Norfund

Norwegian Investment Fund for Developing Countries

Creates value
Combats poverty

Annual report **2008**

Directors' report 2008

1. SUMMARY

The build-up of the portfolio continued during 2008 through new investment agreements worth NOK 1.4 billion. In line with the fund's strategy, the portfolio has been concentrated even further on sub-Saharan Africa. No less than 43 per cent of new investment in 2008 was made in the least-developed countries (LDCs). Staffing in the core markets was also strengthened. Highlights of the year include the creation of the Norwegian Microfinance Initiative (NMI) together with private investors in Norway, the formation of a new energy company dedicated to Africa and Central America, and the reduction of the holding in SN Power. Norfund withdrew from the Aureos Capital management company, but retained its fund investments there. The fund also celebrated its 10th anniversary.

2. THE PORTFOLIO

2.1. Business areas and operations

Norfund is a state-owned investment company and an instrument of Norwegian development policy. By investing in profitable jobs and companies, financing infrastructure and transferring knowledge and technology, it contributes to economic progress in poor countries and the fulfilment of the UN's millennium development goals.

The fund always invests with partners, Norwegian or foreign. Norfund gives priority to sub-Saharan Africa and has regional offices in Kenya and South Africa. It also invests in certain Asian and Latin American countries (with a regional office in Costa Rica). In addition comes some activity in the Balkans. Committed investments totalled NOK 4.8 billion at 31 December 2008, divided between four investment areas.

Funds: Norfund invests directly in private equity funds directed at small and medium-sized enterprises (SMEs) in developing countries. Such companies lack risk capital, and Norfund's investment strengthens both them and the local capital market.

Committed investment in SME funds totalled NOK 1 249 million. The largest new investment in 2008 was USD 40 million in the Aureos Africa Fund. Norfund sold out of the Aureos Capital management company late in the year. It is now owned by its employees and stands on its own feet. The creation of this company in 2001 proved a successful strategic commitment for Norfund, which thereby helped to establish a sound yet flexible new channel for investment in poor countries which today also attracts capital from a number of private investors.

Financial institutions: Norfund invests in or lends to banks, microfinance companies and other institutions in poor countries. In addition to microfinance, it seeks to strengthen the growth basis for SMEs.

The portfolio was more than doubled in 2008, and totalled NOK 828 million at 31 December. Creating the NMI in partnership with KLP, the DnB NOR group, Ferd and Storebrand was the biggest new investment. With Norfund holding 50 per cent, this initiative will invest in and develop microfinance institutions with the aid of a fund management company (NMI AS) and capital from two funds (NMI Global and NMI Frontier). The NMI will also provide technical assistance to strengthen the smallest institutions. Total investment capital in the NMI is NOK 600 million.

Renewable energy: These investments are intended to improve and expand electricity generation with the aid of climate-friendly energy sources, and thereby create a broader basis for economic development. The projects are characterised by heavy capital requirements and high risk, related in part to constructional, geological and hydrological conditions. Norfund's investment in renewable energy has demonstrated both good profitability and a substantial development effect.

The institution has worked to strengthen conditions for new energy developments in Africa. It is already investing with Trønder Energi in the 13-megawatt Bugoye hydropower station in Uganda, scheduled to become operational in the fourth quarter of 2009. Norfund decided in 2008 to reduce its holding in SN Power from 50 to 40 per cent with effect from January 2009. At the same time, it has contributed to the creation of a new dedicated power company for Africa and Central America, in which regional Norwegian electricity utilities will be able to participate. At 31 December, the SN Power group had a capital base of NOK 8 653 million through hydro and wind power projects in six countries and a total capacity of 1 000 MW.

Substantial health and safety challenges were faced in parts of the SN Power portfolio during 2007. These unfortunately persisted through 2008, at the same time as substantial countermeasures were adopted. See section 2.4 below and SN Power's own annual report.

Other direct investments: Norfund also invests directly outside the energy and financial sectors. Priority is given to companies with a high development effect which cannot secure financing from investment funds or other equity capital sources. Weight is also given to co-investment with Norwegian partners. The fund invested in the new Matanuska banana plantation in Mozambique as well as a new project in Swaziland for cultivating cassava and producing cassava starch. Norfund's telecommunications investment in PowerCom Namibia through Telecom Management Partner (TMP) was realised at a good profit. Losses on TMP's operations in other African countries mean that the total result for Norfund is expected to a small deficit.

Other activities: In addition to its commercial investments, Norfund conveyed NOK 15 million in assistance funds to strengthen the development effects of investments where the risk is too high for other forms of financing. NOK 5 million was devoted to energy projects, particularly in Africa, and in part to financing a maternity clinic related to the Bugoye power station as well as a clinic and school associated with the Matanuska plantation. Support was given to Aureos Capital for implementing an extensive HIV/Aids programme related to the company's investments in Africa.

A web-based computer game on investing in poor countries, tailored to the curriculum for Norwegian secondary schools, was launched by Norfund in the autumn of 2008. This forms part of its communications strategy.

Norfund is continuing to operate the Information Office for Private Sector Development in Developing Countries together with the Norwegian Agency for Development Cooperation (Norad). The fund received NOK 15 million for further investment in the western Balkans.

Norfund took over the loan portfolio from Norad in 2001. At 31 December, the outstanding loan amount was NOK 50 million with an estimated value of NOK 29 million.

2.2. Financial risk
Norfund invests in countries where structures, markets and companies are characterised by high risk. Generally speaking, its investments have a medium-term time frame of seven to 10 years, often with limited opportunities for divestment along the way. Norfund's most important credit risk is associated with loans to projects. The fund has routines for risk assessment before investment decisions are taken, and for risk management during the investment period. Risk is spread by investing in a number of countries and regions, by only taking a minority interest in companies and by investing through fund managers who combine local knowledge with experience from developed capital markets. Norfund's investments face two types of currency risk. One arises because the investments are made in foreign currency while its results are reported in Norwegian kroner. The fund's mandate specifies that resources should not be applied to hedging against exchange rate fluctuations. The other reflects the fact that Norfund has investment *commitments* in foreign currencies, while payments from its reserves in Norwegian kroner could occur at a later date and with an unknown exchange rate. To manage this risk, some of the investment funds are held as a buffer with the Bank of Norway (Norges Bank).

2.3. Development effects
The most important development effects of the investments are the establishment of sustainable companies, jobs and infrastructure in poor countries. The enterprise demonstrates its viability and sustainability in the market through its profitability. Such companies are an important condition for economic growth and combating poverty in the long term. An extensive assessment of other development effects (expertise and technology transfer, development of financial markets, contributions to exports and so forth) forms part of the basis for new investment decisions.

At 31 December 2008, 248 000 people were employed by enterprises in which Norfund had invested. The female proportion of this figure was 49 per cent. Considering the average family size in developing countries, Norfund thereby affected more than a million people in 2008 through the jobs created and further developed. NOK 3.2 billion in tax was also paid to national authorities, including NOK 2.3 billion from Grameen Phone in Bangladesh.

Norfund conducted a broad review and description of the development effects of its investments in a report on its contribution to development. Annual updates are promised.

2.4. Social responsibility
Norfund ensures that new investment agreements commit its partners to aspiring to meet international standards for health, safety and social conditions, and to reporting serious incidents. Such standards include the rights of indigenous people, biodiversity, concern for local communities and the International Labour Organisation's core conventions.

Unfortunately, no less than 27 fatalities were reported for Norfund's investment portfolio in 2008. Most of these were a consequence of the terrorist attack on the Kabul Serena hotel (seven), among sub-contractors to Grameen Phone in Bangladesh (seven), in and around SN Power's facilities in India and Chile (nine), an accidental shooting at the construction site for a Pakistani hotel project (one) and road accidents associated with the Matanuska banana plantation in Mozambique (three). Norfund has been a prime mover behind SN Power's strengthened health, safety and environmental (HSE) measures in India and efforts to reinforce SN Power's decision-making authority in the company. The fund has also sought HSE documentation from Grameen Phone's owners (Grameen Telecom and Telenor), and ensured that measures are taken in Mozambique. Security precautions at the Kabul Serena have been further strengthened.

3. ORGANISATION AND OPERATION
3.1. Corporate governance
Norfund is a hybrid state-owned company established by law with limited liability, owned on behalf of the state by the Ministry of Foreign Affairs, and takes direct and indirect equity positions in private companies in other countries. To manage geographical and ownership challenges, Norfund has adopted principles for corporate governance. Prevention of corruption and fraud is integrated in the fund's mandate and operations.

A restructuring of Norfund's internal organisation was implemented in 2008 to strengthen its exercise of the ownership function in the companies in which it invests. Project management and board membership have been separated, and external people with appropriate qualifications are used for certain directorships. This will ensure close monitoring of projects through two different functions.

3.2. Personnel, organisation and gender equality
Norfund is an expertise-based organisation with guidelines for recruitment, expertise and equal opportunities. Work-years at 31 December totalled 36.9. A total of 40 people were employed, including 12 with non-Norwegian backgrounds. Four of these came from developing countries. Seven of the staff work permanently at the regional offices in South Africa, Kenya and Costa Rica.

Sickness absence in Norfund was 5.6 per cent of total working hours, corresponding to 513 days. This relatively high figure is attributable in part to long-term sick leave on medical grounds and maternity-related absence. Norfund is concerned to reduce the high level by adopting measures where possible. No personal injuries nor damage to Norfund's material assets were suffered.

Women accounted for 60 per cent of the fund's permanent board membership. Three of the five members of Norfund's management team were female. The proportion of women in the whole workforce was 33 per cent. Three of the eight permanent employees appointed in 2008 were women. Norfund's human resources policy is focused on and facilitates equal opportunities for both genders.

3.3. Environmental impact
Norfund's operations involve substantial travel. The largest environmental burden caused by the fund's own business activities relates to travel and paper consumption. Travel by Norfund in 2008 involved the emission of about 344 tonnes of carbon dioxide.

4. ANNUAL ACCOUNTS

Norfund achieved its best result since it was founded, with a net profit of NOK 422 million (2007: NOK 202 million). Income came to NOK 271 million (2007: NOK 85 million). This reflected increased interest income, realised sales gains, positive currency adjustments for loans made by Norfund, and the recognition of NOK 80 million received earlier in connection with the settlement of non-cash contributions in SN Power Invest AS.

Operating expenses before currency adjustments for loans and write-downs increased by 14 per cent, in part because of external assistance for the restructuring of the holding in Statkraft Norfund Power Invest AS. The effect of the weakening of the Norwegian krone against the currencies in which Norfund has invested was largely positive for the accounts. This foreign exchange effect more than offset write-downs made in investment currencies. The net profit has been transferred to Norfund's surplus fund in accordance with its instructions.

Norfund's balance sheet at 31 December 2008 was NOK 5 349 million (2007: NOK 4 032 million). This increase reflects the receipt of NOK 485 million from the owner, the profit on operations and the increase in book value of SN Power's equity. Norfund's equity totalled NOK 5 302 million (2007: NOK 3 919 million). The net amount paid out for investment was NOK 3 580 million (2007: NOK 2 930 million). The board is of the opinion that the annual accounts at 31 December 2008 provide a true and fair presentation of the institution's financial position. The board confirms that the going concern assumption is realistic.

The impact of the financial crisis on Norfund's investments was relatively modest in 2008. This is because the countries in which the institution invests are poorly integrated in the global financial market and experienced very little direct effect from the crisis. Norfund therefore made only minor write-downs on its direct investments in 2008, and somewhat larger write-downs on its fund investments. However, the financial crisis could have substantial indirect consequences for the developing countries in 2009. This will be discussed in the next section.

5. PROSPECTS

Norfund ranks today as Europe's leading development investor in clean energy, Norway's leading investor in microfinance and SME banks in developing countries, and a substantial player in private equity funds. At the same time, it will continue to build up its portfolio of African direct investments with high employment and development effects. The board considers it natural that these four business areas are maintained.

The fund will continue to develop the NMI and the new energy company for Africa and Central America, and to participate in decisions on specific investments. It will also continue to give high priority to involving more private investors, not least from Norway.

Availability of both equity and loans for new projects in Norfund's investment areas will be reduced by the financial crisis, which also enhances the level of risk. Despite these considerations, it follows from Norfund's mandate that the need for investors like Norfund is now greater than ever because it is intended to invest counter-cyclically in relation to private investors. Norfund will accordingly step up its investments while working simultaneously to mobilise private investors and technology.

Although the financial crisis initially had limited impact on the developing countries because their links to international financial markets are weak, Norfund expects the economic downturn which is now emerging to have a strong effect. There is also a danger that the positive trend for regulatory conditions, investment incentives and political stability in such areas as sub-Saharan Africa will be affected by the crisis.

Nevertheless, grounds exist for expecting a higher rate of growth in Norfund's core markets than in many industrial countries. For a long-term and liquid investor with knowledge of local conditions like Norfund, this provides opportunities to make investments which provide a return in the future at the same time as the institution's counter-cyclical strategy enhances the additionality of its investments compared with the market.

The annual capital transfer to Norfund was increased from NOK 485 million to NOK 585 million in the central government budget for 2009. The Storting (parliament) and government are likely to maintain transfers at a similar level in the years to come. Norfund is also prepared to receive and invest a large fund in developing countries, based on the NOU 2008:14 report from the Norwegian Policy Coherence Commission.

In the board's view, Norfund's professional expertise, positions in strategic sectors and regions, and international networks provide a good basis for continuing to contribute to combating poverty by investing risk capital in viable enterprises in developing countries.

Oslo, 25 March 2009

Kristin Clemet
Chair

Karl-Christian Agerup
Deputy chair

Borghild Holen

Stein Tønnesson

Mari Skjærstad

Kjell Roland
Managing director

Profit and loss account

(Figures in NOK 1 000)	Note	2008	2007
Interest income loans – invested portfolio	1,7	37 051	11 448
Realised gain on shares	1,9	31 989	9 378
Dividends received	1	26 202	36 707
Interest and instalments paid, Norad loan portfolio	1,6	20 259	27 086
Other operating income	1,5	81 084	570
Currency regulation of project loans	1	74 312	0
Total operating income		**270 898**	**85 189**
OPERATING EXPENSES			
Payroll expenses	2	34 080	32 613
Depreciation tangible fixed assets	4	1 028	793
Currency regulation of project loans		0	20 418
(Reversal of write-down)/write-down of investment projects		(25 048)	14 259
Other operating expenses	2,3,14	38 953	31 604
Total operating expenses		**49 014**	**99 687**
Operating loss		**221 884**	**(14 499)**
Profit/(loss) on investment in joint ventures	5,15	119 900	110 377
Other interest received		68 826	71 902
Other financial income		15 189	37 046
Other financial expenses		3 816	3 274
Net financial items		**200 099**	**216 051**
Net profit		**421 983**	**201 552**
TRANSFERS			
Transferred to surplus fund	11	421 983	201 552
Transferred from surplus fund		0	0
Total allocations		**421 983**	**201 552**

Balance sheet

(Figures in NOK 1 000)	Note	2008	2007
Assets			
Fixed assets			
TANGIBLE FIXED ASSETS			
Operating equipment, fixtures, fittings, tools, etc	4	1 336	1 870
Total tangible fixed assets		**1 336**	**1 870**
Financial fixed assets			
Investments in joint ventures	5,15	2 841 434	2 044 829
Loans to joint ventures		0	0
Total financial fixed assets		**2 841 434**	**2 044 829**
Total fixed assets		**2 842 770**	**2 046 699**
Current assets			
ACCOUNTS RECEIVABLE			
Other accounts receivable	6	41 458	22 420
Loan portfolio	6	0	0
Total accounts receivable		**41 458**	**22 420**
INVESTMENTS			
Loans to investment projects	1,7	401 441	205 695
Equity investments	1,8	878 624	567 407
Other market-based financial instruments	13	0	38 815
Total investments		**1 280 065**	**811 918**
BANK DEPOSITS, CASH IN HAND AND CASH EQUIVALENTS			
Bank deposits	10	1 184 750	1 150 616
Total bank deposits, cash in hand and cash equivalents		1 184 750	1 150 616
Total current assets		**2 506 273**	**1 984 955**
Total assets		**5 349 044**	**4 031 654**

(Figures in NOK 1 000)	Note	2008	2007
Equity and liabilities			
Equity			
CALLED-UP AND FULLY-PAID SHARE CAPITAL			
Primary capital	11	2 891 250	2 550 000
Reserve capital	11	1 173 750	1 030 000
Total called-up and fully-paid share capital		**4 065 000**	**3 580 000**
RETAINED EARNINGS			
Surplus fund	11	1 237 363	338 675
Total retained earnings		**1 237 363**	**338 675**
Total equity		**5 302 363**	**3 918 675**
Liabilities			
PROVISIONS			
Pension commitments	2	6 069	6 150
Total provisions		**6 069**	**6 150**
Other long-term liabilities		**0**	**0**
CURRENT LIABILITIES			
Accounts payable		4 617	3 111
Unpaid government charges and special taxes		3 155	2 454
Unused funds	12	29 123	16 284
Other current liabilities		3 719	84 980
Total current liabilities		**40 613**	**106 829**
Total liabilities		**46 682**	**112 979**
Total equity and liabilities		**5 349 044**	**4 031 654**

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Managing director

Cash flow statement

(Figures in NOK 1 000)	Note	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		421 983	201 552
Loss/gain on sale of fixed assets		0	0
Ordinary depreciation	4	1 028	793
Write-down of fixed assets	4	0	0
(Reversal of write-down)/write-down of investment projects		(14 703)	14 259
Differences in pension costs and payments to/from pension funds		(170)	1 359
Result using equity and proportionate consolidation methods	5	(119 900)	(110 377)
Effect of exchange rate changes		(85 703)	(6 906)
Changes in other accruals		(98 092)	(43 323)
Net cash flow from operational activities		**104 442**	**57 358**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments in tangible fixed assets	4	(493)	(1 510)
Proceeds from sale of shares/interests in other enterprises		48 375	35 405
Repaid proceeds from shares/interests recorded at cost price		50 613	21 027
Acquisition of shares/interests in other enterprises		(613 819)	(1 397 511)
Loans for investment		(270 103)	(94 443)
Repayment of investment loans		174 184	51 831
Proceeds from sale of other investments		44 211	4 646
Net cash flow from investment activities		**(567 031)**	**(1 380 555)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new short-term loans	12	30 000	15 500
Repayment of long-term loans		0	0
Repayment of short-term loans	12	(18 276)	(16 938)
Increase in/repayment of equity	11	485 000	485 000
Net cash flow from financing activities		**496 724**	**483 562**
CHANGES IN EXCHANGE RATES, CASH AND CASH EQUIVALENTS			
Net change in cash and cash equivalents		34 134	(839 634)
Bank deposits, cash in hand and cash equivalents at 1 Jan		**1 150 616**	**1 990 250**
Bank deposits, cash in hand and cash equivalents at 31 Dec	**10**	**1 184 750**	**1 150 616**

Accounting principles

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 2008. 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.

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. 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.

Norfund has not hedged its invested portfolio through the use of hedging instruments. However, it has accepted that SN Power makes use of hedge accounting for its portfolio. For further details, see the annual report for SN Power.

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.

Pension liability and costs

The fund 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

(Figures in NOK 1 000)

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.

	2008					
	NORFUND total	Funds	Financial institutions	Renewable energy	Other direct investments	Shared functions
OPERATING INCOME						
Interest - invested portfolio	38 950	1 560	14 325	1 984	19 182	0
Realised gains	31 989	0	30 352	0	1 637	0
Dividends received	26 202	22 905	2 589	0	709	0
Other project revenues	99 445	20	797	80 000	261	5
Currency regulation of project loans	74 312	8 480	44 492	7 051	14 289	0
Total operating income	**270 898**	**32 966**	**92 555**	**89 034**	**36 078**	**5**
OPERATING EXPENSES						
Payroll expenses	(34 080)	(4 139)	(5 052)	(2 693)	(10 377)	(10 009)
Depreciation of tangible fixed assets	(1 028)	0	0	0	0	(1 028)
Loss on sale of operating assets	0	0	0	0	0	0
Currency regulation of project loans	0	0	0	0	0	0
(Provision for)/reversal of loss on projects	25 539	16 573	3 460	0	5 505	0
Other operating expenses	(38 953)	(3 173)	(2 900)	(7 355)	(5 273)	(18 257)
Allocation of shared expenses	0	(6 626)	(7 130)	(3 007)	(10 151)	29 294
Total operating expenses	**(48 522)**	**2 635**	**(11 621)**	**(13 055)**	**(20 296)**	**0**
Profit/(loss) from operations	**222 376**	**35 602**	**80 933**	**75 980**	**15 782**	**5**
Result on investment in joint ventures	119 900	0	0	119 900	0	0
Net financial items	79 720	48 355	2 321	450	5 554	23 041
Total profit/(loss)	**421 983**	**83 956**	**83 254**	**196 329**	**21 336**	**23 047**

* 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.

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.

	Africa	Asia	Latin-America	Europe	Global	Write-downs	Total
BALANCE SHEET							
Equity investments	381 801	256 012	142 621	4 576	139 000	(45 385)	878 624
Loans to investments	221 886	140 550	40 036	0	0	(1 032)	401 441
Total balance sheet	**603 687**	**396 562**	**182 656**	**4 576**	**139 000**	**(46 417)**	**1 280 064**
Interest income loans	22 511	11 291	2 500	0	749		37 051
Realised gain on shares	30 352	1 637	0	0	0		31 989
Dividends received	16 450	9 310	441	0	0		26 202
Directors' fees received	78	0	9	0	0		87
Fees	253	358	386	0	80 000		80 997
Instalments paid on loan portfolio	2 864	15 497	0	0	0		18 361
Interest paid on loan portfolio	607	1 291	0	0	0	0	1 899
Currency regulation of project loans	29 931	32 290	9 738	0	2 353		74 312
Total operating income	**103 046**	**71 674**	**13 075**	**0**	**83 102**	**0**	**270 898**

		2007							
Other activities	Loan portfolio*	NORFUND total	Funds	Financial institutions	Renewable energy	Other direct investments	Shared functions	Other activities	Loan portfolio*
0	1 899	13 941	918	4 129	98	6 303	0	0	2 493
0	0	9 378	(46)	0	0	9 425	0	0	0
0	0	36 707	35 139	1 568	0	0	0	0	0
0	18 361	25 162	26	469	0	75	0	0	24 592
0	0	0	0	0	0	0	0	0	0
0	**20 259**	**85 189**	**36 037**	**6 166**	**98**	**15 803**	**0**	**0**	**27 086**
(1 173)	(637)	(32 613)	(2 368)	(4 825)	(2 537)	(8 504)	(12 827)	(697)	(855)
0	0	(793)	0	0	0	0	(793)	0	0
0	0	0	0	0	0	0	0	0	0
0	0	(20 418)	(2 225)	(5 699)	0	(12 493)			
0	0	(14 259)	(9 184)	(2 586)	0	(2 490)	0	0	0
(1 948)	(48)	(31 604)	(1 529)	(3 182)	(1 029)	(4 222)	(20 438)	(714)	(490)
(726)	(1 653)	0	(7 279)	(6 627)	(2 478)	(13 033)	34 059	(2 890)	(1 752)
(3 847)	**(2 338)**	**(99 687)**	**(22 584)**	**(22 918)**	**(6 044)**	**(40 743)**	**0**	**(4 301)**	**(3 097)**
(3 847)	**17 921**	**(14 499)**	**13 452**	**(16 753)**	**(5 946)**	**(24 939)**	**0**	**(4 301)**	**23 989**
0	0	110 377	0	0	110 377	0	0	0	0
(1)	(13)	105 730	18 530	2 113	34	3 650	81 405	(3)	(55)
(3 847)	**17 908**	**201 552**	**31 983**	**(14 640)**	**104 465**	**(21 290)**	**81 405**	**(4 303)**	**23 933**

Note 2 - Payroll expenses

Pay and other payroll expenses

(Figures in NOK 1 000)	2008	2007
Pay	24 709	21 950
Directors' fees	450	520
Payroll taxes	3 650	3 105
Personnel insurance	413	404
Pension expenses	4 446	5 653
Other benefits	1 021	1 758
Payroll expenses refunded	(609)	(776)
Total pay and other payroll expenses	34 080	32 613

Remuneration of senior personnel

(Figures in NOK 1 000)	Managing director	Chair	Directors
Pay/fees	1 654 838	120 000	330 000
Pension contributions	704 986	0	0
Other remuneration	127 978	0	0
Total	2 487 802	120 000	330 000

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 2008. The deputy chair received a fee of NOK 90 000. Other directors received fees of NOK 75 000 each for 2008, 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 1 018 250 was recorded for fees to the auditor in 2008, of which NOK 452 566 related to legally-required auditing, NOK 0 to other attestation services, and NOK 565 684 to other non-auditing services. No fees were paid to the auditor for tax advice. All figures include VAT.

Employees
The institution had 40 employees at 31 December 2008. Work-years totalled 36.9.

Pensions
Pursuant to the Norwegian Act on Mandatory Occupational Pensions, Norfund is required to have an occupational pension scheme. The fund 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). This scheme satisfies the requirements of the Act on Mandatory Occupational Pensions. Norfund also has a general scheme which 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 cost of this scheme 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 2008, 31 people were covered by the scheme.

Financial assumptions

	2008	2007
Discount rate	**4.30%**	**4.50%**
Expected return on pension funds	6.30%	5.50%
Pay regulation	4.50%	4.50%
Pension regulation	4.25%	4.25%
Adjustment to NI base rate (G)	4.25%	4.25%
Turnover	9.00%	9.00%
Expected early retirement at age 62 (AFP)	0.00%	0.00%
Payroll tax	14.1%	14.1%

	2008	2007
Net present value of pension earned in the period	4 916	4 525
Capital cost of previously earned pensions	1 183	953
Expected return on pension funds	(1 177)	(919)
Administrative costs	130	124
Recorded variances in estimates	(1 318)	311
Accrued payroll tax [1]	712	660
Net pension expense for the year, incl payroll tax	**4 446**	**5 653**

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

Calculated pension liabilities	Funded	Non-funded	2008	2007
Estimated pension liabilities	23 438	4 495	27 934	26 392
Estimated pension funds	22 615	0	22 615	21 002
Net pension liabilities 31 Dec	824	4 495	5 319	4 198
Unrecorded variances in estimates	0	0	0	0
Accrued payroll tax [1]	116	634	750	760
Net pension liabilities 31 Dec	**940**	**5 129**	**6 069**	**6 150**

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

Reconciliation opening/closing balance

	2008	2007
Capitalised net pension liabilities 1 Jan incl payroll tax	6 150	4 790
Net pension expense for the year incl payroll tax	4 446	5 653
Pensions paid, early retirement/unfunded, incl payroll tax	0	0
Investment in pension fund, etc, incl payroll tax	(4 527)	(4 294)
Capitalised net pension commitment 1 Jan incl payroll tax	**6 069**	**6 150**

Nordea Liv's asset mix*

	30-09-08
Property	23%
Shares	9%
Current bonds/certificates	21%
Long-term bonds	44%
Other	3%
Total financial assets	**100%**

**) Known values at calculation date.*

Note 3 - Other operating costs

(Figures in NOK 1 000)	2008	2007
Seminars/conferences/expertise enhancement	871	557
Travel expenses	4 378	3 694
External assistance	21 942	17 549
Costs, tender guarantee scheme	1 345	229
Rent, incl shared costs	3 095	3 178
Advertising/printing	1 471	1 183
Other costs	5 852	5 214
Total operating costs	**38 953**	**31 604**

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	5 987	346	691	67	7 090
+ acquisitions during the period	493				493
- disposals during the period	(543)				(543)
Cost price at 31 Dec	**5 937**	**346**	**691**	**67**	**7 040**
Accumulated ordinary depreciation at 1 Jan	4 717	222	100	0	5 039
+ ordinary depreciation for the period	808	82	138		1 028
- accum ordinary depreciation, operating assets sold	(543)				(543)
Accumulated ordinary depreciation at 31 Dec	4 982	303	238	0	5 524
Write-down of operating assets at 1 Jan	180	0	0	0	180
+ write-downs for the period		0	0	0	0
- accum depreciation, operating assets sold		0	0	0	0
Accum write-downs at 31 Dec	180	0	0	0	180
Book value for accounting purposes at 31 Dec	**774**	**42**	**453**	**67**	**1 336**

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	27-06-02
Registered office	Oslo
Shareholding	50%
Voting share	50%
	(Joint venture)
Information relating to the date of acquisition	
Acquisition cost	2 252 500
Information relating to figures for the year	
Opening balance at 1 Jan 08	2 044 829
Capital received in 2008	200 000
Sold in 2008	0
Deducted non-amortised excess value	0
Deducted non-amortised goodwill	0
Capital repaid during the year	0
Share of annual profit/(loss)[1]	119 900
Netting of previous year's result	0
Share of adjustments for the year charged directly against equity in SNPI	476 705
Closing balance, 31 Dec 08	**2 841 434**

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

Committed investments in joint venture

Norfund and Statkraft resolved in December 2008 to restructure their ownership of Statkraft Norfund Power Invest AS. With effect from January 2009, Norfund's holding has been reduced from 50 to 40 per cent. See note 15 for further details. Norfund has been guaranteed an opportunity to sell out wholly or in part by 2015 at the latest, while Statkraft has an option over the same period to increase its holding from 60 to 67 per cent. In connection with the restructuring of the ownership of Statkraft Norfund Power Invest AS, Norfund and SN Power have established a new dedicated power company for Africa and Central America. Regional Norwegian power utilities have been given the opportunity to participate in this new company. SN Power will own 51 per cent of the new company and Norfund's initial holding will be 49 per cent. The first payment of NOK 31 million to the company was made in January 2009.

An agreement between Statkraft and Norfund has regulated 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. The whole of this amount has been recorded as income in 2008 in connection with the agreement to restructure ownership of Statkraft Norfund Power Invest AS.

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])*	
	2008	**2007**	**2008**	**2007**
Operating income	907 623	464 924	724 709	317 651
Operating expenses	655 130	303 802	450 890	251 588
Operating profit/(loss)	**252 493**	**161 122**	**273 819**	**66 062**
Net financial items	82 634	143 873	121 516	177 611
Ordinary profit before tax	335 127	304 995	395 335	243 673
Tax on ordinary profit	(42 039)	(24 502)	(21 019)	(12 251)
Ordinary profit	293 088	280 493	374 315	231 422
Net profit	**293 088**	**280 493**	**374 315**	**231 422**
Share minority SN Power Invest AS	53 288	59 739	26 644	29 870
Share majority SN Power Invest AS	239 800	220 754		
Share Norfund			347 671	201 552

Balance sheet

Assets	**2008**	**2007**	**2008**	**2007**
Intangible fixed assets	212 970	34 278	106 485	17 139
Tangible fixed assets	4 027 818	3 086 319	2 015 245	1 545 030
Finansielle anleggsmidler	2 426 463	1 601 501	1 213 231	800 751
Financial fixed assets	**6 667 250**	**4 722 098**	**3 334 961**	**2 362 919**
Goods	4 941	5 187	2 471	2 594
Receivables	634 268	202 209	358 592	123 525
Investments	0	0	1 280 065	811 918
Cash and cash equivalents	1 346 105	728 301	1 857 803	1 514 767
Total current assets	**1 985 315**	**935 697**	**3 498 931**	**2 452 803**
Total assets	**8 652 565**	**5 657 795**	**6 833 892**	**4 815 722**

Equity and liabilities	**2008**	**2007**	**2008**	**2007**
Called-up and fully-paid share capital	5 851 976	4 105 000	4 738 488	3 580 000
Retained earnings	(169 107)	(15 343)	563 874	338 675
Total equity	**5 682 869**	**4 089 657**	**5 302 363**	**3 918 675**
Minority	**359 205**	**240 910**	**179 602**	**120 455**
Provisions	119 065	140 435	65 601	76 367
Other long-term liabilities	1 964 598	907 711	982 299	453 856
Current liabilities	526 828	279 082	304 027	246 370
Total liabilities	**2 610 492**	**1 327 228**	**1 351 928**	**776 593**
Total equity and liabilities	**8 652 565**	**5 657 795**	**6 833 892**	**4 815 722**

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 (consolidated figures have been restated to NGAAP).

Norfund paid NOK 200 million to SN Power during 2008. NOK 100 million was devoted to acquiring the Bingas and Ambuklao hydropower stations in the Philippines, and NOK 100 million went to HPL & Tamakoshi in Nepal. At 31 December, the SN Power group had hydro and wind power projects in six countries, with a combined capacity of 1 000 MW.

SN Power reports in accordance with the International Financial Reporting Standards (IFRS) and uses the US dollar (USD) as its functional currency with effect from fiscal 2008. Profit is converted to NOK at the average exchange rate for the year of USD 5.64, and the balance sheet at the rate of USD 6.99 prevailing at 31 December 2008.

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

Note 6 - Receivables

The loan portfolio is recorded under receivables. When acquired from Norad, it was valued at zero in the Norfund accounts pursuant to Proposition no 1 to the Storting (2000-2001), which transferred the loan portfolio to Norfund without an appropriation decision. Pursuant to the Accounting Act, receipts (interest and instalments) from this portfolio are recorded as income in Norfund's accounts.

(Figures in NOK 1 000)	Opening loan balance 1 Jan 08	Repayments received 1 Jan-31 Dec	Interest received 1 Jan-31 Dec	Depreciation during the year	Currency reg during the year	Closing loan balance 31 Dec 08
TOTAL	72 937	18 361	1 899	(4 842)	(19)	49 716
Book value	0					0

Norfund has estimated the value of its loan portfolio at 31 December 2008 to be NOK 28.6 million.

Total receipts loan portfolio

	Instalments	Interest	Total
2008	18 361	1 899	20 259
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	**305 808**	**49 453**	**355 261**

Other receivables

	Other receivables	
	31 Dec 08	31 Dec 07
Rights [1]	3 639	0
Other receivables	37 819	22 420
Total receivables	**41 458**	**22 420**

1 In connection with the sale of Aureos Capital, Norfund received a cash settlement as well as a right to a share of future success payments in the first-generation funds. This right is valued in relation to the value of the first-generation funds at 31 December 2008. Other receivables: All receivables fall due within one 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)
Bangladesh	1	USD	3 000	20 997	1978
Bangladesh	1	BDT	586 886	60 795	6373
Cambodia	3	USD	4 500	31 495	1 493
Cambodia	1	KHR	12 378 000	21 921	849
India	1	EUR	56	553	40
Kenya	1	USD	126	883	192
Kenya	1	NOK	1 025	1 025	5
China	1	NOK	4 762	4 762	503
Mozambique	2	USD	4 000	27 996	1 111
Namibia	1	NOK	52 044	52 044	14166
Nepal	1	NOK	600	600	56
Nicaragua	1	USD	1 437	10 057	899
Regional Africa	1	EUR	800	7 892	440
Regional East Africa	1	UGS	1 694 880	6 247	1808
Regional	3	USD	4 803	32 763	3 588
Tanzania	1	NOK	2 900	2 900	252
Tanzania	1	USD	7 400	51 792	762
Uganda	3	USD	9 680	67 749	2 537
Total loans to companies				**402 473**	**37 051**
Provision for bad debts at 31 Dec 08				(1 032)	
Book value loans/total interest received				**401 441**	**37 051**
Committed investments in loans				**541 230**	

1Figures at 31 December 2008 and prior to any write-downs.

In addition to the loans specified above, Norfund made a loan charged to unused funds Balkans which is recorded at NOK 0 in accordance with the requirements of NRS 4 concerning net recording of government grants received. See note 12. Some of the loans carry a risk comparable with equity investments.

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%	406	298	3 506	2 439
FEDHA Fund	USD	11.5%	636	463	5 021	3 812
CAIF	USD	4.0%	719	719	5 874	5 876
African Infrastructure Fund	USD	1.2%	272	72	1 832	429
SEAF Trans-Balkan Fund	USD	22.9%	412	362	2 487	2 137
CASEIF	USD	31.8%	1 646	1 646	11 397	11 397
Siam Investment Fund II	USD	8.7%	1 623	1 623	10 550	10 550
SEAF Sichuan SME Investment Fund	USD	13.3%	2 838	2 710	18 689	17 792
Horizon Tech Ventures	ZAR	18.1%	8 753	2 604	7 365	2 740
Aureos Central America Fund	USD	27.6%	8 251	5 198	52 927	31 558
Aureos East Africa Fund	USD	20.0%	6 645	6 018	41 438	37 052
Aureos West Africa Fund	USD	26.0%	10 055	8 114	61 206	47 624
Aureos Southern Africa Fund	USD	25.1%	12 248	10 187	73 682	59 254
Aureos South Asia Fund I 3	USD	50.0%	4 480	3 208	29 362	20 457
Aureos South East Asia Fund	USD	28.6%	18 708	11 162	118 853	66 039
APIDC Biotech Fund	USD	7.7%	2 750	2 750	16 697	16 697
Vietnam Equity Fund	EUR	16.5%	411	333	3 518	2 744
China Environment Fund	USD	10.0%	1 958	1 726	11 129	9 507
European financing partners	EUR	8.3%	25	25	195	195
European Financing Partners co-invested[2]	EUR		5 000	552	49 382	4 856
Aureos South Asia Fund (Holdings)	USD	23.5%	19 812	8 103	131 625	49 676
Business Partners Madagascar SME Fund	EUR	14.1%	1 200	652	10 806	5 400
Solidus Investment Fund	USD	6.3%	1 924	2 000	11 320	11 852
Aureos Central America Growth Fund (EMERGE)	USD	14.3%	3 000	821	20 039	4 786
CASEIF II	USD	13.8%	4 000	669	27 087	3 777
Locfund	USD	10.0%	1 500	1 500	8 831	8 831
The Currency Exchange	USD	2.4%	10 000	10 000	55 000	55 000
I&P Capital	EUR	13.4%	5 000	946	47 562	7 572
Horizon Equity Partners Fund III	ZAR	8.6%	50 000	9 837	36 876	6 673
Africap Microfinance Investment Company	USD	7.1%	3 000	1 986	17 268	10 169
Aureos Latin America Fund (ALAF)	USD	9.5%	15 000	5 110	102 521	33 301
SEAF Blue Water Growth Fund	USD	20.0%	5 000	703	33 685	3 612
NMI Global Fund	NOK	45.0%	162 000	32 400	162 000	32 400
NMI Frontier Fund	NOK	45.0%	108 000	21 600	108 000	21 600
GroFin Africa Fund	USD	11.1%	15 000	1 087	105 062	7 688
Aureos Africa Fund L.L.C	USD	16.4%	40 000	9 049	274 423	57 799
Total invested in funds					**1 677 216**	**673 292**

1 Figures at 31 December 2008 and prior to any write-downs.
2 Co-invested are investments syndicated by members of European Financing Partners. Holdings vary from one to two per cent.
3 The Aureos South Asia Fund I (ASAF I) was created by CDC and Norfund in anticipation of the Aureos South Asia Fund (Holdings), which became operational in January 2006. ASAF I will accordingly make no further investments, but only manage investments approved up to December 2005. Through ASAF I, 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.

"Committed" means that an external commitment exists for the specified amount.
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 2008 is used for undisbursed committed amount.

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	0.0%	0	0
NMI AS	NOK	50.0%	30 000	30 000
Total invested in management companies				**31 855**

None of the investments in management companies involve any undisbursed commitments.
Norfund owns a B share in Aureos Capital which confers the right to boardroom representation in 2009.

The Norwegian Microfinance Initiative (NMI) was established by Norfund in 2008 together with KLP, the DnB Nor group, Ferd and Storebrand. Norfund owns 50 per cent of the NMI AS management company and 45 per cent in each of the NMI Global and NMI Frontier investment funds. It also owns five per cent of these funds indirectly through NMI AS. The total committed investment in the NMI is NOK 600 million, of which Norfund has committed to NOK 300 million in all. Norfund's ownership power in both the management company and the funds is smaller than its holding would indicate, and the investments have the same expected life as the institution's other investments classified as current assets. Investments in the NMI are accordingly treated as current assets in the Norfund accounts.

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)
DFCU	UGS	10.0%	4 600 000	4 600 000	17 607	17 607
CIFI	USD	9.3%	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%	0	0	0	0
Afrinord Hotels Africa	EUR	20.0%	6 200	50	61 062	392
Micro Africa Ltd II	USD	15.3%	250	250	1 558	1 558
Banco Terra	USD	20.0%	2 081	2 081	12 311	12 311
TPS Pakistan	USD	4.7%	3 967	3 967	21 161	21 161
Bugoye HPP	USD	27.5%	1 650	1 650	8 452	8 452
Matanuska Africa Limited	USD	33.3%	2 000	2 000	10 119	10 119
Hattha Kaksekar Ltd	USD	14.2%	788	788	3 992	3 992
Equity Bank	KES	0.3%	191 291	191 291	23 087	23 087
Casquip Starsh (Pty) ltd	SZL	17.1%	16 000	16 000	10 720	10 720
TMP	USD	42.1%	8 289	8 289	44 454	44 454
Total invested in companies					**279 532**	**218 862**
Write-downs of investments at 31 Dec 08						(45 385)
Book value of investments						**878 624**

1 Figures at 31 December 2008 and prior to any write-downs.

Note 9 - Investments realised

(applies to projects in which Norfund has its whole investment)

(Figures in NOK 1 000)	Total 2008	2007
Sales receipts	48 375	35 405
Cost price, paid-in capital	(44 674)	(64 063)
Earlier return recorded as income	1 977	3 205
Earlier repaid capital	5 385	775
Net gain/(loss), investments sold	**11 063**	**(24 678)**
Written down 31 Dec	23 473	57 344
Reversal of write-down before transaction date	0	20 083
Net gain/(loss)	31 989	9 378

Investments realised 2008	Total paid-in capital (NOK 1 000)
Indian Ocean II	16 151
Finarca	5 684
Pan Marine Qingdao	18 490
Pan Fish Shanghai	273
TC Trading	45
Uganda Micro Finance Union	4 031

Loans to Finarca, LACIF, Pan Marine Qingdao, Pan Fish Shanghai, TC Trading, Telecom Management Partner, Aureos Capital and Aureos Africa Interim Facility were repaid during 2008. All the loans with the exception of the one to Pan Marine Qingdao were repaid in their entirety, while a loss in the order of NOK 0.6 million has been realised on the loan to Pan Marine Qingdao.

Note 10 - Bank deposits, cash in hand and cash equivalents

Bank deposits of NOK 1 184 750 151 include NOK 1 731 357 in the blocked tax withholding account. In addition, NOK 29 122 522 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 12.

NOK 1 113 952 351 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 08	2 550 000	1 030 000	338 675	3 918 675
Capital received in 2008	341 250	143 750		485 000
Equity adjustment JV recorded directly against equity (see note 5)			476 705	476 705
Net profit			421 983	421 983
Capital at 31 Dec 08	**2 891 250**	**1 173 750**	**1 237 363**	**5 302 363**

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 4 065 million in capital from the Norwegian government, including NOK 485 million paid in during 2008.

Note 12 - Unused funds (investment-related professional assistance)

Proposition no 1 to the Storting (2007-2008) 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. As specified in NRS 4, loans made are recorded net in the accounts.

Norfund received NOK 15 million in investment-related technical assistance during 2008. These funds are devoted to developing new projects in sectors and countries with particularly high levels of risk and to boosting the development effect of Norfund's investments. Support can be given to training and expertise transfer as well as to measures to prevent HIV-Aids, promote equal opportunities and protect health, safety and the environment. In addition, NOK 15 million was received to continue investment and technical assistance in the western Balkans. The funds are treated as a current liability, and unpaid amounts are included in Norfund's liquid assets. When costs are met from the funds, the debt is reduced by the equivalent amount. A total of NOK 17.2 million in costs was charged to the trust fund in 2008. Outstanding funds are primarily earmarked for projects in the Balkans.

	Unused funds Norfund		Unused funds Balkans	
	31 Dec 08	31 Dec 07	31 Dec 08	31 Dec 07
Receipts				
Transferred from previous year	2 680	4 827	13 603	13 277
Received during the year	15 000	8 000	15 000	7 500
Total receipts	**17 680**	**12 827**	**28 603**	**20 777**
Income			275	
Payments				
General costs				
SME advice	0	(200)	0	0
Fund management	(162)	0	(2 626)	(409)
Direct investment				
General follow-up	0	0	(204)	(616)
Preliminary project costs	(3 222)	(4 064)	0	0
Energy initiative	(4 186)			
Local investment funds				
Fund management	0	(990)	0	0
Management support	(2 161)	(2 092)	0	26
Costs of establishing funds	(5 971)	(2 801)	0	0
Loans to projects/receivables	0	0	(19)	(6 175)
Total payments	**(15 701)**	**(10 147)**	**(2 852)**	**(7 174)**
Allocated interest income			1 117	
Unpaid funds	**1 979**	**2 680**	**27 143**	**13 603**
Total unpaid funds at 31 Dec 08	29 123			

Unused funds Balkans include EUR 0.8 million as an undisbursed committed loan.

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 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 may also be subject to fluctuations between local currencies and the USD.

Norfund ceased to hedged the value of the invested portfolio in NOK in 2007, and did not roll over forward contracts which matured at 11 January 2008.

Norfund's investment agreements are largely denominated in USA, while its liquid assets are placed in NOK-denominated interest-bearing accounts with the Bank of Norway (Norges Bank).

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.

Liquidity risk
Norfund has no interest-bearing debt. An attempt has been made to identify its liquidity risk by quantifying committed investments.

Note 14 - Commitments

(Figures in NOK 1 000)	Lease duration	Annual rent
Premises at Munkedamsveien 45B	1 Aug 99-31 Jul 09	2 630

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 1 707 964 was charged to Norfund's accounts in 2008 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 2009.

Note 15 - Events after the balance sheet date

Norfund sold 2.17 per cent of the shares in SN Power to Statkraft in January 2009 for NOK 276 million, of which NOK 161 million is gain. In that connection, Statkraft has invested NOK 2 000 million in SN Power through a private placement. This transaction means that Norfund's holding in SN Power has been reduced to 40 per cent. Norfund will treat its investment in SN Power as an affiliated company in its 2009 accounts, using the equity method.

Norfund completed the sales process for TMP's shares in PowerCom during January 2009. The sales price accorded with the estimate at 31 December.

Horwath

Horwath Revisjon AS
Kristian Augustsgt. 7B
0164 Oslo
Telefon +47 22 94 30 00
Telefax +47 22 94 30 01
post.oslo@horwathrevisjon.no
www.horwath.no

Medlem av Den norske Revisorforening
Medlem av Horwath International

Den norske Bank
Konto 7220 05 44863

Foretaksnr. NO 987 196 084 MVA

To NORFUND, a company under special law

AUDITOR'S REPORT FOR 2008

We have audited the annual financial statements of NORFUND as of 31 December 2008, showing a profit of NOK 421 983 000. 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.

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

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 December 31, 2008, the results of its operations and its cash flows for the year then ended, in accordance withthe rules of the Norwegian accounting act and good accounting practice in Norway
- the Fund's management has fulfilledits 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 are consistent with the financial statements and comply with the law and regulations

Oslo, 26 March 2009
Horwath Revisjon AS

Not to be signed

Steinar Andersen
State Authorized Public Accountant

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

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