Norfund

Norwegian Investment Fund for Developing Countries

# Annual report • 2007

# Annual report 2007

## HIGHLIGHTS

A high level of activity was maintained in 2007. An extensive strategy process was pursued during the year. Partly in order to boost efforts to fight poverty, it was resolved to concentrate investment even more strongly on specific geographical areas. Excluding SN Power, 34 per cent of placements in 2007 were located in the least developed countries (LDCs). Norfund made 16 new investments, the highest figure for a single year since it was founded. Almost NOK 1.5 billion was devoted to investment. Norfund sold out of three projects, and one loan was repaid. Net profit for 2007 was NOK 201.6 million.

## ANNUAL ACCOUNTS

Norfund had a net profit of NOK 201.6 million for 2007, compared with NOK 17.7 million the year before. This increase reflects a NOK 99.6 million improvement in profit at SN Power, a NOK 9.1 million rise in operating revenues, a reduction of NOK 43.9 million in write-downs and NOK 17.6 million in higher interest income. In accordance with the instruction governing its operations, this profit has been transferred to Norfund's surplus fund. Operating income totalled NOK 85.2 million (2006: NOK 76.1 million).

Interest income amounted to NOK 71.9 million (2006: NOK 54.3 million), and derived from the fund's liquidity reserve deposited with the Bank of Norway and other Norwegian banks. The average interest rate on deposits rose from 2.7 per cent in 2006 to 4.1 per cent. Norfund's investments have been valued at the exchange rates prevailing on 31 December 2007.

NOK 58.1 million of total operating income derived from investment activities. The portfolio of loans taken over by Norfund from the Norwegian Agency for Development Cooperation (Norad) in 2001 contributed NOK 27.1 million (2006: NOK 40.6 million) to the total. The decline reflects a reduction in outstanding loans. This portfolio comprises loans to companies with Norwegian ownership in developing countries. Changes in exchange rates, particularly for the US dollar, had a negative effect of NOK 64 million on results.

Norfund sold out of three projects during 2007, incurring an overall loss of NOK 24.7 million on the amount invested. Norfund recovered NOK 29.4 million from the investment in Fjord Marine Turkey, which had been written down to NOK 20 million.

Operating expenses totalled NOK 99.7 million, including NOK 14.3 million in write-downs of investment projects and a downward currency adjustment of NOK 20.4 million on loans.

NOK 94.4 million was paid out in loans for investment (2006: NOK 74 million) and NOK 1 397.5 in equity investments (2006: NOK 411.4 million). A total of NOK 1 200 million was disbursed to SN Power. Receipts included NOK 51.8 million in instalments on loans (2006: NOK 77.3 million) and NOK 35.4 million in repayments of equity capital (2006: NOK 7.7 million).

Norfund had a capital base of NOK 4 billion at 31 December (2006: NOK 3.4 billion). The capital base is defined as equity capital plus the value of the loan portfolio acquired from Norad. The board is of the opinion that the annual accounts at 31 December 2007 provide a true and fair presentation of the institution'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 for ensuring that developing countries can exploit their advantages and become optimally integrated in the world economy. As a development investor, Norfund has a substantial risk exposure and its investments are long-term with an eight- to 10-year time frame. Return and development effects must therefore be measured over a corresponding period.

At 31 December 2007, Norfund had committed NOK 3.6 billion in investments with companies and investment funds, including joint ventures. Norfund's investments are primarily located in the poorest countries of Africa, Asia and Latin America, and are spread over four business areas: renewable energy, financial institutions, investment funds and direct investment.

### Auditor-General's review

The Office of the Auditor-General published a report in 2007 on Norfund's operations. This document provided the board with useful feedback about the business, not least in connection with the preparation of a new strategy. In that respect, the board has given weight to a stronger geographical concentration of the business which gives clearer expression to the priority given to the LDCs and Africa by the Storting (parliament). Changes have been made when preparing the profit and loss account for 2007 to provide a better reflection of the institution's activities.

### Renewable energy

Statkraft Norfund Power Invest (SN Power) is owned jointly by Norfund and Statkraft. This company invests in hydropower schemes in a number of developing countries, and pursued projects during 2007 in Nepal, India, Sri Lanka, the Philippines, Peru and Chile. Generating capacity in operation and under construction totalled almost 1 000 megawatts (MW). Further projects corresponding to 1 500 MW are under consideration.

SN Power invested in the Philippines, Chile and Peru during 2007. In the first of these countries, the acquisition of the 350 MW Magat station was completed and financed. The company also acquired the Binga and Ambuklao facilities, representing a combined 175 MW. Closure of the last of these transactions in 2008 means that rehabilitation work can be initiated.

Construction work was launched by SN Power on the 158 MW La Confluencia station in Chile, close to the on-going La Higuera development. It also acquired the Electroandes power utility in Peru, which owns and operates four small hydropower stations totalling 180 MW and has the rights to develop a number of new projects.

Norfund contributed NOK 1 200 million to these investments in 2007, and has resolved to inject a further NOK 100 million in 2008 to finance the Binga and Ambuklao stations. SN Power is growing substantially, and the increased investment activity is expected to persist during 2008.

In 2007, Norfund resolved to invest in the 13 MW Bugoye hydropower station in Uganda together with TrønderEnergi. Totalling USD 7 million, this represents the institution's first energy investment in Africa.

### Direct investment

Norfund's department for direct investment is responsible for loan and equity commitments in individual companies outside the energy and financial sectors.

Work was pursued during 2007 to find good solutions to the sale of three investments in the portfolio. Norfund sold out of two fisheries projects, and is selling out of a third. These sales were made partly because the geographical location of the companies did not fit with Norfund's new strategy and partly because other owners were better suited for continuing the development of these enterprises.

Two new loans totalling USD 2.1 million were made to two existing portfolio companies – Telecom Equity Partner in Namibia and Nicafish in Nicaragua. A guarantee was also provided.

The department now has a collective portfolio of NOK 280.5 million, or 7.4 per cent of the commitment investments.

### Funds and financial institutions

Norfund concluded agreements in 2007 on seven new fund investments totalling about NOK 270 million. These break down into three in Africa, three in Latin America and one in TCX, a global local currency fund. The biggest of these commitments were USD 10 million for TCX and USD 15 million for Aureos Latin America Fund.

Two small engagements remain with management companies Angola Capital Partners and Nicaragua's Lafise Investment Management. Norfund has a 36.75 per cent holding in Aureos Capital Ltd. Reducing this stake during 2008 is under discussion. Aureos had roughly NOK 4 billion under management at 31 December, divided between 20 local and regional equity funds in Africa, Central America, and south and south-east Asia. Two new funds were fully financed by Aureos in 2007, one in central Asia and the other in Latin America. Norfund participates only in the latter.

Investments by Norfund in financial institutions include commercial banks, leasing companies and microfinance institutions. Four new investments totalling NOK 108 million were agreed in 2007. These covered two microfinance institutions in Asia – Brac NGO in Bangladesh and Hattha Katsekar in Cambodia – and two African commercial banks – Uganda's DFCU and Exim Bank in Tanzania. The loan to the UML microfinance company in Uganda was repaid in 2007.

The investment in financial institutions totalled NOK 267 million at 31 December. At the same date, the portfolio of loans to companies in developing countries acquired from Norad in 2001 comprised 18 commitments with an estimated value of roughly NOK 45 million.

### Other activities

The Information Office for Private Sector Development in Developing Countries opened in 2007. This collaboration between Norfund and Norad is intended to provide Norwegian companies with simpler access to advice and guidance on financial support and financing activities in poor countries. The office is managed by Norfund and located physically at Norad. It received 280 enquiries in 2007, which demonstrates that demand for this type of advice is relatively high.

Norfund maintained its tender guarantee scheme for the LDCs in 2007, and had 35 guarantees outstanding at 31 December with a total exposure of NOK 2 million.

Work directed at the western Balkans continued during 2007 at Norfund, which received NOK 7.5 million from the Norwegian Ministry of Foreign Affairs for further investment and professional support aimed at this region. EUR 0.8 million of this money was invested in a small enterprise fund in Macedonia.

## DEVELOPMENT EFFECTS

Achieving the maximum development effect from its investments is important for Norfund as an instrument of development policy and as a development investor. This means that the institution will invest where the money is most needed and yields the best possible return in both financial and development terms. Norfund considers it important to invest as much as possible in the LDCs. This proportion came to 47 per cent in 2007 when SN Power is excluded.

A key target is to reach small and medium-sized enterprises (SMEs) in developing countries, because these companies are short of capital while being important for achieving economic growth and creating jobs. Great weight is also given to investing in financial institutions, renewable energy, new environmental technology and microfinance because these sectors are crucial for a country's development. When making investments, heavy emphasis is placed on satisfying international standards for environmental protection, health and safety and human rights, and on the fight against corruption. These considerations affect not least long-term value creation by companies and their ability to compete internationally.

Norfund seeks to assess all its projects regularly in relation to key parameters such as the number of jobs, tax revenues for the host country, contribution to developing the market, training and technology transfer, quality of corporate governance – including efforts to combat corruption – the proportion of women employed, and social and environmental standards. The institution began work in the autumn of 2007 on a report to provide better information on the development effects and results of its activities. This report will be published in 2008, in part as a response to the comment from the Auditor-General that Norfund was not providing sufficient details in this area.

Investments by Norfund help to create and maintain employment. Some 150 000 people currently work in companies it has financed, including about 65 000 in enterprises which have received direct investment and roughly 85 000 in companies financed by funds in which Norfund has invested. In addition, a large number of jobs are provided in companies funded by financial institutions supported by Norfund. Positive spin-offs and further jobs also arise because sub-contractors and other industries benefit from increased investment in an 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.

Norfund places great emphasis on taking environmental and social considerations into account. It does this by observing international standards, such as International Finance Corporation guidelines and the International Labour Organisation's core conventions, in contracts for all new investment. Companies and funds must submit annual reports on their commitment to and performance in these areas. Norfund collaborates with international sister organisations to ensure a coordinated approach to environmental standards in projects and to contribute effectively to improvements both in the investment companies and at fund managers.

## THE ENVIRONMENT IN NORFUND'S OPERATIONS

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 are calculated on an annual basis.

## 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 against corruption. These issues represent key problems in Norfund's work, and the institution has accordingly adopted principles for corporate governance.

Fighting corruption and fraud is crucial to Norfund's mandate of reducing poverty through profitable and sustainable investment in the private sector. Corruption and fraud reduce the pace of capital formation in a country and undermine social and economic progress. The countries with the highest priority in Norwegian development cooperation and at Norfund are also those with the weakest governance and greatest vulnerability to corruption. The latter accordingly poses a developmental, reputational and financial risk for Norfund.

The board adopted a policy on business ethics in 2007 which clarifies Norfund's zero tolerance of corruption and fraud, and provides guidelines for its work in this area. Detailed investigations will be conducted before an investment is made, while clear requirements are set for partners and for business standards in the companies. In Norfund's markets, however, it will nevertheless be the case that – no matter how thorough the preparatory work and regardless of how good the regulations are – the institution will experience irregularities. Such cases will always be pursued by Norfund and efforts made to avoid repetition.

## HUMAN RESOURCES

Eight new permanent employees joined Norfund in 2007, and four people left. The institution made active efforts to recruit qualified personnel to ensure that the organisation has the expertise it needs.

Norfund had 35 employees at 31 December. The number of work-years during 2007 was 37.2. Eight people with a non-Norwegian background are employed by the institution, including four from developing countries. Four staff were employed at the regional offices in Vietnam, Kenya, Costa Rica and South Africa at 31 December. Consultancy services amounting to 1.2 work-years were hired during 2007. For the first time, Norfund employed a trainee through the Norwegian Employment and Welfare Service (NAV) for three months during 2007. This scheme may be repeated.

A follow-up to the working environment survey was conducted in 2007, and the organisation is being further developed. Many new employees with backgrounds from the private and public sectors provide a good basis for coming years. Norfund works continuously to enhance its overall expertise.

Sickness absence in 2007 was 4.2 per cent of total working hours, corresponding to 372 days, compared with 9.7 per cent the year before. The total number of days worked in 2007 came to 8 849. One person also spent 47 days in rehabilitation. No personal injuries nor damage to Norfund's material assets were suffered.

## GENDER EQUALITY

Ensuring equal opportunities for both genders represent an important guideline for Norfund's human resources policy. Goals for Norfund's investment also include creating more jobs for women and ensuring equal rights in the companies in which the institution invests. This is particularly relevant in microfinance and small-enterprise financing.

The Norfund management team comprised one women and three men at 31 December. Females accounted for 36.8 per cent of the institution's workforce. Two of the eight 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.

In addition to pursuing a very resource-intensive strategy process and tackling challenges related to human resources, Norfund was also very active on the investment front during 2007. Sixteen new investments were made, more than in any previous year. Norfund will continue its commitment to working environment improvements and organisational development in 2008.

## 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 decision is taken
- institute risk-reducing measures
- handle the opportunities and risks encountered during the life of the investment.

### 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, where the goal is to identify good projects through detailed analysis
- investment phase, with the main emphasis on achieving good investment terms
- ownership, where the goal is to achieve results and develop asset value through active ownership
- exit, normally after six to 10 years.

Norfund has systems for project management and other functions which 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.

### 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 expertise 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 has the NOK as its base currency, its return will be heavily influenced by the exchange rate between the NOK and the USD or other relevant currencies. On the other hand, Norfund's object means that there will be little need to convert funds back into NOK because they will be reinvested in foreign currencies. Similarly, the various investments are also exposed to fluctuations between local currencies and the USD.

Norfund has hedged the value of its invested portfolio in NOK. This has been done by hedging about 50 per cent of the value of USD investments through forward contracts. In December 2007, Norfund resolved to terminate this hedge by not rolling over the forward contracts which fell due on 11 January 2008. Terminating the currency hedge means that foreign exchange fluctuations will directly affect the value of Norfund's portfolio as presented in NOK from year to year, but the institution will save on currency hedging costs in the long term. This was one of the points noted by the Office of the Auditor-General, and terminating currency hedging is in line with the Auditor-General's comments.

### 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 could 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. As with 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 such as fraud, 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. Norfund has initiated measures to ensure that these risks are monitored systematically throughout the project cycle.

## WORK OF THE BOARD

The whole board began its term of office on 1 January 2007, and has given weight to becoming familiar with the business – in part through a broad strategy process. Thirteen board meetings were held in 2007, which is above the normal level and illustrates a high level of activity on the part of the board.

## GOING CONCERN

Since Norfund was created in 1997, it has exited from 17 projects representing an original investment of NOK 185 million, with an overall loss of NOK 79 million. These losses were incurred on some of the early projects in which Norfund invested and which failed for various reasons to be successful. 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 poor developing countries. Norfund's present portfolio embraces projects which contain substantial assets and where the institution can point to substantial development effects from its activities. The net profit of NOK 201.6 million for 2007 illustrates that. Invested capital currently provides jobs and incomes, and delivers valuable infrastructure such as renewable energy. The board confirms that the going concern assumption is realistic.

## PROSPECTS

Norfund has positioned itself as a central 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. Where renewable energy is concerned, the institution will maintain its commitment to SN Power. It is also working on projects in such areas as solar energy and biofuels.

Norfund has initiated and is working actively to realise the Norwegian microfinance initiative (NMI) as a unique collaboration by private and public sector players in Norway to secure funding for microfinance organisations. The concept for the MNI involves one or more investment funds and professional support to build expertise in selected microfinance institutions. Its total size could come close to NOK 600 million, with Norfund contributing about half the capital. Plans call for the NMI to become operational during 2008.

Direct investments will continue to be made by Norfund together with Norwegian, international and local businesses. Priority will be given to areas with a particular need to fight poverty.

Norfund cooperates with a number of sister institutions in other countries, particularly in Europe. This can help to reduce the level of risk in projects, while the organisations can jointly identify good solutions and thereby achieve positive results. A big potential is offered by the European countries joining forces to fight poverty.

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, 6 May 2008*

Kristin Clemet
Chair

| | | | |
|---|---|---|---|
| Karl-Christian Agerup<br>Deputy chair | Borghild Holen | Stein Tønnesson | Mari Skjærstad |

Kjell Roland
Managing director

# Profit and loss account

| (Figures in NOK 1 000) | Note | 2007 | 2006 |
|---|---|---|---|
| Interest income loans | 1,7 | 11 448 | 14913 |
| Realised gain on shares | 1,9 | 9 378 | 1 349 |
| Dividends received | 1 | 36 707 | 15 926 |
| Interest and instalments paid, loan portfolio | 1,6 | 27 086 | 40 576 |
| Other operating income | 1 | 570 | 3 346 |
| **Operating income** | | **85 189** | **76 111** |
| | | | |
| **Operating expenses** | | | |
| Payroll expenses | 2 | 32 613 | 32 708 |
| Depreciation tangible fixed assets | 4 | 793 | 467 |
| Currency regulation of project loans | | 20 418 | 15 608 |
| Write-down of investment projects | | 14 259 | 58 196 |
| Other operating expenses | 2,3,14 | 31 604 | 28 283 |
| **Total operating expenses** | | **99 687** | **135 261** |
| | | | |
| Operating loss | | (14 499) | (59 150) |
| | | | |
| Profit on investment in joint ventures | 5 | 110 377 | 10 796 |
| Other interest received | | 71 902 | 54 331 |
| Other financial income | 13 | 37 046 | 14 750 |
| Other financial expenses | 13 | 3 274 | 2 994 |
| **Net financial items** | | **216 051** | **76 883** |
| | | | |
| Net profit | | 201 552 | 17 732 |
| | | | |
| **Transfers** | | | |
| Transferred to surplus fund | 11 | 201 552 | 17 732 |
| Transferred from surplus fund | 11 | 0 | 0 |
| **Total allocations** | | **201 552** | **17 732** |

# Balance sheet

| (Figures in NOK 1 000) | Note | 2007 | 2006 |
|---|---|---|---|
| **Assets** | | | |
| | | | |
| **Fixed assets** | | | |
| **Tangible fixed assets** | | | |
| Operating equipment, fixtures, fittings, tools, etc | 4 | 1 870 | 1 154 |
| **Total tangible fixed assets** | | **1 870** | **1 154** |
| | | | |
| **Financial fixed assets** | | | |
| Investments in joint ventures | 5 | 2 044 829 | 801 691 |
| Loans to joint ventures | 6 | 0 | 9 383 |
| **Total financial fixed assets** | | **2 044 829** | **811 074** |
| | | | |
| **Total fixed assets** | | **2 046 699** | **812 228** |
| | | | |
| **Current assets** | | | |
| **Accounts receivable** | | | |
| Other accounts receivable | 6 | 22 420 | 12 338 |
| Loan portfolio | 6 | 0 | 0 |
| **Total accounts receivable** | | **22 420** | **12 338** |
| | | | |
| **Investments** | | | |
| Loans to investment projects | 1,7 | 205 695 | 177 505 |
| Equity investments | 1,8 | 567 407 | 414 521 |
| Other market-based financial instruments | 13 | 38 815 | 7 609 |
| **Total investments** | | **811 918** | **599 635** |
| | | | |
| **Bank deposits, cash in hand and cash equivalents** | | | |
| Bank deposits | 10 | 1 150 616 | 1 990 250 |
| **Total bank deposits, cash in hand and cash equivalents** | | **1 150 616** | **1 990 250** |
| | | | |
| **Total current assets** | | **1 984 955** | **2 602 223** |
| | | | |
| **Total assets** | | **4 031 654** | **3 414 451** |

# Balance sheet

| (Figures in NOK 1 000) | Note | 2007 | 2006 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| | | | |
| **Equity** | | | |
| **Called-up and fully-paid share capital** | | | |
| Primary capital | 11 | 2 550 000 | 2 208 750 |
| Reserve capital | 11 | 1 030 000 | 886 250 |
| **Total called-up and fully-paid share capital** | | **3 580 000** | **3 095 000** |
| | | | |
| **Retained earnings** | | | |
| Surplus fund | 11 | 338 675 | 203 978 |
| **Total retained earnings** | | **338 675** | **203 978** |
| | | | |
| **Total equity** | | **3 918 675** | **3 298 978** |
| | | | |
| **Liabilities** | | | |
| **Provisions** | | | |
| Pension commitments | 2 | 6 150 | 4 790 |
| **Total provisions** | | **6 150** | **4 790** |
| | | | |
| **Other long-term liabilities** | | **0** | **0** |
| **Current liabilities** | | | |
| Accounts payable | | 3 111 | 2 006 |
| Unpaid government charges and special taxes | | 2 454 | 2 433 |
| Unused funds | 12 | 16 284 | 18 104 |
| Other current liabilities | 15 | 84 980 | 88 139 |
| **Total current liabilities** | | **106 829** | **110 682** |
| | | | |
| **Total liabilities** | | **112 979** | **115 473** |
| | | | |
| **Total equity and liabilities** | | **4 031 654** | **3 414 451** |

*Oslo, 6 May 2008*

Kristin Clemet
Chair

Karl-Christian Agerup
Deputy chair

Borghild Holen

Stein Tønnesson

Mari Skjærstad

Kjell Roland
Managing director

# Cash flow statement

| (Figures in NOK 1 000) | Note | 2007 | 2006 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before tax | | 201 552 | 17 732 |
| Gain on sale of fixed assets | | 0 | 104 |
| Ordinary depreciation | 4 | 793 | 467 |
| Write-down of fixed assets | 4 | 0 | 0 |
| Write-down of investment projects | | 14 259 | 58 196 |
| Differences in pension costs and payments to/from pension funds | | 1 359 | 6 140 |
| Loss using equity and proportionate consolidation methods | 5 | (110 377) | (10 796) |
| Effect of exchange rate changes | | (6 906) | 3 586 |
| Changes in other accruals | | (43 323) | (5 956) |
| **Net cash flow from operational activities** | | **57 358** | **69 472** |
| | | | |
| **Cash flow from investment activities** | | | |
| Investments in tangible fixed assets | 4 | (1 510) | (204) |
| Proceeds from sale of shares/interests in other enterprises | | 35 405 | 7 727 |
| Repaid proceeds from shares/interests recorded at cost price | | 21 027 | 37 481 |
| Acquisition of shares/interests in other enterprises | | (1 397 511) | (411 409) |
| Loans for investment | | (94 443) | (73 960) |
| Repayment of investment loans | | 51 831 | 77 329 |
| Proceeds from sale of other investments | | 4 646 | (10 229) |
| **Net cash flow from investment activities** | | **(1 380 555)** | **(373 264)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Proceeds from new short-term loans | 12 | 15 500 | 9 000 |
| Repayment of long-term loans | | 0 | 0 |
| Repayment of short-term loans | 12 | (16 938) | (10 853) |
| Increase in/repayment of equity | 11 | 485 000 | 495 000 |
| **Net cash flow from financing activities** | | **483 562** | **493 147** |
| | | | |
| **Changes in exchange rates, cash and cash equivalents** | | | |
| Net change in cash and cash equivalents | | (839 634) | 189 356 |
| Bank deposits, cash in hand and cash equivalents at 1 Jan | | 1 990 250 | 1 800 895 |
| **Bank deposits, cash in hand and cash equivalents at 31 Dec** | **10** | **1 150 616** | **1 990 250** |

# 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 board of directors and the executive management of the institution, must be read in conjunction with the directors' 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 2007. 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. The division into segments is based on the institution's internal management and reporting requirements as well as on risk and earnings. 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 in which the sale takes place. Gains from funds are recorded as dividend. 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 is recorded as income on the basis of the written-down value. Interest recorded but 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.

## JOINT VENTURES

Joint ventures are activities controlled jointly by Norfund and one or more other companies, and are recorded in the accounts in accordance with the equity method. The institution's share of income from 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. The investment in Statkraft Norfund Power Invest AS is recorded as a joint venture in accordance with generally accepted accounting practice. Where final figures are unavailable, estimates are used for the expected result.

## 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 to 10 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 fall in value regarded as permanent (individually assessed loss provision). No group-assessed provision is made for losses. See also the section below relating to the treatment of currency items.

When investments are realised wholly or in part, the gain/loss is calculated on the basis of the historical cost in NOK. This makes realisations a function of changes in exchange rates and the change in the value of the investment expressed in currency terms.

Committed investments mean that an external obligation exists to pay the specified amount.

Norfund often utilises various instruments – such as options, conversion options and so forth – in investment agreements to reduce risk. These are taken into account when valuing 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 amortised cost in accordance with a straight-line allocation method.

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. This accords with Proposition no 1 to the Storting (2000-2001). Receipts 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 on loans are recorded as operating income/other operating expenses respectively. Unrealised gains/losses on other monetary items are recorded as financial income/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

Liquid assets consist of bank deposits.

### 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.

### GOVERNMENT GRANTS

Norfund receives government grants which are treated in accordance with Norwegian Accounting Standard (NRS) 4. In Norfund's view, net recording of government grants received by the institution provides the best picture in the accounts.

### CLOSE ASSOCIATES

Norfund defines Statkraft Norfund Power Invest AS as a close associate.

### 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 in hand, 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 institution has pension plans which entitle employees to defined future benefits, known as defined benefit plans. The liability is calculated on a straight-line earnings basis, taking into account assumptions regarding the number of years of employment, discount rate, future return on plan assets, future changes in pay, pensions and the size of National Insurance benefits, 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 a provision, while net pension assets in overfunded schemes are included as long-term interest-free receivables if it is likely that the overfunding can be utilised. Provision for payroll taxes is made on net plan assets.

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. Payroll taxes are calculated on contributions paid to the pension plans.

# Notes

## NOTE 1 SEGMENT INFORMATION

**Segment information by business area:**
The table below presents an overview of the results achieved by Norfund's investment departments, the loan portfolio acquired from Norad (see note 6), shared functions and other activities. The costs of shared functions have largely been allocated in accordance with the number of employees in each area, and are recorded as part of other operating expenses.

| (Figures in NOK 1 000) | 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | NORFUND TOTAL | Funds and financial institutions | Direct investments | Renewable energy | Shared functions | Other activities | Loan portfolio* |
| **Operating income** | | | | | | | |
| Interest | 13 941 | 5 047 | 6 303 | 98 | 0 | 0 | 2 493 |
| Realised gains | 9 378 | (46) | 9 425 | 0 | 0 | 0 | 0 |
| Dividends received | 36 707 | 36 707 | 0 | 0 | 0 | 0 | 0 |
| Other project revenues | 25 162 | 495 | 75 | 0 | 0 | 0 | 24 592 |
| **Total operating income** | **85 189** | **42 202** | **15 803** | **98** | **0** | **0** | **27 086** |
| | | | | | | | |
| **Operating expenses** | | | | | | | |
| Payroll expenses | (32 613) | (7 193) | (8 504) | (2 537) | (12 827) | (697) | (855) |
| Depreciation of tangible fixed assets | (793) | 0 | 0 | 0 | (793) | 0 | 0 |
| Loss on sale of operating assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Provision for/(reversal of) loss on projects | (34 677) | (19 693) | (14 983) | 0 | 0 | 0 | 0 |
| Other operating expenses | (31 604) | (4 711) | (4 222) | (1 029) | (20 438) | (714) | (490) |
| Allocation of shared expenses | 0 | (13 906) | (13 033) | (2 478) | 34 059 | (2 890) | (1 752) |
| **Total operating expenses** | **(99 687)** | **(45 503)** | **(40 743)** | **(6 044)** | **0** | **(4 301)** | **(3 097)** |
| | | | | | | | |
| **Profit/(loss) from operations** | **(14 498)** | **(3 300)** | **(24 939)** | **(5 946)** | **0** | **(4 301)** | **23 989** |
| | | | | | | | |
| **Result of investment in joint ventures** | **110 377** | **0** | **0** | **110 377** | **0** | **0** | **0** |
| | | | | | | | |
| **Net financial items** | **105 730** | **20 644** | **3 651** | **34** | **81 403** | **(3)** | **(55)** |
| | | | | | | | |
| **Total profit/(loss)** | **201 552** | **17 344** | **(21 289)** | **104 465** | **81 403** | **(4 303)** | **23 933** |

* Income is directly attributable. Expenses are partly directly attributable and partly shared costs allocated in accordance with a distribution formula based on the number of people employed. Norfund did not have the same departmental structure in 2006, and expenses have been allocated in accordance with actual departmental costs and estimated distributions. Other activities include the Information Office for Private Sector Development in Developing Countries and the tender guarantee scheme.

**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 | 231 665 | 220 978 | 110 889 | 30 359 | 55 379 | (81 862) | 567 408 |
| Loans to investments | 82 612 | 99 069 | 45 287 | 0 | 0 | (21 273) | 205 695 |
| **Total balance sheet** | **314 277** | **320 047** | **156 176** | **30 359** | **55 379** | **(103 134)** | **773 103** |
| | | | | | | | |
| Interest income loans | 3 762 | 4 772 | 3 516 | (603) | 0 | | 11 448 |
| Realised gain on shares | (46) | 0 | 0 | 9 425 | 0 | | 9 378 |
| Dividends received | 15 477 | 13 546 | 95 | 7 589 | 0 | | 36 707 |
| Directors' fees received | 142 | 0 | 0 | 0 | 0 | | 142 |
| Fees | 63 | 154 | 20 | 0 | 191 | | 428 |
| Instalments paid on loan portfolio | 5 786 | 15 307 | 3 500 | 0 | 0 | | 24 592 |
| Interest paid on loan portfolio | 687 | 1 806 | 0 | 0 | 0 | | 2 493 |
| **Total operating income** | **25 870** | **35 585** | **7 131** | **16 411** | **191** | | **85 189** |

| 2006 | | | | | | |
|---|---|---|---|---|---|---|
| NORFUND TOTAL | FUNDS AND FINANCIAL INSTITUTIONS | DIRECT INVESTMENTS | RENEWABLE ENERGY | SHARED FUNCTIONS | OTHER ACTIVITIES | LOAN PORTFOLIO* |
| | | | | | | |
| 14 913 | 4 552 | 10 209 | 152 | 0 | 0 | 0 |
| 1 349 | 1 349 | 0 | 0 | 0 | 0 | 0 |
| 15 926 | 15 464 | 0 | 0 | 0 | 0 | 0 |
| 43 922 | 1 741 | 1 600 | 0 | 5 | 0 | 40 576 |
| **76 111** | **23 568** | **11 809** | **152** | **5** | **0** | **40 576** |
| | | | | | | |
| (32 708) | (7 108) | (8 007) | (1 540) | (13 859) | (308) | (1 887) |
| (467) | 0 | 0 | 0 | (440) | 0 | (27) |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| (73 804) | (30 797) | (43 007) | 0 | 0 | 0 | 0 |
| (28 283) | (2 608) | (3 075) | (316) | (19 444) | (1 987) | (854) |
| 0 | (16 205) | (14 346) | (2 813) | 33 742 | (378) | 0 |
| **(135 261)** | **(56 717)** | **(68 435)** | **(4 669)** | **0** | **(2 673)** | **(2 768)** |
| | | | | | | |
| (59 150) | (33 149) | (56 626) | (4 517) | 5 | (2 673) | 37 808 |
| | | | | | | |
| 10 796 | 46 | 0 | 10 750 | 0 | 0 | 0 |
| | | | | | | |
| 66 087 | 23 263 | 2 324 | 14 939 | 25 562 | 0 | 0 |
| | | | | | | |
| 17 732 | (9 840) | (54 302) | 21 172 | 25 567 | (2 673) | 37 808 |

# NOTE 2 PAYROLL EXPENSES

### Pay and other payroll expenses

| (Figures in NOK 1 000) | 2007 | 2006 |
|---|---|---|
| Pay | 21 950 | 18 853 |
| Directors' fees | 520 | 525 |
| Payroll taxes | 3 105 | 2 741 |
| Personnel insurance | 404 | 366 |
| Pension expenses | 5 653 | 9 798 |
| Other benefits | 1 758 | 596 |
| Payroll expenses refunded | (776) | (171) |
| **Total pay and other payroll expenses** | **32 613** | **32 708** |

### Remuneration of senior personnel

| (Figures in NOK 1 000) | Managing director | Chair | Directors |
|---|---|---|---|
| Pay/fees | 1 452 727 | 120 000 | 400 000 |
| Pension contributions | 581 698 | 0 | 0 |
| Other remuneration | 129 215 | 0 | 0 |
| **Total** | **2 163 640** | **120 000** | **400 000** |

The managing director received NOK 2 163 640 in remuneration for the period from 1 January to 31 December, including NOK 1 452 727 in salary, NOK 581 698 in pension contribution and NOK 129 215 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 2007. The deputy chair received a fee of NOK 90 000. Other directors received fees of NOK 75 000 each for 2007, while the alternate directors received NOK 45 000 each.

No share or option schemes are operated by the company for its employees, and no plans exist for such arrangements.

NOK 1 106 476 was recorded for fees to the auditor in 2007, of which NOK 904 615 related to legally-required auditing, NOK 0 to other attestation services, and NOK 201 861 to other non-auditing services. No fees were paid to the auditor for tax advice. All figures include VAT.

#### EMPLOYEES
The institution had 35 employees at 31 December 2007. Work-years totalled 37.2.

#### PENSIONS
Pursuant to the Norwegian Act on Mandatory Occupational Pensions, Norfund is required to have an occupational pension scheme. The institution has a pension plan 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 the size of National Insurance benefits. The full pension entitlement is based on 30 pension-earning years and amounts to 70 per cent of pay up to 12 times the National Insurance base rate (G).

Norfund terminated its pension plan for senior personnel. Members of the scheme received paid-up policies. This plan was based on 30 pension-earning years and provided a pension of 70 per cent of pay above 12 G from a retirement age of 65.

A general scheme introduced by Norfund entitles employees to pension rights for pay above 12 G. Funded from operations, this provides a pension of 66 per cent of pay above 12 G and applies a retirement age of 67 per cent in the calculation base. Employees who resign or reach retirement age receive a settlement for the value of the amount saved. The scheme is managed by Nordea Liv, and its cost is included in the calculation of pension expenses.

The managing director and one other employee have a retirement age of 65.

Pension expenses, funds and 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 recorded directly in the profit and loss account. At 31 December 2007, 35 people were covered by the scheme.

| Financial assumptions | 2007 | 2006 |
|---|---|---|
| Discount rate | 4.50% | 4.8% |
| Expected return on pension funds | 5.50% | 5.4% |
| Pay regulation | 4.50% | 4.5% |
| Pension regulation | 4.25% | 4.3% |
| Adjustment to NI base rate (G) | 4.25% | 4.3% |
| Turnover | 9.00% | 9.0% |
| Expected early retirement at age 62 (AFP) | 0.00% | 0.0% |
| Payroll tax | 14.1% | 14.1% |

| | 2007 | 2006 |
|---|---|---|
| Net present value of pension earned in the period | 4 525 | 3 909 |
| Capital cost of previously earned pensions | 953 | 1 183 |
| Expected return on pension funds | (919) | (1 179) |
| Administrative costs | 124 | 166 |
| Recorded variances in estimates | 311 | 5 144 |
| Accrued payroll tax [1] | 660 | 575 |
| **Net pension expense for the year, incl payroll tax** | **5 653** | **9 798** |

[1] *Payroll tax is calculated on the paid-in amount.*

| Calculated pension liabilities | Funded | Non-funded | 2007 | 2006 |
|---|---|---|---|---|
| Estimated pension liabilities | 23 122 | 3 270 | 26 392 | 29 844 |
| Estimated pension funds | 21 002 | 0 | 21 002 | 25 646 |
| **Net pension liabilities 31 Dec** | **2 120** | **3 270** | **5 390** | **4 198** |
| Unrecorded variances in estimates | 0 | 0 | 0 | 0 |
| Accrued payroll tax [1] | 299 | 461 | 760 | 592 |
| **Net pension liabilities 31 Dec** | **2 419** | **3 731** | **6 150** | **4 790** |

[1] *Accrued payroll tax is calculated on the net pension liability.*

| Reconciliation opening/closing balance | 2007 | 2006 |
|---|---|---|
| Capitalised net pension liabilities 1 Jan incl payroll tax | 4 790 | (1 350) |
| Net pension expense for the year incl payroll tax | 5 653 | 9 798 |
| Pensions paid, early retirement/unfunded, incl payroll tax | 0 | 0 |
| Pensions paid, early retirement/unfunded, incl payroll tax | (4 294) | (3 658) |
| **Capitalised net pension commitment 31 Dec incl payroll tax** | **6 150** | **4 790** |

| Nordea Liv's asset mix* | 30 Sep 07 |
|---|---|
| Property | 19% |
| Shares | 19% |
| Current bonds/certificates | 19% |
| Long-term bonds | 36% |
| Other current financial assets | 3% |
| Other assets | 4% |
| **Total financial assets** | **100%** |

** Known values at calculation date.*

The actual return on pension assets for 2007 was not clarified before May 2008. The variance between expected and actual return in 2006 was NOK 17 000.

## NOTE 3 OTHER OPERATING COSTS

| (Figures in NOK 1 000) | 2007 | 2006 |
|---|---|---|
| Seminars/conferences/expertise enhancement | 557 | 938 |
| Travel expenses | 3 694 | 3 588 |
| External assistance | 17 549 | 13 206 |
| Costs, tender guarantee scheme | 229 | 1 987 |
| Rent, incl shared costs | 3 178 | 2 672 |
| Advertising/printing | 1 183 | 1 118 |
| Other costs | 5 214 | 4 773 |
| **Total operating costs** | **31 604** | **28 283** |

## 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 | 5 115 | 273 | 125 | 67 | 5 580 |
| + acquisitions during the period | 871 | 73 | 566 | | 1 510 |
| - disposals during the period | | | | | 0 |
| **Cost price at 31 Dec** | **5 987** | **346** | **691** | **67** | **7 090** |
| | | | | | |
| Accumulated ordinary depreciation at 1 Jan | 4 070 | 171 | 5 | 0 | 4 246 |
| + ordinary depreciation for the period | 647 | 50 | 95 | | 793 |
| - accum ordinary depreciation, operating assets sold | | | | | 0 |
| Accumulated ordinary depreciation at 31 Dec | 4 717 | 222 | 100 | 0 | 5 039 |
| 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** | **1 089** | **124** | **591** | **67** | **1 870** |

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 INVESTMENT IN JOINT VENTURE

| (Figures in NOK 1 000) | Statkraft Norfund Power Invest AS |
|---|---|
| **Formal information:** | |
| Date of acquisition | 27 Jun 02 |
| Registered office | Oslo |
| Shareholding | 50% |
| Voting share | 50% |
| | *(Joint venture)* |
| **Information relating to the date of acquisition:** | |
| Acquisition cost | 2 052 500 |
| | |
| **Information relating to figures for the year:** | |
| Opening balance at 1 Jan 07 | 801 313 |
| Capital received in 2007 | 1 199 993 |
| Sold in 2007 | |
| Deducted non-amortised excess value | 0 |
| Deducted non-amortised goodwill | 0 |
| Capital repaid during the year | |
| Share of annual profit/(loss)[1] | 110 377 |
| Netting of previous year's result | 0 |
| Other changes during the year, exchange rate adjustment, etc [2] | (66 855) |
| **Closing balance, 31 Dec 07** | **2 044 829** |

[1] *Share of annual result is based on final figures from the venture.*

[2] *This amount relates in its entirety to Norfund's share of adjustments recorded directly against equity in SN Power.*

Aureos Capital Ltd has been reclassified from an associated company in 2006 to management companies under ordinary current assets. See note 8.

### COMMITTED INVESTMENTS IN JOINT VENTURE

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 2007, while the interests in THPC remain to be transferred. The effect on results and assets from HPL have been consolidated in SN Power's accounts and are included in the accounting figures for Norfund. The share from THPC is not included in the figures consolidated by Norfund from SN Power's business in 2006 and 2007.

## KEY FIGURES FROM SN POWER'S CONSOLIDATED ACCOUNTS

Key figures from SN Power's consolidated accounts are presented below. In addition, Norfund's accounts are presented as they would have looked if consolidated in accordance with the proportionate consolidation method, given that SN Power represents a large part of Norfund's business.

| Profit and loss account | SN Power group | | Norfund consolidated with SN Power (proportionate consolidation[1]) | |
|---|---|---|---|---|
| (Figures in NOK 1 000) | 2007 | 2006 | 2007 | 2006 |
| Operating income | 464 924 | 328 204 | 317 651 | 240 213 |
| Operating expenses | 303 802 | 252 465 | 251 588 | 261 494 |
| **Operating profit/(loss)** | **161 122** | **75 739** | **66 062** | **(21 281)** |
| Net financial items | 143 873 | (3 098) | 177 611 | 64 584 |
| Ordinary profit before tax | 304 995 | 72 641 | 243 673 | 43 303 |
| Tax on ordinary profit | (24 502) | (8 738) | (12 251) | (4 369) |
| Ordinary profit | 280 493 | 63 903 | 231 422 | 38 934 |
| Net profit | 280 493 | 63 903 | 231 422 | 38 934 |
| Share minority SN Power Invest AS | 59 739 | 42 403 | 29 870 | 21 202 |
| Share majority SN Power Invest AS | 220 754 | 21 500 | | 10 750 |
| Share Norfund | | | 201 552 | 17 732 |

**Balance sheet**

| Assets | 2007 | 2006 | 2007 | 2006 |
|---|---|---|---|---|
| Intangible fixed assets | 34 278 | 41 989 | 17 139 | 20 995 |
| Tangible fixed assets | 3 086 319 | 1 038 870 | 1 545 030 | 520 589 |
| Financial fixed assets | 1 601 501 | 657 722 | 800 751 | 338 244 |
| **Total fixed assets** | **4 722 098** | **1 738 581** | **2 362 919** | **879 827** |
| Goods | 5 187 | 5 119 | 2 594 | 2 560 |
| Receivables | 202 209 | 108 599 | 123 525 | 66 638 |
| Investments | 0 | 3 570 | 811 918 | 601 420 |
| Cash and cash equivalents | 728 301 | 756 281 | 1 514 767 | 2 368 391 |
| **Total current assets** | **935 697** | **873 569** | **2 452 803** | **3 039 008** |
| Total assets | 5 657 795 | 2 612 150 | 4 815 722 | 3 918 835 |

| Equity and liabilities | 2007 | 2006 | 2007 | 2006 |
|---|---|---|---|---|
| Called-up and fully-paid share capital | 4 105 000 | 1 705 015 | 3 580 000 | 3 095 000 |
| Retained earnings | (15 343) | (102 370) | 338 675 | 203 609 |
| **Total equity** | **4 089 657** | **1 602 645** | **3 918 675** | **3 298 609** |
| | | | | |
| **Minority** | **240 910** | **249 897** | **120 455** | **124 949** |
| | | | | |
| Provisions | 140 435 | 84 243 | 76 367 | 46 914 |
| Other long-term liabilities | 907 711 | 521 341 | 453 856 | 260 671 |
| Current liabilities | 279 082 | 154 024 | 246 370 | 187 693 |
| **Total liabilities** | **1 327 228** | **759 608** | **776 593** | **495 278** |
| Total equity and liabilities | 5 657 795 | 2 612 150 | 4 815 722 | 3 918 835 |

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

SN Power made three major investments in 2007. Towards the end of 2006, the company acquired Magat in the Philippines in connection with the privatisation of this company, and the transaction was closed in 2007. Norfund injected NOK 450 million in SN Power in connection with this transaction. SN Power also initiated construction of La Confluencia in Chile. The agreement was finalised in 2007, and Norfund invested NOK 225 million in equity in SN Power in connection with this investment. SN Power also acquired Electroandes in 2007. This company owns four small power stations in Peru. The agreement was implemented in late 2007. Norfund invested NOK 525 million in connection with this purchase. In addition to these transactions, SN Power reached agreement on the acquisition of the Binga and Ambuklao power stations in the Philippines. This transaction will be closed in 2008, and Norfund has resolved to invest NOK 100 million in equity in connection with the investment.

With effect from fiscal 2007, SN Power converted to reporting in accordance with the International Financial Reporting Standards (IFRS). It will convert in fiscal 2008 from reporting in NOK as its functional currency to USD.

The annual accounts for the joint venture can be obtained from Norfund on request.

# NOTE 6 RECEIVABLES

The loan portfolio is recorded under receivables. It was acquired from Norad without cost and has therefore been entered with a book value of NOK 0 in the accounts. Pursuant to Proposition no 1 (2000-2001), which transferred the loan portfolio to Norfund without an authorisation decision, the portfolio was written down to zero in Norfund's accounts at the time of its transfer. Pursuant to the Accounting Act, receipts (interest and instalments) from this portfolio must accordingly be recorded as income in Norfund's accounts.

| (Figures in NOK 1 000) | Opening loan received 1 Jan 07 | Repayments received 1 Jan-31 Dec | Interest during 1 Jan-31 Dec | Depreciation reg during the year | Currency reg during the year | Closing loan balance 31 Dec 07 |
|---|---|---|---|---|---|---|
| **Total** | **108 729** | **24 592** | **2 493** | **(11 200)** | **0** | **72 937** |
| **Book value** | **0** | | | | | **0** |

One loan is recorded in USD, and the others are booked in NOK. Norfund has estimated the value of its loan portfolio at 31 December 2007 to be NOK 45.35 million.

| Total receipts loan portfolio | Instalments | Interest | Total |
|---|---|---|---|
| 2007 | 24 592 | 2 493 | 27 086 |
| 2006 | 36 192 | 4 384 | 40 576 |
| 2005 | 58 198 | 6 335 | 64 534 |
| 2004 | 36 986 | 6 156 | 43 142 |
| 2003 | 48 693 | 7 928 | 56 621 |
| 2002 | 43 325 | 10 886 | 54 211 |
| 2001 | 39 460 | 9 372 | 48 832 |
| **Total receipts** | **287 447** | **47 554** | **335 002** |

| | Other receivables | |
|---|---|---|
| Other receivables | 31 Dec 07 | 31 Dec 06 |
| Loan to joint venture | 0 | 9 383 |
| Other receivables | 22 420 | 12 338 |
| **Total receivables** | **22 420** | **21 721** |

Other receivables: All receivables fall due within a year

# 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 | 2 843 | 15 382 | 1 542 |
| Nepal | 1 | NOK | 900 | 900 | 98 |
| Tanzania | 1 | NOK | 3 300 | 3 300 | 282 |
| India | 1 | EUR | 56 | 446 | 0 |
| China | 2 | USD | 182 | 985 | (85) |
| China | 1 | CAD | 31 | 172 | 0 |
| China | 2 | NOK | 8 803 | 8 803 | 542 |
| Bangladesh | 1 | USD | 5 000 | 27 055 | 3 368 |
| Bangladesh | 1 | BDT | 684 700 | 55 296 | 723 |
| Regional | 5 | USD | 7 387 | 38 021 | 2 466 |
| Uganda | 1 | USD | 3 000 | 16 233 | 174 |
| Uganda | 1 | UGS | 1 694 880 | 5 322 | 0 |
| Kenya | 1 | USD | 414 | 2 241 | 304 |
| Cambodia | 1 | USD | 1 000 | 5 411 | 118 |
| Namibia | 1 | USD | 7 500 | 40 583 | 2 116 |
| Namibia | 1 | NOK | 7 550 | 7 550 | 394 |
| Accrued fees for granting loans | | | | (733) | |
| Interest from realised projects | | | | | (594) |
| **Total loans to companies** | | | | **226 968** | **11 448** |
| Provision for bad debts at 31 Dec 07 | | | | (21 273) | |
| **Book value loans/total interest received** | | | | **205 695** | **11 448** |
| **Committed investments in loans** | | | | | **275 067** |

[1]*Figures at 31 December 2007 and prior to any write-downs.*

In addition to the loans specified above, Norfund made a loan charged to the Balkan Trust Fund and recorded at NOK 0 in line with the requirement of NRS 4 for net recording of government grants received. See note 12.

# 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 | 3 778 | 2 726 |
| FEDHA Fund | USD | 11.5% | 1 500 | 463 | 9 421 | 3 812 |
| CAIF | USD | 4.0% | 1 000 | 727 | 7 416 | 5 938 |
| African Infrastructure Fund | USD | 1.2% | 5 000 | 512 | 27 508 | 3 224 |
| Indian Ocean II | USD | 16.9% | 3 000 | 1 237 | 20 304 | 10 766 |
| SEAF Trans-Balkan Fund | USD | 22.9% | 5 000 | 1 440 | 28 413 | 9 149 |
| CASEIF | USD | 31.8% | 5 000 | 1 646 | 29 546 | 11 397 |
| Siam Investment Fund II | USD | 8.7% | 5 000 | 2 373 | 30 005 | 15 793 |
| SEAF Sichuan SME Investment Fund | USD | 13.3% | 3 000 | 2 746 | 19 861 | 18 484 |
| Horizon Tech Ventures | ZAR | 18.1% | 26 000 | 3 917 | 21 952 | 4 332 |
| Aureos Central America Fund | USD | 27.6% | 10 000 | 5 610 | 58 146 | 34 391 |
| Aureos East Africa Fund | USD | 20.0% | 8 000 | 7 414 | 51 244 | 48 071 |
| Aureos West Africa Fund | USD | 26.0% | 15 425 | 10 895 | 92 060 | 67 548 |
| Aureos Southern Africa Fund | USD | 25.1% | 15 000 | 9 256 | 87 807 | 56 726 |
| Aureos South Asia Fund I [2] | USD | 50.0% | 5 000 | 3 333 | 30 266 | 21 243 |
| Aureos South East Asia Fund | USD | 28.6% | 20 000 | 9 484 | 114 640 | 57 739 |
| APIDC Biotech Fund | USD | 7.7% | 2 750 | 2 253 | 16 741 | 14 052 |
| Vietnam Equity Fund | EUR | 16.5% | 2 500 | 333 | 19 997 | 2 744 |
| China Environment Fund | USD | 10.0% | 3 000 | 1 293 | 17 363 | 8 125 |
| European financing partners | EUR | 8.3% | 5 025 | 29 | 40 000 | 224 |
| Aureos South Asia Fund (Holdings) | USD | 23.5% | 20 000 | 7 912 | 114 099 | 48 689 |
| Business Partners Madagascar SME Fund | EUR | 14.1% | 1 200 | 232 | 9 627 | 1 921 |
| Solidus Investment Fund | USD | 6.3% | 2 000 | 2 000 | 11 852 | 11 852 |
| Aureos Central America Growth Fund (EMERGE) | USD | 14.3% | 3 000 | 357 | 16 458 | 2 157 |
| CASEIF II | USD | 15.0% | 4 000 | 338 | 21 684 | 1 868 |
| Locfund | USD | 10.7% | 1 500 | 840 | 8 385 | 4 814 |
| The Currency Exchange | USD | 4.1% | 10 000 | 10 000 | 55 000 | 55 000 |
| I&P Capital | EUR | 16.7% | 5 000 | 68 | 39 787 | 519 |
| Horizon Equity Partners Fund III | ZAR | 9.9% | 50 000 | 903 | 39 912 | 737 |
| Africap Microfinance Investment Company | USD | 6.1% | 3 000 | 39 | 16 240 | 218 |
| Aureos Latin America Fund (ALAF) | USD | 14.2% | 15 000 | 276 | 81 219 | 1 546 |
| **Total invested in funds** | | | | | **1 140 730** | **525 806** |

Investments which have changed name are:
Aureos South Asia Interim Fund has changed its name to Aureos South Asia Fund I.
Aureos South Asia Fund II has changed its name to Aureos South Asia Fund (Holdings).
Aureos Central America Growth Fund has changed its name to Aureos Central America Growth Fund (Emerge).

A committed investment means that a legally binding agreement has been concluded to make it.

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 2007 is used for the unpaid component.

| Equity investments in management companies (Figures in 1 000) | Currency | Ownership | Historical cost price[1] (in currency) | Historical cost price[1] (in NOK) |
|---|---|---|---|---|
| AMSCO | EUR | 4.8% | 240 | 1 837 |
| Lafise Investment Management | USD | 20.0% | 2 | 17 |
| Aureos Capital Ltd | USD | 36.75% | 61 | 379 |
| **Total invested in management companies** | | | | **2 233** |

None of the investments in management companies involve any residual commitments.

Aureos Capital Ltd was reclassified during the year from a fixed asset to a current asset. The reclassification was based on the book value in accordance with the equity method. The original cost price of the holding was NOK 6.8 million.

[1] *Figures at 31 December 2007 and prior to any write-downs.*

[2] *AThe Aureos South Asia Fund I (previously the Aureos South Asia Interim Fund) was created by CDC and Norfund in anticipation of the Aureos South Asia Fund (Holdings) (previously the Aureos South Asia Fund II), 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.*

| Equity investments in companies (Figures in 1 000) | | Ownership | 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 | 5 693 | 5 684 |
| Pan Marine Quingdao | NOK | 49.0% | 18 490 | 18 490 | 18 490 | 18 490 |
| 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 |
| Uganda Microfinance Ltd. | USD | 24.0% | 637 | 637 | 4 034 | 4 031 |
| Afrinord Hotels Africa | EUR | 20.0% | 7 000 | 50 | 55 721 | 392 |
| Micro Africa Ltd II | USD | 15.3% | 250 | 250 | 1 558 | 1 558 |
| Banco Terra | USD | 20.0% | 1 400 | 1 481 | 7 705 | 8 141 |
| Tourism Promotion Services (Pakistan) Ltd | USD | 4.7% | 4 000 | 0 | 21 644 | 0 |
| **Total invested in companies** | | | | | **197 778** | **121 230** |
| Write-downs of investments at 31 Dec 07 | | | | | (81 862) | |
| **Book value of investments** | | | | | **567 407** | |

[1] *Figures at 31 December 2007 and prior to any write-downs.*

## NOTE 9 INVESTMENTS REALISED

(applies to projects which have been realised in their entirety)

| | Total | |
|---|---|---|
| (Figures in NOK 1 000) | 2007 | 2006 |
| Sales receipts | 35 405 | 7 727 |
| Cost price, paid-in capital | (64 063) | (9 204) |
| Earlier return recorded as income | 3 205 | 910 |
| Earlier repaid capital | 775 | 501 |
| **Net gain/(loss), investments sold** | **(24 678)** | **(65)** |
| Written down 31 Dec | 57 344 | 2 325 |
| Reversal of write-down before transaction date | 20 083 | 0 |
| Net gain/(loss) | 9 378 | 1 349 |

| Investments realised 2007 | Total paid-in capital |
|---|---|
| Genomar | 20 000 |
| Fjord Marine | 37 347 |
| Minco | 6 716 |

The loans made to Fjord Marine, Uganda Microfinance Ltd and Genomar were repaid in their entirety in 2007.
(Minco has been wound up in accounting terms, but has not been formally removed from the companies register.)

## NOTE 10 BANK DEPOSITS, CASH IN HAND AND CASH EQUIVALENTS

NOK 753 900 000 and NOK 738 839 000 were committed but unpaid at 31 December 2006 and 31 December 2007 respectively. Bank deposits include NOK 1 316 975 in the blocked tax withholding account. In addition, NOK 16 283 673 of the institution's liquid assets are tied up in unused funds. These assets can only be used in accordance with the guidelines established for the application of the unused funds. See note 13.

NOK 1 107 156 604 of the institution's total bank deposits are placed with the Bank of Norway.

## NOTE 11 CAPITAL MOVEMENTS

| (Figures in NOK 1 000) | Primary capital | Capital in legal reserves | Surplus fund | Total equity |
|---|---|---|---|---|
| Capital at 1 Jan 07 | 2 208 750 | 886 250 | 203 978 | 3 298 978 |
| Capital received in 2007 | 341 250 | 143 750 | | 485 000 |
| Equity adjustment JV recorded directly against equity (see note 5) | | | (66 855) | (66 855) |
| Net profit | | | 201 552 | 201 552 |
| **Capital at 31 Dec 07** | **2 550 000** | **1 030 000** | **338 675** | **3 918 675** |

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 3 580 million in capital from the Norwegian government, including NOK 485 million paid in during 2007. Of the total capital received, NOK 540 million is earmarked for investments in the least-developed countries (LDCs), NOK 640 million for investments in the energy sector, and NOK 10 million for loans to small projects in the LDCs.

## NOTE 12 UNUSED FUNDS (INVESTMENT-RELATED PROFESSIONAL ASSISTANCE)

Proposition no 1 to the Storting (2006-2007) appropriated funds for grant schemes to cover professional assistance in connection with Norfund's investment activities. These funds must be used during the budget year. Should they not be expended during the budget year, the ministry must be informed in writing. As specified in NRS 4, loans made are recorded net in the accounts. Norfund received NOK 8 million in investment-related technical assistance during 2007. These funds are intended to cover professional support to ensure a good and sustainable development effect from investments financed in Norfund's business areas. Such assistance includes measures which strengthen local expertise through advice and management development, and which ensure that projects help to 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. In addition, NOK 7.5 million was received to continue investment and technical assistance in the western Balkans. 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 11.1 million in costs was charged to the trust fund in 2007, and a loan of NOK 6 175 was made from the unused funds account. The outstanding funds amount to NOK 16.3 million. Outstanding funds are primarily earmarked for projects in the Balkans.

| | Unused funds Norfund | | Unused funds Balkan | |
|---|---|---|---|---|
| (Figures in NOK 1 000) | 31 Dec 07 | 31 Dec 06 | 31 Dec 07 | 31 Dec 06 |
| **Receipts** | | | | |
| Transferred from previous year | 4 827 | 5 664 | 13 277 | 14 292 |
| Received during the year | 8 000 | 9 000 | 7 500 | 0 |
| **Total receipts** | **12 827** | **14 664** | **20 777** | **14 292** |
| **Payments** | | | | |
| **General costs** | | | | |
| SME advice | (200) | (200) | 0 | 0 |
| Fund management | 0 | 0 | (409) | 0 |
| **Direct investment** | | | | |
| General follow-up | 0 | 0 | (616) | (1 001) |
| Preliminary project costs/seed capital | (4 064) | (3 790) | 0 | (15) |
| **Local investment funds** | | | | |
| Management of T1200 fund | (990) | 0 | 0 | 0 |
| Management support | (2 092) | (3 906) | 26 | 0 |
| Costs of establishing funds | (2 801) | (1 942) | 0 | 0 |
| Loans to projects/receivables | 0 | 0 | (6 175) | 0 |
| **Total payments** | **(10 147)** | **(9 837)** | **(7 174)** | **(1 015)** |
| **Unused funds** | **2 680** | **4 827** | **13 603** | **13 277** |
| **Total unused funds at 31 Dec 07** | **16 284** | | | |

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

### Market and currency risks

Norfund's investments are undertaken in developing countries 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 has hedged the value of the invested portfolio in NOK. This has been done by hedging 50 per cent of the value of USD investments through forward contracts. Norfund resolved in December 2007 to terminate this hedge by refraining from rolling over forward contracts falling due on 11 January 2008. During 2008, the institution will consider measures for hedging its currency commitments.

Three currency forward contracts were entered into during 2007, and four fell due in USD. Norfund had three outstanding forward contracts at 31 December 2007. These are recorded in the balance sheet as other market-based financial instruments.

| Outstanding contracts at 31 Dec 07 (Figures in NOK/USD 1 000) | Type of contract | Counter-party | Purchase date | Maturity Amount hedged | Forward rate | Value 31 Dec (NOK) |
|---|---|---|---|---|---|---|
| Forward sell USD against buy NOK | Nordea | 09-01-07 | 11-01-08 | USD 10 000 | 6,2746 | 8 663 |
| Currency swap, sell USD against buy NOK | Nordea | 09-01-07 | 11-01-08 | USD 15 300 | 6,2788 | 13 318 |
| Currency swap, sell USD against buy NOK | DnB | 09-01-07 | 11-01-08 | USD 19 600 | 6,2801 | 16 835 |
| **Total unrealised gain on forward contracts at 31 Dec** | | | | | | **38 815** |

### Interest rate risk

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

### 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.

## NOTE 14 COMMITMENTS

| (Figures in NOK 1 000) | Lease duration | Annual rent |
|---|---|---|
| **Premises at Munkedamsveien 45B** | **01 Aug 99 - 31 Jul 2009** | **2 529** |

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 228 992 was charged to Norfund's accounts in 2007 in respect of the scheme. The tender guarantee scheme was initially a three-year trial which ran to the end of 2007. It has been extended to the end of 2008.

## NOTE 15 DEBT

The institution has no debts to joint ventures, or other close associates. The same applied in 2006.

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 16 GUARANTEES

A rent guarantee for up to NOK 0.5 million has been provided.

A guarantee in the order of NOK 10.3 million has been provided in connection with an investment. This amount is included in committed capital. See note 7.

KPMG AS
P.O. Box 7000 Majorstuen
Sørkedalsveien 6
N-0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627MVA

To NORFUND, a company under special law

## AUDITOR'S REPORT FOR 2007

**Respective Responsibilities of Directors and Auditors**
We have audited the annual financial statements of the NORFUND as of 31 December 2007, showing a profit of NOK 201 522 000. 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 2007, 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, 6 May 2008
KPMG AS
**Not to be signed**
Tom Myhre
*State Authorised Public Accountant*

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

Norfund

Norwegian Investment Fund for Developing Countries

# Annual report • **2007**