2005	2006	2005
Called-up and fully-paid share capital	1 705 015	1 200 000	3 095 000	2 600 000
Retained earnings	(102 370)	(64 386)	203 609	216 185
Total equity	**1 602 645**	**1 135 614**	**3 298 609**	**2 816 185**
Minority	**249 897**	**0**	**124 949**	**0**
Provisions	84 243	82 053	46 914	41 027
Other long-term liabilities	521 341	201 669	260 671	100 835
Current liabilities	154 024	91 518	187 693	169 914
Total liabilities	**759 608**	**375 240**	**495 278**	**311 775**
Total equity and liabilities	**2 612 150**	**1 510 854**	**3 918 835**	**3 127 960**

[1] The gross method means that Norfund's 50 per cent share of the amounts in SN Power Invest's consolidated accounts is consolidated with Norfund's accounts, with all balances and transactions between the companies eliminated.

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

Note 6 - Receivables

	31.12.06	31.12.05
Loan to associated venture	9 383	5 077
Other receivables[1]	12 338	3 436

[1] All receivables fall due in less than 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 1 000)	Opening loan balance 1.1.06	Repayments received 1.1-31.12	Interest received 1.1-31.12	Depreciation during the year	Currency reg during the year	Closing loan balance 31.12.06
	146 680	36 192	4 384	(1 801)	42	108 729
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 2006 to be NOK 72.7 million.

Note 7 - Loans to companies in the investment portfolio

Loans specified by country (Figures in 1 000)	Number	Currency	Book value[1] (currency)	Book value[1] (NOK)	Interest received (NOK)
Nicaragua	2	USD	3 747	23 437	1823
Nepal	1	NOK	1 500	1 500	152
Turkey	1	NOK	10 000	10 000	525
Tanzania	1	NOK	3 700	3 700	316
India	1	EUR	56	462	0
China	2	USD	182	1 140	0
China	1	CAD	31	168	0
China	2	NOK	10 708	10 708	552
Bangladesh	1	USD	7 000	43 786	4582
Regional	3	USD	13 500	84 444	2338
Uganda	1	USD	287	1 793	201
Kenya	1	USD	540	3 378	0
Philippines	1	NOK	512	512	35
Interest from realised projects					4 388
Total loans to companies				**185 026**	**14 913**
Provision for bad debts at 31 Dec 06				(7 521)	
Book value, loans/total interest received				**177 505**	**14 913**
Committed investments in loans				**231 121**	
Investments in loans approved and sanctioned in principle				**232 269**	
Loans committed, approved and sanctioned in principle (incl loans paid)				**463 390**	

[1] Figures at 31 December 2006 and prior to any write-downs.

Note 8 - Equity investments

Equity investments in funds

(Figures in 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	333	3 821	2 732
Minco	USD	15.8%	3 000	682	20 295	5 797
FEDHA Fund	USD	11.5%	1 500	492	10 667	4 362
LACIF	USD			0	0	0
CAIF	USD	4.0%	1 000	787	7 781	6 450
African Infrastructure Fund	USD	1.2%	5 000	789	35 297	8 957
Indian Ocean II	USD	16.9%	3 000	1 237	23 415	12 390
SEAF Trans-Balkan Fund	USD	22.9%	5 000	1 423	36 463	14 092
CASEIF	USD	31.8%	5 000	1 987	36 083	17 235
Siam Investment Fund II	USD	8.7%	5 000	2 373	35 642	19 212
SEAF Sichuan SME Investment Fund	USD	13.3%	3 000	2 746	20 075	18 484
Horizon Tech Ventures	ZAR	18.1%	26 000	8 035	25 096	9 031
Aureos Central America Fund	USD	27.5%	10 000	4 697	64 398	31 230
Aureos East Africa Fund	USD	20.0%	8 000	5 627	52 268	37 422
Aureos West Africa Fund	USD	26.0%	15 425	6 557	100 518	45 050
Aureos Southern Africa Fund	USD	25.1%	15 000	6 254	96 028	41 324
Aureos South Asia Interim Fund 2	USD	50.0%	5 000	3 453	31 675	21 995
Aureos South East Asia Fund	USD	28.6%	20 000	5 971	126 046	38 293
APIDC Biotech Fund	USD	7.7%	2 750	1 603	17 521	10 347
Vietnam Equity Fund	EUR	16.5%	2 500	876	20 468	7 093
China Environment Fund	USD	10.0%	3 000	907	19 019	5 929
European financing partners	EUR	8.3%	5 025	25	41 385	195
Aureos South Asia Fund II	USD	28.6%	20 000	5 121	126 115	33 047
Business Partners Madagascar SME Fund	EUR	14.1%	1 200	120	9 907	1 012
Solidus Investment Fund	USD	6.3%	2 000	700	12 509	4 377
Fundo de Investimento Privado-Angola	USD	33.3%	7 500	0	46 913	0
Aureos Central America Growth Fund	USD	15.0%	3 000	53	18 768	336
Total invested in funds					**1 038 174**	**396 393**
Committed investments in funds					**1 038 174**	
Investments in funds approved and sanctioned in principle					**183 181**	
Investments in funds committed, approved and sanctioned in principle					**1 221 355**	

A committed investment means that a binding agreement has been concluded to make it. An investment sanctioned in principle and approved means that an in-house decision has been taken to make it 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 2006 is used for the unpaid component.

Equity investments in management companies

(Figures in 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)
AMSCO	EUR	4.8%	240	240	1 837	1837
Lafise Investment Management	USD	20.0%	2	2	17	17
Angola Capital Partners	USD	33.3%	150	0	938	0
Total invested in management companies					2 793	1 855
Committed investments in management companies					**2 793**	
Investments in management companies approved and sanctioned in principle					**0**	
Investments in management companies committed, approved and sanctioned in principle					**2 793**	

Equity investments in companies

(Figures in 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)
Finarca	USD	18.0%	600	598	5 694	5 684
Genomar	NOK	8.1%	20 000	20 000	20 000	20 000
Pan Marine	NOK	49.0%	18 490	18 490	18 490	18 490
Fjord Marine Tyrkia	NOK	29.6%	27 347	27 347	27 347	27 347
Pan Fish Shanghai	USD	27.5%	38	38	273	273
TC Trading	USD	27.5%	6	6	45	45
DFCU	UGS	10.0%	4 600 000	4 600 000	17 607	17 607
CIFI	USD	8.5%	5 000	5 000	31 225	31 225
Kabul Serena Hotel	USD	17.1%	5 000	5 000	33 785	33 785
Afrinord Hotels Africa (ex SAS Rezidor Africa)	EUR	20.0%	7 000	50	57 646	392
Uganda Microfinance Ltd.	USD	30.0%	637	637	4 034	4 031
Micro Africa Ltd II	USD	15.3%	250	250	1 558	1 558
Gapi	USD	20.0%	1 400	0	8 757	0
Total invested in companies					**226 461**	**160 437**

Committed investments in companies	**226 461**
Investments in companies approved and sanctioned in principle	**143 426**
Investments in companies committed, approved and sanctioned in principle	**369 887**

Total book value of investments in funds, management companies and companies	558 684
Write-downs of investments at 31 Dec 06	(144 163)
Book value of investments	**414 521**

Investments committed, approved and sanctioned in principle, unpaid	**2006**	**2005**
Investments in funds committed, approved and sanctioned in principle	1 221 355	1 031 561
+ Investments in management companies committed, approved and sanctioned in principle	2 793	2 870
+ Investments in joint ventures committed, approved and sanctioned in principle[3]	450 000	0
+ Investments in companies committed, approved and sanctioned in principle	369 887	335 816
+ Loans committed, approved and sanctioned in principle	463 390	563 310
= Total investments committed, approved and sanctioned in principle	**2 507 425**	**1 933 556**
- Total equity investments	558 684	446 494
- Total loans	185 026	205 217
= Investments committed, approved and sanctioned in principle, unpaid	**1 763 714**	**1 281 845**

[1] Figures at 31 December 2006 and prior to any write-downs.
[2] The Aureos South Asia Interim Fund was created by CDC and Norfund in anticipation of the Aureos South Asia Fund, which became operational in January 2006. The interim facility will accordingly make no further investments, but only manage investments approved up to December 2006. Through the interim facility, Norfund and CDC jointly financed minority holdings in Sri Lankan companies. Norfund's share of each investment will accordingly be less than 25 per cent.
[3] Additional to capital already invested.

Note 9 - Realised losses and write-downs

(Figures in NOK 1 000)	Write-downs at 1.1.06	Losses realised 2006	Write-downs 2006		Accumulated write-downs 31.12.06
Write-downs on project loans	2 638		4 883		7 521
Write-downs on equity investments	92 932	(2 083)	53 314		144 163
Total	**95 571**	**(2 083)**	**58 196**	**0**	**151 684**

Norfund has hedged about 50 per cent of the value of its portfolio of investments in USD. Exchange rate movements will yield income or 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.

	2006	2005
(Reversal of write-down)/write-down of investment projects (see the Reversal of write/down/write-down of investment projects line in the profit and loss account)	58 196	(25 368)
Currency regulation of project loans (see the currency regulation of project loans line in the profit and loss account)	15 608	(16 067)
Results recorded from portfolio hedging (see the other financial income/expenses lines in the profit and loss account)	(13 432)	21 747
Net (reversal of write-downs)/write-downs	**60 372**	**(19 688)**
Effect of exchange rate changes on results		
(Reversal of write-downs)/write-downs because of exchange rate changes	20 613	(36 330)
Currency regulation of project loans (see the currency regulation of project loans line in the profit and loss account)	15 608	(16 067)
Results recorded from portfolio hedging (see the other financial income/expenses lines in profit and loss account)	(13 432)	21 747
Net (reversal of write-downs)/write-downs	**22 789**	**(30 650)**

Note 10 - Investments realised

	Total	
(Figures in NOK 1 000)	2006	2005
Sales receipts	7 727	7 850
Cost price, paid-in capital	(9 204)	(44 433)
Earlier return recorded as income	910	0
Earlier repaid capital	501	0
Net gain/(loss), investments sold	**(65)**	**(36 583)**
Written down earlier	2 325	36 761
Net gain/(loss)	1 349	178

Investments realised 2006	Paid-in capital
La-Cif	6 107
Palnorec	3 097

The loans made to Carifin, Corp Interfin and Palnorec were repaid in their entirety in 2006.

Note 11 - Bank deposits, cash in hand and cash equivalents

NOK 1 281 845 000 and NOK 1 763 715 were committed, approved and sanctioned in principle but unpaid at 31 December 2005 and 31 December 2006 respectively. Uncommitted liquid assets include NOK 1 491 807 in the blocked tax withholding account. In addition, NOK 18 103 878 of the institution's liquid assets are tied up in unused funds. See note 13. These assets can only be used in accordance with the guidelines established for the application of the unused funds.

Note 12 - Capital movements

(Figures in NOK 1 000)	Primary capital	Capital in legal reserves	Surplus fund	Total equity
Capital at 1 Jan 06	1 862 500	737 500	216 185	2 816 185
Capital received in 2006	346 250	148 750		495 000
Equity adjustment JV and AV recorded directly against equity			(29 939)	(29 939)
Net profit			17 732	17 732
Capital at 31 Dec 06	**2 208 750**	**886 250**	**203 978**	**3 298 978**

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

The institution has received NOK 3 095 million in capital from the Norwegian government, including NOK 495 million paid in during 2006. Of the total capital received, NOK 460 million is earmarked for investments in the least-developed countries and NOK 530 million for investments in the energy sector.

Note 13 - Unused funds (investment-related technical assistance)

Norfund received NOK 9 million from its owner for investment-related technical assistance during 2006. These funds are intended to cover professional assistance to ensure a good and sustainable development effect from investments financed in Norfund's business areas. Such support includes measures which strengthen local expertise through advice and management development, and which ensure that projects help fulfil the broader development policy goals. This includes taking account of HIV-Aids, equal opportunities, environmental conditions, development effects and, in particular, priorities within geographical areas or disciplines. The funds are treated as a current liability, and outgoing payments are included in Norfund's liquid assets. When costs are met from the funds, debt is reduced by the equivalent amount. A total of NOK 10.8 million in costs was charged to the trust fund in 2006. The outstanding funds amount to NOK 18.1 million, which primarily represents funds earmarked for projects in the Balkans.

Note 14 - 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 risk 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 objects in which Norfund invests 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.

These hedges are capitalised as other market-based financial instruments.

Four currency forward contracts were entered into during 2006, and six fell due in USD. Norfund had four outstanding forward contracts at 31 December 2006.

Outstanding contracts at 31 Dec 06 (Figures in NOK/USD 1 000)

Type of contract	Counterparty	Purchase date	Maturity	Amount hedged	Forward rate	Value 31 Dec (NOK)
Currency swap, sell USD against buy NOK	Nordea	10.01.06	12.01.07	USD 15 300	6.4701	3 322
Currency swap, sell USD against buy NOK	DnB	10.01.06	12.01.07	USD 15 000	6.4650	3 281
Currency swap, sell USD against buy NOK	DnB	10.01.06	12.01.07	USD 2 900	6.4650	634
Currency swap, sell USD against buy NOK	DnB	10.01.06	12.01.07	USD 1 700	6.4650	372
Total						**7 609**

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.

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, given the nature of the market. 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.

NOTE 15 - COMMITMENTS

(FIGURES IN NOK 1 000)	LEASE DURATION	ANNUAL RENT
Premises at Munkedamsveien 45B	1.8.99-31.7.09	2 368

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). NOK 2 million was charged to Norfund's accounts in 2006 in respect of the scheme, which could lead to up to NOK 13 million being charged to Norfund's accounts over a three-year period to the end of 2007, when the scheme will be evaluated.

NOTE 16 - DEBT

The institution has no debts to joint ventures, or other close associates.
Current liabilities include a provision for a payment of NOK 80 000 000 from a settlement with Statkraft on non-cash contributions in SN Power Invest AS (see note 5).

NOTE 17 - GUARANTEES

A guarantee of up to EUR 2 million, corresponding to NOK 16.48 million, has been given in connection with one of the investments.
A rent guarantee for up to NOK 0.5 million has been provided.

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To NORFUND, a company under special law

AUDITOR'S REPORT FOR 2006

Respective Responsibilities of Directors and Auditors
We have audited the annual financial statements of NORFUND as of 31 December 2006, showing a profit of NOK 17 732. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the financial statements. These financial statements and the Board of 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 on the 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 good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards 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 estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice 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.

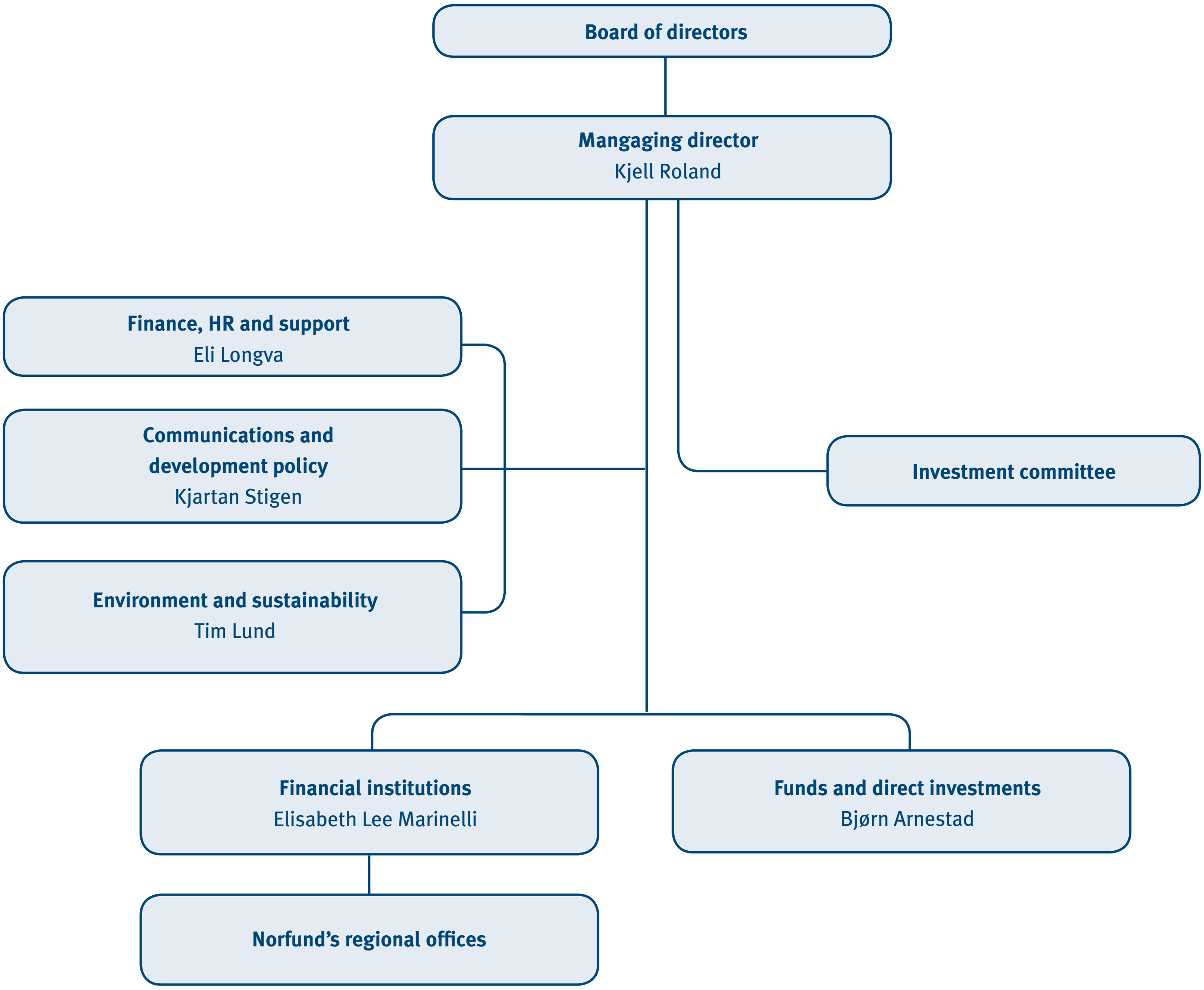
Opinion
In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Fund as of 31 December 2006, the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the Fund's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

Oslo, 30 March 2007
KPMG AS
Not to be signed
Tom Myhre
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only

Organisation chart



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Managing director

Eli Longva
Director, finance, HR, and support

Bjørn Arnestad
Director, funds and direct investments

Elizabeth Lee Marinelli
Director, financial institutions

Kjartan Stigen
Director, communications and development policy

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Norfund helps to reduce poverty by investing knowledge and risk capital in profitable enterprises in developing countries

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