Norfund

NORWEGIAN INVESTMENT FUND FOR DEVELOPING COUNTRIES

ANNUAL REPORT **2010**

CREATES VALUE | COMBATS POVERTY

ANNUAL REPORT 2010

Norfund – The Norwegian Investment Fund for Developing Countries – was established by the Storting (Norwegian parliament) in 1997 as a state-owned investment company. Norfund is an instrument in Norwegian development policy. Through investing in profitable companies, financing infrastructure and transferring knowledge and technology, Norfund helps to promote economic development and profitable, sustainable workplaces in poor countries. At the end of 2010 the total investment portfolio amounted to NOK 5.8 billion.

1. SUMMARY OF THE YEAR

During 2010 Norfund concluded investment agreements for NOK 844 million, which is somewhat lower than the target for the year. Much of the work in 2010 was focused on building up a portfolio of potential investment projects and also on strengthening our local presence. Funded investments were restricted by the rules for using offshore financial centres for financial transactions. Substantial resources were devoted to building up expertise internally in the organisation and enhancing our profile in the Norwegian investor community. Overall, 2010 was an important year in preparing Norfund for increased activity and new forms of collaboration in the years to come.

Renewable energy remains our largest investment area. The positive development of SN Power made the largest contribution to Norfund's financial results. Progress in the company's projects was in accordance with the plans for the year. In India, the first phase of the Allain Duhangan hydroelectric power station, where work with health, safety and the environment (HSE) has led to substantial improvements, was completed. In Chile, the country's first wind farm was opened as well as two hydroelectric power stations with a total capacity of 310 MW.

Norfund and European sister institutions took the joint initiative to establish the Interact Climate Change Fund (ICCF). This fund is to provide loans and guarantees to projects that help to reduce greenhouse gas emissions in developing countries. The parties will provide EUR 350 million for the ICCF.

In addition to Norfund's strategic focus on renewable energy, investment in 2010 in sub-Saharan Africa and the least developed countries (LDCs) featured prominently. Excluding investments in SN Power Invest, 70 per cent of new investments were made in sub-Saharan Africa, while 69 per cent were made in LDCs.

In the financial sector, two substantial investments were made in East Africa. An injection of equity into Kenya's Family Bank is intended to strengthen the rapidly growing bank in its work for customers that have not previously had access to banking services. In Uganda, Norfund provided a loan to the DFCU bank which targets entrepreneurs and small enterprises in particular.

The largest direct investments were made in the same region, in the Agrica rice plantation in Tanzania. This is a large-scale plantation with a potential production of 30,000 tons for the Tanzanian domestic market.

The Norwegian Microfinance Initiative (NMI) has made solid progress in its work, with 11 new investments in 2010 – five in the NMI Frontier Fund and six in the NMI Global Fund. The total portfolio at year-end 2010 was NOK 49.7 million.

2. NORFUND'S ACTIVITY

2.1. Activity and area of activity

Norfund's goal is to contribute to development by investing in viable, profitable enterprises. The investments must be additional, in that the capital and expertise provided would not otherwise be available to the regions and industries in question. In addition Norfund is to act as a catalyst by mobilizing further Norwegian and private capital and expertise. In the majority of projects Norfund's contribution is a combination of capital (equity and/or loans) and the exercise of corporate governance. The exercise of corporate governance demands considerable knowledge of countries and sectors, investment know-how and, not least, the ability to identify and choose the right partner(s), as well as the exercise of hands-on follow-up of investments.

Norfund's operations are divided into the following four investment areas:

Renewable energy: Investments in renewable energy are intended to improve and increase electricity production from renewable energy sources, thereby helping to provide a sound basis for economic development. The projects are characterised by large capital requirements and high risk associated with, for example, development and geological and hydrological conditions. Norfund's investments in renewable energy have shown high profitability and have had significant development effects.

In 2010, a total of NOK 331.9 million was invested in renewable energy projects, of which NOK 292.8 was channelled through SN Power Invest. In addition to a solid financial return on the investments in SN Power, the work on improved safety is showing positive results. For example, the first phase of the Allain Duhangan project in India was completed with a acceptable standard of safety.

In Chile, SN Power's operations contributed a large amount of renewable energy in 2010. The two hydroelectric power stations of La Higuera and La Confluencia, with a total production capacity of 310 MW, were opened in 2010. The financing of the hydroelectric power station Cheves in Peru is in place – a project that on completion, planned for 2013, will supply 168 MW to the Peruvian national power grid.

The other major investment within renewable energy was a loan of NOK 39.1 million to the Interact Climate Change Facility (ICCF). This is a finance institution established by the French Development Agency (AFD), the European Investment Bank (EIB) and the Association of European Development Finance Institutions (EDFI). Norfund was asked to participate in view of our experience with hydropower projects.

Norfund has supported the development, together with TrønderEnergi, of two small hydropower projects in Uganda, namely the Kikagati and Nsongezi projects. It is anticipated that the Kikagati project will be implemented in 2011, and Nsongezi from 2012.

The Kyoto Protocol brought in an important instrument for promoting renewable energy in developing countries – the Clean Development Mechanism (CDM). Three of Norfund's investments received CDM approval in 2010: SN Power' wind farm in Chile, the hydroelectric power station in Bugoye (Uganda) and Green Resources (Tanzania) which was the first company to register carbon credits generated from agriculture and forestry.

Financial institutions: Norfund invests in or provides loans to banks, micro-finance institutions and other financial institutions in poor countries. The main aim is to extend the range of loans and other financial services to small and medium-sized enterprises (SMEs) and to individuals who would not otherwise have access to such services.

In 2010, investments totalling NOK 169.7 million were made in six financial institutions. Two of these were new projects for Norfund, while four were capital increases to companies that were already part of the investment portfolio. The first of the new investments is the Family Bank in Kenya, where Norfund invested NOK 18 million in equity. The other new investment is a mezzanine loan to Brac Bank in Bangladesh. Both of these banks focus on SME-clients and the growing private markets, and the new funds are earmarked for further work in these segments. The projects into which Norfund chose to infuse new capital are DFCU in Uganda with a loan of NOK 57.7 million, Hattha Kaksekar in Cambodia with a loan of NOK 12.2 million, and Socremo and Banco Terra in Mocambique, with equity capital injections of NOK 12.6 million and NOK 29 million in Socremo and Banco Terra, respectively.

SME funds: Small and medium-sized enterprises play a key role in the build-up of a smoothly functioning business sector and local workplaces. However, in developing countries these enterprises often have very limited access to capital. Private equity funds that can offer risk capital are therefore an important part of the financial industry in these countries. Norfund invests directly in such funds.

In 2010, Norfund invested a total of NOK 152.7 million in three different SME funds. In Bangladesh, Norfund played a central role in the establishment of the country's first SME fund, Frontier Fund with NOK 58.6 million in equity. In addition, NOK 29.3 million of equity was invested in the regional South-Asian fund ASEA II. In Africa, Norfund invested NOK 64.9 million in the Agri-Vie fund, which focuses on agriculture and food production in sub-Saharan Arica. Both funds are managed by highly experienced managers and will mainly invest in established companies with a growth potential.

Kenyan Craft Silicon is among the more than 200 portfolio enterprises in the funds in which Norfund has invested. It is a software company that develops integrated banking systems as well as systems for microfinance institutions and Islamic banks. Today they have 131 employees and are responsible for over 90 per cent of Kenya's IT exports. In 2010 they were among the winners of the Africa Awards for Entrepreneurship.

Industrial partnerships: Norfund's industrial partnership investments are equity investments in projects in which traditional investors will not enter due to perceived high risk, and also newly established companies and other projects which carry a high risk but yield considerable development effects. In this kind of investment, Norfund's competence and role as an active owner is just as important as the financing itself. In this area Norfund only makes new investments in individual projects in southern and eastern Africa.

In 2010, Norfund committed a total of NOK 189.3 million in industrial partnerships. Eight investments totaling NOK 111.2 million were made in individual companies. A further NOK 78.1 million was provided to increase the capital of European Financing Partners (EFP) – a collaboration between the European DFIs for co-financing projects. The main part of EFP's investments are made in Africa and in LDCs.

Four completely new projects started up in 2010, and capital was supplied to three projects that already formed part of Norfund's portfolio at the start of the year. The largest single investment was made in Agrica, a large-scale rice plantation in Tanzania, where Norfund supplied NOK 60.8 million in capital. Much of the funding was used on upgrading the machinery and increasing the production capacity. Cooperation with local small-scale farmers and improved seed and production methods have also been given priority.

Two new investments were made in tourism. One was in the Norwegian-owned company Basecamp Explorer. Norfund has invested equity of NOK 9 million into the company's eco-tourism project in Kenya. In addition, Norfund provided equity and loans totaling NOK 28.7 million to the TPS Rwanda hotel chain.

Investments in Casquip Starch (Swaziland) were increased through providing fresh equity and loans amounting to NOK 5.5 million to develop the cassava plantation and the associated starch production factory. The Matanuska banana plantation was granted a new mezzanine loan of NOK 4.9 million.

Grant facility programme

Norfund's grant facility is aimed at ensuring sustainability and strengthening the development effects of the investments. The facility is intended to offer professional and technical assistance over and above what would normally be expected of a private investor, and to promote investment in developing countries, support project development and contribute to improved and more responsible business operations in established projects.

In 2010 Norfund administered NOK 34 million via the grant facility, of which NOK 11 million was allocated to NMI. The scheme devoted NOK 12.2 million to project development, NOK 3.5 million to strengthen the development effects of Norfund's projects and NOK 1 million to development of the local communities nearby the projects. The remaining funds were transferred for allocation in 1st quarter 2011. The largest initiatives in 2010 include project development in the field of renewable energy, with ten different projects receiving support in 2010. Activity in this area is particularly high in East Africa, with major projects in Tanzania, Mozambique and Uganda. Financial support was also provided for preliminary work on establishing an East African stock exchange, inspired by the Scandinavian model. In addition, a survey was conducted of local opinion regarding the switch from coffee to avocados in the Africado project, and support was given to training local farmers in the vicinity of Agrica's rice plantation in Tanzania.

Information Office
The Information Office for Private Sector Development in Developing Countries was established in conjunction with the Norwegian Agency for Development Cooperation (Norad) to offer first line support for inquiries from Norwegian players who want to invest in developing countries. In 2010 the office received 270 new inquiries, a slight decrease from the previous year.

2.2. Exits
Norfund has exited four investments in 2010, of which two were investments in funds: the Vietnam Equity Fund and Horizonte BiH fund, one was an equity investment in Craft Silicon, and one was a loan to GrameenPhone.

Norfund invested a total of EUR 876 360 in the Vietnam Equity Fund and has received EUR 1 808 092, at an average annual internal rate of return (IRR) of 106 per cent. By means of this investment, Norfund has contributed equity to the development of the Vietnamese business sector during an important restructuring period in the country's development.

Horizonte BiH was one of Norfund's earliest investments, with investments in Bosnia Hercegovina, which were challenging markets. Norfund's total investment amounted to EUR 357000, and EUR 71000 was paid back. From a financial aspect this has been unsuccessful, with an average annual IRR of minus 26 per cent.

Craft Silicon is a technological company in Kenya in which Norfund invested USD 2,0 million on behalf of Fanisi Venture Capital Fund pending the establishment of the fund that was to manage the investment. In 2010 the investment was sold to Fanisi at an agreed price of USD 2.1 million. Today Craft Silicon is one of Fanisi's portfolio companies.

In 2004 Norfund made a loan of USD 10 million to GrameenPhone as follow-up to earlier loans originally extended by Norad and which Norfund had taken over in 2001. Norfund's loan has been repaid with the final repayment in 2010, and has had an annual IRR of 9 per cent. Norfund's loan was important to secure bank financing for Grameenphone in 2004, thereby contributing to further development of the company. Today Grameenphone, in which Telenor has a 55.8 per cent ownership stake, is the largest mobile phone operator in Bangladesh and the country's largest taxpayer.

2.3. Financial risk
In keeping with Norfund's development policy goals, priority is given to investments in countries in which high risk characterises the framework conditions, markets and companies. There is also considerable counterparty risk associated with many of Norfund's investments. In general, investments have a medium time horizon from seven to ten years, often with limited opportunities for financial exit during that period. Also, considerable credit risk is associated with the loans. Norfund has procedures to assess risk prior to investment decisions and for risk management during the investment period.

To a great extent our investments are made in foreign currency, mainly US dollars, but also in Euros and South African Rand, while Norfund's financial results are reported in Norwegian kroner. Some investments are also subject to exchange rate risk between Norfund's investment currency and the local currencies in which the cash flows of the enterprises are denominated. According to our mandate, it is unnecessary to secure the value of the portfolio in Norwegian kroner, since we will reinvest the money outside Norway. Norfund has investment commitments in foreign currencies while payments from our reserves in Norwegian kroner often take place at a later date and at an unknown rate of exchange. In order to manage this risk, a portion of the investment resources is retained as a buffer in Norges Bank.

In Norfund's committed portfolio, direct equity investments account for 52 per cent, indirect equity investments through funds constitute 31 per cent and loans 17 percent. 37 percent is invested in sub-Saharan Africa and 38 per cent in the LDCs, excluding investments in Statkraft Norfund Power Invest (SN Power) (the proportion of LDCs in the whole portfolio stands at 24 per cent). The risk profile in our portfolio is in accordance with our mandate, which requires us to contribute to development by establishing viable, profitable operations that would otherwise not be initiated because of high risk. Write-downs were made in the case of three out of 37 loans, one of which is non-performing. Write-downs total 0.4 per cent of the total principal of loans made by Norfund.

2.4. Development impacts
Economic growth is essential to eradicate poverty and business activities are therefore of key importance. Norfund promotes economic development by investing in projects and businesses that would not otherwise get off the ground, in LDCs and in sectors where there is a marked lack of capital. The development impacts of the projects in which Norfund invests include jobs, tax revenues, transfer of expertise and technology, improvement of the environment and social circumstances, as well as multiplier effects. Responsibly-run companies that demonstrate the ability to survive in the market create the greatest developmental impacts, since they are a vehicle for sustainable economic growth.

In addition, Norfund's aim is to be an active owner and to provide the enterprises with relevant expertise. Norfund contributes to improved management and business practices in these enterprises through Board participation and close project monitoring as well as better health, safety and environment systems. This increases the companies' viability and as a result enhances development effects. Norfund also makes use of it's grant programme to increase developmental impacts of it's investments.

By the end of 2010 Norfund has investeda total of NOK 5.85 billion in projects in Norfund's portfolio. Enterprises in which Norfund had invested employed approximately 165 000 people. Women accounted for 32 per cent of the total number employed. Moreover, NOK 2,7 billion was paid in corporation tax, licences and the like to local authorities. This is considerably less than in 2009 due to the fact that Norfund in 2010 realized the investment in GrameenPhone. Grameenphone paid NOK 2.8 billion in taxes etc. in 2009. In the companies in which Norfund has invested equity, Norfund's weighted share of corporate income tax amounts to NOK 36 million. This is a relatively low figure because many of the companies in which Norfund has invested equity are at an early phase of development.

In 2010 SN Power had total value added of NOK 1 682.9 million. Salaries and other employee benefits amounted to 7.8 per cent, and 6,4 per cent attributable to taxes and levies to national authorities. SN Power's activities resulted in a reduction of 1.6 mill. tonnes in CO_2 emissions, and altogether a reduction in emissions of 24.2 mill tonnes CO_2 has been registered as part of the Kyoto Protocol's Clean Development Mechanism for emission-reduction projects in developing countries. Norfund's weighted reduction amounts to approximately 330 000 tons in 2010.

2.5. Socially responsible investor
Norfund is and shall remain a socially responsible investor with high ethical demands applying to its activities. Norfund promotes investment in countries where working conditions are far from ideal. Our ethical imperative is to devote our influence and expertise to improving working conditions. Norfund ensures that new investment agreements commit partners to striving to achieve international health, safety and environment standards and that companies report

industrial accidents and other serious events. These standards include indigenous peoples' rights, biodiversity, impact on local communities and the core International Labour Organisation conventions.

Health, safety and environment considerations are demanding for all large investment projects, especially large construction projects. Ensuring that essential safety equipment is used and that all those involved, including sub-contractors, comply with routines poses a considerable challenge. Norfund sets requirements for high HSE standards in companies in which we have invested, and we follow up these requirements in Board work and in project reviews. However, Norfund acknowledges that there will always be a risk that these requirements may not be fulfilled at all levels. From time to time accidents may occur even though HSE routines have been followed.

Although targeted efforts towards reducing serious accidents have shown good results, accidents and personal injuries were unfortunately reported in our projects also in 2010. There has, nevertheless, been substantial progress, particularly for SN Power's large construction projects. During the year there was one fatal accident at the Allain Duhangan project in India, but apart from that only minor injuries were reported in connection with power stations. In the rest of the portfolio, there are reported three fatalities. One occurred after a fire in one of Aureos' offices in Bangalore, India. Another took place at a conveyor belt belonging to a waste management company which is a subsidiary of one of Evolution One's portfolio companies in South Africa. The accident is under investigation. The last fatality took place when one of GrameenPhone's system engineers in Bangladesh was hit by an electric current when working at a cellular base station. Investigation had been initiated.

Since Norfund invests in countries in which there is a lack of financial infrastructure and often a challenging bureaucracy, and also because we are always required to invest jointly with partners, Norfund occasionally has to use third-party countries to establish the necessary ownership structures. These are countries/jurisdictions in which it is relatively easy to set up partly-owned companies so that we need spend less time and resources on starting up projects. These are termed offshore financial centers or OFCs.

The use of OFCs gives Norfund a special responsibility for ensuring that we have a full overview of the transactions that take place and that we in no way contribute to tax evasion or unlawful flows of capital. Norfund has worked actively in cooperation with the Ministry of Foreign Affairs to clarify which OFCs can be used and to draw up requirements as to how our investments and those of partner institutions should be organised. In this way we can secure transparency and hinder that our investments promote unlawful flows of capital. In 2010 Norfund neither established new investment funds nor made fund-like investments in companies in closed business jurisdictions in non-OECD countries. Where Norfund has been the prime mover behind the establishment of investment funds, we have, in some cases, been able to move the establishment of funds to an OFC in the OECD. The practical consequences of restrictions on the use of OFCs has resulted in Norfund carrying out less funds investments in Africa than planned and granting more loans instead.

3. ORGANISATION AND OPERATIONS

3.1. Corporate governance

Norfund invests directly and indirectly in private companies in developing countries. In order to deal with challenges related to geography and ownership, Norfund has adopted principles for corporate governance. The prevention of corruption and economic crime is an integral part of Norfund's mandate and activities. Norfund's activities are carried out in accordance with current regulations for financial management in the public sector.

In order to improve project operations there is a clear distinction between Norfund's project leaders and Norfund's representative on the Board. In this way the projects are monitored closely by two independent reporting lines. External experts are also appointed to some Board positions.

3.2. Personnel, organisation and gender equality

Norfund is an enterprise based on expertise with guidelines for recruitment, skills and gender equality. In 2010 we introduced new procedures for follow-up on staff and salaries, and carried out targeted recruitment to strengthen the organisation in line with our strategy.

In 2010 Norfund had 41 full-time positions. At 31 December 2010 there were 45 employees, 17 of whom came from countries other than Norway. Twelve of the staff were employed at regional offices in South Africa, Kenya and Costa Rica.

Sickness absence in 2010 amounted to 3.3 per cent of the total hours of work, and was the equivalent of 313 days. This is approximately 1 per cent less than the figures for 2009. There were no personal injuries or damage to Norfund's material assets.

The proportion of women who were permanent members of the Board totaled 60 per cent. Two out of six in Norfund's management team were women and among employees as a whole the proportion was 31 per cent. Four out of eleven who were engaged in 2010 were women. Norfund has a strong focus on gender equality in personnel policies and we encourage women and people of foreign origin to apply for positions.

3.3. Environmental impact

By integrating environmental considerations into operations, Norfund aims to follow guidelines for a 'green government'. The guidelines require that environmental considerations be integrated into activities, and that a system of ecological management is developed. With this in mind, Norfund's impact on the external environment has been analysed. The largest environmental burden caused by Norfund's own business operations is associated with air travel. In 2010 Norfund's travel resulted in approximately 240 tonnes of CO2 emissions as compared to 253 tonnes in 2009.

4. THE FINANCIAL STATEMENTS

Norfund had a net profit of NOK 182 million in 2010 (NOK 130 million in 2009). Norfund's activity is in the field of investment, and to distinguish revenues from this activity, the share of profit from SN Power Invest has been moved in Norfund's operating revenues to interest income, share dividends and dividends from the investment portfolio. In order to present more clearly the current operating expenses associated with Norfund's activities, a new line item is presented for the total before currency effects on the portfolio and write-downs.

Norfund's income amounted to NOK 221 million (NOK 307 million in 2009). Interest income of NOK 49 million represents an increase from NOK 34 million in 2009, mainly as a result of an increase in the loan portfolio. Realised capital gains derive from the sale of shares in SN Power AfriCA to BKK and the Trønderenergi Group. Dividends from funds and equity investments of NOK 25 million remain at the same level as in 2009. SN Power reported earnings growth in 2010, of whichNorfund's share amounted to NOK 125 million. The growth is largely due to positive financial results from SN Power's activities in the Philippines.

Norfund's operating costs prior to exchange rate adjustment of loans and write-downs remain at the same level as in 2009. Personnel costs increased from NOK 44 million in 2009 to NOK 45 million in 2010. This is due to wage adjustment and a higher number of person-years, although this is partly offset by lower pension costs. In 2010 less external contracting were used than in 2009, but the focus on skills enhancement was intensified. The strengthening of investment currencies led to positive currency adjustment on our loans of NOK 26 million as against a loss of NOK 64 million in 2009. Large write-downs were made on three or four investments in 2010, and funds and equity investments were written down by a total of NOK 27 million in 2010.

Other interest income amounted to NOK 40 million, compared to NOK 41 million in 2009. The profit in 2010 has been transferred to Norfund's surplus fund in line with the instructions governing its operations. Norfund's internal valuations indicate that there is still considerable excess value in the portfolio over and above the recorded values. Norfund's balance at the end of 2010 was NOK 6 790 million (as against NOK 5 908 million at end-2009). The increase is attributable to the owner's transfer of NOK 629 million and the surplus from operations, as well as the positive currency effects in SN Power taken directly to equity. Norfund's equity amounted to NOK 6 747 million (as against NOK 5 871 in 2009). At the end of the year NOK 4 226 million had been disbursed to investments (as against NOK 3 844 in 2009). Norfund disbursed a total of NOK 635 million to investments and had a return of NOK 341 million from investments in 2010. In the opinion of the Board, the annual accounts at 31 December 2010 provide a true and fair view of the company's financial position. The Board confirms that the going concern assumption applies.

5 OUTLOOK FOR THE FUTURE

Norfund's activities and scope for investments in developing countries has improved through efforts targeting the Norwegian investor community. The economic growth now experienced by many developing countries heightens the interest of Norwegian investors. Good financial results in Norfund's portfolio have created a greater understanding of the potential business opportunities. Norfund's efforts to showcase investment opportunities continue in order to achieve the goal of being a catalyst and of increasing total investments in developing countries.

The central government budget for 2011 reveals Norfund's key role in Norwegian efforts to promote renewable energy in developing countries. An additional NOK 415 million for this purpose has been approved for 2011. Here too our function as a catalyst is a key element: the central government budget states that the experiences of SN Power Invest and other investments have shown that one kroner of the development assistance budget used in risk management measures may mobilise as much as ten kroner from commercial investors. The funding will be used to develop new instruments, and to facilitate cooperation with new partners. Initially, a lending programme will be introduced to stimulate the development of new projects in renewable energy. Norfund hopes to see results in the form of an increased number of projects in 2011, but underscores that this, like Norfund's other investment activities, will be a long-term initiative.

The key to success in establishing and following up good investment projects is expertise. Norfund will continue efforts to build up Norway's best professional environment for investment in developing countries. The focus on renewable energy will set the course for future competence building. In addition, Norfund is also examining opportunities to further strengthen its investment activities in agriculture and the agriculturally-related business sector. Local presence is crucial for success, and in 2011 Norfund will open an office in Bangkok, Thailand to ensure close proximity to the projects in South-East Asia.

A lack of equity is a major challenge in developing countries. Norfund will therefore continue to make equity investments that also pave the way for greater influence and active ownership. But there is also an enormous demand for loans, and loan instruments will therefore form a natural part of Norfund's portfolio. Since Norfund works in very challenging markets, considerable uncertainty will be associated with future earnings. In addition, Norfund's potential depends on future regulations related to the use of third party countries.

The Board assumes that the adopted strategy and the four areas of investment activity will be retained. The clear direction of Norfund's work is considered an important factor in efforts to establish the company as an attractive investment partner.

Oslo, 29 March 2011

Kristin Clemet
Chair

Karl-Christian Agerup
Deputy Chair

Borghild Holen

Stein Tønnesson

Mari Skjærstad

Kjell Roland
Manageing Director

PROFIT AND LOSS ACCOUNT

(in 1000s of NOK)	Note	2010	2009
Interest income loans - invested portfolio	1	48 522	34 146
Realised gain on shares	1	9 473	143 298
Dividends received	1	24 924	24 982
Interest and other project income, Norad loan portfolio	1,6	11 557	18 135
Other operating income	1	1 290	4 128
Share of profit/loss associated company	5	124 848	81 813
Total operating income		220 614	306 502
Operating expenses			
Payroll expenses	2	44 506	43 665
Depreciation tangible fixed assets	4	1 111	789
Other operating expenses	2,3	32 340	34 117
Total operating expenses		77 957	78 572
Adjustment for gain/loss on FX, project loans	1	26 440	-63 701
Reversal of write-down(-)/write-down of investment projects	1	-27 287	-65 581
Operating profit/loss		141 810	98 648
Other interest income		39 669	41 027
Other financial income		5 601	369
Other financial expenses		4 463	9 779
Profit/loss financial items		40 807	31 617
Profit before tax		182 617	130 265
Tax	11	-551	-728
Profit/loss for the year		182 067	129 537
Transfers			
Transferred to surplus fund	13	182 067	129 537
Transferred from surplus fund		0	0
Total allocations		182 067	129 537

BALANCE SHEET

(in 1000s of NOK)	Note	2010	2009
ASSETS			
FIXED ASSETS			
Tangible fixed assets			
Operating equipment, fittings and fixtures, tools etc.	4	2 978	3 065
Total tangible fixed assets		2 978	3 065
Financial fixed assets			
Investments in associated companies	5	2 841 228	2 651 161
Total financial fixed assets		2 841 228	2 651 161
Total fixed assets		2 844 206	2 654 227
CURRENT ASSETS			
Receivables			
Other receivables	6	47 520	29 694
Norad loan portfolio	6	0	0
Total receivables		47 520	29 694
Investments			
Capitalised project development costs	7	3 604	1 498
Loans to investment projects	1,8	645 429	542 957
Equity investments	1,9	1 305 924	1 050 388
Total investments		1 954 958	1 594 842
Bank deposits, cash and cash equivalents			
Bank deposits	12	1 943 770	1 629 583
Total bank deposits, cash and cash equivalents		1 943 770	1 629 583
Total current assets		3 946 248	3 254 119
Total assets		6 790 453	5 908 346

(in 1000s of NOK)	Note	2010	2009
EQUITY AND LIABILITIES			
EQUITY			
Called up and fully paid share capital			
Primary capital	13	3 801 750	3 330 000
Reserve capital	13	1 477 250	1 320 000
Total called up and fully paid capital		5 279 000	4 650 000
Retained earnings			
Surplus fund	13	1 468 176	1 220 891
Total retained earnings		1 468 176	1 220 891
Total equity		6 747 176	5 870 891
LIABILITIES			
Provision for liabilities and charges			
Pension commitments	2	7 162	8 935
Total provisions for liabilities		7 162	8 935
Other long-term liabilities		0	0
Current liabilities			
Accounts payable		2 716	1 667
Unpaid government charges and special taxes		3 556	3 099
Unused funds (Grant facility)	14	25 590	18 436
Other current liabilities		4 254	5 319
Total current liabilities		36 115	28 521
Total liabilities		43 277	37 456
Total equity and liabilities		6 790 453	5 908 346

Oslo, 29 March 2011

Kristin Clemet
Chair

Karl-Christian Agerup
Deputy Chair

Borghild Holen

Stein Tønnesson

Mari Skjærstad

Kjell Roland
Manageing Director

CASH FLOW STATEMENT

(Figures in 1000s of NOK)	Note	2010	2009
CASH FLOW FROM OPERATIONS			
Profit before tax		182 067	129 537
Ordinary depreciation	4	1 111	789
(Reversal of write-down)/Write-down of investment projects		26 370	64 526
Differences in pension costs and receipts/disbursements, pension scheme		-2 141	2 803
Share of profit/(loss) associated company	5	-124 848	-81 813
Effect of exchange rate changes		-18 902	64 242
Change in other accruals		-20 990	10 358
Net cash flow from operations		42 667	190 443
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investment in tangible fixed assets	4	-1 113	-2 519
Proceeds of sales/repayment of shares/interests recorded at cost price		151 363	211 932
Disbursement in connection with purchase of shares/interests in other enterprises		-437 375	-326 809
Disbursement of investment loans		-198 073	-291 597
Repayment of principal, investment loans		120 845	89 757
Repayment other investments		0	0
Net cash flow from investment activities		-364 352	-319 235
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new short-term debt	14	34 000	92 000
Repayment of long-term debt		0	0
Disbursements of short-term debt	14	-27 127	-103 375
Increase in/repayment of equity	13	629 000	585 000
Net cash flow from financing activities		635 873	573 625
EXCHANGE RATE CHANGES, CASH AND CASH EQUIVALENTS			
Net change in cash and cash equivalents		314 189	444 833
Bank deposits, cash and cash equivalents at 1 January		1 629 583	1 184 750
Bank deposits, cash and cash equivalents at 31 December	12	1 943 770	1 629 583

ACCOUNTING PRINCIPLES

The 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

The financial statements are presented in compliance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles in effect at 31 December 2010.The financial statements provide 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, the going concern assumption, 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. A more detailed account of the accounting principles is provided below. When actual figures are not available at the time the accounts are closed, generally accepted accounting principles require management to make the best possible estimate for use in 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 that is not temporary, the fixed asset will be subject to a write-down. Investments are valued in accordance with IPEV's valuation guidelines.

Some exceptions are made to the general valuation rules in accordance with generally accepted accounting principles. Comments to these exceptions can be found in the 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 that are probable and quantifiable are expensed. The segmentation 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.

Gains on the sale of shares/interests in other companies are recorded in the year in which the sale takes place. Gains from funds are recorded as dividend. Interest is recorded as and when it is 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 Norges Bank and other Norwegian banks is recorded as financial income. The profit or loss on matured forward contracts for portfolio hedging purposes are recorded in their entirety against financial income or other financial expenses.

Associated companies

Associated companies are enterprises in which Norfund has substantial influence, but which are not subsidiaries or joint ventures. Associated companies are incorporated in the accounts according to the equity method. Norfund's share of income from associated companies is incorporated 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 an associated company in accordance with generally accepted accounting practice. Where final figures are unavailable, estimates of the expected result are used.

Equity investments

Norfund normally treats its investments in other companies as current assets. In other words, the equity method is not used even though Norfund's equity interests endow it with considerable influence. This is because the purpose of the institution's investments is to dispose of all or part of each investment, normally after three to 10 years. This is in accordance with Norfund's object and with the provisions of the Accounting Act and generally accepted accounting practice. Under generally accepted accounting practice, such investments are temporary by their very nature and should therefore be included under current assets.

Equity investments in companies are valued at the lower of cost or market value, on the basis of 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 write-downs are made. 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 foreign currency.

"Committed investments" implies an external obligation to pay a specified amount.

Norfund often utilises various instruments – such as options, conversion options and so forth – in investment agreements in order 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 investments and made by the institution (project loans)
- loans to enterprises in developing countries, taken over 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 when they are paid.

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

Currency items
Monetary items are recorded at the exchange rate prevailing on 31 December. Unrealised FX gains/losses on loans is included in the operating profit.. 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 by means 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 of SN Power.

Bank deposits, cash 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 on the basis of the estimated economic life of the asset in question.

Leases
Rent paid under leases not recorded in the balance sheet is 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 framework 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 of the accounts.

Related parties
Norfund defines Statkraft Norfund Power Invest AS as a related party.

Deferred tax and tax expense
Norfund is exempt from tax pursuant to a separate section in the Taxation Act. In certain countries Norfund is obliged to pay withholding tax on interests and dividends.

Cash flow statement
The cash flow statement is prepared using the indirect method.

Pension liability and costs
The institution has pension plans known as defined benefit plans which entitle employees in Norway to defined future benefits. The pension 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 value. 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 plan 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 tax is made on the basis of 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 costs, which consist of gross pension costs less estimated return on plan assets adjusted for the effect of changes in estimates and pension plans, is classified as an ordinary operating cost and included in the payroll expenses item. Payroll taxes are calculated on contributions paid to the pension plans.

The company has pension plans for employees at the regional offices outside Norway. This is mainly contribution plans.

NOTES

NOTE 1 - SEGMENT INFORMATION

Segment information by business area:
The table below presents an overview of the results of Norfund's investment departments, the loan portfolio taken over 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.

	2010						
(Figures in 1000s of NOK)	NORFUND total	SME Funds	Financial institutions	Renewable energy	Industrial partnerships	Shared functions	Other activity
OPERATING INCOME							
Interest - invested portfolio	49 449	0	35 291	3 660	9 571	0	0
Realised gains	9 473	0	204	8 775	494	0	0
Dividends received	24 924	19 683	5 241	0	0	0	0
Other project revenues	11 920	39	770	58	415	7	0
Profit from assosiated companies	124 848	0	0	124 848	0	0	0
Total operating income	220 614	19 722	41 506	137 341	10 481	7	0
OPERATING EXPENSES							
Payroll expenses	-44 506	-6 477	-6 940	-4 727	-12 659	-12 420	-1 000
Depreciation tangible fixed assets	-1 111	-10	-10	0	0	-1 092	0
Loss on sale of operating assets	0	0	0	0	0	0	0
Other operating expenses	-32 340	-3 688	-3 191	-3 931	-3 497	-17 439	-587
Allocation of shared expenses	0	-7 023	-7 605	-4 308	-10 457	30 950	-743
Total operating expenses	-77 957	-17 197	-17 745	-12 966	-26 613	0	-2 329
Gain/loss on FX, project loans	26 440	0	23 586	555	2 299	0	0
(Provision for)/reversal of loss on projects	-27 287	-16 092	-14 160	0	2 965	0	0
Profit/(loss) on operations	141 810	-13 567	33 187	124 930	-10 869	7	-2 329
Net financial items	40 807	8 248	4 228	9 497	4 780	14 089	0
Profit before tax	182 617	-5 319	37 415	134 427	-6 089	14 096	-2 329
Tax	-551	0	-551	0	0	0	0
Total profit/(loss)	182 067	-5 319	36 864	134 427	-6 089	14 096	-2 329

**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.

	2009							
Loan portfolio*	NORFUND total	SME Funds	Financial institutions	Renewable energy	Industrial partnerships	Shared functions	Other activity	Loan portfolio*
927	35 168	0	21 434	2 693	10 019	0	0	1 023
0	143 298	0	0	143 298	0	0	0	0
0	24 982	21 774	3 208	0	0	0	0	0
10 631	21 241	146	1 503	0	2 474	5	0	17 112
0	81 813	0	0	81 813	0	0	0	0
11 557	306 502	21 920	26 145	227 804	12 493	5	0	18 135
-283	-43 665	-5 304	-6 171	-4 040	-11 700	-14 974	-1 015	-461
0	-789	0	0	0	0	-789	0	0
0	0	0	0	0	0	0	0	0
-8	-34 117	-1 553	-3 003	-3 710	-7 730	-17 205	-899	-17
-815	0	-8 094	-7 611	-4 724	-10 665	32 968	-692	-1 182
-1 106	-78 572	-14 951	-16 785	-12 474	-30 095	-1	-2 607	-1 660
0	-63 701	0	-44 501	-8 127	-11 073	0	0	0
0	-65 580	-51 328	-21 548	0	7 296	0	0	0
10 451	98 648	-44 359	-56 689	207 203	-21 379	4	-2 607	16 474
-35	31 618	15 630	10 281	526	3 915	1 291	0	-25
10 416	130 265	-28 729	-46 408	207 729	-17 464	1 295	-2 607	16 449
0	-728	0	-728	0	0	0	0	0
10 416	129 537	-28 729	-47 136	207 729	-17 464	1 295	-2 607	16 449

Segment information by geographical region (2010):

(Figures in 1000s of NOK)	Africa	Asia	Latin America	Europe	Global	Write-downs	Total
BALANCE SHEET							
Equity investments	795 086	356 148	245 311	10 390	34 650	-135 660	1 305 924
Loans to investments	451 505	114 658	81 579	0	0	-2 313	645 429
Total balance sheet	1 246 591	470 806	326 890	10 390	34 650	-137 973	1 951 353
Interest income loans	35 655	7 988	4 879	0	0		48 522
Realised gain on shares	7 718	0	1 755	0	0		9 473
Dividends received	17 561	5 900	1 463	0	0		24 924
Directors' fees received	47	0	0	0	30		77
Fees	910	260	35	0	9		1 213
Repayments of principal, loan portfolio	331	10 300	0	0	0		10 631
Interest paid on loan portfolio	12	915	0	0	0		927
Profit from assosiated companies	0	106 121	18 727	0	0		124 848
Total operating income	62 234	131 483	26 859	0	39	0	220 614
Gain/loss on FX, project loans	23 362	-228	3 306	0	0		26 440

NOTE 2 – PAYROLL EXPENSES

Wages, salaries and other payroll expenses

(Figures in 1000s of NOK)	2010	2009
Wages and salaries	32 139	29 525
Directors' fees	525	525
Payroll tax	4 155	3 960
Personnel insurance	639	594
Pension expenses	4 015	7 334
Other benefits	2 907	2 482
Payroll expenses reimbursed	125	-754
Total wages, salaries and other payroll expenses	44 506	43 665

Remuneration of senior personnel

	Managing director	Chair	Directors
Wages and salaries/fees	2 029 262	120 000	405 000
Pension contributions	519 032	0	0
Other remuneration	68 456	0	0
Total	2 616 750	120 000	405 000

Managing director has in 2010 received salery for two unused holliday weeks. In total NOK 75 313

The managing director is not covered by any agreement for pay after termination of employment beyond the ordinary three-month period of notice. The chair does not have an agreement for pay after termination of employment. Neither the managing director nor the chair has a bonus agreement.

The chair received NOK 120 000 for boardroom work for Norfund in 2009. The deputy chair received a fee of NOK 90 000. Other directors received fees of NOK 75 000 for 2009, and alternate directors received NOK 45 000 each.

The company has no share or option schemes for its employees, and there are no plans for such schemes.

Norfund have a variable salary component (bonus) whitch applies for all except managing director. The scheme i sin total 2,5 per cent of Norfunds salary costs. Bonus is paid for extraordinary efforts.

Fees in the amount of NOK 498 125 (NOK 596 953 in 2009) were recorded for the auditor, of which NOK 336 157 (NOK 326 250 in 2009) related to auditing that is required by law, NOK 0 (NOK 0 in 2009) for other attestation services and NOK 161 968 (NOK 270 703 in 2009) for services other than auditing. No fees were paid to the auditor for tax advice. All figures include VAT.

Employees

The company had 45 employees at 31 December 2010. The number of person-years was 41.

Pensions

Pursuant to the Norwegian Act on Mandatory Occupational Pensions, Norfund is required to have an occupational pension scheme. For all employees in Norway the scheme is with defined future benefits. The size of the benefits depends primarily on the number of qualifying years, pay level on achieving retirement age and the size of National Insurance benefits. The full pension entitlement is based on 30 qualifying years, and is equivalent to 70 per cent of pay up to a maximum of 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. This scheme, which is funded from operations, consists of 66 per cent of pay above 12 G and uses a retirement of age of 67 in the calculation base. On termination of employment or on reaching retirement age, employees receive a settlement for the value of the amount saved. The cost of this scheme is included in the calculation of pension expenses.

Employees at Norfund regional branches in South Africa, Kenya and Costa Rica have a pension scheme based on annual contributions. Norfund have no obligations beyond the annual contributions.

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

Pension expenses, resources 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 2010, 39 persons were covered by the scheme.

Financial assumptions

	2010	2009
Discount rate	4.00 %	4.40 %
Expected return on pension assets	5.40 %	5.60 %
Wage adjustment	4.00 %	4.25 %
Pension adjustment	3.75 %	4.25 %
Adjustment of the basic amount in the National Insurance System (G)	3.75 %	4.25 %
Turnover	9.00 %	9.00 %
Expected early retirement at age 62 (AFP)	0.00 %	0.00 %
Payroll tax	14.1 %	14.1 %

(Figures in 1000s of NOK)	2010	2009
Net present value of pension earnings in the period	5 965	5 556
Capital cost of previously earned pensions	1 421	1 196
Expected return on pension assets	-1 402	-1 455
Administrative costs	138	118
Recorded variances in estimates	-2 970	1 156
Accrued payroll tax[1]	863	764
Net pension liabilities for the year incl. payroll tax	4 015	7 334

1 Payroll tax is calculated on the amount paid in.

Calculated pension liabilities	Insured	Uninsured	2010
Estimated pension liabilities	28 668	5 328	33 997
Estimated pension assets	27 719		27 719
Net pension liablities 31 December	949	5 328	6 277
Unrecorded variances in estimates	0	0	0
Accrued payroll tax[1]	134	751	885
Net pension liablities 31 December	1 083	6 079	7 162

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

Reconciliation opening/closing balance	2010	2009
Capitalised net pension liabilities 1 January incl. payroll tax	8 935	6 069
Net pension expenses for the year incl. payroll tax	4 015	7 334
Pensions paid, early retirement / unfunded, incl. payroll tax	0	0
Investment in pension assets, etc., incl. payroll tax	-5 788	-4 468
Capitalised net pension liabilities 31 December incl. payroll tax	7 162	8 935

Nordea Livs Asset Mix*	30-09-10
Property	18,9 %
Shares	12,1 %
Short-term bonds/certificates	43,3 %
Long-term bonds	24,1 %
Other	1,6 %
Total financial assets	100 %

**) known values at calculation date*

NOTE 3 – OTHER OPERATING EXPENSES

(Figures in 1000s of NOK)	2010	2009
Seminars, conferences, upgrading of competencies	1 807	1 234
Travel costs	6 719	6 395
External assistance	13 560	17 433
Costs, tender guarantee scheme	364	623
Rent, incl. shared costs	5 105	4 394
Advertising/printing	888	695
Other expenses	3 897	3 343
Total operating expenses	32 340	34 117

NOTE 4 – FIXED ASSETS

(Figures in 1000s of NOK)	Operating equipment fixtures, etc.	Permanent building fittings and fixtures	Vehicles	Works of art	Total
Cost price, ordinary depreciation and write-downs					
Cost price at 1 January	2 327	739	691	67	3 823
+ acquisitions during the period	821	67	256		1 144
- disposals during the period			-289		-289
Cost price at 31 December	3 148	806	657	67	4 677
Accumulated ordinary depreciation at 1 January	341	39	376	0	757
+ ordinary depreciation for the period	833	162	116		1 111
- accum. ordinary depreciation, operating assets sold	0	0	-169		-169
Accumulated ordinary depreciation at 31 December	1 174	202	323	0	1 699
Write-down of operating assets at 1 January	0	0	0	0	0
+ 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 December	0	0	0	0	0
Book value for accounting purposes at 31 December	1 973	604	334	67	2 978

Operating assets, fixtures and fittings etc. are depreciated on a straight-line basis. The expected life of operating assets is 3-4 years. Office fixtures and fittings are depreciated over the life of the lease. Works of art are not depreciated. Vehicles are depreciated on a straight-line basis over 8 years.

NOTE 5 – INVESTMENT IN ASSOCIATED COMPANY

(Figures in 1000s of NOK)	Statkraft Norfund Power Invest AS
Formal information	
Date of acquisition	27-06-02
Registered office	Oslo
Shareholding	40 %
Voting share	40 %
	(Associated company)
Information relating to the date of acquisition	
Acquisition cost	2 136 827
Information relating to the figures for the year:	
Opening balance 1 January 2009	2 651 161
Acquisitions during the year	0
Disposals during the year	0
Value added share issue	0
Share of annual profit/(loss)[1]	124 848
Share of adjustments for the year charged directly against equity in SNPI	65 219
Closing balance, 31 December 2009	2 841 228

1 Share of results for the year is based on final figures from the associated company.

Committed investments in associated company

Norfund and Statkraft have entered into a new shareholders' agreement whereby Norfund has the option of selling out, partially or wholly, from SN Power Invest as of 31st of March 2010, year-end 2013, 2014 and 2015. Statkraft has an option to increase its holding from 60 to 67 per cent by 2015 at the latest. The shareholder agreement commits Norfund to injecting USD 94 million annually to new investments from 2010 up to and including 2015, unless Norfund decides to sell down.

Norfund had by year end 2010 committed 50 MUSD to SNPI investment in Brazil and India.

Key figures from SN Power Invest AS's consolidated accounts

Key figures from SN Power Invest's consolidated accounts are presented below.

PROFIT AND LOSS ACCOUNT

Figures in 1000s of NOK	SN Power group	
	2010	2009
Operating income	690 783	746 373
Operating expenses	779 444	547 577
Operating profit/(loss)	-88 661	198 795
Net financial items	425 694	125 871
Ordinary profit before tax	337 033	324 667
Tax on ordinary profit	-15 236	-64 345
Ordinary profit	321 797	260 322
Net profit	321 797	260 322
Minority interest	9 676	55 791
Majority interest	312 121	204 532

BALANCE SHEET

Assets	2010	2009
Intangible assets	322 448	270 985
Tangible fixed assets	4 157 868	3 908 278
Financial fixed assets	3 787 480	2 834 956
Total fixed assets	8 267 796	7 014 219
Inventories	3 625	3 784
Receivables	236 060	333 974
Investments	12 796	0
Cash and cash equivalents	1 740 499	2 002 089
Total current assets	1 992 980	2 339 847
Total assets	10 260 776	9 354 066

Equity and liabilities	2010	2009
Called up and fully paid share capital	6 539 561	6 450 564
Retained earnings	563 456	177 339
Total equity	7 103 017	6 627 903
Minority interest	538 566	388 876
Provisions for liabilities and charges	328 825	103 155
Other long-term liabilities	1 862 962	1 824 426
Current liabilities	427 406	409 707
Total liabilities	2 619 193	2 337 287
Total equity and liabilities	10 260 776	9 354 066

SN Power reports in accordance with International Financial Reporting Standards (IFRS), and has been using the US dollar (USD) as its functional currency since fiscal 2008. The profit/loss is converted to NOK at the average exchange rate for the year of USD 6.04 and the balance sheet at the rate of USD 5,86 prevailing at 31 December 2010.

The annual accounts for the associated company 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 Norwegian Accounting Act, receipts (interest and principal repayments) from this portfolio are recorded as income in Norfund's accounts.

(Figures in 1000s of NOK)	Opening loan balance 01-01-10	Repayments received 01.01-31.12	Repayments interest 01.01-31.12	Depreciation during året	Gain/loss on exchange during året	Closing loan balance 31-12-10
TOTAL	32 604	10 631	927	4 064	0	17 909
						16109
Depreciation	32 604					-17 909
Book value	0					0

Norfund has valued the loan portfolio at 31 December 2010 at NOK 2.078 million.

Total receipts loan portfolio

(Figures in 1000s of NOK)	Repayments	Interest	Total
2010	10 631	927	11 557
2009	17 112	1 023	18 135
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	333 551	51 402	384 953

Other receivables

(Figures in 1000s of NOK)	Other receivables	
	31.12.10	31-12-09
Receivable/Right[1]	8 078	4 500
Other receivables	39 442	25 194
Total receivables	47 520	29 694

1 In connection with the sale of Aureos Capital, Norfund received a cash settlement and a right to a share of future carried interests in the first-generation funds. The right is valued in relation to the value of the first-generation funds at 31 December 2010.

Other receivables. All receivables fall due within one year.

NOTE 7 – CAPITALIZED PROJECT DEVELOPMENT COSTS

(Figures in 1000s of NOK)	2010	2009
Project		
Kikagati HPP	3 156	1498
Nsongiezi Hydro Power	448	0
Total capitalized project development costs	3 604	1498

Project development costs include accrued costs for developing projects to a stage where investment decision can be made. The capitalized costs will be converted to investment if an investment decision is made. In case not, the capitalized costs will be written down in the profit and loss statement. Capitalized costs require at least 50 % probability for a positive investment decision.

Increased project development is part of Norfunds increased efforts on Renewable energy and is the Project development facility.

Norfund has a licence together with TrønderEnergi in connection with the Kikagati project. This has previously been defined as an intangible asset in Norfunds accounts. The licence is part of the project development costs and is therefor been reclassified to this category.

NOTE 8 – LOANS TO COMPANIES IN THE INVESTMENT PORTFOLIO

(Figures in whole 1000s)	Currency	Book value[1] (in currency)	Book value[1] (NOK))
Safa Marine Industries Ltd	EUR	56	438
LAAD	USD	11 667	68 328
Inversiones Nicafish S.A	USD	1 127	6 603
Trønderpower Limited (Bugoye HPP)	USD	6 962	40 773
Locfund Ltd	USD	1 225	7 174
Brac NGO	BDT	391 257	32 091
EXIM Bank (Tanzania) Ltd.	USD	1 200	7 028
Abacus	UGS	3 864 257	10 500
Samic Ltd	USD	214	1 255
AMRET Co. Ltd.	KHR	8 252 000	11 883
Brac Africa Loan Fund	USD	2 540	14 875
Euro TechBridge AS	NOK	2 500	2 500
Casquip Starch (Pty) Ltd	ZAR	28 543	25 015
Capitec Bank Limited	ZAR	150 000	132 540
Scandinavian Water Technology AS	NOK	2 500	2 500
European Financing Partners Co-invested[2]	EUR	405	3 167
European Financing Partners Co-invested[2]	USD	3 251	19 040
Green Resources AS	USD	3 500	20 497
Sathapana Ltd.	USD	2 833	16 593
Pride Architects AS	NOK	2 000	2 000
Africado Ltd.	EUR	670	5 234
Real People Investment PTY	ZAR	100 000	88 360
Hattha Kaksekar Ltd	KHR	8 478 000	12 208
MEZZANINE LOANS			
EXIM Bank (Tanzania) Ltd.	USD	5 000	29 282
DFCU	USD	3 000	17 569
Afrinord Hotel Investments A/S	EUR	1 160	9 063
Matanuska Africa Ltd.	USD	1 800	10 542
Matanuska Mozambique Limitada	USD	2 200	12 884
BRAC Bank Limited	BDT	490 000	40 190
Accrual start-up fee loans			-2 389
Total loans to companies			647 742
Provision for bad debts at 31 Dec 2010			-2 313
Book value loans/total interest received			645 429
Committed investment in loans			996 382

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 14.

Some of the loans carry a risk comparable with that of equity investments.

1 Figures at 31 December 2010 and before any write-downs.
2 Loans syndicated by members of European Financing Partners are co-invested. Norfund's holding varies from 1-2 per cent.
Loans have been granted to Olkaria III, CDS II, Care Works, Precision Air, Equity Bank, Maputo Hospital, Milicom, Rabai Power, Zambeef, AFL and PTA Bank.

NOTE 9 – EQUITY INVESTMENTS

Equity investments in funds

(Figures in 1000s)	Currency	Share Holding	Committed investment (in currency)	Historical cost price1 (in currency)	Committed investment (in NOK)	Historical cost price[1] (in NOK)
FEDHA Fund	USD	11.5 %	636	463	4 825	3 812
CAIF	USD	4.0 %	719	719	5 874	5 876
African Infrastructure Fund	USD	1.2 %	242	42	1 414	243
SEAF Trans-Balkan Fund	USD	22.9 %	362	362	2 140	2 140
CASEIF	USD	31.8 %	1 646	1 646	11 397	11 397
Siam Investment Fund II	USD	8.7 %	727	727	4 610	4 609
SEAF Sichuan SME Investment Fund	USD	13.3 %	1 948	1 833	12 191	11 518
Horizon Tech Ventures	ZAR	18.1 %	7 832	2 060	7 089	1 989
Aureos Central America Fund	USD	27.5 %	5 098	5 025	30 888	30 458
Aureos East Africa Fund	USD	20.0 %	5 585	5 472	34 039	33 378
Aureos West Africa Fund	USD	26.0 %	6 573	5 284	37 103	29 554
Aureos Southern Africa Fund	USD	25.1 %	10 073	8 451	56 485	46 987
Aureos South Asia Fund I [2]	USD	50.0 %	1 510	1 210	9 635	7 879
Aureos South East Asia Fund	USD	28.6 %	19 388	17 134	115 560	102 357
APIDC Biotech Fund	USD	7.7 %	2 750	2 750	16 697	16 697
China Environment Fund	USD	10.0 %	1 936	1 695	10 723	9 310
Aureos South Asia Fund (Holdings)	USD	23.5 %	18 252	12 702	109 283	76 778
Business Partners Madagascar SME Fund	EUR	14.1 %	1 200	738	9 689	6 082
Solidus Investment Fund	USD	6.3 %	1 600	1 600	9 322	9 322
Aureos Central America Growth Fund (EMERGE)	USD	14.3 %	2 923	1 932	17 707	11 905
CASEIF II	USD	13.8 %	4 000	2 028	23 792	12 243
Locfund	USD	10.0 %	1 485	1 485	8 740	8 740
The Currency Exchange	USD	2.4 %	10 000	10 000	55 000	55 000
I&P Capital	EUR	13.4 %	3 649	1 637	29 409	13 684
Horizon Equity Partners Fund III	ZAR	9.0 %	26 730	10 300	21 909	7 393
Africap Microfinance Investment Company	USD	7.1 %	3 000	2 494	16 465	13 501
Aureos Latin America Fund (ALAF)	USD	13.6 %	28 303	15 239	171 191	94 688
Seaf Blue Water Growth Fund	USD	20.0 %	5 027	2 410	29 348	14 021
NMI Global Fund [2]	NOK	45.0 %	162 000	81 000	162 000	81 000
NMI Frontier Fund [2]	NOK	45.0 %	108 000	43 200	108 000	43 200
GroFin Africa Fund	USD	9.4 %	14 876	3 470	89 294	22 497
Aureos Africa Fund L.L.C	USD	10.5 %	40 000	16 637	245 633	108 807
Fundo de Investimento Priv.Angola	USD	26.8 %	7 500	389	44 014	2 370
Fanisi Venture Capital Fund SCA	USD	32.3 %	15 000	2 413	88 658	14 946
Cambodia- Laos Development Fund [2]	USD	40.0 %	4 000	580	23 428	3 401
Evolution One Fund	ZAR	7.2 %	50 000	10 503	43 585	8 685
AgriVie Fund	ZAR	9.4 %	75 000	32 064	64 891	26 953
ASEAF II	USD	7.3 %	5 000	0	29 282	0
Frontier Fund	USD	11.3 %	10 000	0	58 564	0
Total invested in funds					1 819 874	953 420

"Committed" means that an external commitment exists for the specified amount. For conversions to NOK, the exchange rate at the time of disbursement is used for the part of the amount that has been paid. The exchange rate at 31 December 2010 is used for the part that has not been disbursed.

1 Figures at 31 December 2010 and before any write-downs.

2 Fund investmetns with more than 35% owner share

Aureos South Asia Fund I (ASAF) was established by CDC and Norfund in anticipation of Aureos South Asia Fund (Holdings) which started operations in January 2006. Thus ASAF I will not invest further, but only manage investments approved up to December 2005. Norfund and CDC co-financed minority holdings in companies in Sri Lanka through ASAF. Norfund's share of individual investments will therefore be less than 25 per cent. Norfund is in process for reducing the owner share to under 35 %.

NMI Global Fund and NMI Frontier Fund is part of the private-public joint project in micro finance (Norwegian micro finance initiative). It was a condition for this joint project that Norfund contributed with as much capital as the private investors combined.

Cambodia Laos Development Fund is a new investment in 2010 with Norfund owner share on 40%. Norfund consider this investment to be a special case because this fund is first of its kind in these countries. Norfund emphasis to develop the local capital market and it was especially challenging to raise other capital. Norfunds investment was vital for closing the funding of the fund.

Equity investments in management companies

(Figures in 1000s)	Currency	Share Holding	Committed investment (in FX)	Historical cost price[1] (in FX)	Committed investment (in NOK)	Historical cost price[1] (in NOK))
AMSCO B.V.	EUR	4.8 %	240	240	1 837	1 837
Lafise Investment Management	USD	20.0 %	2	2	17	17
NMI Portfolio Manager AS [2]	NOK	50.0 %	30 000	30 000	30 000	30 000
European Financing Partners mgm	EUR	7.6 %	25	25	195	195
Angola Capital Partners LLC [2]	USD	50.0 %	250	250	1 417	1 417
Fanisi Venture Management Company [2]	USD	50.0 %	275	25	1 605	141
Total invested in management companies					35 071	33 608

1 Figures at 31 December 2010 and before any write-downs.

2 Joint Ventures with 50% owner share
Angola Capital Partners LLC is a fund management company, where Norfund was one of the promoters. The management company is a joint venture with Banco Africano de Investimento (BAI). The joint venture is established to develop the local capital market. The company is first of its kind in Angola and would not have had financial close without Norfund. Norfund will reduce the owner share at a later stage.

Fanisi Venture Management Companis is a fund management company, where Norfund was one of the promoters. The management company is a joint venture with Armani Capital partners. Norfund will through this investment contribute to Norfunds objectives by further develop the financial markets in eastern Africa and raise capital for small and medium sized enterprises. The company is one of the first venture capital fund managers in eastern Africa, and would not have had financial close without Norfunds participation.

Norfund established in 2008 NMI (Norwegian micro finance initiative) together with KLP, DnB NOR, Ferd and Storebrand. It was a condition for this joint project that Norfund contributed with as much capital as the private investors combined. Norfund owns 50 per cent in the fund manager NMI AS and 45 per cent in the two funds; NMI Global and NMI Frontier. Indirect through NMI AS owns Norfund an additional 5 per cent in both funds. Total committed investment in NMI is NOK 600 million, of which Norfund in total has committed NOK 300 million. Norfunds power of ownership in both the management company and the funds is less than the actual ownership share and the investment have same expected investment period as Norfunds other investments. The investment in NMI is therefore treated as a current investment in Norfunds accounts.

Equity investments in companies

(Figures in 1000s of NOK)	Currency	Share Holding	Committed investment (in FX)	Historical cost price[1] (in FX)	Committed investment (in NOK)	Historical cost price[1] (in NOK)
DFCU Limited	UGS	10.0 %	4 600 000	4 600 000	17 607	17 607
CIFI S.A.	USD	9.3 %	5 000	5 000	31 225	31 225
TPS Afganistan (Kabul Serena Hotel) Ltd.	USD	17.1 %	5 000	5 000	33 785	33 785
Afrinord Hotels Investments A/S	EUR	20.0 %	5 100	50	39 845	392
Micro Africa Ltd II	USD	15.3 %	250	250	1 558	1 558
Banco Terra S.A.	MZN	20.0 %	293 000	133 000	61 277	32 336
TPS Pakistan Ltd.	USD	4.7 %	3 967	3 967	21 161	21 161
Trønderpower Limited (Bugoye HPP)	USD	27.5 %	2 368	2 368	12 551	12 551
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 Limited	KES	0.1 %	61 950	61 950	4 937	4 937
Casquip Starsh (Pty) ltd	SZL	17.1 %	19 000	19 000	13 170	13 170
SN Power AfriCA AS	NOK	19.0 %	67 450	67 450	67 450	67 450
Telecom Management Partner (TMP) Ltd [2]	USD	43.4 %	4 903	4 903	26 298	26 298
Africado Ltd. [2]	EUR	40.0 %	2 000	0	15 625	0
Real People Investment PTY	ZAR	8.9 %	10 000	100 002	-2 094	77 431
Socremo - Banco de Microfinancas S.A.	MZN	18.4 %	126 239	56 383	24 646	12 011
Agrica Limited	USD	24.0 %	10 000	10 000	60 798	60 798
TPS Rwanda Ltd	RWF	11.4 %	1 294 710	993 710	12 690	9 728
Family Bank Ltd	KES	5.6 %	229 500	229 500	18 009	18 009
Basecamp Explorer Kenya Ltd [2]	NOK	40.0 %	9 000	0	9 000	0
Total invested in companies					483 648	454 557

Write-down equity investments at 31 December 2010	-135 660
Book value equity investments	1 305 924

1 Figures at 31 December 2010 and before any write-downs.

2 Equity investmetns with more than 35% owner share

Norfunds has an owner share of 40% in Africado Ltd. The project is an agriculture greenfield project, and the partners had limited access to capital. Norfund consider this to be a special case due to the extra capital constrains which made it necessary for Norfund to go beyond 35 % owner share to get a financial close in the project.

Telecom Management Partner is in liquidation. The company is empty without any activity or employees.
The company is to be considered a settlement company after the sale of Powercom just pending final auditor reports and striking of the company.

Norfund has a 40 per cent owner share in Basecamp Explorer Kenya Ltd. The high ownership percentage was necessary to inject sufficient capital for this Norwegian company to further develop. Investments within the tourism industry has often higher equity share than normal to counteract global market conditions.

NOTE 10 – EXITED INVESTMENTS

Applies for investment projects where Norfund has exited the entire investment.
The table presents realised profits over the entire investment period.

(Figures in 1000s of NOK)	Vietnam Equity fond	Craft Silicon	Horizonte BiH Enterprice Fund
Cost price, paid-in capital	7 093	12 071	2 924
Total reflow from investment	14 639	12 738	583
Gain/(loss) on investment	7 546	666	-2 341
Realised gain	7 377	389	-2 266
Realised FX gain	170	383	-75
Year of first disbursemnt	2005	2009	1998
Investment currency	EUR	USD	EUR
Calculated annual IRR in investment currency	106 %	4 %	-26 %

Loans to GrameenPhone, CIFI og TMP where repaid durring 2010. All loans where repaid entirely.
Norfund still holds equity investments in TMP and CIFI.

NOTE 11 – TAX

Tax costs is withholding tax on dividend and interests from foreign investments.
Norfund is tax exepmted in Norway pursuant to a separate section in the Taxation Act.

NOTE 12 – BANK DEPOSITS, CASH AND CASH EQUIVALENTS

Bank deposits of NOK 1 943 770 411 include NOK 1 908 142 in the blocked tax withholding account. In addition, NOK 25 590 464 of the company's liquid assets are tied up in unused resources. These assets can only be used in accordance with the guidelines established for the application of unused resources (see note 14)

NOK 1 838 831 541 of the company's total bank deposits are placed in Norges Bank.

NOTE 13 – CAPITAL MOVEMENTS

(Figures in 1000s of NOK)	Primary capital	Capital in reserves	Surplus fund	Total equity
Capital at 1 January 2010	3 330 000	1 320 000	1 220 891	5 870 891
Capital added in 2009	471 750	157 250		629 000
Equity adjustment ass. co. recorded directly against equity (see note 5)			65 219	65 219
Net profit			182 067	182 067
Capital at 31 December 2010	3 801 750	1 477 250	1 468 176	6 747 176

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

Of the capital received in 2010, 75 per cent was allocated to primary capital and 25 per cent to legal reserves in accordance with Article 9 of Norfund's instructions. Norfund has received NOK 5 235 million in capital from the Norwgian government, of which NOK 629 million in 2010. NOK 44 million of these where granted by the parliment the 18th of June 2010. The extra granted funds shall be invested in the Renewable energy area.

NOTE 14 – UNUSED FUNDS (NORFUND'S GRANT FACILITY)

Proposition no. 1 to the Storting (2009-2010) provided for the allocation of resources to a grant facility 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.

In 2010 Norfund received NOK 34.0 million in capital for the grant facility. The resources are devoted to developing new projects in sectors and countries with particularly high risk levels and to boosting the development effect of Norfund's investments. Support can be provided for project development, training and transfer of expertise, measures to prevent HIV and AIDS, to promote equal opportunities and to promote health, safety and the environment. The resources are treated as current liabilities, and undisbursed amounts are included in Norfund's liquid assets. When costs are met from the resources, the liability is reduced by an equivalent amount. A total of NOK 27.1 million in costs was charged to the fund in 2010. Residual resources are primarily earmarked for projects in the Balkans.

	Unused funds Norfund		Unused funds Balkans	
	31-12-10	31-12-09	31-12-10	31-12-09
RECEIPTS				
Carried over from previous year	76	1 979	18 362	27 146
Received during the year	34 000	92 000		0
Total receipts	34 076	93 979	18 362	27 146
Income			276	256
DISBURSEMENTS				
General costs				
Fund management	277	-277		-2 346
General follow-up		0	-517	-173
Intervention				
Project development (incl. Energy Initiative)	-12 238	-14 425		0
Boost and support development effects of projects	-3 530	-7 179		0
Boost social responsibility	-1 017	-2 021		0
NMI start-up support	-11 000	-10 000		0
Bugoye start-up support		-60 000		0
Repaid grant funds	683			
Local investment funds				
Follow-up costs		0	-61	-35
Loans to projects		0		-7 175
Total disbursements	-26 825	-93 903	-579	-9 729
Allocated interest income		0	281	688
Non-disbursed resources	7 251	76	18 339	18 362
Total non-disbursed funds at 31 December 2010	25 590	18 436		

At the end of 2010, unused funds Balkans consisted of two outstanding loans of EUR 0.8 million each.

NOTE 15 – DESCRIPTION OF NORFUNDS RISK

Marked and currency risk

Norfund's investments are made in developing countries in which the country itself, markets and companies are characterised by high risk. Future return depend on the ability to manage the opportunities and risk during the investment period.

Norfund's investments are largely made in USD, but in som ecases in other currencies. Since Norfunds's base currency is NOK, its future returns are heavily influenced by the exchange rate between NOK and USD (or other currency where relevant). The various projects in which Norfund invests may also be subject to fluctuations between local currency and USD.

Norfund's investment commitments are largly denominated in USD, while its liquidity assets are placed in NOK-denominated interest bearing accounts in Norges Bank.

FX rates used in conversion

		31.12.10	31.12.09	Change durring the year
US Dollar	USD	5.856	5.777	1.4 %
South African Rand	ZAR	0.884	0.783	12.8 %
Rwanda Franc	RWF	0.0098	0.0100	-1.3 %
Kenyanske Schilling	KES	0.071	0.073	-3.5 %
Uganda Shilling	UGS	0.00251	0.00300	-16.3 %
Mozambique Metical	MZN	0.1809	0.2112	-14.3 %
Bangladesh Taka	BDT	0.0820	0.0822	-0.2 %
Cambodien Riel	KHR	0.00144	0.00140	2.9 %
Swaziland Lilangeni	SZL	0.876	0.768	14.1 %
Euro	EUR	7.813	8.315	-6.0 %

Interest-rate risk

Norfund's interest-rate risk is primarily affected by liquid assets placed in Norwegian banks.
The interest-rate on loans to projects may also be affected by interest-rate risk, depending on the rate of risk charged on various loans. Loans to projects are usually based on variable LIBOR rate plus a margin. The past year Norfund has increased its loan commitments.

Credit risk

Project loans are assessed at their estimated fair value. The risk associated with these loans is also partly reflected in the terms for the individual loan. What Norfund defines as its "Loan portfolio" entails no credit risk in accounting terms, since its value on the balance shett is zero. As a rule the risk associated with loans is regarded as relativly high, and to be considered more as equity risk than traditional loan risk.

Liquidity risk

Norfund has no interest-bearing debt. An attempt has been made to show Norfund's liquidity risk by quantifying the committed investments.

NOTE 16 – CONTRACTUAL OBLIGATIONS

	Lease duration	Annual rental costs
Premisis in Støperigata 2, Oslo	01.07.09 - 30.06.2012	3 415 646

In 2004 Norfund decided to establish a tender guarantee scheme to encurage increased financial cooperation and investment in developing countries. The scheme is administrated by the Norwegian Guarantee Institute for Expost Credits (GIEK). NOK 512 596 was charged Norfunds accounts in 2010 in respect of the scheme. The tender guarantee scheme had initially a three-year trial period that ran to the end of 2007. The scheme has been extended.

NOTE 17 – CHANGES IN THE SET UP OF THE PROFIT AND LOSS STATEMENT

Norfund's activity is in the field of investment, and to distinguish revenues from this activity, the share of profit from SN Power Invest has been moved in Norfund's operating revenues to interest income, share dividends and dividends from the investment portfolio. In order to present more clearly the current operating expenses associated with Norfund's activities, a new line item is presented for the total before currency effects on the portfolio and write-downs.

The change in set up those not affect the profit or Norfunds balance, but operating income and operating profit increases with the profitshare from SN Power Invest. The 2009 figures are revised and the opertaing profit is NOK 82 million higher due to the new set up.

Crowe Horwath.

Crowe Horwath AS

To NORFUND, a company under special law

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of NORFUND, which comprise the balance sheet as at 31 December 2010, and the income statement, showing a profit of NOK 182 067 000 and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of NORFUND as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 13. april 2011
Crowe Horwath AS

Not to be signed

Steinar Andersen
State Authorised Public Accountant

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